

### Departures Terminal

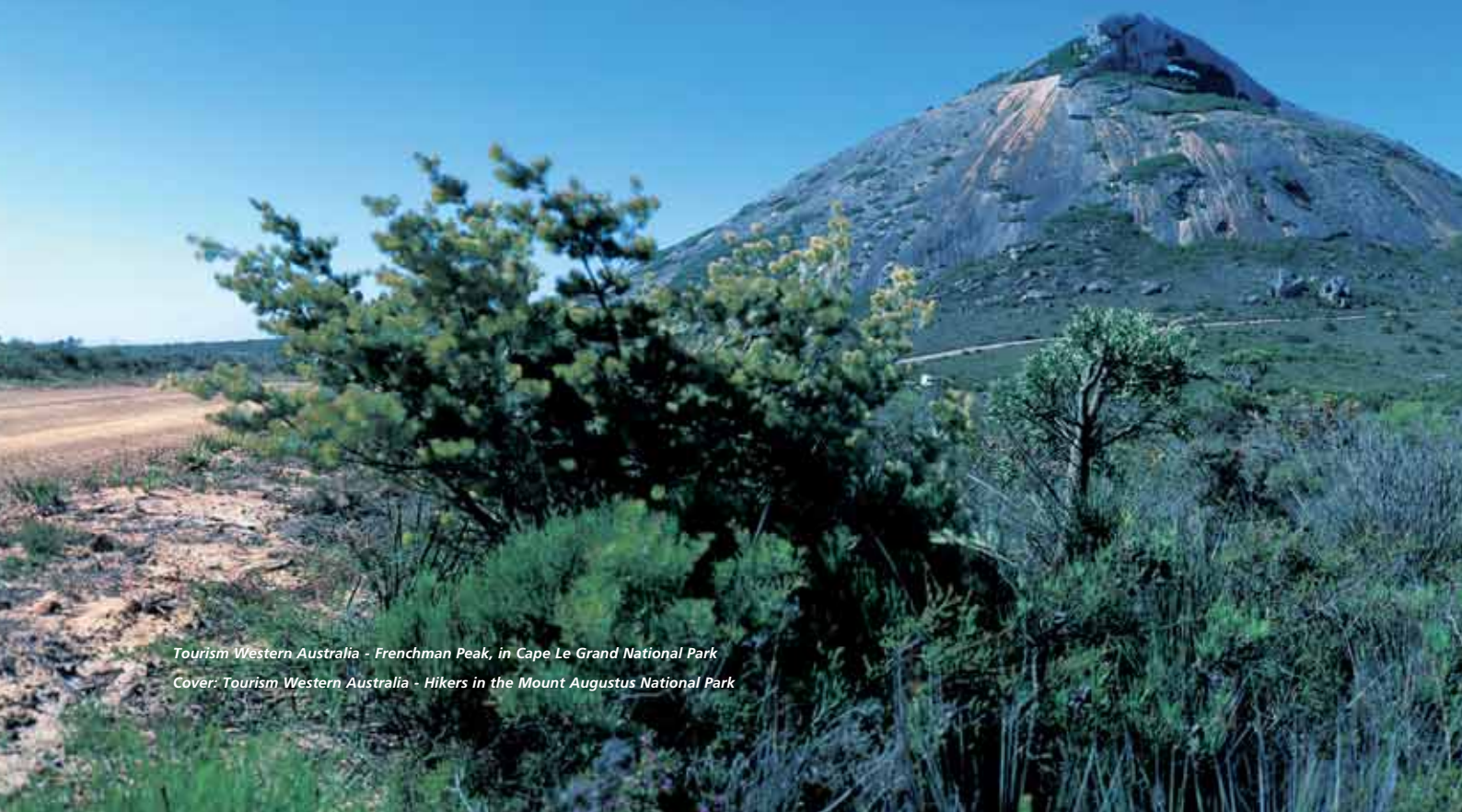
Airline	Flight	Destination	Dep	Remarks	
Skywest	XR 249	Cloudbreak	10:30	Departed	19
Skywest	XR 147	Esperance	10:35	Final call	19
Skywest	XR 45	Broome	12:15	On-time	17
Skywest	XR 53	Exmouth	12:15	Check-in	19
Skywest	XR 33	Denpasar	12:15	On-time	18
Skywest	XR 21	Melbourne	11:35	On-time	18
Alpsair	DJ 642	Canberra	13:00	Check-in	18
Alpsair	DJ 647	Sydney	16:25	Check-in	18
Alpsair	DJ 1191	Pt. Macquarie	15:40	Check-in	19
Alpsair	DJ 1715	Gladstone			

**\*\* Baggage must not be left unattended \*\***



Skywest

Annual Report 2011



*Tourism Western Australia - Frenchman Peak, in Cape Le Grand National Park*  
*Cover: Tourism Western Australia - Hikers in the Mount Augustus National Park*

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Skywest aircraft at Cloudbreak (Fortescue David Forrest Airstrip)

## Chairman's Statement 2010 – 2011 Financial Year



Dear Fellow Shareholders,

On behalf of the Board of Directors, we present you with the audited financial results for Skywest Airlines Ltd ("the Company") and its subsidiaries ("the Group") for the year ended 30th June 2011. I also take this opportunity to update you on the development and progress that our Group has made.

The last 12 months of operations have been the basis for continued growth and expansion laid down by the Company. Alongside its existing business involving the operation of 17 aircraft, the Company is in the process of gearing up to operate a wet-lease for Virgin Australia of up to 18 new ATR-72 turbo prop aircraft. Virgin Australia and Skywest are establishing the Australian Regional Airline Network (ARAN) which was announced on the 10th of January 2011. As at the date of this report the first two aircraft have been delivered with a plan for operation commencing late October 2011. The scale of this wet-lease is significant and provides Skywest with the opportunity to geographically diversify its business operations and expand its fleet substantially.

The arrangement with Virgin also provides Skywest with the opportunity to renew its existing aircraft fleet over the medium term with highly fuel efficient, low CO<sub>2</sub>, new aircraft. Skywest has no material ongoing capital exposure to the Virgin Australia operation and receives a fixed fee per hour to fly the aircraft together with incentives for cost lowering initiatives and code share opportunities.

It is fair to say that during the second half of the year the management resources of the Group were highly focussed on establishing the new Virgin ARAN network. The ARAN network is primarily focused on the East Coast of Australia, which is the ideal compliment to Skywest's current West Coast operations.

At the same time, the executive management team managed to successfully grow the revenues and profits of the existing business.

Revenues increased to SGD 239.9m over the period. The consolidated net profit after tax was SGD 9.84m with earnings per share of SGD 4.93 cents. The consolidated EBITDAR was SGD 52.01m.

The last 12 months of operations have been conducted in an extremely volatile operating environment for the Airline with persistently high jet fuel cost. Year on year, the Group's fuel costs increased by SGD10.5m. As reported at the half year end, there was a substantial cost involved in the introduction of the A320-200 aircraft. The A320-200 one-off introduction costs expenses were AUD 2.82m (equivalent to SGD 3.60m). An additional one-off cost faced by the Company was the acquisition and fit out

of a new aircraft hanger to suit the larger aircraft, costing AUD 0.7m (equivalent to SGD 0.89m). Notwithstanding these one-offs the Board believes the year end financial results are excellent. The profits are up 7% on last year and revenue has increased by 11%.

The A320 investment has resulted in a successful entry into service of that aircraft type. It is believed that this is the largest aircraft in the world to be operating on a mining charter contract supporting the Fly-in Fly-out (FIFO) market. Indeed the Company is considering the introduction of a second A320 aircraft for similar utilisation.

### A Dividend Consistent with Policy

The Board recognises the importance of rewarding shareholders as the owners of the Company and is therefore recommending that shareholders receive a final dividend payment of 1.23 Singapore cents per share; this is a payout ratio of 25%. The dividend has increased by 12%. This is precisely consistent with the dividend policy announced on 24th of March 2011. The proposed dividend record date and payment timetable will be announced in due course, along with the Notice of the Company's forthcoming Annual General Meeting ("AGM"), which is anticipated to be held in November.



### Business Trading and outlook

The Group is pleased to be part of a historic event with the arrival of the first new ATR 72-500 aircraft to be used in commercial service in Australia, for Virgin Australia. It is anticipated that revenues from the Virgin Australia wet lease will commence from October 2011. According to plan, four ATR-72 aircraft will be delivered by December 31st 2011. As at the date of this announcement three aircraft have successfully been delivered. The ARAN arrangement could potentially double the size of Skywest from its current fleet of 18 planes to potentially 38 aircraft or more.

Executives from the Group have been in regular discussion with large mining customers regarding their expansion plans in the next two to three years, and are of the view that there is significant potential for growth in the FIFO market. The Group considers itself well placed to benefit from future growth in this market given its capability of providing and procuring additional aircraft to meet increasing demand. This capability has been proven by the successful delivery to Australia of the new ATR-72 during the course of this calendar year.

Among high capacity Air Operator Certificate Holders in Australia, Skywest's on time performance was respectable. According to the Australian Government's Department of Infrastructure and Transport's report, Skywest's on time performance was at 85.8 per cent during the financial year; Qantas was at 83.8 per cent, Virgin Australia at 79.9 per cent followed by QantasLink at 78.5 per cent.

### Risks

Risks faced by the business remain the normal commercial risks and typical airline industry related risks. The Company and its shareholders must anticipate a possible slow down in the rate of growth due to the global crisis of confidence in the broader economy associated with the credit institutions. This year has demonstrated the impact of significant rapid changes in exchange rate and fuel costs. These two factors still represent a significant risk to the business. Australian domestic fuel prices, when combined with a lowering in the value of the Australian dollar, cause increased overall costs to the Airline's operations.

The Company does attempt to mitigate changes in fuel costs by way of hedging, however, rapid and massive changes can quickly impact the finances of the Group with significant consequences.

The policies of the Western Australian Government may impact access to some of the airports that the Airline currently serves. In the worst case, the Government could potentially restrict access to certain ports or introduce unsustainable levels of competition to airports that cannot support competition. Overall, the Board is unable to provide shareholders with any exact guidance about future profit expectations in light of the unstable global economic outlook, uncertain passenger demands, volatile exchange rates and fuel prices that impact on the Airline's business.

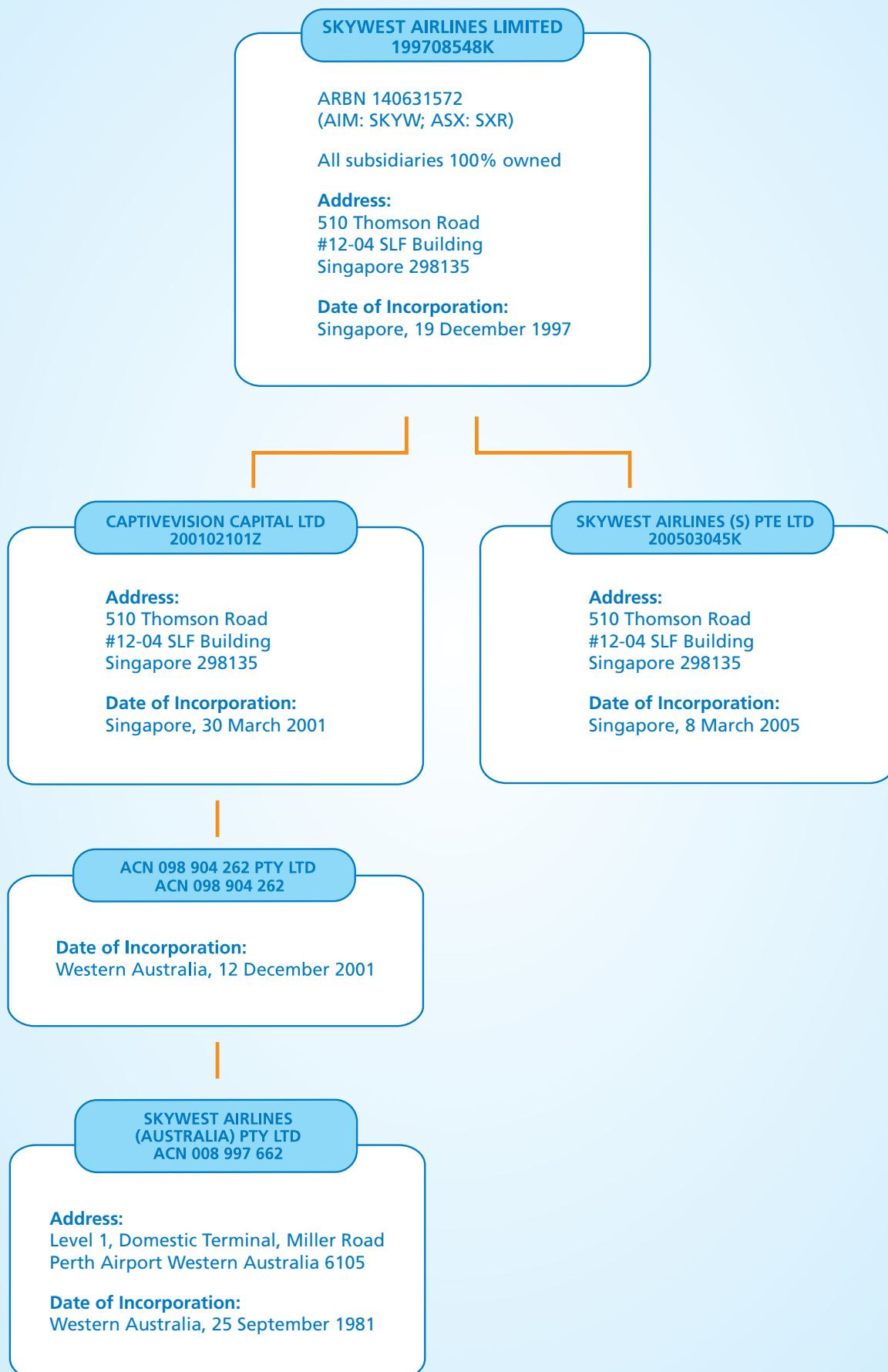
I would like to take this opportunity of thanking you, the shareholders, for your continued support during this exciting but challenging period in the Company's operations and look forward to keeping you updated on the progress of the Group.

Jeff Chatfield,

Executive Chairman,

Singapore September 2011

## Group Structure





Airbus A320 VH-FNP taking off from Perth Airport

## 2011 Highlights

- Skywest continues to improve revenues and profits alongside an overall business expansion.
- Excellent On Time Performance.
- Geared up business for the expansion resulting from new turbo prop services for the Virgin Australia network. Scaling up from 17 existing aircraft by adding up to 18 new aircraft pursuant to the Virgin Australia contract.
- 11% increase in revenues to SGD 240m - up from SGD 215.20m in 2010.
- Group EBITDAR for the year SGD 52.01m.
- 7% increase in Group Net Profit after Tax for the year increased to SGD 9.85m notwithstanding significant one off expenditures.
- A progressive 12% increase in proposed unfranked Final Dividend of 1.23 (Singapore cents) per share.
- Successfully introduced what is believed to be the largest aircraft type used for Fly-In Fly-Out mining operations and expensed the cost of this introduction.

The results for the Group's full financial year ended 30 June 2011, based on the audited Financial Statements (pursuant to International Financial Reporting Standards "IFRS"\*) and reported in Singapore Dollars "SGD" or "\$" are as follows (for the convenience of international shareholders, additional columns are included to show an equivalent value in Pounds Sterling "GBP" and Australian Dollars "AUD"):

Consolidated 12 months ended 30 June 2011	Audited <i>In SGD</i>	GBP Equivalent <sup>(i)</sup> <i>In GBP</i>	AUD Equivalent <sup>(ii)</sup> <i>In AUD</i>
Revenue from ordinary activities	239,910,036	116,572,286	187,839,962
EBITDAR (earnings before interest, tax, depreciation and aircraft rentals)	52,015,609	25,274,384	40,726,141
Net Profit after income tax	9,849,204	4,785,728	7,711,533
Profit attributable to shareholders	9,849,204	4,785,728	7,711,533
Basic earnings per share	4.93 cents	2.40 pence	3.86 cents
Proposed Final Dividend per share <sup>(iii)</sup>	1.23 cents	IV.	IV.
Dividend Payout Ratio	0.25	N.A.	N.A.

i. In this announcement, the applicable exchange rate between SGD and GBP was taken to be the average exchange rate of 1: 0.4859 which was used in the presentation of the accounts.

ii. In this announcement, the applicable exchange rate between SGD and AUD was taken to be the average exchange rate of 1: 0.78296 which was used in the presentation of the accounts..

iii. The timetable and exchange rate for the payment of the proposed final dividend will be announced when, and if payment of the dividend is approved by shareholders.

iv. The proposed dividend payout in GBP and AUD to investors will be calculated at the time of the upcoming 2011 AGM.

\* For clarity and certainty, the Company will be announcing and reporting its 2011 results solely pursuant to International Financial Reporting Standards ("IFRS").



Skywest aircraft at Perth Airport

## Skywest Airlines Limited Board of Directors



### Jeff Chatfield

#### EXECUTIVE CHAIRMAN OF THE GROUP

Mr Chatfield is the Executive Chairman of the Company and the Managing Director of CaptiveVision Capital Ltd (an investment company wholly owned by the Company), which is the sole shareholder of the Australian subsidiaries. He has held directorial and senior management responsibilities for companies in various industries with locations as diverse as New York, Amsterdam, Sao Paulo Brazil, Malta, Singapore, Perth and Melbourne.

Mr Chatfield's past experience includes the foundation of a global television advertising service and the making of substantial investments on behalf of public companies. He has managed and closed a variety of capital raisings, IPO's, strategic advisory, public equity issues and secondary offerings. Mr Chatfield holds a BE and MEd from the University of Western Australia and is a member of the Australian Institute of Company Directors and Singapore Institute of Directors.



### Seah Kian Peng

#### NON EXECUTIVE DIRECTOR

Mr Seah is the CEO (Singapore) of NTUC Fairprice Cooperative Limited. NTUC Fairprice is a leading retailer in Singapore with a chain of over 250 supermarkets and convenience stores and a group turnover in excess of SGD\$2.2 billion and a staff strength of over 8,000.

He is a board member of the International Co-operative Alliance. He also holds the position of Vice President of the Singapore Compact for Corporate Social Responsibility and the co-chair of the Social Enterprise Association.

Mr Seah has worked in both the public and private sectors and also serves in many public and community organisations. He completed his tertiary education in Sydney and attended the Advanced Management Programme in Harvard Business School.

In May 2011, Mr Seah was re-elected as a Member of Parliament of the Republic of Singapore. He was first elected in May 2006.



### John Jost

#### NON EXECUTIVE DIRECTOR

Mr Jost worked as a journalist after graduating from the University of Melbourne Law School. During his media career, he was chief political correspondent for The Age, Publications and New Projects manager for David Syme Ltd, and later a founding presenter of ABC-TV's 7.30 Report. In 1994, Mr Jost formed Bass Media which established an extensive Australian regional radio network.

He is currently chairman of Ecompost Pty Ltd and a board member of Global Environment Management Limited, a joint venture between Ecompost and the Motherson group of India.



*F100 VH-FNN at Cloudbreak (Fortescue David Forrest Airstrip)*



## **Ron Aitkenhead**

### **NON EXECUTIVE DIRECTOR**

Mr Aitkenhead is a member of the Company's Audit, Remuneration and Nomination Committees. He has significant public sector experience as former Chairman of the Fremantle Port and as Chairman of the Board of the Central Wheatbelt Business Enterprise Centre.

Mr Aitkenhead's qualifications include membership as a Graduate and Fellow of the Australian Institute of Company Directors and he is registered as a Justice of the Peace with the Western Australian Department of Justice. He has also held committee positions with several community and sporting organizations in Western Australia.





## Corporate Governance Statement

### Statement on Corporate Governance at Skywest

This statement reports on Skywest's key governance framework, principles and practices. These principles and practices are reviewed regularly and revised as appropriate to reflect changes in law and good practice in corporate governance.

### ASX Principles of Corporate Governance

Skywest must comply with the laws of Singapore, the Corporations Act 2001 (Cth) ("**Corporations Act**"), the Australian Securities Exchange ("**ASX**") Listing Rules ("**ASX Listing Rules**"), other Australian securities laws, the Alternative Investment Market ("**AIM**") Listing Rules, other UK securities laws and any other required listing rules.

ASX Listing Rule 4.10.3 requires ASX listed companies to report on the extent to which they have followed the Corporate Governance Principles and Recommendations ("**ASX Principles**") published by the ASX Corporate Governance Council. The ASX Principles require the Board to consider the development and adoption of appropriate corporate governance policies and practices founded on the ASX Principles.

### Compliance with ASX Principles of Good Corporate Governance

Details of Skywest's compliance with the ASX Principles are set out below. A checklist, cross referencing the ASX Principles to the relevant paragraphs below, is provided in the final section of this statement. Skywest notes that it is reporting against the of the ASX Principles (2<sup>nd</sup> Edition, 2010).

### Board Functions

The Board seeks to identify and satisfy the expectations of its shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks.

To ensure that the Board is well equipped to discharge its responsibilities it has established guidelines for the nomination and selection of directors and for the operation of the Board. The responsibility for the overall operation and administration of the Group is delegated by the Board to the Executive Chairman and the executive management team, with the CEO (Mark Shelton) and the other members of the executive management team being responsible for various aspects of the day to day operations of the Group. The Board ensures that these people are appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the Executive Chairman and the executive management team.

Whilst at all times the Board retains full responsibility for guiding and monitoring the Group, in discharging its stewardship it makes use of committees. Specialist committees are able to focus on a particular responsibility and provide informed feedback to the Board.

To this end, the Board has established the following committees:

- Audit
- Nomination
- Remuneration

The roles and responsibilities of these committees are discussed throughout this corporate governance statement. For the purposes of AIM Rule 26, Skywest also maintains a Corporate Governance page on its website, which is available at [www.skywest.com.sg/aim26](http://www.skywest.com.sg/aim26) ("**Aim Rule 26 Website**").

The Board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risks identified by the Board. The Board has a number of mechanisms in place to ensure this is achieved, including:

- The Board's approval of a strategic plan designed to meet shareholders' needs and manage business risk.
- Ongoing development of the strategic plan and approving initiatives and strategies designed to ensure the continued growth and success of the Group.
- Implementation of budgets by management and monitoring progress against budget - via the establishment and reporting of both financial and non-financial key performance indicators.
- Management of senior executives.

Other functions reserved to the Board include:

- Approval of the annual and half-yearly financial reports.
- Approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures.
- Ensuring that any significant risks that arise are identified, assessed, appropriately managed and monitored.
- Reporting to shareholders.

ASX CGC 1.1; 1.2; 2.3

## Structure of the Board

The relevant skills, experience and expertise held by each director in office at the date of the annual report are set out at page 6.

The Directors of Skywest have been in office for the following periods:

Name	Years in Office
Robert Jeffries Chatfield	13 years
Seah Kian Peng	11 years
John Leonard Jost	7 years
Ronald Lewis Aitkenhead	4 years

Directors of Skywest are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgement. (ASX CGC 2.6)

The following directors of Skywest are considered to be independent:

Name	Position
Seah Kian Peng	Non-executive director
John Leonard Jost	Non-executive director
Ronald Lewis Aitkenhead	Non-executive director

ASX CGC 2.1

The Board advises shareholders that Mr Chatfield, the Executive Chairman, is not considered independent. However, the Board believes that Mr Chatfield is the most appropriate person to lead the Board and that he is able to and does bring quality judgement to all relevant issues falling within the scope of the role of Chairman and that the Group as a whole benefits from his long standing experience of its operations and business

relationships. ASX CGC 2.3

There are procedures in place, agreed by the Board, to enable directors in furtherance of their duties to seek independent professional advice at Skywest's expense.

For additional details regarding Board appointments, please refer to our AIM Rule 26 website.

## Board Performance

The Board undertakes self assessments and reviews in respect of its performance and the performance of its committees and the individual directors at least once every 2 years. The Board is responsible for evaluating the Executive Chairman's performance on an ongoing basis.

ASX CGC 2.5

The performance criteria against which the Executive Chairman and the management team are assessed are aligned with the financial and non-financial objectives of Skywest. ASX CGC 1.2

The Board did not undertake a self-assessment or review of its performance or the performance of its committees and directors during the reporting period. However, the Board intends to undertake these evaluations within the next 12 months.

## Trading Policy

Under Skywest's securities trading policy, an executive or director must not trade in any securities of Skywest at any time when they are in possession of unpublished, price-sensitive information in relation to those securities. ASX CGC 3.2

As required by AIM and ASX Listing Rules, Skywest notifies the AIM and ASX of any transaction conducted by directors in the securities of Skywest.

## Nomination Committee

The Board has established a nomination committee, which meets at least annually, to ensure that the Board continues to operate within the established guidelines, including when necessary, selecting candidates for the position of director.

ASX CGC 2.4

The nomination committee comprises the following members:

- Robert Jeffries Chatfield (Committee Chairman)
- Seah Kian Peng
- Ronald Lewis Aitkenhead

For details of directors' attendance at meetings of the nomination committee, please refer to the directors' report.

For additional details regarding the nomination committee, including a copy of its charter, please refer to our AIM Rule 26 Website.

## Audit Committee

The Board has established an audit committee, which operates under a charter approved by the Board. The committee meets at least twice a year. It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators. The Board has delegated responsibility for establishing and maintaining a framework of internal control and ethical standards to the audit committee. ASX CGC 4.1

The committee also provides the Board



with additional assurance regarding the reliability of financial information for inclusion in the financial reports. All members of the audit committee are non-executive directors.

The members of the audit committee during the year were:

- John Leonard Jost (Committee Chairman)
- Ronald Lewis Aitkenhead

For details on the number of meetings of the audit committee held during the year and the attendees at those meetings, please refer to the directors' report.

For additional details regarding the audit committee, including a copy of its charter, please refer to the AIM Rule 26 website.

## Risk

The Board has continued its proactive approach to risk management. The identification and effective management of risk, including calculated risk-taking is viewed as an essential part of Skywest's approach in creating long-term shareholder value.

In recognition of this, the Board determines Skywest's risk profile and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control. In doing so, the Board has taken the view that it is crucial for all Board members to be a part of this process and as such, has not established a separate risk management committee. *ASX CGC 7.1*

The Board oversees assessment of the effectiveness of risk management and internal compliance and control. The day to day tasks of undertaking and assessing risk management and internal compliance and control are delegated to management through the CEO (Mark

Shelton), who is responsible for the design and implementation of Skywest's risk management and internal control system. Management reports to the Board on Skywest's key risks and the extent to which it believes these risks are being adequately managed. The reporting on risk by management is a periodic agenda item at monthly board meetings of the operating subsidiary. *ASX CGC 7.2*

For the purposes of assisting investors to understand better the nature of the risks faced by Skywest, the Board has prepared the following list of operational risks as part of the Principle 7 disclosures. However, the Board notes that this does not necessarily represent an exhaustive list and that it may be subject to change based on underlying market events.

### Key operation risks:

- Fluctuations in commodity prices, exchange rates & demand volumes.
- Political instability/sovereign risk within some operating sites.
- The occurrence of force majeure events by significant suppliers.
- Increasing costs of operations, including labour costs and proposed environmental taxes.
- Changed operating, market or regulatory environments as a result of climate change.

Underpinning Skywest's risk management efforts is a comprehensive set of policies and procedures directed towards achieving the following objectives in relation to the requirements of Principle 7:

- Effectiveness and efficiency in the use of Skywest's resources.
- Compliance with applicable laws and regulations.
- Preparation of reliable published financial information.

## Remuneration

It is Skywest's objective to provide maximum shareholder benefit through the retention of a high quality board and management team by remunerating directors and the management team fairly and appropriately with reference to relevant employment market conditions. To assist in achieving this objective, the remuneration committee links the nature and amount of such remuneration to Skywest's financial and operational performance. The expected outcomes of the remuneration structure are:

- Retention and motivation of key members of the management team.
- Attraction of high quality management and executives to Skywest.
- Performance incentives that allow management to share in the success of Skywest. *ASX CGC 8.2*

The Board is responsible for determining and reviewing compensation arrangements for the Executive Chairman, the CEO and the other members of the management team. The Board has established a remuneration committee, comprising the following two non-executive directors:

- John Leonard Jost (Committee Chairman)
- Ronald Lewis Aitkenhead

*ASX CGC 8.1*

For details on the number of meetings of the remuneration committee held during the year and the attendees at those meetings, please refer to the directors' report.

For additional details regarding the remuneration committee, including a copy of its charter, please refer to our AIM Rule 26 website.

## ASX Principles Compliance Statement

The table below summarises Skywest's compliance with the ASX Principles.

	<b>Recommendation</b>	<b>Comply Yes/No</b>	<b>Reference / Explanation</b>
<b>Principle 1 - Lay solid foundations for management and oversight</b>			
1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	Yes	ASX CGC 1.1
1.2	Companies should disclose the process for evaluating the performance of senior executives.	Yes	ASX CGC 1.2
1.3	Companies should provide the information indicated in the guide to reporting on Principle 1.	Yes	
<b>Principle 2 - Structure the board to add value</b>			
2.1	A majority of the board should be independent directors.	Yes	ASX CGC 2.1
2.2	The chair should be an independent director.	No	Mr RJ Chatfield does not satisfy the definition of an independent director.
2.3	The roles of chair and chief executive officer (CEO) should not be exercised by the same individual.	Yes	
2.4	The board should establish a nomination committee.	Yes	ASX CGC 2.4
2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	Yes	ASX CGC 2.5
2.6	Companies should provide the information indicated in the Guide to reporting on Principle 2.	Developing	ASX CGC 2.6 Further details relating to Principle 2 are to be included on the website in due course.
<b>Principle 3 - Promote ethical and responsible decision-making</b>			
3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: <ul style="list-style-type: none"> <li>- The practices necessary to maintain confidence in the company's integrity.</li> <li>- The practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders.</li> <li>- The responsibility and accountability of individuals for reporting and investigating reports of unethical practices.</li> </ul>	Developing	The Company does not have a formal policy but the board, as constituted by experienced corporate professionals, conducts its business in full contemplation of market and legal standards.
3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and the progress in achieving them.	Developing	The Company does not have a formal policy. However, the Company complies with all requirements as mandated by Fair Work Australia, Equal Opportunity Act and relevant state legislation.
3.3	Companies should disclose in each annual report the measurable Objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.	No	



3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.	Yes	475 Employees: 198 female, 277 male 9 Senior Managers: 2 female, 7 male 4 Board Members: All male.
3.5	Companies should provide the information indicated in the Guide to Reporting on principle 3.	Developing	

**Principle 4 - Safeguard integrity in financial reporting**

4.1	The board should establish an audit committee.	Yes	ASX CGC 4.1
4.2	The audit committee should be structured so that it: <ul style="list-style-type: none"> <li>- Consists only of non-executive directors.</li> <li>- Consists of a majority of independent directors.</li> <li>- Is chaired by an independent chair, who is not chair of the board.</li> <li>- Has at least three members.</li> </ul>	Partial	The Audit committee consists of only two members, all other conditions are satisfied.
4.3	The audit committee should have a formal charter.	Yes	
4.4	Companies should provide the information indicated in the guide to reporting on Principle 4.	Yes	See charter on website.

**Principle 5 - Make timely and balanced disclosure**

5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	Yes	Skywest has a communications policy and gives careful consideration to the views expressed by its Australian lawyers and similar professional service providers.
5.2	Companies should provide the information indicated in the guide to reporting on Principle 5.	Yes	

**Principle 6 - Respect the rights of shareholders**

6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Yes	
6.2	Companies should provide the information indicated in the guide to reporting on Principle 6.	Yes	See policy on website.

**Principle 7 - Recognise and manage risk**

7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Yes	ASX CGC 7.1
7.2	The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of Skywest's management of its material business risks.	Yes	ASX CGC 7.2

7.3	The board should disclose whether it has received assurance from the CEO [or equivalent] and the Chief Financial Officer (CFO) [or equivalent] that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	N/A	N/A
7.4	Companies should provide the information indicated in the guide to reporting on Principle 7.	Developing	A summary of the risk oversight policies needs to be included on the website.

#### Principle 8 – Remunerate fairly and responsibly

8.1	The board should establish a remuneration committee.	Yes	ASX CGC 8.1
8.2	The remuneration committee should be structured so that it: <ul style="list-style-type: none"> <li>- Consists of a majority of independent directors.</li> <li>- Is chaired by an independent chair.</li> <li>- Has at least three members.</li> </ul>	Partial	The Remuneration committee consists of only two members, all other conditions are satisfied.
8.3	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Yes	
8.4	Companies should provide the information indicated in the guide to reporting on Principle 8.	Yes	ASX CGC 8.4

#### ASX additional information

Additional information required by the Australian Securities Exchange and not shown elsewhere in this report is as follows. The information is current as at 13 October 2011 (unless otherwise indicated).

##### (a) Distribution of equity securities

###### (i) Ordinary share capital

200,040,000 fully paid ordinary shares are held by 1,175 individual shareholders (including those who hold CHESS or CREST depository interests).

All issued ordinary shares carry one vote per share and carry the rights to dividends.

###### (ii) Warrants

5,300,000 warrants are held by 7 individual warrant holders.

Warrants do not carry a right to vote.

The number of shareholders, by size of holding, in each class are:

	Number of holders of fully paid Ordinary Shares / despository interests <sup>1</sup>	Number of holders of warrants
1 - 1,000	87	-
1,001 - 5,000	410	-
5,001 - 10,000	197	-
10,001 - 100,000	348	1
100,001 and over	133	6

Holding less than a marketable parcel: 116

<sup>1</sup> This information is current as at 7 October 2011.



**b) Substantial shareholders**

Ordinary shareholders	Number	Percentage
Apollo Nominees Ltd <CRE>	15,476,153	7.73%
Citicorp Nominees Pty Limited	13,377,538	6.68%
UBS Nominees Pty Ltd <PB SEG A/C>	13,340,403	6.66%
Credit Suisse Securities (Europe) Limited	12,107,440	6.05%
Fitel Nominees Limited <0061403>	10,921,867	5.45%

**(c) Twenty largest holders of quoted equity securities and depository receipts**

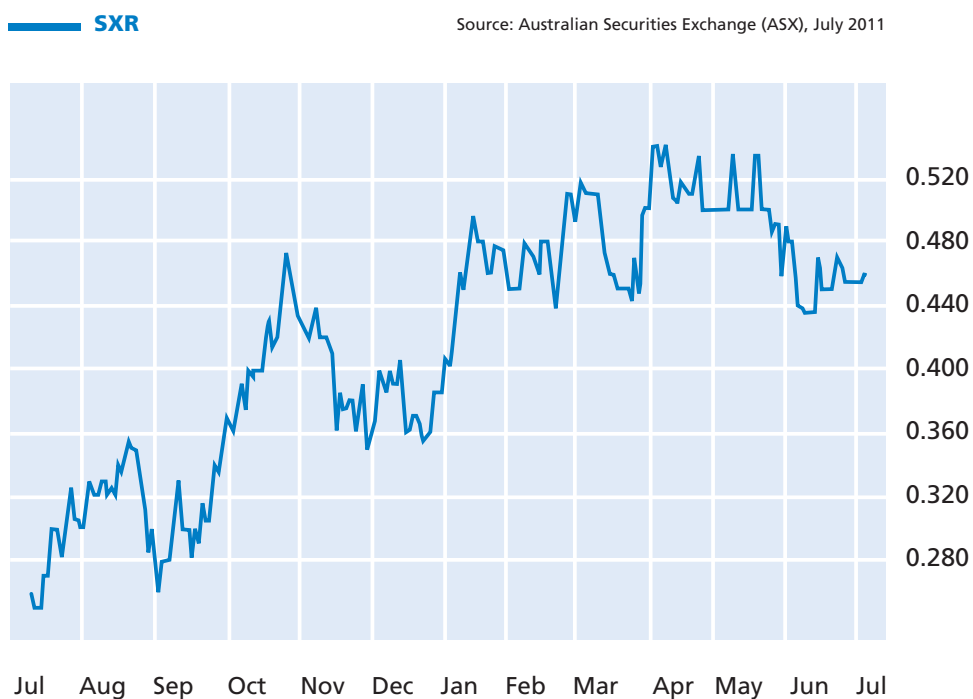
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Fitel Nominees Limited <0061403>	10,921,867	5.45%
Hargreave Hale Nominees Limited <LON>	9,798,988	4.89%
Chase Nominees Limited <Artemis>	9,000,000	4.49%
National Nominees Limited	7,025,004	3.51%
Fitel Nominees Limited <0067873>	7,000,000	3.49%
UBS Wealth Management Australia Nominees Pty Ltd	4,700,000	2.34%
HSBC Global Custody Nominee (UK) Limited <993791>	4,500,000	2.24%
Queensland Investment Corporation	4,215,029	2.10%
Smith & Williamson Nominees Limited	3,732,000	1.86%
Fitel Nominees Limited <0070851>	3,173,743	1.58%
L R Nominees Limited <NOMINEE>	2,906,907	1.45%
Pershing Nominees Limited <SKCLT>	2,774,901	1.38%
HSBC Global Custody Nominee (Australia) Pty Limited	2,688,896	1.34%
Barclayshare Nominees Limited	2,556,980	1.27%
TD Waterhouse Nominees (Europe) Limited <SMKTNOMS>	2,410,229	1.20%
Mr Robert Jeffries Chatfield	2,400,000	1.19%

**(d) Unquoted equity securities shareholdings greater than 20%**

Skywest has no unquoted equity security shareholdings in issue.



## Skywest Airlines Ltd Share Price Performance (July 2010 - July 2011)



### Capital Management Program

The Company maintains a capital management program with the purpose of increasing the asset value per share and a high return on equity. The Company may from time to time, subject to shareholder approvals, buy back its own shares or issue new shares.

### Dividends Global Payments Service

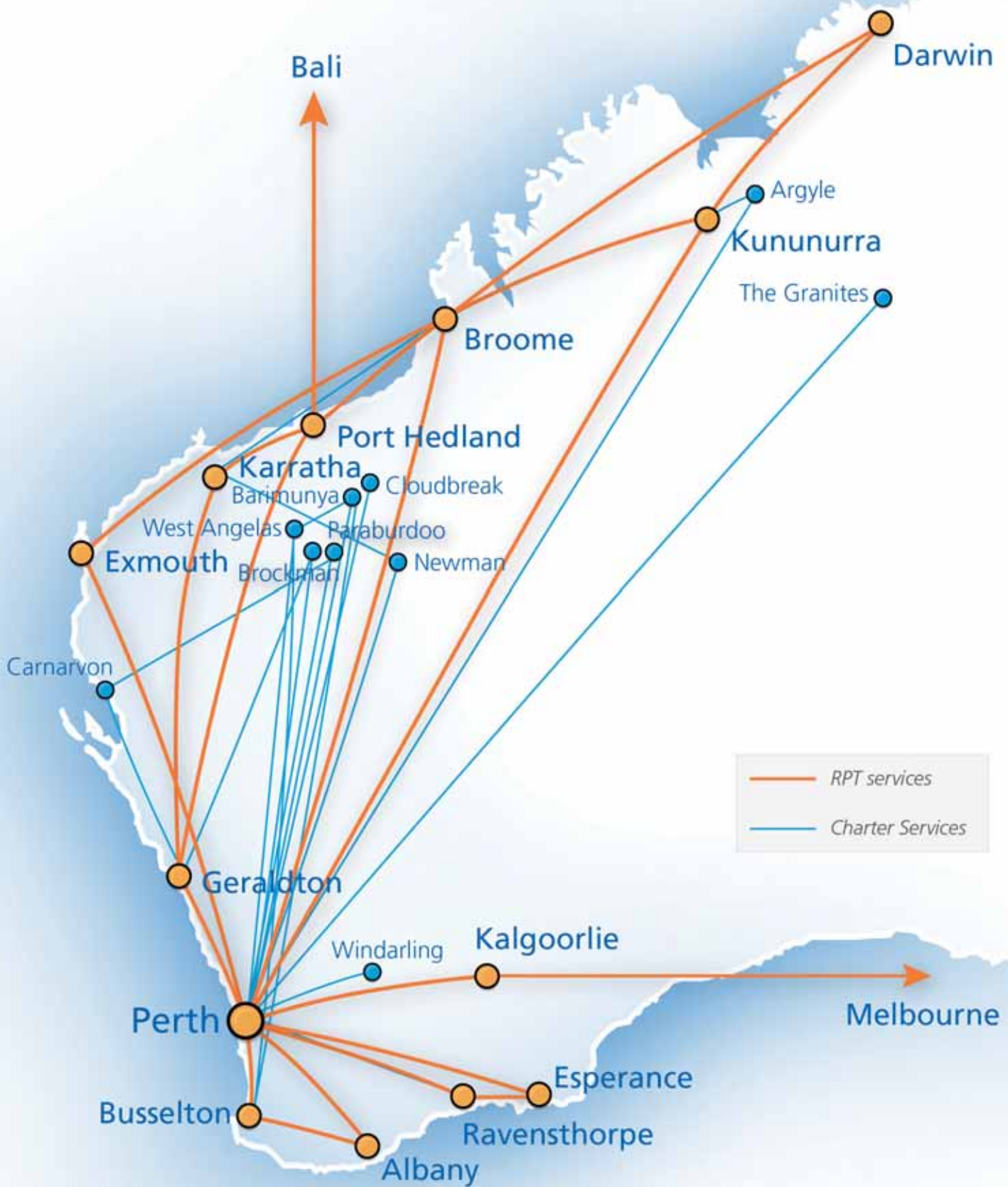
Through its external share registry Computershare, and by prior arrangement, shareholders may be eligible to receive dividends direct to their nominated bank account in the local currency of their country subject to certain terms and conditions.

Shareholders already registered with Computershare wishing to use the service will be able to enrol and request a foreign payment online by visiting the Computershare Investor Centre at:

[www.uk.computershare.com/Investor](http://www.uk.computershare.com/Investor) (for UK domiciled shares) or

[www.investorcentre.com](http://www.investorcentre.com) (for Australian domiciled shares)

or alternatively shareholders can contact Computershare to request a paper registration form be sent to them.



Tourism WA - A view of Perth Skyline at dawn, taken from Kings Park

## Skywest Airlines Pty Ltd - Management Team



**Mark Shelton**  
CHIEF EXECUTIVE OFFICER

With a career spanning almost 25 years, Mark has extensive experience in financial management and company secretarial roles, including as founding non-executive director & company secretary of Medepartner Ltd. Previously the Financial Controller and Company Secretary of Community Newspaper Group Ltd, Mark was instrumental in Community Newspaper Group Ltd's acquisitions of many community papers in Western Australia. He has extensive experience in risk management disciplines including responsibility for business continuity and contingency plans. He has also managed and controlled complex insurance programs.

Mark has a Bachelor of Business Degree and also is a Member of the Australian Society of CPA's and a Trustee of Telethon (Western Australia).



**Johanna Ramsay**  
EXECUTIVE GENERAL MANAGER -  
CHARTER

Johanna has over 20 years' experience in the aviation industry in senior operations and commercial management roles. She has worked for Cobham (previously National Jet Systems) in both Australia and Indonesia, Heliwest Group, Ansett Australia and previously Skywest Airlines in 2002 - 2006 as Chief Operating Officer and then as Chief Executive Officer.

Johanna has recently returned to Skywest to take on the role of Executive General Manager - Charter. Johanna holds a Master's Degree in Business Administration from Curtin University and a Graduate Diploma in Applied Corporate Governance from the Chartered Secretaries Institute of Australia. She has also worked in the field of Indigenous development and on an Australian government aid program designed to develop leadership skills in aid recipient countries.



**Paul Roberts**  
CHIEF FINANCIAL OFFICER

Paul joined Skywest in February 2010 having spent 17 years in senior financial roles in both the UK and Australian aviation and tourism sectors.

Paul started his career working in public practice and gained extensive audit and tax experience, before moving into a commercial role in 1993 with CityFlyer Express in the UK. Paul became Finance Director in 2000 after CityFlyer was bought by British Airways, and throughout this time, was a senior member of the Executive Management team that grew CityFlyer to be one of the largest regional airlines in the UK and one of British Airways' most profitable and successful subsidiaries.

Paul is a Fellow of the Association of the Chartered Certified Accountants and a full member of the Australian National Institute of Accountants.



**Warren Wilkinson**  
**HEAD OF FLIGHT OPERATIONS**

Warren has been with Skywest for 15 years and has over 10,000 hours' flying experience. Starting as a junior first officer, Warren has worked in many roles within the Airline. For the past 7 years, Warren has been heavily involved in management roles within Flight Operations from F50 Training Captain to Fleet Manager. In recent years, he progressed to Manager of Line Operations for all aircraft and 3 years ago moved into the Head of Flight Operations. The Head of Flight Operations is a regulatory accountable position.

Apart from having oversight over all regulatory compliance and ensuring all policies and procedures are adhered to, Warren is responsible for the Management of 120 Pilots and a similar amount of Cabin Crew. With support staff the Flight Operations department has over 250 employees that report to him.



**Alan Stuart**  
**EXECUTIVE GENERAL MANAGER  
COMMERCIAL**

Alan joined Skywest in May 2010 as General Manager Sales and Marketing. Alan is a tourism and transport industry professional with over 20 year's experience. He has worked in the private and public sectors, and has held senior roles with Qantas, Serco and Great Southern Rail.

At Skywest, Alan is responsible for strategic planning, ecommerce, customer contact centre, sales, marketing, revenue management, scheduling, Skywest Holidays, Skywest Sports and Skywest Events.



**Terry Cooper**  
**OPERATIONS MANAGER**

Terry Cooper has 30 years of experience in the aviation industry and joined Skywest in 2007. He has previously worked in the industry as an Operations Manager, Operations Controller, Traffic Officer and Customer Service Officer.

Terry's experience in Operations Control has seen him coordinate up to 180 aircraft movements per day as well as minimising schedule disruptions.

He has held senior roles at Ansett Australia and National Jet Systems, covering passenger handling, cargo processing, airport management, operations and load control, ramp handling and aviation security.

At Skywest, Terry's role includes effectively managing all operations of Skywest, ensuring the implementation of organisational departmental strategies are reviewed and successfully implemented.



Skywest operated Virgin Australia ATR-72 500 aircraft

## Australian Regional Airline Network (ARAN)

On 10th January 2011, Skywest Airlines and Virgin Australia signed a 10 year strategic alliance to service regional Australia with Skywest operating Virgin Australia branded turbo prop aircraft to a number of existing and new destinations around eastern Australia.

Pursuant to this strategic partnership, Skywest will provide the aircraft, the flight and cabin crew and the maintenance under a 10 year wet lease agreement.

This agreement represents a significant increase in the scope of the business and will be a major contributing factor towards our goal of significantly growing Skywest's operations.

On 12<sup>th</sup> August 2011, Skywest Airlines took delivery of its first brand new ATR 72-500 aircraft from the ATR factory in Toulouse, France. The aircraft is the first of a fleet of up to eighteen new ATR 72 Aircraft for operation in Australia.

Since then, two further brand new aircraft have been received into the Skywest fleet.



Max Fleet / News Mail / APN

Services using the aircraft are intended to commence in October 2011, the aircraft will be Virgin Australia branded and the first routes serviced will include:

- Double daily weekday return Brisbane to Gladstone;
- Daily return Brisbane to Port Macquarie;
- Double daily Sydney to Port Macquarie; and
- Up to six daily return services between Sydney to Canberra.
- Services to Emerald are scheduled to begin in January 2012.

We selected the ATR 72 series aircraft for a number of reasons, including its high fuel efficiency. For example on a 200nm sector, the ATR 72 fuel consumption per passenger is 16% lower than a typical car and 60% better than a typical regional jet. Furthermore the ATR 72-500 emits about 50% less CO<sub>2</sub> per passenger km than new generation jets. Compared to a car, the ATR 72-500's CO<sub>2</sub> emissions per seat km on a 200nm sector are 15% lower.





## Skywest Operations



### Background

The award winning Skywest Airlines has proudly been meeting the transport needs of Western Australians for almost 50 years. It is one of Australia's largest, oldest and most successful regional airlines.

Each year, Skywest flies approximately 360,000 RPT passengers, covering 17 destinations and providing an essential link for regional communities, tourists and businesses. The Airline caters for regional Western Australians, international and domestic tourists; corporate travellers and fly-in-fly-out mining staff.

Including RPT, Charter and "fly-In, fly-out" the total number of persons carried by Skywest in the last year was over 800,000.

Skywest Airlines was originally formed as Carnarvon Air Taxis in 1963. The journey over the past four decades has seen it develop from humble beginnings, through to incorporation as part of Ansett, to ultimately becoming a subsidiary of the Company.

### Skywest Business

Skywest's core business is to provide scheduled passenger services within regional Western Australia and Darwin, in the Northern Territory. The Airline also provides both regular and ad hoc charters for customers, with a focus on providing value added services not available from regular charter operators.

### Passenger Services

As part of its regular passenger service, Skywest flies to 17 destinations right across Western Australia, the Northern Territory and to Melbourne. Skywest also flies from Broome and Port Hedland to Bali. During 2011, a further service from Geraldton was introduced.

With the view of consolidation and future growth, Skywest is continually examining opportunities to expand our destination network.

### Charter Services

Skywest has significant capacity to provide regular and ad hoc charter services for organisations with 'fly-in, fly-out' requirements. With a fleet of Fokker 50's (holding 46 passengers), Fokker 100 Jets (holding 100 passengers) and an Airbus A320 (holding 162 passengers), Skywest can easily cater for the needs of its corporate customers.

Destinations and flight scheduling can be tailored to suit, with operations into un-sealed runways possible with Fokker 50 aircraft.

During the year, Skywest continued "fly-in, fly-out" for a number of key Australian resource companies, including BHP Billiton, Newmont, Rio Tinto, Fortescue Metals Group (FMG), Argyle and many others.





## Air Freight

Skywest operates an air freight solution to all destinations in conjunction with our freight partner, Australian Air Express. Freight needs for pathology, hospitals, vehicle and boat repair, perishables and live seafood are all delivered, providing a valuable service to regional communities.

Skywest Freight also has an agreement with Toll Priority that we will uplift their freight on all our routes.

The airline also holds a major contract with West Australian Newspapers (ASX:WAN) to provide delivery of papers to regional locations.

## Growth Opportunities

The key growth opportunities for the business continue to be:

- organic growth of the ARAN fleet;
- increased resource charter contracts;
- increased services and frequency to existing routes;
- increased load factors and yield on existing routes;
- growth of existing routes into larger jet operations;
- new routes.

The continuing resources activity in Western Australia has led to significant opportunities for Skywest to grow its fly-in-fly-out contract work. There are over \$100 billion in resource projects planned or underway in the state of Western Australia.



Many of these projects will involve contract charter flying to supply the mines/projects with human resources.

The introduction of the A320 into regular service has allowed for the redeployment of at least two Fokker 100's allowing these aircraft to be used in new RPT or charter services, whilst at the same time potentially reducing cross-hire costs.

In addition to new charter contracts, expansion of existing contracts continues, as many of the resource projects move from planning/exploration to construction and production phases.

Continual focus on optimization of revenue through load factors and yield remains a priority for Skywest.

## Fuel costs

The Company is exposed to global movements in fuel costs. To mitigate the impact of these costs the Group maintains a three pronged strategy in respect to fuel costs: the airline has a rise and fall policy in respect to charter contracts where changes in the aviation fuel price are passed on to end customers. In respect to RPT the company maintains a fuel surcharge policy. The airline also operates a fuel hedging policy using financial counterparties.

In the fiscal 2011 the Group fuel spend was A\$43,880,779. In fiscal the 2010 the Group fuel spend was A\$36,676,606.



ATR-72 500 cockpit



### Skywest Website

The Skywest Website offers extensive information on travelling with Skywest, live flight information, along with 24-7 booking engine access. The Airline has been continually developing its online strategy and has seen an increase in the numbers of bookings made directly through this channel. Currently, approximately 50% of direct airline bookings are made through this channel. Additionally, Skywest is focusing on further developing its ancillary revenue by offering additional related services such as insurance, car hire and accommodation to customers directly from the website. The sale of travel insurance is now also fully integrated into the e-ticketing process and thus the Company has seen a marked increase in ancillary revenue.

### SKYWEST HOLIDAYS

Skywest Holidays is the packaged holiday division of Skywest.

Skywest Holidays offers competitive holiday packages in Western Australia, the Northern Territory and Bali. Skywest Holidays packages offer airfare, accommodation and car hire combinations.

### SKYWEST SPORTS & EVENTS:

Skywest Airlines has teamed up with Australia's leading sports travel agent, Travel & Sports Australia to create Skywest Sports and Skywest Events, working together to provide customers throughout regional Western Australia quality sports and event packages within Western Australia and Melbourne.

### INTERLINE AGREEMENTS

Skywest has e-ticketing agreements in place with Hahn Air, Air New Zealand, Qantas and Singapore Airlines.

These agreements allow international travellers to book their intrastate travel with Skywest through their international carrier or overseas agent. This also means that Skywest's international airline partners can streamline the booking process for the traveller by providing one point of booking. The result is an easier reservation system for the traveller, which in itself encourages further regional dispersal for international tourists visiting WA.

### CODESHARE

The Airline has a memorandum of understanding with The Virgin Australia Group of Airlines over a reciprocal codeshare arrangement. This agreement

means that Virgin Australia customers will have access to an expanded network in Western Australia to include destinations such as : Albany, Esperance, Geraldton and Exmouth.

This more than doubles the routes on which the airlines co-operate. Ports already covered by the agreement include: Broome, Kununurra, Karratha and Kalgoorlie.



### Velocity Rewards Program

Skywest Airlines remains a partner in Virgin Australia's loyalty program Velocity.

### Charter Markets

The aircraft charter market is a thriving segment within the aviation industry that presents a significant growth opportunity for Skywest.

Skywest is able to utilise resources that exist in support of the airline's RPT network to compete in this sector.

The charter work supplements the Airline's core RPT operation.

This segment is particularly relevant in Western Australia where the mining and resource sector represents approximately 60% of the State's total exports.

Future opportunities exist within Western Australia in support of the mining industry, which typically employs a "fly-in, fly-out" workforce.



Significant fly-in-fly-out contracts are tendered on a regular basis, providing Skywest the opportunity at renewal to submit to secure additional regular charter contract business.

The Skywest fleet offers attractive charter options for aircraft with 46, 100 or 162 seats. Operations into un-sealed runways are possible with the Fokker 50 aircraft.

This is often a requirement in Western Australia where operations to unsealed strips occasionally arise.

#### **REGULAR CHARTER**

Lifting from only 2% in 2002 the Airline currently holds a market share of around 28% in relation to “fly-in, fly-out” charter services.

The Company still believes there is substantial potential for growth in this sector, utilising both the Fokker 100, Fokker 50 and the Airbus A320.

Skywest commenced jet operations between Perth and Argyle in November of 2002. In the face of intense competition,

Skywest secured a three year charter contract with Rio Tinto to provide air transport for the Argyle Diamond Mine “fly-in, fly-out” work force. The Argyle contract utilises the Fokker 100.

#### **AD HOC CHARTER**

Additional to the mining resources sector, charter opportunities arise from government, conventions, sporting and corporate events.

Skywest is well positioned to cater to these events.

#### **Air Operators Certificate (AOC)**

The Airline holds a high capacity Air Operator’s Certificate that allows the Airline to operate regular public transport services domestically and charter operations throughout the world. The certificate is valid for Fokker 50, Fokker 100 and A320 operations and also covers the maintenance of the Fokker fleet.

We anticipate the addition of the ATR-72 type to the AOC around the time of publication.

### **Employee Relations**

Skywest has almost 500 dedicated, professional staff who are focused on providing a strong return to shareholders while maintaining a safe, reliable operation with outstanding service to our customers.

As at the end of June 2010, the Airline had a total of 473 full time employees as well as 32 part time and casual staff. The number of staff working on the ARAN side of the business is 42.

The Airline maintains a philosophy of open and inclusive discussion with staff at all levels to work cooperatively towards common goals.





Shooting a Skywest corporate video

## Community Interaction & Support

Skywest Airlines takes pride in supporting many events and causes throughout Western Australia. From the Arts to Regional Sporting groups, we like to help out where we can.

Skywest is actively involved in a wide variety of regional community programs, projects and charities. We are proud that our contribution provides essential support in assisting thousands of Western Australians.

We are strong supporters of local events and fundraisers in our current regional ports including Albany, Broome, Geraldton, Esperance, Exmouth, Kalgoorlie, Karratha and Kununurra as well as our continuing supportive presence in ports such as Carnarvon, Kalbarri and Monkey Mia.

As well as evaluating many local sponsorship opportunities, the Skywest marketing team supports our corporate sales operation and drives RPT sales through innovative eye-catching advertising.

Marketing also manages the subscription list for the online Skywest E-Newsletter. Generated via e-mail the newsletter offers our loyal subscribers last minute & special fare opportunities and the opportunity to be first in the know about new routes and schedules, as well as latest updates on Skywest's community programs and support.



Skywest Airlines has been a proud and active supporter of Channel 7's Telethon and its beneficiaries since 2009. Skywest introduced the 'Change for Kids' program on all its flights in 2010.

Every Skywest passenger has the opportunity to donate to Telethon by placing change in special envelopes provided on board, with every cent collected going towards Telethon.

Recently, Skywest added an extra incentive for passengers to donate to 'Change for Kids' by offering a monthly prize of a return trip for 2 people, and thus helped to exceed last year's total donation of \$30,000.

Skywest is also a major supporter of the Constable Care Safety Foundation, Association for the Blind (Guide Dogs WA), Netball WA, Perth International Arts Festival & the Black Swan Theatre.

Skywest Airlines, Canning Coalition and Kent Street State High School have entered into a partnership for sponsorship of the aviation industry students attending Kent Street High School. Students are currently undergoing pilot and engineering training and the Skywest Engineering Department has been host to students studying aeronautical engineering. Skywest Airlines is very proud to be involved with this career development initiative for young West Australians training to be part of the aviation industry.



Red Dog film stars and crew arriving at Perth Airport



### Red Dog - The Movie

Based on legendary true accounts, this Australian Blockbuster movie tells the story of 'Red Dog,' an Australian Kelpie who befriended locals and united communities during his travels through the remote mining towns of Western Australia's Pilbara region in the 1970's.

Through our long association with the Pilbara region, Skywest Airlines was the natural choice as Red Dog's major airline partner and as a sponsor contributed flights between Perth and Karratha for the film's entire cast and crew, including the star of the movie, 'Koko', starting from the beginning of production in April.

Upon completion of filming in June 2010, a special "Red Dog Express" flight was also arranged for their return of the 50 cast and crew to Perth with Koko stealing the limelight from producer Nelson Woss, director Kriv Stenders and his co-stars, including actors John Batchelor and Rohan Nicol.

Journalists from local television and The West Australian newspaper were all eager to catch a glimpse of Koko, the cast and crew. The story generated great interest and was picked up nationally by Sky News and the major east coast publications acting as an early indicator of the huge amount of mainstream interest in Koko and this wonderful story.

The film was released internationally in 2011 to wide acclaim and Skywest is proud of its contribution to the film's success.





Rolls Royce Fokker 100 Engine



Fokker 100 plane tail.

### Engineering and Maintenance

Skywest's Engineering department carries out all maintenance on the Fokker 50 and Fokker 100 fleet with the exception of components overhaul and certain heavy ("C") maintenance checks. "C" checks are contracted externally using Skywest's own system of maintenance.

The airline entered into a contracted service agreement with John Holland Aircraft Services (JHAS) for the provision of Line Maintenance and Technical Support with regards to the Airbus A320.

Support for the ATR aircraft is to be provided under a general maintenance agreement (GMA) with TAE, Toll Aviation Engineering, in Brisbane.

### Quality Assurance Systems

The airline has a dedicated safety, security and environment committee that oversees the direction of safety and quality within the organisation and realises that adequate resources must be provided in these areas in order for the airline to maintain the very high reputation for safety, which it currently enjoys.

Along with having a good quality system, it is important that there is a very robust internal review process that supports the system. Skywest has stringent audit programs set up in the Engineering, Flight Operations and the Ground Operations departments to provide the Skywest Board and management with regular reviews on the compliance of each department to policy and procedures. These audits have extended to encompass major suppliers who provide repair and overhaul services

for aircraft components and ground handling contracting staff to maintain the standard of the quality system away from the main facility. In this way, risk is mitigated as far as possible by constantly doing a "health check" on the operational parts of the business.

It is planned in the future to roll out this accreditation to all operational parts of our business and with the new CASA legislation soon to be introduced to the industry, the quality and safety systems are seen as focal points in the future growth of the business.

Sound safety management is now what drives the business to stay ahead of the minimum legislation requirements.



New ATR-72 500 construction



Fokker F50 and F100 aircraft refuelling

To assist in elevating the importance of safety to the highest level, the latest techniques and world's best practice are used by Skywest staff to ensure the internal health of its safety management systems are constantly monitored, and continually improved.

This has been achieved by introducing various initiatives such as the entry into safety programs such as "IATA Operational Safety Audits" or IOSA. IATA (International Air Transport Association) as the international standard-setting body for the aviation, travel and tourism industries offers a number of programs ensuring top level service and operational efficiency in a number of crucial areas. The IATA Operational Safety Audit (IOSA) programme is an internationally recognised and accepted evaluation system designed to assess the operational management and control systems of an airline. IOSA uses internationally recognised quality audit principles and is designed to conduct audits in a standardised and consistent manner. The program is designed to assess the operational management and control systems of an operating airline.



The airline operates to a Safety Management System approved by the Australian Civil Aviation Safety Authority (CASA) under the legislation of Civil Aviation Order 82.5. This safety umbrella encompasses risk and change management mitigations where the analysis of "risk" is second nature when it comes to operational decisions that have the potential to compromise safe operations. Skywest has adopted formal change management processes to ensure, when required and through any necessity of need, all aspects of change either to a standard operating procedure, the acquiring of new equipment, the changing of key personnel, as examples, are monitored thoroughly, managed and taken into account.

In addition, Skywest has acknowledged the need to enter into the Basis Aviation Risk Standard program. The BARS Program was created with the objective to be a more efficient means of monitoring,

assessing and analysing safety risk within air operations.

It allows for a single standard of criteria to be established so as to compare and view trends throughout the sector, to target specific areas of occurrence and collaboratively reduce safety risk. By doing so, BARS aims to achieve a higher level of quality audit, establishing greater confidence in air operations from regulatory bodies, charter customers and air operators themselves.



Airbus A320 VH-FNP

### Fleet Structure

Skywest Airlines fleet includes eight Fokker 50 turbo-prop aircraft, ten Fokker 100 jets, 1 Airbus A320 narrow-body jet and three ATR-72 aircraft (awaiting acceptance to our AOC). The airline continually reviews its utilisation of aircraft and explores opportunities for expansion of its fleet.

### Airbus A320 Aircraft

With a much larger capacity than the current Fokker aircraft, our A-320, VH-FNP, entered service in November 2010 in the mining charter operations area. We believe this aircraft to be the largest aircraft used in Fi-Fo operations anywhere in the world.

The A320 is perhaps best known as the first airliner to introduce a fly-by-wire flight control system - where control inputs from the pilot are transmitted to the flying surfaces by electronic signals rather than mechanical means. Apart from a small weight saving, the advantage of Airbus' fly-by-wire is that as it is computer controlled, an inbuilt flight envelope protection makes it virtually impossible to exceed certain flight parameters such as G limits and the aircraft's maximum and minimum operating speeds and angle of attack limits.



Also integral to the A320 is the advanced electronic flightdeck, with six fully integrated EFIS colour displays and innovative sidestick controllers rather than conventional control columns.

An A320 employs a relatively high percentage of composite materials compared to earlier designs.

The Skywest A320 is powered by two IAE V2500-A1 high by-pass turbo-fan engines.



### AIRBUS A320 DIMENSIONS & SPECIFICATIONS:

Overall Length	37.57m
Wing span	34.09m
Tail height	11.76m
Wing area	122.6m <sup>2</sup>
Cabin width	3,70m
Fuselage width	3,95m
Maximum Takeoff Weight	73,500kg
Maximum Zero-Fuel Weight	62,500 kg
Basic Operating Weight	42,220kg
Maximum Payload	4,950kg
Maximum Usable Fuel	24,210 - 30,190l
Cargo Capacity	137.41 m <sup>3</sup> (1,321 cu ft)
Maximum Cruise Speed	487kts (903kph)
Maximum Range	4,874 Kms

Our A-320 continues our overall fleet bias towards passenger comfort through the generous allowance of extra passenger leg room. FNP is configured to hold 162 passengers rather than the usual 180 seats that is more common for this aircraft type with overseas operators.



Fokker F100 VH-FNU

### Fokker 100 Aircraft

The Fokker 100 is a modern jet aircraft that has all the features expected in an aircraft of this class. Maximum economical cruise speed is 760 km/h, and with an unrestricted climb its maximum cruise altitude is 35,000 feet. The Fokker 100 also has the smallest noise footprint of any jet aircraft in its class and can operate to most sealed airports without the need for major modifications to the local infrastructure.

#### GENERAL CHARACTERISTICS

- Two Rolls-Royce Tay engines, 6,849kg thrust each with thrust reversal.
- Dual Channel Automatic Flight Control and Augmentation System (AFCAS).
- Electronic Flight Instrument System (EFIS).
- Multi Function Display System (MFDS).
- Flight Management System (FMS).
- Flight Warning System (FWS).
- Fail Operative Cat.IIIB auto-land with rollout guidance.



#### FOKKER 100 DIMENSIONS & SPECIFICATIONS:

Overall Length	35.53m
Span	28.08m
Maximum Takeoff Weight	45,813kg
Maximum Zero Fuel Weight	36,741kg
Basic Operating Weight	26,143kg
Maximum Payload	10,598kg
Maximum Usable Fuel	13,405ltr
Maximum Operating Altitude (35,000ft)	10,667m
Maximum Cruise Speed	462kts (856kph)
Maximum Range	3,500 Kms

The Fokker 100 fleet is programmed for an enhancement of air traffic management equipment once the Australian Government introduces the ADS-B network.

The airline is continuing the upgrade of its fleet with the planned introduction of an integrated Global Navigation Satellite System (GNSS). The integrated GNSS will deliver more accurate aircraft tracking performance, which will allow for shorter

approaches at night and in bad weather, as well as saving time and fuel and significantly enhancing safety and schedule reliability.

Importantly it gives Skywest enhanced capability to increase the number of overall flights per day and allows the aircraft to land at night at the remote and unattended airfields typical of major mining operations.

This innovative system will enable Skywest to make use of state-of-the-art satellite-based navigation and approach capability.

The Skywest F-100 fleet is RVSM (reduced vertical separation measuring) equipped, (and RMP 10 compliant), which enables the aircraft to cruise at higher flight levels thus reducing the aircraft fuel burn.

Skywest currently operates nine Fokker 100 aircraft, with another undergoing work for deployment into service in late 2011.



Fokker F50 VH-FNE

### Fokker 50 Aircraft

The Fokker 50 aircraft is configured with 46 seats for Skywest Airlines operations, ensuring a high level of comfort including ample cabin baggage space, extended seat pitch (extra leg-room) and full in-flight catering facilities.

The in-flight services provided on the Fokker 50's are of a standard comparable to that of much larger jet aircraft.

The aircraft are ideally suited to WA operating conditions offering a fast, efficient and comfortable service, with the best payload/range characteristics in its class.

The high-winged design is also well suited to gravel runways in the more remote locations.



#### GENERAL CHARACTERISTICS:

Two Pratt & Whitney PW 125B turboprop engines delivering 2500 SHP each.

Dowty Rotol six bladed propellers, featuring auto feathering, reversible pitch and constant speed type.

#### FOKKER 50 DIMENSIONS & SPECIFICATIONS:

Overall Length	25.19m
Span	29.0m
Maximum Takeoff Weight	20,820kg
Basic Operating Weight	13,650kg
Maximum Payload	4,950kg
Maximum Usable Fuel	4,050 kg
Cargo Compartment Capacity(Total)	1,315kg
Maximum Cruise Speed	260kts (468kph)
Maximum Range	2,750 Kms

The Fokker 50 fleet has recently been re-equipped with the latest operational and safety related technology.

Enhanced Ground Proximity Warning Systems have been installed in all aircraft and Global Positioning System Non-Precision Approach (GPS-NPA) capability has been developed.

The airline is also planning to equip all aircraft with the latest air traffic management systems once the Government establishes the ADS-B network in 2013.





Virgin Australia ATR-72 500 aircraft



### ATR-72 500 Aircraft

To advance the ARAN (Australian Regional Airline Network) Agreement, Skywest has recently taken delivery of its first three ATR-72 500 aircraft. Under this exclusive agreement with Virgin Australia we anticipate the addition of up to 18 aircraft into the Skywest fleet.

The ATR 72 is a twin-engine turboprop short-haul regional aircraft. It seats up to 78 passengers in a single-class configuration and is operated by a two-pilot crew. The ATR 72-500 is the latest development of the ATR 72. It draws from the in-service experience of more than 700 ATR aircraft flying worldwide, with a proven average dispatch reliability of more than 99%.

ATR has a keen sense of environmental responsibility and strives to minimize the environmental impact of the delivered products and services. The high-tech engines and propeller efficiency of ATR aircraft ensure airlines an unrivalled fuel efficiency and a remarkably low noise signature, thus securing exceptional environmental performance.

### GENERAL CHARACTERISTICS:

Two Pratt & Whitney Canada PW127F turboprop engines deliver 2475 SHP each.

The ATR 72-500 features Hamilton Sundstrand 568F six bladed propellers with electronic controls.

### ATR-72 500 DIMENSIONS & SPECIFICATIONS:

Overall Length	27.17m
Wingspan	27.05m
Maximum Takeoff Weight	22,500kg
Basic Operating Weight	12,950kg
Maximum Payload	4,950kg
Maximum Usable Fuel	5,700l
Maximum Cruise Speed	276kts (511kph)
Maximum Range	1,324 Kms

The ATR 72-500 fully meets its customer requirements in a rapidly evolving market and is playing a major role in the growth of regional carriers. It offers the lowest seat-mile costs in its class and great efficiency and reliability - the key to efficient regional operation.





## Western Australian Mining Industry



The Western Australian mining and petroleum resource sector is the largest and most diversified resource industry in Australia and is estimated to be worth over \$100 billion in trade for Australia. Continuing rapid industrial growth in the developing economies of China and India is ensuring strong and continued demand for raw materials, especially iron ore. Almost 1,500 mine and oil drilling sites are operating in WA and the state extracts up to 75% of Australia's 240 tonnes of gold per annum.

95% of Australia's iron ore occurs in WA, and Australia is the world's largest exporter of the mineral.

Almost 99% of Australia's nickel is produced in WA which supplies about 13% of the world's nickel production. The state produces 140,000 tonnes per annum which is valued at A\$1.0 billion.

The North West Shelf natural gas venture is Australia's largest resource project with investment in onshore and offshore oil and gas facilities totalling more than A\$25 billion. The venture accounts for more than 40% of Australia's oil and gas production and is a major producer of

liquefied natural gas (LNG), natural gas, liquid petroleum gas (LPG), condensate and crude oil.

The Gorgon Gas Field is a globally and nationally significant LNG development anticipating a resource base of 40 trillion cubic feet of gas and an estimated economic life of at least 60 years.

The Gorgon Project is Australia's largest single resource project and is set to deliver significant economic benefits, more than 10,000 jobs will be created at the peak of construction and \$64bn will be injected into the economy.

The LNG Exports alone are expected to be worth about \$300B over the next 20 years with Chevron executing sales agreements with customers in China, South Korea, India and Japan.

Under a government mandated licence agreement the operators are required to reserve 2000 PJ of gas for delivery into the domestic market. The Gorgon Joint Venture announced plans to establish a domestic gas project, including plans for progressive expansion to enable delivery of 300 TJ of gas per day into the domestic transmission system.

In addition to the massive Gorgon project, Chevron Australia plans to develop a new \$20 billion LNG project at its Wheatstone natural gas field located offshore about 200 kilometres north of Onslow.

The facility will be located on the northwest coast of mainland Australia and have an initial capacity of at least one 5 million-ton-per-annum LNG production train with expansion capacity. The facility will also provide commercial domestic gas to the local market.

Wheatstone will create about 6,500 direct and indirect jobs at the construction peak and create about \$15 billion in local content spending over the project's life.

The ongoing resources boom in Western Australia has led to significant opportunities for Skywest to grow its fly-in-fly-out contract work. There are over \$100 billion in resource projects still planned or underway in the state. Many of these projects will involve contract charter flying to supply the mines/projects with human resources.

Skywest presently conducts regular contracted charter services on behalf of Rio Tinto, Argyle Diamonds, BHP Billiton, FMG, Newmont, John Holland Group, Avoca Resources, Barminto and THG.

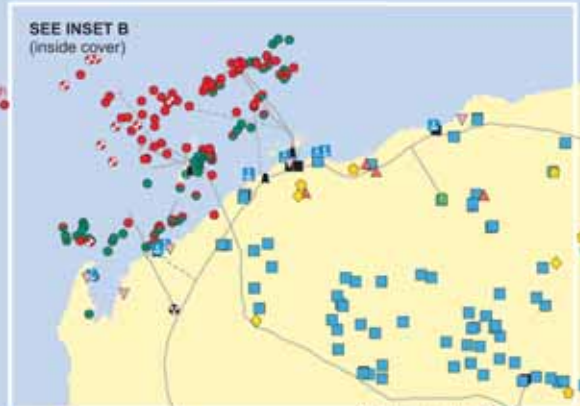
The airline is also aggressively targeting new opportunities as they arise. In addition to winning new charter contracts, expansion of existing contracts continues, as many of the resource projects move from planning/exploration to construction to eventual production phases.

# Major Resource Projects — June 2011



## Project labels:

PROJECTS OPERATING OR CURRENTLY UNDER DEVELOPMENT WITH AN ACTUAL OR ANTICIPATED VALUE OF PRODUCTION GREATER THAN \$410 MILLION ARE SHOWN IN BLUE  
 PROPOSED OR POTENTIAL PROJECTS WITH A CAPITAL EXPENDITURE GREATER THAN \$420 MILLION ARE SHOWN IN RED  
 PROJECTS UNDER CARE AND MAINTENANCE ARE SHOWN IN PURPLE



## Annual Financial Report

SKYWEST AIRLINES LIMITED

COMPANY REGISTRATION NO.: 199708548K

Annual Financial Report

For the year ended 30 June 2011



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## Directors' Report

The directors are pleased to present their report to the members together with the audited consolidated financial statements of Skywest Airlines Ltd. (the "Company") and its subsidiaries (collectively, the "Group") and the statement of financial position and statement of changes in equity of the Company for the financial year ended 30 June 2011.

### Directors of the Company

The directors of the Company in office at the date of this report are:

- Robert Jeffries Chatfield
- John Leonard Jost
- Seah Kian Peng
- Ronald Lewis Aitkenhead

### Arrangements to enable directors to acquire shares and debentures

Except for the share options as described below, neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

### Directors' interests in shares and debentures

The following directors, who held office at the end of the financial year, had, according to the register of directors' shareholdings required to be kept under section 164 of the Singapore Companies Act, Cap. 50, an interest in shares and share options of the Company and related corporations (other than wholly-owned subsidiaries) as stated below:

Name of director	Direct interest		Deemed interest	
	At the beginning of financial year	At the end of financial year	At the beginning of financial year	At the end of financial year
<b>The Company</b>	<b>Ordinary shares</b>			
Robert Jeffries Chatfield	2,400,100	2,400,100	29,700,000	29,720,855
Seah Kian Peng	1,586,377	1,350,000	-	-
John Leonard Jost	27,250	27,250	3,775,512	3,975,412
Ronald Lewis Aitkenhead	-	-	-	-

Except as disclosed in this report, no director who held office at the end of financial year had interests in shares, share options, warrants or debentures of the Company, or of related corporations, either at the beginning of the financial year, or at the end of the financial year.

The following warrants are granted to the Directors to subscribe for ordinary shares which are outstanding at the end of the reporting period:

Name of director to which warrants are granted	Direct interest		Deemed interest	
	At the beginning of financial year	At the end of financial year	At the beginning of financial year	At the end of financial year
<b>The Company</b>	<b>Number of warrants to subscribe for ordinary shares</b>			
Robert Jeffries Chatfield	-	-	2,000,000	4,000,000
Seah Kian Peng	200,000	400,000	-	-
John Leonard Jost	400,000	-	-	400,000
Ronald Lewis Aitkenhead	100,000	200,000	-	-

### Directors' contractual benefits

Except as disclosed in this report, since the end of the previous financial year, no director of the Company has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director, or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

## Directors' Report (ctd.)

### Share options

The Warrant Share Option scheme (the "Scheme") was authorised by the members of the Company on 15 May 2006 and is administrated by the Remuneration Committee.

Options outstanding under the Scheme as at the end of the reporting period was as follows:

Number of shares covered by the warrants						
Date of grant	Balance at beginning of year or later date of grant	Lapsed	Exercised	Balance at end of year	Exercise price	Expiry date
18/11/2009	3,040,000	-	(440,000)	2,600,000	10.25pence	17/11/2011
27/11/2010	2,700,000	-	-	2,700,000	23.50pence	26/11/2012
	5,740,000	-	(440,000)	5,300,000		

Details of warrants granted to the Directors of the Company have been disclosed in the Directors' interests in shares and debentures.

With the exception of the options referred as above, during the financial year, there were:

- no options granted by the Company or its subsidiary companies to any person to take up unissued shares of the Company and its subsidiaries;
- no shares issued by virtue of any exercise of option to take up unissued shares of the Company or its subsidiaries; and
- no unissued shares of the Company or its subsidiaries under option.

### Directors' remuneration

	Year ended 30 June 2011		Year ended 30 June 2010	
	Fees and salaries \$	Benefits \$	Fees and salaries \$	Benefits \$
<b>Fees, salaries and benefits</b>				
<b>Executive</b>				
Robert Jeffries Chatfield	408,280	573,290	307,968	453,392
<b>Non-executive</b>				
Seah Kian Peng	60,000	29,334	25,000	12,368
John Leonard Jost	60,000	58,667	25,000	24,736
Ronald Lewis Aitkenhead	60,000	14,667	25,000	6,184
	588,280	675,958	382,968	496,680

### Directors' meetings

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by the directors were as follows:

	Directors' meetings	Audit Committee	Remuneration Committee	Nomination Committee
<b>Number of meetings held</b>	7	1*	4*	-
<b>Number of Meetings Attended</b>				
Robert Jeffries Chatfield	7	-	-	-
Seah Kian Peng	4	-	-	-
John Leonard Jost	7	*	*	-
Ronald Lewis Aitkenhead	7	*	*	-

\* There were no physical meetings held during the financial year. Related matters were reviewed and approved by the respective committees via circular resolutions.

## Directors' Report (ctd.)

### Auditors

Ernst & Young Australia have expressed their willingness to accept reappointment as auditors.

On behalf of the board of Directors,



Robert Jeffries Chatfield  
Director



Ronald Lewis Aitkenhead  
Director  
Singapore  
26 September 2011

## Statement by Directors

We, Robert Jeffries Chatfield and Ronald Lewis Aitkenhead, being two of the directors of Skywest Airlines Ltd., do hereby state that, in the opinion of the directors:

- (i) the accompanying statement of financial positions, consolidated statement of comprehensive income, statements of changes in equity, and consolidated statement of cash flows together with notes thereto are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 30 June 2011 and the results of the business, changes in equity and cash flows of the Group and the changes in equity of the Company for the year ended on that date, and
- (ii) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the board of Directors,



Robert Jeffries Chatfield  
Director



Ronald Lewis Aitkenhead  
Director  
Singapore  
26 September 2011

## Independent Auditors' Report for the financial year ended 30 June 2011

### To the Members of Skywest Airlines Ltd

#### Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Skywest Airlines Ltd. (the "Company") and its subsidiaries (collectively, the "Group") set out on pages 44 to 91, which comprise the statements of financial position of the Group and the Company as at 30 June 2011, the statements of changes in equity of the Group and the Company, the statement of comprehensive income and statement of cash flows of the Group for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### Management's responsibility for the consolidated financial statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair value in accordance with the provisions of the Singapore Companies Act (the "Act") and International Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets.

#### Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.


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

**Opinion**

In our opinion, the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Act and International Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and Company as at 30 June 2011, and the results, changes in equity and cash flows of the Group and changes in equity of the Company for the year ended on that date.

**Report on Other Legal and Regulatory Requirements**

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.



Ernst & Young LLP

Public Accountants and

Certified Public Accountants

Singapore

26 September 2011

## Consolidated Statement of Comprehensive Income for the financial year ended 30 June 2011

(EXPRESSED IN SINGAPORE DOLLARS)

	Note	2011 \$	2010 \$
<b>Revenue</b>	4	239,910,036	215,204,636
Other income	5	2,424,079	830,297
Aircraft operating costs (excluding fuel costs)		(35,919,376)	(37,213,545)
Fuel costs		(56,044,417)	(45,514,935)
Aircraft lease rental and hire charges		(18,924,001)	(22,810,036)
Employee benefits	25	(60,502,807)	(46,461,429)
Sales and marketing costs		(4,944,585)	(5,484,762)
Engineering and maintenance costs		(21,631,229)	(19,593,403)
Office and general administration costs		(8,984,409)	(6,434,474)
Depreciation and amortisation		(18,788,309)	(14,859,315)
Other expenses		(2,291,683)	(2,759,237)
Finance costs	6	(746,632)	(886,310)
<b>Profit before tax</b>	7	13,556,667	14,017,487
Income tax expense	8	(3,707,463)	(4,783,610)
<b>Profit for the year attributable to owners of the parent</b>		9,849,204	9,233,877
<b>Other comprehensive income</b>			
Loss on cash flow hedges		(579,275)	–
Foreign currency translation		3,267,536	345,664
Other comprehensive income for the year, net of tax		2,688,261	345,664
<b>Total comprehensive income for the year attributable to owners of the parents</b>		12,537,465	9,579,541
<b>Earnings per share</b>			
- Basic (in cents)	28	4.93	4.71
- Diluted (in cents)	28	4.89	4.69

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

## Statements of Financial Position as at 30 June 2011

(EXPRESSED IN SINGAPORE DOLLARS)

	Note	Group		Company	
		2011 \$	2010 \$	2011 \$	2010 \$
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	9	62,782,427	58,235,854	18,039	33,456
Intangible assets	10	17,189,507	17,201,255	–	–
Subsidiaries	11	–	–	13,054,801	13,054,801
Other receivables	12	3,061,547	2,947,471	–	–
Prepayments	13	4,769,019	7,049,781	–	–
		87,802,500	85,434,361	13,072,840	13,088,257
<b>Current assets</b>					
Inventories	14	5,128,926	4,441,957	–	–
Trade and other receivables	12	31,820,245	23,540,828	33,832,401	33,287,070
Prepayments	13	6,896,885	2,062,562	50,943	15,643
Other investments	15	466,333	456,664	–	–
Cash and cash equivalents	16	9,966,329	12,940,709	2,357,193	1,350,771
		54,278,718	43,442,720	36,240,537	34,653,484
<b>Total assets</b>		142,081,218	128,877,081	49,313,377	47,741,741
<b>EQUITY AND LIABILITIES</b>					
<b>Current liabilities</b>					
Provisions	17	6,628,680	4,974,775	–	–
Income tax payable		3,130,843	1,952,190	746,471	649,802
Borrowings	18	1,240,017	2,930,993	–	–
Trade and other payables	19	30,458,047	32,774,824	118,707	39,163
Revenue received in advance	20	12,507,276	12,091,664	–	–
Finance lease liability	21	367,470	–	–	–
Derivative financial instruments	30	827,535	–	–	–
		55,159,868	54,724,446	865,178	688,965
<b>Net current (liabilities)/ assets</b>		(881,150)	(11,281,726)	35,375,359	33,964,519
<b>Non-current liabilities</b>					
Provisions	17	1,106,736	888,728	–	–
Borrowings	18	2,665,269	4,331,541	–	–
Other payables	19	–	139,870	–	–
Finance lease liability	21	933,988	–	–	–
Deferred tax liabilities	22	11,917,822	9,298,998	–	–
		16,623,815	14,659,137	–	–
<b>Total liabilities</b>		71,783,683	69,383,583	865,178	688,965
<b>Net assets</b>		70,297,535	59,493,498	48,448,199	47,052,776
<b>Equity attributable to owners of the parent</b>					
Share capital	23	43,927,891	43,809,091	43,927,891	43,809,091
Reserves	24	4,474,575	1,417,521	1,384,569	1,015,776
Retained earnings		21,895,069	14,266,886	3,135,739	2,227,909
<b>Total equity</b>		70,297,535	59,493,498	48,448,199	47,052,776
<b>Total equity and liabilities</b>		142,081,218	128,877,081	49,313,377	47,741,741

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

## Statements of Changes in Equity for the financial Year ended 30 June 2011

(EXPRESSED IN SINGAPORE DOLLARS)

	Equity attributable to owners of the parent									
	Note	Share capital	Treasury shares	Other reserve	Cash flow hedge reserve	Capital reserve	Warrant reserve	Foreign currency translation reserve	Retained earnings	Total equity
Group		\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance at 30 June 2009		42,989,091	(168,321)	625	-	-	-	56,081	7,928,300	50,805,776
Profit for the year		-	-	-	-	-	-	-	9,233,877	9,233,877
Other comprehensive income		-	-	-	-	-	-	345,664	-	345,664
Total comprehensive income for the year		-	-	-	-	-	-	345,664	9,233,877	9,579,541
Exercise of share warrants	23	820,000	-	-	-	-	-	-	-	820,000
Purchase of treasury shares	23	-	(811,900)	-	-	-	-	-	-	(811,900)
Disposal of treasury shares	23	-	980,221	-	-	827,779	-	-	-	1,808,000
Warrant expense		-	-	-	-	-	187,997	-	-	187,997
Transfer of reserve		-	-	(625)	-	-	-	-	-	(625)
Dividends paid	29	-	-	-	-	-	-	-	(2,895,291)	(2,895,291)
Balance at 30 June 2010		43,809,091	-	-	-	827,779	187,997	401,745	14,266,886	59,493,498
Profit for the year		-	-	-	-	-	-	-	9,849,204	9,849,204
Other comprehensive income		-	-	-	(579,275)	-	-	3,267,536	-	2,688,261
Total comprehensive income for the year		-	-	-	(579,275)	-	-	3,267,536	9,849,204	12,537,465
Exercise of share warrants	23	118,800	-	-	-	-	(27,210)	-	-	91,590
Warrant expense		-	-	-	-	-	396,003	-	-	396,003
Dividends paid	29	-	-	-	-	-	-	-	(2,221,021)	(2,221,021)
Balance at 30 June 2011		43,927,891	-	-	(579,275)	827,779	556,790	3,669,281	21,895,069	70,297,535

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

## Statements of Changes in Equity for the financial Year ended 30 June 2011

(EXPRESSED IN SINGAPORE DOLLARS)

	Note	Share capital	Treasury shares	Other reserve	Capital reserve	Warrant reserve	Retained earnings	Total equity
		\$	\$	\$	\$	\$	\$	\$
<b>Company</b>								
Balance at 30 June 2009		42,989,091	(168,321)	625	-	-	2,386,140	45,207,535
Profit for the year		-	-	-	-	-	2,737,060	2,737,060
Total comprehensive income for the year		-	-	-	-	-	2,737,060	2,737,060
Exercise of share warrants	23	820,000	-	-	-	-	-	820,000
Purchase of treasury shares	23	-	(811,900)	-	-	-	-	(811,900)
Disposal of treasury shares	23	-	980,221	-	827,779	-	-	1,808,000
Warrant expense		-	-	-	-	187,997	-	187,997
Transfer of reserve		-	-	(625)	-	-	-	(625)
Dividends paid	29	-	-	-	-	-	(2,895,291)	(2,895,291)
Balance at 30 June 2010		43,809,091	-	-	827,779	187,997	2,227,909	47,052,776
Profit for the year		-	-	-	-	-	3,128,851	3,128,851
Total comprehensive income for the year		-	-	-	-	-	3,128,851	3,128,851
Exercise of share warrants	23	118,800	-	-	-	(27,210)	-	91,590
Warrant expense		-	-	-	-	396,003	-	396,003
Dividends paid	29	-	-	-	-	-	(2,221,021)	(2,221,021)
Balance at 30 June 2011		43,927,891	-	-	827,779	556,790	3,135,739	48,448,199

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

## Consolidated Statement of Cash Flows for the financial Year ended 30 June 2011

(EXPRESSED IN SINGAPORE DOLLARS)

	Note	2011 \$	2010 \$
<b>Cash flows from operating activities</b>			
Profit before tax		13,556,667	14,017,487
Adjustments for:			
Gain on sale of other investments	5	(140,328)	(50,291)
Net fair value (gain)/loss on other investments	5,15	(3,122)	121,931
Amortisation of intangible assets	7,10	12,522	24,331
Depreciation of property, plant and equipment	7,9	18,775,787	14,834,984
Warrant expense		396,003	187,997
Finance costs	6	746,632	886,310
Interest income	5	(334,129)	(269,234)
Guarantee income from a related party	5	(158,926)	(362,908)
Dividend income		(8,829)	(4,905)
Write-back of allowance for inventories obsolescence	7,14	–	(404,892)
Allowance for doubtful receivables	7	131,706	–
Provision for/(write-back of provision for) aircraft handback	7,17	19,978	(75,170)
Provision for employee benefits	7,17	1,121,364	368,446
Provision for structural maintenance	7,17	149,721	–
Unrealised foreign exchange differences		(867,824)	(36,421)
<b>Operating profit before working capital changes</b>		33,397,222	29,237,665
Increase in inventories		(686,969)	(417,946)
Increase in trade, other receivables and prepayments		(13,245,446)	(3,080,321)
Increase in trade, other payables and provisions		2,258,715	13,427,515
<b>Cash generated from operations</b>		21,723,522	39,166,913
Interest expense paid		(746,632)	(886,310)
Income tax paid		(701,476)	(2,427,116)
Interest income received		334,129	269,234
Guarantee income received		158,926	362,908
<b>Net cash generated from operating activities</b>		20,768,469	36,485,629
<b>Cash flows from investing activities</b>			
Decrease/(increase) in long-term other receivables and prepayments		2,166,686	(9,997,252)
Purchase of other investments		(483,156)	(390,770)
Proceeds from sales of other investments		593,091	66,501
Dividend income received		8,829	4,905
Acquisition of property, plant and equipment		(19,378,372)	(25,536,623)
Proceeds from disposal of property, plant and equipment		980,299	–
<b>Net cash used in investing activities</b>		(16,112,623)	(35,853,239)

## Consolidated Statement of Cash Flows for the financial Year ended 30 June 2011

(EXPRESSED IN SINGAPORE DOLLARS)

	Note	2011 \$	2010 \$
<b>Cash flows from financing activities</b>			
(Decrease)/increase in long-term other payables and provisions		(1,653,905)	214,315
Release of cash pledged as security		–	2,446,076
Proceeds from borrowings		–	5,568,400
Repayment of borrowings		(3,357,248)	(1,575,081)
Proceeds from finance lease liability		1,301,458	–
Repayment of instalment due to a supplier		(1,818,310)	–
Dividends paid on ordinary shares	29	(2,221,021)	(2,895,291)
Proceeds from issuance of ordinary shares	23a	118,800	820,000
Purchase of treasury shares	23b	–	(811,900)
Proceeds from disposal of treasury shares	23b	–	1,808,000
<b>Net cash (used in)/generated from financing activities</b>		<b>(7,630,226)</b>	<b>5,574,519</b>
Net (decrease)/increase in cash and cash equivalents		(2,974,380)	6,206,909
Cash and cash equivalents at beginning of year		12,940,709	6,733,800
<b>Cash and cash equivalents at end of year</b>	<b>16</b>	<b>9,966,329</b>	<b>12,940,709</b>

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

## Notes to the Financial Statements - 30 June 2011

### 1. Corporate information

Skywest Airlines Ltd. (the "Company") is a limited liability company which is incorporated and domiciled in Singapore and is dual-listed on the London Stock Exchange's Alternative Investment Market (AIM), and the Australian Securities Exchange (ASX).

The registered office and principal place of business of the Company is located at 510, Thomson Road, #12-04, SLF Building, Singapore 298135.

The principal activities of the Company are those of investment holding.

The principal activities of the subsidiaries are set out in Note 11.

### 2. Summary of significant accounting policies

#### 2.1 Basis of preparation

The consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are presented in Singapore dollars (SGD or \$) and have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The financial statements have been prepared on the historical cost basis except for held for trading financial assets and derivative financial instruments that have been measured at fair value.

#### 2.2 Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except that in the current financial year, the Group and Company have adopted all the new and revised standards and Interpretations of IFRS (IFRIC) that are effective for the financial year beginning 1 July 2010. The adoption of these standards and interpretations did not have any effect on the financial performance or position of the Group and Company.

#### 2.3 Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective.

##### *IAS 24 Related Party Disclosures (Amendment)*

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduced a partial exemption of disclosure requirements for government related entities. The Group does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

##### *IFRS 9 Financial Instruments: Classification and Measurement*

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the Board will address hedge accounting and impairment. The completion of this project is expected in early 2012. The adoption of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets. However, the Group determined that the effect shall be quantified in conjunction with the other phases when issued to present a comprehensive picture.

##### *IAS 1 Presentation of Financial Statements (Amendment)*

The amended standard is effective for annual periods beginning on or after 1 July 2012. It changes the grouping of items presented in other comprehensive income. Items that could be reclassified to profit or loss at a future point in time would be presented separately from items which will never be reclassified. The Group does not expect any impact on its financial position or performance upon adoption of this standard.

##### *IAS 19 Employee Benefits (Amendment)*

The amended standard is effective for annual periods beginning on or after 1 January 2013. It removes the corridor mechanism for defined benefit plans and no longer allows actuarial gains and losses to be recognised in profit or loss. The distinction between short-term and long-term employee benefits is based on expected timing of settlement rather than employee entitlement. The Group does not expect adoption of this standard to have material impact to the financial statements.

## Notes to the Financial Statements - 30 June 2011

### 2.3 Standards issued but not yet effective (cont'd)

#### *IFRS 10 Consolidated Financial Statements*

IFRS 10 is effective for annual periods beginning on or after 1 January 2013. IFRS 10 establishes a single control model that applies to all entities (including special purpose entities). The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore are required to be consolidated by the Group, compared with the requirements that were in IAS 27. Therefore, IFRS 10 may change which entities are within a group. The Group does not expect adoption of this standard to have material impact to the financial statements.

#### *IFRS 13 Fair value measurement*

IFRS 13 is effective for annual periods beginning on or after 1 January 2013. It provides a single source of guidance for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to measure fair value under IFRS when fair value is required or permitted by IFRS. The Group does not expect adoption of this standard to have material impact to the financial statements.

#### *Improvements to IFRSs (issued in May 2010)*

The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after 1 January 2011. The amendments listed below, are considered to have a reasonable possible impact on the Group:

- IFRS 7 Financial Instruments: Disclosures
- IFRS 3 Business Combinations
- IAS 1 Presentation of Financial Statements
- IAS 27 Consolidated and Separate Financial Statements

The Group, however, expects no impact from the adoption of the amendments on its financial position or performance.

### 2.4 Basis of consolidation

The consolidated financial statements comprise the financial statements of Skywest Airlines Ltd and its subsidiaries as at 30 June 2011. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

### 2.5 Business combinations

#### *Business combinations from 1 July 2009*

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

## Notes to the Financial Statements - 30 June 2011

### 2.5 Business combinations (cont'd)

#### *Business combinations from 1 July 2009 (cont'd)*

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled within equity.

#### *Business combinations prior to 1 July 2009*

In comparison to the above-mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

### 2.6 Foreign currency

The Group's consolidated financial statements are presented in Singapore Dollars, which is also the parent company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statement of each entity are measured using that functional currency.

#### *(a) Transactions and balances*

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Prior to 1 January 2005, the Group treated goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition as assets and liabilities of the parent. Therefore, those assets and liabilities are already expressed in the functional currency or are non-monetary items and no further translation differences occur.

#### *(b) Group companies*

The assets and liabilities of foreign operations are translated into SGD at the rate of exchange prevailing at the reporting date and statement of comprehensive income are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation subsequent to 1 January 2005 and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

## Notes to the Financial Statements - 30 June 2011

### 2.7 Property, plant and equipment (cont'd)

Property, plant and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

Aircraft and related equipment, and rotables	- 2 to 25 years
Plant and equipment	- 3 to 15 years
Furniture and fittings	- 3 years
Leasehold improvement	- Over lease term of 10 years
Motor vehicle	- 5 years

The carrying value of property, plant and equipment are reviewed for impairment when events or circumstances indicate that the carrying value may not be recoverable. More details are disclosed in Note 2.10.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognised.

### 2.8 Intangible assets

#### (a) Goodwill

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than their carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

#### (b) Other intangible assets - Licence

Licence that is acquired by the Group is stated at cost less accumulated depreciation and impairment losses.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful life in the current and comparative period for licence acquired is 3 years.

Impairment is assessed whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset is reviewed at least at the end of each reporting period.

An intangible assets is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

## Notes to the Financial Statements - 30 June 2011

### 2.9 Subsidiaries

A subsidiary is an entity over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities.

In the Company's separate financial statements, investments in subsidiaries are accounted for at cost less impairment losses.

### 2.10 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value-in-use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

Impairment losses are recognised in profit or loss in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

### 2.11 Financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and cash equivalents, trade and other receivables and other investments.

The subsequent measurement of financial assets depends on their classification as follows:

#### Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognised in profit or loss.

The Group has not designated any financial assets upon initial recognition as at fair value through profit or loss.

The Group evaluated its financial assets held for trading to determine whether the intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification to loans and receivables, available-for-sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

## Notes to the Financial Statements - 30 June 2011

### 2.11 Financial assets (cont'd)

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in profit or loss. The losses arising from impairment are recognised in profit or loss in finance costs.

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

### 2.12 Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that the loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in profit or loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in profit or loss.

## Notes to the Financial Statements - 30 June 2011

### 2.13 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and at banks or financial institutions, including fixed deposits. Cash and cash equivalents are short-term and highly liquid investments that are readily convertible to known amounts of cash and that are subject to insignificant risk of changes in value.

For the purposes of the consolidated cash flow statement, cash and cash equivalents are shown net of cash balances pledged as collateral.

### 2.14 Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

### 2.15 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in profit or loss.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in provision due to the passage of time is recognised in profit or loss.

### 2.16 Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, borrowings, lease liability and derivative financial instruments.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance cost in profit or loss.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

### 2.17 Derivative financial instruments and hedging

The Group uses derivative financial instruments (including forward currency contracts and fuel hedging contracts) to hedge its risks associated with foreign currency and jet fuel price fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Derivative assets and liabilities are classified as current in the statement of financial position. Derivative assets and liabilities are classified as non-current when the remaining maturity is more than 12 months, or current when the remaining maturity is less than 12 months. The fair values of forward currency contracts are calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of fuel hedging contracts are also determined using a discounted cash flow valuation technique using cash flow estimates based on observable and unobservable forward prices for jet fuel.

Any gains or losses arising from changes in the fair value of derivatives, except for those that qualify as cash flow hedges, are taken directly to profit or loss for the year.

## Notes to the Financial Statements - 30 June 2011

### 2.17 Derivative financial instruments and hedging (cont'd)

For the purposes of hedge accounting, hedges are classified as:

- Fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment. The Group does not currently have any fair value hedges.
- Cash flow hedges when they hedge the exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or to a forecast transaction. The Group currently has cash flow hedges attributable to future purchases of aviation fuel.

Hedges that meet the strict criteria for hedge accounting are accounted for as follows:

#### Fair value hedges

Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment that is attributable to a particular risk and could affect profit or loss. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged and the derivative is remeasured to fair value. Gains and losses from both are taken to profit or loss.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to profit or loss. Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

#### Cash flow hedges

Cash flow hedges are hedges of the Group's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or to a forecast transaction and that could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss. Amounts taken to equity are transferred out of equity and included in the measurement of the hedged transaction (finance costs or inventory purchases) when the forecast transaction occurs. The Group tests each of the designated cash flow hedges for effectiveness on a bi-annual basis both retrospectively and prospectively by comparing the cumulative change in the cash flows of the hedged item to the cumulative change in the fair value of the hedging instrument. If the testing falls within the 80:125% range, the hedge is considered highly effective and continues to be designated as a cash flow hedge. Any ineffectiveness is recognised in profit or loss.

If the forecast transaction is no longer expected to occur, amounts recognised in equity are transferred to the profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked (due to it being ineffective), amounts previously recognised in equity remain in equity until the forecast transaction occurs.

### 2.18 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### 2.19 Employee benefits

#### (a) *Defined contribution plans*

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. The Singapore companies in the Group make contributions to the Central Provident Fund scheme in Singapore, a defined contribution pension scheme. For Australia companies, a defined contribution plan is a past-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Contributions to defined contribution pension schemes are recognised as an expense in the period in which the related service is performed.

#### (b) *Employee leave entitlement*

Employee entitlements to annual leave are recognised as a liability when they accrue to employees. A provision is made for the estimated liability for leave as a result of services rendered by employees up to the end of the reporting period.

## Notes to the Financial Statements - 30 June 2011

### 2.19 Employee benefits (cont'd)

#### (c) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

#### (d) Long-term employee benefits

The Group's net obligation in respect of long-term employee benefits other than defined contribution plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods plus related on-costs; that benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on Australian Government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method. Any actuarial gains or losses are recognised in the profit or loss in the period in which they arise.

#### (e) Warrant Share Option scheme

Employees of the Group receive remuneration in the form of share options as consideration for services rendered. The cost of these equity-settled share based payment transactions with employees for awards granted is measured by reference to the fair value of the options at the date on which the options are granted which takes into account market conditions and non-vesting conditions. This cost is recognised in profit or loss, with a corresponding increase in the warrant reserve, over the vesting period. The cumulative expense recognised at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of options that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense.

No expense is recognised for options that do not ultimately vest, except for options where vesting is conditional upon a market or non-vesting condition, which are treated as vested irrespective of whether or not the market condition or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied. In the case where the option does not vest as a result of a failure to meet a non-vesting condition that is within the control of the Group or the employee, it is accounted for as a cancellation. In such case, the amount of the compensation cost that otherwise would be recognised over the remainder of the vesting period is recognised immediately in profit or loss upon cancellation. The warrant reserve is transferred to retained earnings upon expiry of the share option.

### 2.20 Leases – as lessee

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005 in accordance with the transitional requirements of IFRIC 4.

Finance leases which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an operating expense in the profit or loss on a straight-line basis over the lease term.

## Notes to the Financial Statements - 30 June 2011

### 2.21 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognised:

(a) *Passenger, charter and freight revenue*

Passenger, charter and freight revenue is at the fair value of the consideration received net of passenger taxes and goods and sales tax. Sales are credited to revenue received in advance, classified under current liabilities, and subsequently transferred to revenue when tickets are utilised or expire or when freight is uplifted.

(b) *Interest income*

Interest income is recognised on time-apportioned basis, using the effective interest method.

(c) *Dividend income*

Dividend income is recognised when the right to receive payment is established.

(d) *Sales of other investments*

Profit on sales of investments is recognised on trade date.

### 2.22 Income taxes

(a) *Current tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(b) *Deferred tax*

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

## Notes to the Financial Statements - 30 June 2011

### 2.22 Income taxes (cont'd)

#### (b) *Deferred tax (cont'd)*

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

#### (c) *Sales tax*

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- Where the sales tax incurred in a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

### 2.23 Segment reporting

An operating segment is a component of an entity that engages in business activities which it may earn revenues or incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about the resources to be allocated to the segment and assess its performance and for which discrete financial information is available. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors.

Operating segments have been based on the information provided to the chief operating decision makers-being the executive management team.

The Group has identified that it has one operating segment with operations predominantly in Australia as an airline operator.

### 2.24 Share capital and share issuance expenses

Proceeds from issuance of ordinary shares are recognised as share capital in equity. Incremental costs directly attributable to the issuance of ordinary shares are deducted against share capital.

### 2.25 Contingencies

A contingent liability is:

- (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or
- (b) a present obligation that arises from past events but is not recognised because:
  - (i) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
  - (ii) The amount of the obligation cannot be measured with sufficient reliability.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent liabilities and assets are not recognised on the statement of financial position of the Group, except for contingent liabilities assumed in a business combination that are present obligations and which the fair values can be reliably determined.

## Notes to the Financial Statements - 30 June 2011

### 2.26 Related parties

A party is considered to be related to the Group if:

- (a) The party, directly or indirectly through one or more intermediaries,
  - (i) controls, is controlled by, or is under common control with, the Group;
  - (ii) has an interest in the Group that gives it significant influence over the Group; or
  - (iii) has joint control over the Group;
- (b) The party is an associate;
- (c) The party is a jointly-controlled entity;
- (d) The party is a member of the key management personnel of the Group or its parent;
- (e) The party is a close member of the family of any individual referred to in (a) or (d); or
- (f) The party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) The party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

### 3. Significant accounting estimates and judgements

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

#### 3.1 Judgements made in applying accounting policies

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

##### Income taxes

The Group has exposure to income taxes in numerous jurisdictions. Significant judgment is involved in determining the group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The carrying amount of the Group's income tax payables and deferred tax liabilities at the date of the statement of financial position was \$3,130,843 (2010: \$1,952,190) and \$11,917,822 (2010: \$9,298,998) respectively.

#### 3.2 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

##### (a) *Useful lives of property, plant and equipment*

The cost of property, plant and equipment is depreciated on a straight-line basis over its useful lives. Management estimates the useful lives of property, plant and equipment to be as disclosed in Note 2.7.

Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore, future depreciation charges could be revised.

The carrying amount of the Group's property, plant and equipment at the end of the reporting period is disclosed in Note 9.

## Notes to the Financial Statements - 30 June 2011

### 3.2 Key sources of estimation uncertainty (cont'd)

(b) *Impairment of non-financial assets*

Goodwill is tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

When value-in-use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details of the key assumptions applied in the impairment assessment of goodwill is given in Note 10.

(c) *Share-based payment transactions*

The Group measures the cost of equity-settled transactions with directors and third parties by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the evaluation model including the expected life of the share warrant, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 25.

(d) *Provision for aircraft handback*

A provision has been made for the present value of the estimated future cost to strip and repaint certain leased aircraft at the conclusion of their respective lease period. These provision are reviewed periodically and updated to reflect the facts and circumstances which exist at the time. Changes to the estimated future costs are recognised by adjusting both the expense and provision. The related carrying amounts are disclosed in Note 17.

(e) *Prepaid maintenance assets*

The Group has incurred maintenance expenditure on leased aircraft which is capitalised as prepaid maintenance assets. Details are disclosed in Note 13. These assets become recoverable as the relevant aircraft are flown via rebates from maintenance charges negotiated with the lessors.

The extent of recoverability of these assets depends on management's expectations as to the extent relevant aircraft will be used during the lease period and/or whether current lease extension options, where relevant, will be taken up by the Group.

(f) *Derivative financial instruments*

In the current financial year, the Group entered into derivative financial instruments to hedge the cost of jet fuel. These fuel hedging contracts are carried at fair value on the Group's statement of financial position as at 30 June 2011. The fair value of fuel hedging contracts is determined using discounted cash flow valuation technique. The cash flow estimates is based on observable and unobservable forward prices for jet fuel. The valuation is performed by the counterparty to these contracts.

(g) *Impairment of loans and receivables*

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset is impaired. To determine whether there is objective evidence of impairment, the Group considers factors such as the historical experience and changes to the financial position of the debtors.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. The carrying amount of the Group's loans and receivables at the end of the reporting period is disclosed in Note 12.

(h) *Fair value of other investments*

Where the fair values of financial instruments recorded on the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flow model. The inputs to these models are derived from observable market data where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The valuation of financial instruments is described in more detail in Note 30.

## Notes to the Financial Statements - 30 June 2011

### 4. Revenue

	Group	
	2011	2010
	\$	\$
Passenger revenue	99,185,512	95,259,175
Freight revenue	2,606,662	1,150,637
Charter revenue	134,714,943	117,495,860
Other	3,402,919	1,298,964
	239,910,036	215,204,636

### 5. Other income

	Group	
	2011	2010
	\$	\$
Guarantee income from a related party <sup>(1)</sup>	158,926	362,908
Dividend income	8,829	4,905
Foreign exchange gains	1,775,745	135,658
Gain on sales of other investments	140,328	50,291
Interest income from third parties	299,317	264,044
Interest income from related parties	34,812	5,190
Net fair value gain on other investments	3,122	-
Other miscellaneous income	3,000	7,301
	2,424,079	830,297

<sup>(1)</sup> Guarantee income is charged to a related party in respect of a guarantee that the Group has provided to a bank for a bank loan taken up by the related party.

### 6. Finance costs

	Group	
	2011	2010
	\$	\$
Interest expense on bank loans	746,632	886,310

### 7. Profit before tax

The following items have been included in arriving at profit before tax:

	Note	Group	
		2011	2010
		\$	\$
Office rental expense		26,325	25,646
Depreciation of property, plant and equipment	9	18,775,787	14,834,984
Amortisation of intangible assets	10	12,522	24,331
Allowance for doubtful receivables	12	131,706	-
Write-back of allowance for inventories obsolescence	14	-	(404,892)
Net fair value (gain)/loss on other investments	5,15	(3,122)	121,931
Provision for/(write-back of provision for) aircraft handback	17	19,978	(75,170)
Provision for employee benefits	17	1,121,364	368,446
Provision for structural maintenance	17	149,721	-

## Notes to the Financial Statements - 30 June 2011

### 8. Income tax expense

#### **Major components of income tax expense**

The major components of income tax expense for the years ended 30 June 2011 and 2010 are:

	Group	
	2011 \$	2010 \$
Current income tax		
– Current income taxation	2,314,016	157,367
– (Over)/under provision in respect of previous years	(657,237)	433,040
	1,656,779	590,407
Deferred income tax		
– Origination and reversal of temporary differences	1,573,971	4,320,228
– Under/(over) provision in respect of previous years	467,565	(136,610)
	2,041,536	4,183,618
Overseas withholding tax expense	9,148	9,585
Income tax expense recognised in the consolidated statement of comprehensive income	3,707,463	4,783,610

	Group	
	2011 \$	2010 \$
Deferred tax related to other comprehensive income:		
Net loss on revaluation of cash flow hedges	248,260	–

#### **Relationship between tax expense and accounting profit**

The reconciliation between tax expense and the product of accounting profit multiplied by the applicable corporate tax rate for the years ended 30 June 2011 and 2010 are as follows:

Profit before tax	13,556,667	14,017,487
Tax at the domestic rates applicable to profits in the countries where the Group operates	3,732,080	4,137,782
Adjustments:		
Income not subject to tax	(27,475)	(1,712)
Non-deductible expenses	471,519	544,688
Utilisation of deferred tax asset previously not recognised	(76,778)	(57,662)
Tax effect of qualifying income which is taxed at a concessionary rate of 10%	(186,491)	(120,253)
Overseas withholding tax expense	9,148	9,585
Effect of partial tax exemption and tax relief	(27,047)	(25,925)
(Over)/under provision in respect of previous years	(189,672)	296,430
Others	2,179	677
Income tax expense recognised in the consolidated statement of comprehensive income	3,707,463	4,783,610

Starting 1 February 2009, one of the companies within the Group has been awarded a 5-year Aircraft Leasing Scheme incentive from the Economic Development Board of Singapore. This incentive entitles that company to a concessionary tax rate of 10% on qualifying income from the leasing of aircraft and/or aircraft engine and other qualifying ancillary activities. The validity of this incentive is dependent on that company meeting all the terms and conditions set by the Economic Development Board by the stipulated deadlines. All the terms and conditions set by the Economic Development Board are met.

## Notes to the Financial Statements - 30 June 2011

### 9. Property, plant and equipment

Group	Rotables \$	Aircraft and related equipment \$	Furniture and fittings \$	Plant and equipment \$	Leasehold improvement \$	Motor vehicle \$	Total \$
<b>Cost:</b>							
Balance at 1 July 2009	16,703,401	51,272,815	–	7,044,909	1,953,956	71,912	77,046,993
Additions	5,335,206	21,067,243	–	952,484	–	–	27,354,933
Disposal/written off	–	–	–	(3,875)	–	–	(3,875)
Derecognition of fully depreciated assets	–	(10,256,701)	–	–	–	–	(10,256,701)
Translation adjustments	396,749	1,026,283	–	167,572	46,411	–	1,637,015
Balance at 30 June 2010 and 1 July 2010	22,435,356	63,109,640	–	8,161,090	2,000,367	71,912	95,778,365
Additions	12,442,837	4,874,645	16,422	973,088	1,071,380	–	19,378,372
Disposal/written off	–	(971,874)	–	(51,337)	–	–	(1,023,211)
Derecognition of fully depreciated assets	–	(1,009,277)	–	–	–	–	(1,009,277)
Translation adjustments	2,418,295	5,447,682	–	782,984	214,414	–	8,863,375
Balance at 30 June 2011	37,296,488	71,450,816	16,422	9,865,825	3,286,161	71,912	121,987,624
<b>Accumulated depreciation:</b>							
Balance at 1 July 2009	5,551,632	21,747,286	–	4,654,643	371,418	26,368	32,351,347
Charge for the year	1,594,258	12,283,293	–	762,197	180,854	14,382	14,834,984
Disposal/written off	–	–	–	(3,875)	–	–	(3,875)
Derecognition of fully depreciated assets	–	(10,256,701)	–	–	–	–	(10,256,701)
Translation adjustments	76,908	452,091	–	84,146	3,611	–	616,756
Balance at 30 June 2010 and 1 July 2010	7,222,798	24,225,969	–	5,497,111	555,883	40,750	37,542,511
Charge for the year	5,785,148	11,705,718	2,003	911,558	356,978	14,382	18,775,787
Disposal/written off	–	–	–	(42,912)	–	–	(42,912)
Derecognition of fully depreciated assets	–	(1,009,277)	–	–	–	–	(1,009,277)
Translation adjustments	824,287	2,520,250	–	533,439	61,112	–	3,939,088
Balance at 30 June 2011	13,832,233	37,442,660	2,003	6,899,196	973,973	55,132	59,205,197
<b>Net carrying amount:</b>							
Balance at 30 June 2011	23,464,255	34,008,156	14,419	2,966,629	2,312,188	16,780	62,782,427
Balance at 30 June 2010	15,212,558	38,883,671	–	2,663,979	1,444,484	31,162	58,235,854

## Notes to the Financial Statements - 30 June 2011

### 9. Property, plant and equipment (cont'd)

The carrying amount of aircraft and related equipment is derecognised as there is no future economic benefit expected from its use.

On 30 June 2011, the Group acquired a 43.137% interest in an aircraft with a cost of \$1,464,910.

#### Aircraft purchased by instalment plan

During the last financial year, the Group acquired aircraft with an aggregate cost of \$2,773,678 to be paid by monthly instalments. The outstanding instalment payments due are as disclosed in Note 19.

The net cash outflow as at 30 June 2011 for the acquisition of this aircraft amounted to \$1,818,310 (2010: \$955,368).

Company	Furniture and fittings \$	Plant and equipment \$	Motor vehicle \$	Total \$
<b>Cost:</b>				
Balance at 1 July 2009	–	30,078	71,912	101,990
Disposal/written off	–	(3,875)	–	(3,875)
Balance at 30 June 2010 and 1 July 2010	–	26,203	71,912	98,115
Additions	1,260	–	–	1,260
Disposal/written off	–	(20,705)	–	(20,705)
Balance at 30 June 2011	1,260	5,498	71,912	78,670
<b>Accumulated depreciation:</b>				
Balance at 1 July 2009	–	19,592	26,368	45,960
Charge for the year	–	8,192	14,382	22,574
Disposal/written off	–	(3,875)	–	(3,875)
Balance at 30 June 2010 and 1 July 2010	–	23,909	40,750	64,659
Charge for the year	70	2,225	14,382	16,677
Disposal/written off	–	(20,705)	–	(20,705)
Balance at 30 June 2011	70	5,429	55,132	60,631
<b>Net carrying amount:</b>				
Balance at 30 June 2011	1,190	69	16,780	18,039
Balance at 30 June 2010	–	2,294	31,162	33,456

The motor vehicle of the Group with a net book value of \$16,780 (2010: \$31,362) is registered in the name of a Director of the Company who is holding the motor vehicle in trust for the Group.

### 10. Intangible assets

The breakdown of intangible assets is as follows:

	Note	Group 2011 \$	Group 2010 \$
Goodwill arising from business combinations	(a)	17,189,507	17,189,507
Other intangible assets	(b)	–	11,748
		17,189,507	17,201,255
<b>(a) Goodwill</b>			
Goodwill arising from business combinations		17,189,507	17,189,507

## Notes to the Financial Statements - 30 June 2011

### 10. Intangible assets (cont'd)

#### *Impairment test of goodwill*

Goodwill is allocated to the cash generating unit ("CGU") Skywest Airlines (Australia) Pty Ltd which is a high capacity airline operator, and the holder of an Australian high capacity air operator's certificate operating regular passenger transport services, charter services and airfreight operations.

The recoverable amount of the airline operator has been determined based on a value-in-use calculation using cash flow projections from financial budgets approved by management covering the next financial year.

The pre-tax risk adjusted discount rate applied to these cash flow projections is 19% (2010: 19%). The long-term growth rate used to extrapolate the cash flows 14 years beyond the next financial year is 4.3% (2010: 3.0%) per annum.

Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the CGU to materially exceed its recoverable amount.

#### **b) Other intangible assets**

<b>Group</b>	<b>Licence \$</b>
<b>Cost:</b>	
At 1 July 2009	114,737
Translation adjustment	2,725
At 30 June 2010 and 1 July 2010	117,462
Translation adjustment	10,970
Derecognition of fully amortised assets	(128,432)
At 30 June 2011	–
<b>Accumulated amortisation:</b>	
At 1 July 2009	80,315
Charge for the year	24,331
Translation adjustment	1,068
At 30 June 2010 and 1 July 2010	105,714
Charge for the year	12,522
Translation adjustment	10,196
Derecognition of fully amortised assets	(128,432)
At 30 June 2011	–
<b>Net carrying amount:</b>	
At 30 June 2011	–
At 30 June 2010	11,748

The carrying amount of intangible asset is derecognised as there is no future economic benefit expected from its use.

## Notes to the Financial Statements - 30 June 2011

### 11. Subsidiaries

	Company	
	2011	2010
	\$	\$
Unquoted equity investments, at cost	13,054,801	13,054,801

**Details of the subsidiaries are as follows:**

	Name	Country of incorporation	Principal activities	Proportion (%) of ownership interest	
				2011	2010
<b>Held by the Company:</b>					
^	CaptiveVision Capital Ltd	Singapore	Investment holding and trading of quoted and unquoted securities	100	100
^	Skywest Airlines (S) Pte. Ltd.	Singapore	Provision of management, aircraft leasing/finance and parts procurement services to the holding company and other related companies	100	100
<b>Held by subsidiaries:</b>					
*	A.C.N. 098 904 262 Pty Ltd	Australia	Investment holding	100	100
*	Skywest Airlines (Australia) Pty Ltd	Australia	Airline operator	100	100

^ Audited by Ernst & Young LLP, Singapore

\* Audited by Ernst & Young, Australia

### 12. Trade and other receivables

	Group		Company	
	2011	2010	2011	2010
	\$	\$	\$	\$
<b>Trade receivables - current</b>				
Trade receivables from third parties <sup>(1)</sup>	18,579,273	5,230,182	–	–
Less: Allowance for doubtful receivables	(131,706)	–	–	–
	18,447,567	5,230,182	–	–
<b>Other receivables - current</b>				
Interest bearing loan <sup>(2)</sup>	358,918	372,346	–	–
Interest receivable <sup>(2)</sup>	65,072	65,277	–	–
Amounts due from related parties <sup>(3)</sup>	12,308,831	12,587,073	126,493	142,944
Guarantee income receivable from a related party <sup>(4)</sup>	278,884	555,097	–	–
Deposits	178,770	4,730,853	31,005	28,900
Other receivables	182,203	–	–	–
Amounts due from subsidiaries <sup>(3)</sup>	–	–	33,674,903	33,115,226
	13,372,678	18,310,646	33,832,401	33,287,070
<b>Total</b>	31,820,245	23,540,828	33,832,401	33,287,070
<b>Other receivables - non-current</b>				
Deposits <sup>(5)</sup>	2,916,123	2,798,447	–	–
Interest bearing debenture <sup>(6)</sup>	145,424	149,024	–	–
	3,061,547	2,947,471	–	–

## Notes to the Financial Statements - 30 June 2011

### 12. Trade and other receivables (cont'd)

<sup>(1)</sup> Trade receivables

Trade receivables are non-interest bearing and are generally on 30 days terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

Trade receivables that are past due but not impaired

The Group has trade receivables amounting to \$12,442,890 (2010: \$4,105,829) that are past due at the reporting period but not impaired. The analysis of the aging at the end of the period is as follows:

	Group	
	2011	2010
	\$	\$
Neither past due nor impaired	6,004,677	1,124,353
Past due 0 to 30 days	10,915,251	4,020,481
Past due 31 to 60 days	1,151,060	32,411
Past due more than 61 days	376,579	52,937
	18,447,567	5,230,182

Guarantees have been provided by a bank to a subsidiary, Skywest Airlines (Australia) Pty Ltd, to guarantee any default on payments by the subsidiary's key customers. As at 30 June 2011, these guarantees amount to \$2,423,685 (2010: \$2,096,850).

Trade receivables that are impaired

The Group's trade receivables that are impaired at the end of the reporting period and the movement of allowance accounts used to record the impairment are as follows:

Trade receivables – nominal amount	1,659,346	–
Less: Allowance for doubtful receivables	(131,706)	–
	1,527,640	–
Movement in allowance accounts:		
Balance at beginning of year	–	–
Charge for the year	128,398	–
Translation adjustment	3,308	–
Balance at end of year	131,706	–

<sup>(2)</sup> Interest bearing loan and interest receivable

The interest bearing loan due from a company which a director of the Company has an interest is unsecured and repayable on demand. The loan bears interest at SIBOR rate and is calculated on the outstanding principal amount of the loan on a daily rest basis of a year of 365 days. The effective interest rate per annum relating to the outstanding principal balance is 1% (2010: 1%).

<sup>(3)</sup> Amounts due from related parties and subsidiaries

The amounts due from related parties and subsidiaries are non-trade in nature, unsecured, non-interest bearing, and are repayable on demand.

<sup>(4)</sup> Guarantee income receivable from a related party

The guarantee income receivable from a related party is secured and repayable on demand. Interest is charged at an effective interest rate of 14% (2010: 14%) per annum and calculated on the commitment amount of AUD\$2,089,967 on a daily rest basis of a year of 365 days.

<sup>(5)</sup> Deposits – non-current

Non-current deposits mainly relate to refundable deposits placed for aircraft operating lease commitments. These deposits will be refunded at the end of the lease terms of the aircraft.

<sup>(6)</sup> Interest bearing debenture

The debenture is due from a third party and is repayable on 6 November 2014. Interest is charged at 10% (2010: 10%) per annum.

## Notes to the Financial Statements - 30 June 2011

### 12. Trade and other receivables (cont'd)

Trade and other receivables are denominated in the following currencies:

	Group		Company	
	2011	2010	2011	2010
	\$	\$	\$	\$
Australian Dollars	33,859,315	25,619,986	–	–
Euro	3,175	2,956	–	–
Singapore Dollars	472,391	428,710	33,832,401	33,287,070
Sterling Pounds	270,035	287,623	–	–
United States Dollars	276,876	149,024	–	–
	34,881,792	26,488,299	33,832,401	33,287,070

### 13. Prepayments

#### Prepayments - current

	Group		Company	
	2011	2010	2011	2010
	\$	\$	\$	\$
Prepayments	3,231,348	2,062,562	50,943	15,643
Prepaid maintenance reserve	3,665,537	–	–	–
	6,896,885	2,062,562	50,943	15,643

Current prepayments mainly relate to prepaid insurance and operating lease payments for aircraft.

#### Prepayments – non-current

	Group		Company	
	2011	2010	2011	2010
	\$	\$	\$	\$
Prepaid maintenance reserve	4,769,019	7,049,781	–	–

The prepaid maintenance reserve represents monthly payments to lessors of aircraft in operating lease arrangements for maintenance of those aircraft. These amounts will be charged to profit or loss when the maintenance payments are incurred.

### 14. Inventories

	Group	
	2011	2010
	\$	\$
Consumable spare parts	5,054,950	4,365,908
Consumable spare parts subject to retention of title clauses	73,976	76,049
	5,128,926	4,441,957

The consumable spare parts subject to retention of title clauses are items that have been physically received by the Group, but whose title does not pass until payment for the items are made.

The movement of the allowance for inventories obsolescence is as follows:

Balance at beginning of year	–	381,864
Write-back during the year	–	(404,892)
Translation adjustment	–	23,028
Balance at end of year	–	–

The cost of inventories included in the consolidated statement of comprehensive income as part of engineering and maintenance costs, amounted to \$3,456,959 (2010: \$3,806,451).

## Notes to the Financial Statements - 30 June 2011

### 15. Other investments

	Group	
	2011	2010
	\$	\$
<b><i>Held for trading investments</i></b>		
Equity shares (quoted)	209,919	456,664
Equity shares (unquoted)	256,414	–
Equity shares, at fair value	466,333	456,664

Equity shares offer the Group the opportunity for return through dividend income and fair value gains.

As the Group's other investments are held for trading, the fair value gain on other investments recognised in the consolidated statement of comprehensive income during the current year is \$3,122 (2010: fair value loss of \$121,931).

Other investments are denominated in the following currencies:

	Group	
	2011	2010
	\$	\$
Australian Dollars	24,171	352,089
Sterling Pounds	82,789	40,893
United States Dollars	359,373	63,682
	466,333	456,664

### 16. Cash and cash equivalents

Cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2011	2010	2011	2010
	\$	\$	\$	\$
Australian Dollars	7,776,754	11,573,641	879,752	218,322
Euro	229,621	25,922	–	–
Singapore Dollars	484,174	47,509	39,215	27,389
Sterling Pounds	129,658	551,586	129,658	551,586
United States Dollars	1,346,122	742,051	1,308,568	553,474
	9,966,329	12,940,709	2,357,193	1,350,771

## Notes to the Financial Statements - 30 June 2011

### 17. Provisions

	Structural maintenance	Aircraft handback	Employee benefits	Total
	\$	\$	\$	\$
<b>Group</b>				
Balance at 1 July 2009	–	264,309	5,189,090	5,453,399
(Write-back)/charge for the year	–	(75,170)	368,446	293,276
Currency realignment	–	6,276	110,552	116,828
Balance at 30 June 2010	–	195,415	5,668,088	5,863,503
Less: Non-current portion	–	(195,415)	(693,313)	(888,728)
Current portion	–	–	4,974,775	4,974,775
Balance at 1 July 2010	–	195,415	5,668,088	5,863,503
Charge for the year	149,721	19,978	1,121,364	1,291,063
Currency realignment	3,857	18,764	558,229	580,850
Balance at 30 June 2011	153,578	234,157	7,347,681	7,735,416
Less: Non-current portion	(153,578)	(234,157)	(719,001)	(1,106,736)
Current portion	–	–	6,628,680	6,628,680

Provisions for structural maintenance are made in accordance with the respective aircraft operating lease agreements. Under these lease agreements, there is a requirement to perform a structural aircraft frame check periodically. The provision represents the present value of the estimated liability that will not be reimbursed from the lessor.

Provisions for aircraft handback to meet contractual return aircraft minimum conditions, at the end of the lease terms for the aircraft under operating leases, are recorded equally over the lease terms. Under these lease agreements, the aircraft are required to be handed back after the removal of all exterior markings and painted in plain white at the end of the lease terms. The provision represents the present value of the estimated liability.

Provision for employee benefits include provisions for long service leave, annual leave and other entitlements.

### 18. Borrowings

	Group	
	2011	2010
	\$	\$
<b>Current liabilities</b>		
Secured loan I	285,467	658,473
Secured loan II	954,550	1,014,574
Secured loan III	–	1,257,946
	1,240,017	2,930,993
<b>Non-current liabilities</b>		
Secured loan I	–	235,933
Secured loan II	2,665,269	4,095,608
	2,665,269	4,331,541

## Notes to the Financial Statements - 30 June 2011

### 18. Borrowings (cont'd)

#### **Secured loan I**

The secured loan is a loan between Skywest Airlines (Australia) Pty Ltd and Capital Finance Australia Ltd, taken out for the purchase of an aircraft. The repayment term is 60 months from 31 December 2006 and bears a fixed effective interest rate of 6.73% (2010: 6.73%) per annum. The loan is secured by a first registered equitable mortgage over all the assets and undertakings of the Group.

#### **Secured loan II**

The secured loan II is a loan between Skywest Airlines (S) Pte Ltd and Capital Finance Australia Ltd, taken out for the purchase of an aircraft. The repayment terms is 60 months from 15 December 2009 and bears a fixed effective interest rate of 6.18% (2010: 6.18%) per annum.

The loan is secured by a charge over the purchased aircraft whose carrying amount as at 30 June 2011 is \$5,158,218 (2010: \$5,488,290), a guarantee from Skywest Airlines Ltd and Skywest Airlines (Australia) Pty Ltd, a charge over the income earned by the Group from this aircraft, and a floating charge over a bank account of the Group.

#### **Secured loan III**

The secured loan III is an equipment loan facility established for the funding of an aircraft engine. The repayment term is 60 months from October 2007, and bears fixed effective interest rate of 8.248% (2010: 8.248%) per annum. This loan was repaid during the year ended 30 June 2011.

The loan is secured by a fixed and floating charge over all the assets of Skywest Airlines (Australia) Pty Ltd.

Borrowings are denominated in the following currencies:

	Group	
	2011 \$	2010 \$
United States Dollars	3,905,286	6,004,588
Australian Dollars	–	1,257,946
	3,905,286	7,262,534

### 19. Trade and other payables

#### **Trade and other payables - current**

	Group		Company	
	2011 \$	2010 \$	2011 \$	2010 \$
Trade payables	14,315,874	17,827,838	49,446	960
Amount due to related parties	2,676,194	2,987,075	–	–
Instalment payments due to a supplier	–	1,678,440	–	–
Accrued operating expenses	13,465,979	10,281,471	69,261	38,203
	30,458,047	32,774,824	118,707	39,163

#### **Trade and other payables – non-current**

Instalment payments due to a supplier	–	139,870	–	–
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Trade and other payables are non-interest bearing. Trade payables are normally settled on 60-day terms. Accrued operating expenses mainly relate to fuel costs and leasing costs for aircraft.

The amount due to related parties is non-trade in nature, unsecured, non-interest bearing, and are repayable on demand.

## Notes to the Financial Statements - 30 June 2011

### 19. Trade and other payables (cont'd)

Trade and other payables are denominated in the following currencies:

Australian Dollars	24,773,969	23,822,125	1,726	–
Euro	886,510	665,129	–	–
New Zealand Dollars	46,291	74,413	–	–
Singapore Dollars	1,018,707	319,887	116,062	38,203
Sterling Pounds	4,459	960	919	960
United States Dollars	3,728,111	8,032,180	–	–
	30,458,047	32,914,694	118,707	39,163

### 20. Revenue received in advance

This pertains to passenger, charter or freight income that has been received in advance and will be recognised as revenue in profit or loss when the tickets are uplifted or expired.

### 21. Finance lease liability

The Group has a finance lease for an aircraft engine. This lease expires in April 2018 and the Group may exercise an option to purchase the engine. This lease contains no escalation clauses or any restrictions such as those concerning dividends, additional debt, and further leasing.

	Group	
	Minimum payments	Present value of payments
	2011	2011
	\$	\$
Within one year	436,216	367,470
Later than one year but not later than five years	1,594,389	933,988
Total minimum lease payments	2,030,605	1,301,458
Less: amounts representing finance charges	(729,147)	–
	1,301,458	1,301,458

## Notes to the Financial Statements - 30 June 2011

### 22. Deferred tax liabilities

	Group	
	2011	2010
	\$	\$
Deferred tax assets:		
Provisions and accruals	2,357,260	1,923,938
Revenue received in advance	85,793	99,199
Derivative financial instruments	248,260	–
Trade and other receivables	150,697	137,825
Unutilised tax losses	209,916	2,499,576
Others	32,918	114,603
	3,084,844	4,775,141
Deferred tax liabilities:		
Inventories	1,534,279	1,332,588
Property, plant and equipment	10,549,685	9,288,276
Prepayments	388,336	–
Prepaid maintenance reserves	2,530,366	3,381,148
Others	–	72,127
	15,002,666	14,074,139
Net deferred tax liabilities	11,917,822	9,298,998

At the end of the reporting period, the Group has capital allowances of approximately \$11,889,835 (2010: \$10,874,284) that are available for offset against future capital taxable profits of the companies in which the losses arose, for which no deferred tax asset is recognised due to uncertainty of its recoverability. The use of these tax losses is subject to the agreement of the tax authorities and compliance with certain provisions of the tax legislation of the respective countries in which the companies operate.

### 23. Share capital and treasury shares

#### (a) Share capital

	Group and Company			
	2011		2010	
	No. of shares	\$	No. of shares	\$
Issued and fully paid:				
At 1 July	199,600,000	43,809,091	195,500,000	42,989,091
Issue of shares under warrant scheme	440,000	118,800	4,100,000	820,000
At 30 June	200,040,000	43,927,891	199,600,000	43,809,091

The holders of ordinary shares (except treasury shares) are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions. The ordinary shares have no par value.

The Company issued 440,000 (2010: 4,100,000) of its shares under the Warrant Share Option Scheme at 10.25pence (2010:\$0.20) per share during the financial year, which were fully vested on issue.

## Notes to the Financial Statements - 30 June 2011

### 23. Share capital and treasury shares (cont'd)

#### (b) Treasury shares

	Group and Company 2010	
	No. of treasury shares	\$
Issued and fully paid:		
At 1 July	(1,000,000)	(168,321)
Acquired during the year	(3,000,000)	(811,900)
Disposed during the year:		
- Cash consideration net of expenses	4,000,000	1,808,000
- Gain transferred to capital accretion reserve	-	(827,779)
	4,000,000	980,221
At 30 June	-	-

In the prior financial year, the Company acquired 3,000,000 treasury shares through purchases on the AIM. The total amount paid to acquire the shares was \$811,900 and this was presented as a component within shareholders' equity. The Company also disposed 4,000,000 treasury shares on the AIM and the total cash consideration net of expenses received was \$1,808,000.

### 24. Reserves

#### a) Capital reserve

This represents the gain or loss arising from purchase, sale, issue or cancellation of treasury shares. No dividend may be paid, and no other distribution (whether in cash or otherwise) of the Company's assets (including any distribution of assets to members on a winding up) may be made in respect of this reserve.

#### b) Warrant reserve

Warrant reserve represents warrants on shares granted to directors and other executives of the Group. The reserve is made up of the cumulative fair values of the warrants at grant date which are recognised over the vesting period.

#### c) Foreign currency translation reserve

The foreign currency translation reserve represents exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

#### d) Cash flow hedge reserve

The cash flow hedge reserve records the portion of the fair value changes (net of tax) on derivative financial instruments designated as hedging instrument in cash flow hedges that is determined to be an effective hedge.

### 25. Employee benefits

	Group	
	2011 \$	2010 \$
Employee benefits expense (including directors):		
Directors' fees	180,000	75,000
Short term benefits	56,205,955	42,900,099
Defined contribution plan contributions	3,720,849	3,298,333
Warrant expense	396,003	187,997
	60,502,807	46,461,429

Key management personnel of the Group are identified as those having the authority and responsibility for planning, directing and controlling the activities of the Group.

## Notes to the Financial Statements - 30 June 2011

### 25. Employee benefits (cont'd)

The remuneration of directors and key management personnel are as follows:

	Group	
	2011	2010
	\$	\$
Directors' fees	180,000	75,000
Short term benefits	2,082,759	1,834,831
Defined contribution plans	71,117	72,961
Warrant expense	396,003	185,523
	2,729,879	2,168,315
Comprise amounts paid to:		
Directors	1,264,238	879,648
Key management personnel	1,465,641	1,288,667
	2,729,879	2,168,315

#### **Warrant expense**

The Company has a Warrant Share Option scheme under which options to subscribe for the Company's ordinary shares have been granted to the Directors and Executives of the Group for the purpose of providing incentives and rewards to eligible participants who have contributed significantly to the growth and performance of the Group.

#### *Movement of share options during the financial year*

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, share options during the financial year:

	2011		2010	
	No.	WAEP	No.	WAEP
Outstanding at 1 July	3,040,000	\$0.24 (10.25 pence)	6,601,475	\$0.20
- Granted	2,700,000	\$0.47 (23.50 pence)	3,040,000	\$0.24 (10.25 pence)
- Lapsed	-	-	(2,501,475)	\$0.20
- Exercised	(440,000)	\$0.24 (10.25 pence)	(4,100,000)	\$0.20
Outstanding at 30 June	5,300,000	\$0.34 (17.00 pence)	3,040,000	\$0.24 (10.25 pence)
Exercisable at 30 June	5,300,000	\$0.34 (17.00 pence)	3,040,000	\$0.24 (10.25 pence)

- The weighted average fair value of the warrants granted during the financial year was \$0.15 (2010: \$0.06).
- The weighted average share price at the date of exercise of the warrant exercised during the financial year was 31.6 pence (2010: 9.34 pence).
- The exercise price for warrant outstanding at the end of the year was \$0.34 (17 pence) (2010: \$0.24 (10.25 pence)).

## Notes to the Financial Statements - 30 June 2011

### 25. Employee benefits (cont'd)

#### *Fair value of warrants granted*

The fair value of the warrants granted is estimated at the grant date using a binomial option pricing model, taking into account the terms and conditions upon which the instruments were granted.

The following table lists the inputs into the binomial option pricing model year ended 30 June 2011 and 2010:

	2011	2010
Dividend yield	3.23%	7.24%
Expected volatility	65%	65%
Risk-free interest rate	3.23% per annum	1.25% per annum
Expected life of warrant	2 years	1 year
Weighted average share price	23.50 pence	10.25 pence

The expected life of the warrants is based on the historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the warrants is indicative of future trends, which may also not necessarily be the actual outcome.

### 26. Related party transactions

In addition to related party information disclosed elsewhere in the financial statements, the following significant transactions with related parties took place at terms agreed between the parties as follows:

Related parties		Sales to/ income from related parties	Purchases from related parties	Amount owed by related parties	Amount owed to related parties
		\$	\$	\$	\$
Avation PLC	2011	34,694	–	103,561	1,359,930
	2010	31,238	–	48,171	–
Avation.net Inc	2011	–	1,494,972	151,121	103,417
	2010	–	2,559,823	86,170	316,510
Capital Lease Aviation PLC	2011	221,019	67,513	1,080,443	–
	2010	393,297	13,007	635,153	–
Capital Lease Australia Portfolio One Pty Ltd	2011	142,694	6,927,701	1,933,191	127,668
	2010	3,992,642	7,679,118	4,028,841	1,949,867
Diamond Distribution & Polishing Pte Ltd	2011	–	–	200	–
	2010	–	250,000	10	–
Epsom Assets Ltd	2011	3,674	–	423,990	–
	2010	5,381	–	437,623	–
F100 Pty Ltd	2011	2,638,100	10,260,265	8,017,734	217,439
	2010	7,939,905	12,184,514	7,641,272	720,698
MSN 429 Limited	2011	–	2,967,086	1,255,156	850,504
	2010	–	2,167,354	702,553	–
PPT Consulting Pte Ltd	2011	–	183,717	–	–
	2010	–	50,056	–	–
Takeoff Services Pte Ltd	2011	–	123,539	46,309	17,236
	2010	–	413,325	–	–

All related parties are entities with certain common directors who have an interest in these entities.

## Notes to the Financial Statements - 30 June 2011

### 26. Related party transactions (con'd)

Details of the above purchases from related parties are summarised as follows:

- (1) In relation to the cost for catering, advertising, capital equipment, management fees and professional fees, the Group paid an amount of \$1,494,972 (2010: \$2,559,823), \$67,513 (2010: \$13,007) and \$123,539 (2010: \$413,325) to Avation.net Inc, Capital Lease Aviation PLC and Takeoff Services Pte Ltd respectively during the financial year.
- (2) The Group paid a total of \$20,155,052 (2010: \$22,030,986) in respect of the lease of aircraft to the following related parties:
  - Capital Lease Australia Portfolio One Pty Ltd
  - F100 Pty Ltd
  - MSN 429 Limited
- (3) Service fees of \$183,717 (2010: \$50,056) was paid to PPT Consulting Pte Ltd during the financial year.

#### **Terms and conditions of transactions with related parties**

Sales to and income/purchases from related parties are made at terms agreed between the parties during the financial year. Outstanding balances at year-end are unsecured and settlement occurs in cash and on demand. There have been no guarantees provided or received for any related party receivables or payables.

For the year end 30 June 2011, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2010: \$Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

For remuneration information in relation to directors and key management personnel, please refer to Note 25.

### 27. Operating Lease commitments – as lessee

#### **(a) In respect of operating lease for office premise**

Future lease payments under a non-cancellable operating lease of office premises at the end of the reporting period are as follows:

	Group		Company	
	2011 \$	2010 \$	2011 \$	2010 \$
Less than one year	87,750	57,038	–	–
Between two to five years	65,813	–	–	–
	153,563	57,038	–	–

The Group has renewed a commercial property lease with a third party under a non-cancellable operating lease agreement. The lease has a remaining lease term of 1.75 years. There are no restrictions placed upon the Company by entering into this lease.

#### **(b) In respect of operating leases for aircraft**

The Group has 10 (2010: 9) aircraft under operating leases. At the end of the reporting period, the remaining lease terms are 1 to 4 years. The original lease terms for the aircraft are as follows:

10 years	-	2 aircraft
6 years	-	1 aircraft
5 years	-	6 aircraft
3 years	-	1 aircraft

None of the operating lease agreements confer on the Group an option to purchase the related aircraft.

Future lease payments under non-cancellable operating leases of aircraft at the end of the reporting period are as follows:

	Group		Company	
	2011 \$	2010 \$	2011 \$	2010 \$
Less than one year	13,917,446	15,906,206	–	–
Between two to five years	13,200,173	30,858,618	–	–
	27,117,619	46,764,824	–	–

## Notes to the Financial Statements - 30 June 2011

### 28. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the parent by the weighted average number of ordinary shares issued during the financial year.

Diluted earnings per share is calculated by dividing the profit for the financial year attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the financial year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilution potential shares into ordinary shares.

The following tables reflect the profit and share data used in the computation of basic and diluted earnings per share for the years ended 30 June:

	Group	
	2011 \$	2010 \$
Profit for the year	9,849,204	9,233,877
	No. of ordinary shares	
Weighted average number of ordinary shares for basic earnings per share computation *	199,686,795	196,186,027
Effects of dilutive warrants	1,527,225	513,975
Weighted average number of ordinary shares for diluted earnings per share computation *	201,214,020	196,700,002

\* The weighted average number of shares takes into account the weighted average effect of changes in treasury shares transactions during the year.

### 29. Dividends

	Company	
	2011 \$	2010 \$
<b>Declared and paid during the financial year</b>		
<i>Dividends on ordinary shares</i>		
- Final exempt (one-tier) dividend for 2010: \$0.011 (2009: \$0.010) per share	2,221,021	1,920,075
- Interim exempt (one-tier) dividend for 2011: \$Nil (2010: \$0.005) per share	-	975,216
	2,221,021	2,895,291
<b>Proposed but not recognised as a liability as at 30 June</b>		
<i>Dividends on ordinary shares, subject to shareholders' approval at the Annual General Meeting</i>		
- Final exempt (one-tier) dividend for 2011: \$0.0123 (2010: \$0.011) per share	2,460,492	2,195,600

## Notes to the Financial Statements - 30 June 2011

### 30. Fair value of financial instruments

The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale.

#### A. Fair value of financial instruments that are carried at fair value

The following table shows an analysis of financial instruments carried at fair value by level of fair value hierarchy:

Group	Note	Quoted prices in active markets (Level 1) \$	Significant other observable (Level 2) \$	Total \$
<b>2011</b>				
<b>Financial asset:</b>				
Held for trading investment				
- Equity shares (quoted)	15	209,919	–	209,919
- Equity shares (unquoted)	15	–	256,414	256,414
<b>At 30 June 2011</b>		209,919	256,414	466,333
<b>Financial liabilities:</b>				
Derivatives				
- Fuel hedging contracts		–	827,535	827,535
<b>At 30 June 2011</b>		–	827,535	827,535
<b>2010</b>				
<b>Financial assets:</b>				
Held for trading investment				
- Equity shares (quoted)	15	456,664	–	456,664
<b>At 30 June 2010</b>		456,664	–	456,664

During the year, the Group entered into fuel hedging contracts with the objective of hedging the change in cash flows relating to the purchases of jet fuel per month under supply agreements for the months of June 2011 through to January 2012.

The fair value changes of \$827,535 (2010: \$Nil) relating to these fuel hedging contracts have been recognised in other comprehensive income.

#### Fair value hierarchy

The Group classifies fair value measurement using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy have the following levels:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices), and
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

There have been no transfers between Level 1 and Level 2 during the financial years ended 2011 and 2010.

Quoted and unquoted equity shares (Note 15): The fair values of these shares are determined directly by reference to their published market bid price at the end of the reporting period. For unquoted shares, it is not practicable to determine the fair values because of the lack of quoted market prices and the assumptions used in valuation models to value these investments cannot be reasonably determined.

Derivative financial instruments: The fuel hedging contracts are valued using discounted cash flow valuation technique. The cash flow estimates is based on observable and unobservable forward prices for jet fuel. The valuation is performed by the counterparty to these contracts.

## Notes to the Financial Statements - 30 June 2011

### 30. Fair value of financial instruments

#### B. Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are a reasonable approximation of fair value

Management has determined that the carrying amounts of trade and other receivables, cash and cash equivalents, trade and other payables, borrowings and finance lease liability are reasonable approximations of fair values either due to their short-term nature, or because the interest rate charged closely approximate market interest rates, or that the financial instruments have been discounted to their fair value at a current pre-tax interest rate.

#### Classification of financial instruments

The table below is an analysis of the carrying amounts of financial instruments as at 30 June 2011 and 2010 by categories.

Group	Derivatives used for hedging	Financial assets at fair value through profit or loss	Loans and receivables	Financial liabilities carried at amortised cost	Non-financial assets/ liabilities	Total
	\$	\$	\$	\$	\$	\$
<b>30 June 2011</b>						
<b>Assets</b>						
Property, plant and equipment	–	–	–	–	62,782,427	62,782,427
Intangible assets	–	–	–	–	17,189,507	17,189,507
Trade and other receivables	–	–	34,881,792	–	–	34,881,792
Prepayments	–	–	–	–	11,665,904	11,665,904
Inventories	–	–	–	–	5,128,926	5,128,926
Other investments	–	466,333	–	–	–	466,333
Cash and cash equivalents	–	–	9,966,329	–	–	9,966,329
	–	466,333	44,848,121	–	96,766,764	142,081,218
<b>Liabilities</b>						
Provisions	–	–	–	–	7,735,416	7,735,416
Income tax payable	–	–	–	–	3,130,843	3,130,843
Deferred tax liabilities	–	–	–	–	11,917,822	11,917,822
Borrowings	–	–	–	3,905,286	–	3,905,286
Trade and other payables	–	–	–	30,458,047	–	30,458,047
Revenue received in advance	–	–	–	–	12,507,276	12,507,276
Finance lease liability	–	–	–	1,301,458	–	1,301,458
Derivative financial instruments	827,535	–	–	–	–	827,535
	827,535	–	–	35,664,791	35,291,357	71,783,683

## Notes to the Financial Statements - 30 June 2011

### 30. Fair value of financial instruments (cont'd)

Group	Financial assets at fair value through profit or loss \$	Loans and receivables \$	Financial liabilities carried at amortised cost \$	Non-financial assets/ liabilities \$	Total \$
<b>30 June 2010</b>					
<b>Assets</b>					
Property, plant and equipment	-	-	-	58,235,854	58,235,854
Intangible assets	-	-	-	17,201,255	17,201,255
Trade and other receivables	-	26,488,299	-	-	26,488,299
Prepayments	-	-	-	9,112,343	9,112,343
Inventories	-	-	-	4,441,957	4,441,957
Other investments	456,664	-	-	-	456,664
Cash and cash equivalents	-	12,940,709	-	-	12,940,709
	456,664	39,429,008	-	88,991,409	128,877,081
<b>Liabilities</b>					
Provisions	-	-	-	5,863,503	5,863,503
Income tax payable	-	-	-	1,952,190	1,952,190
Deferred tax liabilities	-	-	-	9,298,998	9,298,998
Borrowings	-	-	7,262,534	-	7,262,534
Trade and other payables	-	-	32,914,694	-	32,914,694
Revenue received in advance	-	-	-	12,091,664	12,091,664
	-	-	40,177,228	29,206,355	69,383,583
<b>Company</b>					
		Loans and receivables \$	Financial liabilities carried at amortised cost \$	Non-financial assets/ liabilities \$	Total \$
<b>30 June 2011</b>					
<b>Assets</b>					
Property, plant and equipment	-	-	-	18,039	18,039
Subsidiaries	-	-	-	13,054,801	13,054,801
Trade and other receivables	-	33,832,401	-	-	33,832,401
Prepayments	-	-	-	50,943	50,943
Cash and cash equivalents	-	2,357,193	-	-	2,357,193
	-	36,189,594	-	13,123,783	49,313,377
<b>Liabilities</b>					
Income tax payable	-	-	-	746,471	746,471
Trade and other payables	-	-	118,707	-	118,707
	-	-	118,707	746,471	865,178

## Notes to the Financial Statements - 30 June 2011

### 30. Fair value of financial instruments (cont'd)

Company	Loans and receivables	Financial liabilities carried at amortised cost	Non-financial assets/ liabilities	Total
	\$	\$	\$	\$
30 June 2010				
<b>Assets</b>				
Property, plant and equipment	–	–	33,456	33,456
Subsidiaries	–	–	13,054,801	13,054,801
Trade and other receivables	33,287,070	–	–	33,287,070
Prepayments	–	–	15,643	15,643
Cash and cash equivalents	1,350,771	–	–	1,350,771
	34,637,841	–	13,103,900	47,741,741
<b>Liabilities</b>				
Income tax payable	–	–	649,802	649,802
Trade and other payables	–	39,163	–	39,163
	–	39,163	649,802	688,965

### 31. Financial risk management objectives and policies

The Group and Company is exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include foreign currency risk, market risk, interest rate risk, credit risk and liquidity risk.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Risk management policies are established to identify and analyse the risks faced by the Group and Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group and Company's activities. Through training and management standards and procedures, the Group and Company aims to develop a discipline and constructive control environment in which all employees understand their roles and obligations.

The following sections provide details regarding the Group and Company's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

There has been no change to the Group's exposure to these financial risks or the manner in which it manages and measures the risks.

#### (i) Foreign currency risk

The Group operates in Australia and Singapore, and has transactional currency exposures arising from sales or purchases that are denominated in a currency other than the respective functional currencies of the Group entities.

The Group and Company also has trade and other receivables, other investments, trade and other payables, borrowings and finance lease liability that are denominated in foreign currencies; and also hold cash and cash equivalents denominated in foreign currencies for working capital purposes.

## Notes to the Financial Statements - 30 June 2011

### 31. Financial risk management objectives and policies (cont'd)

#### (i) Foreign currency risk

The Group's currency exposure based on the information provided to key management is as follows:

	Australian Dollars \$	United States Dollars \$	Sterling Pounds \$	Euro \$	New Zealand Dollars \$	Singapore Dollars \$	Total \$
<b>Group</b>							
<b>2011</b>							
<b>Financial assets</b>							
Trade and other receivables	33,859,315	276,876	270,035	3,175	–	472,391	34,881,792
Other investments	24,171	359,373	82,789	–	–	–	466,333
Cash and cash equivalents	7,776,754	1,346,122	129,658	229,621	–	484,174	9,966,329
	41,660,240	1,982,371	482,482	232,796	–	956,565	45,314,454
<b>Financial liabilities</b>							
Borrowings	–	3,905,286	–	–	–	–	3,905,286
Trade and other payables	24,773,969	3,728,111	4,459	886,510	46,291	1,018,707	30,458,047
Finance lease liability	1,301,458	–	–	–	–	–	1,301,458
	26,075,427	7,633,397	4,459	886,510	46,291	1,018,707	35,664,791
Net financial assets/(liabilities)	15,584,813	(5,651,026)	478,023	(653,714)	(46,291)	(62,142)	9,649,663

	Australian Dollars \$	United States Dollars \$	Sterling Pounds \$	Euro \$	New Zealand Dollars \$	Singapore Dollars \$	Total \$
<b>Group</b>							
<b>2010</b>							
<b>Financial assets</b>							
Trade and other receivables	25,619,986	149,024	287,623	2,956	–	428,710	26,488,299
Other investments	352,089	63,682	40,893	–	–	–	456,664
Cash and cash equivalents	11,573,641	742,051	551,586	25,922	–	47,509	12,940,709
	37,545,716	954,757	880,102	28,878	–	476,219	39,885,672
<b>Financial liabilities</b>							
Borrowings	1,257,946	6,004,588	–	–	–	–	7,262,534
Trade and other payables	23,822,125	8,032,180	960	665,129	74,413	319,887	32,914,694
	25,080,071	14,036,768	960	665,129	74,413	319,887	40,177,228
Net financial assets/ (liabilities)	12,465,645	(13,082,011)	879,142	(636,251)	(74,413)	156,332	(291,556)

## Notes to the Financial Statements - 30 June 2011

### 31. Financial risk management objectives and policies (cont'd)

#### (i) Foreign currency risk (cont'd)

Company	Australian Dollars \$	United States Dollars \$	Sterling Pounds \$	Singapore Dollars \$	Total \$
<b>2011</b>					
<b>Financial assets</b>					
Other receivables	–	–	–	33,832,401	33,832,401
Cash and cash equivalents	879,752	1,308,568	129,658	39,215	2,357,193
	879,752	1,308,568	129,658	33,871,616	36,189,594
<b>Financial liabilities</b>					
Trade and other payables	1,726	–	919	116,062	118,707
<b>Net financial assets</b>	878,026	1,308,568	128,739	33,755,554	36,070,887
<b>2010</b>					
<b>Financial assets</b>					
Other receivables	–	–	–	33,287,070	33,287,070
Cash and cash equivalents	218,322	553,474	551,586	27,389	1,350,771
	218,322	553,474	551,586	33,314,459	34,637,841
<b>Financial liabilities</b>					
Trade and other payables	–	–	960	38,203	39,163
<b>Net financial assets</b>	218,322	553,474	550,626	33,276,256	34,598,678

#### Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity of the Group's profit before tax to a reasonably possible change in the Australian Dollar (AUD), Euro (EUR), Sterling Pound (GBP) and United States Dollar (USD) exchange rates against the Singapore dollar, with all other variables held constant.

Group		Profit before tax	
		2011 \$	2010 \$
AUD	- strengthened 10% (2010: 10%)	1,689,000	1,246,000
	- weakened 10% (2010: 10%)	(1,689,000)	(1,246,000)
EUR	- strengthened 10% (2010: 10%)	(65,000)	(64,000)
	- weakened 10% (2010: 10%)	65,000	64,000
GBP	- strengthened 10% (2010: 10%)	48,000	88,000
	- weakened 10% (2010: 10%)	(48,000)	(88,000)
USD	- strengthened 10% (2010: 10%)	(695,000)	(1,308,000)
	- weakened 10% (2010: 10%)	695,000	1,308,000

#### (ii) Market price risk

Market price risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market prices (other than interest or exchange rates). The Group is exposed to equity price risk arising from its investment in quoted equity shares. These shares are quoted on the Australian Stock Exchange (ASX) in Australia, New York Stock Exchange (NYSE) in United States of America and London Stock Exchange (LSE) in United Kingdom and are classified as held for trading financial assets.

## Notes to the Financial Statements - 30 June 2011

### 31. Financial risk management objectives and policies (cont'd)

#### (ii) Market price risk (cont'd)

The following table demonstrates the sensitivity of the Group's profit before tax to a reasonably possible change in the ASX, NYSE and LSE, with all other variables held constant:

		Profit before tax	
		2011	2010
		\$'000	\$'000
ASX	- 2% better (2010: 2%)	*	7
	- 2% worse (2010: 2%)	*	(7)
NYSE	- 2% better (2010: 2%)	2	1
	- 2% worse (2010: 2%)	(2)	(1)
LSE	- 2% better (2010: 2%)	2	1
	- 2% worse (2010: 2%)	(2)	(1)

\* Amount less than \$1,000.

#### (iii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market interest rates.

At the end of the reporting period, the Group has minimal exposure to interest rate risk, as the interest rates on its borrowings are fixed.

#### (iv) Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group and Company's exposure to credit risk arises primarily from trade and other receivables. For other financial assets (including other investments and cash and cash equivalents), the Group and Company minimises credit risk by dealing exclusively with high credit rating counterparties.

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

##### Exposure to credit risk

At the end of the reporting period, the Group and Company's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the statement of financial position.

##### Credit risk concentration profile

The Group determines concentrations of credit risk by monitoring the country and industry sector profile of its trade receivables on an on-going basis. The credit risk concentration profile of the Group's trade receivables at the end of the reporting period is as follows:

Group	2011		2010	
	\$	%	\$	%
<b>By country</b>				
Australia	18,579,273	100%	5,230,182	100%
<b>By industry</b>				
Airline operator	18,579,273	100%	5,230,182	100%

##### Financial assets that are neither past due nor impaired

Trade and other receivables that are neither past due nor impaired are creditworthy debtors with good payment record with the Group. Cash and cash equivalents and other investments that are neither past due nor impaired are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

## Notes to the Financial Statements - 30 June 2011

### 31. Financial risk management objectives and policies (cont'd)

#### (iv) Credit risk (cont'd)

*Financial assets that are either past due or impaired*

Information regarding financial assets that are either past due or impaired is disclosed in Note 12 (Trade and other receivables).

#### (v) Liquidity risk

Liquidity risk is the risk that the Group and Company will encounter difficulty in meeting financial obligations due to shortage of funds. The Group and Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group and Company's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

The Group and Company's liquidity risk management policy is that not more than 45% (2010: 45%) of loans and borrowings should mature in the next one year period, and to maintain sufficient liquid financial assets and stand-by credit facilities with different banks.

At the end of the reporting period, approximately 34% (2010: 40%) of the Group's borrowings (Note 18) will mature in less than one year based on the carrying amount reflected in the financial statements.

*Analysis of financial instruments by remaining contractual maturities*

The table below summarises the maturity profile of the Group and Company's financial assets and liabilities at the end of the reporting period based on contractual undiscounted repayment obligations.

<b>Group</b>	<b>Less than one year</b>	<b>One to five years</b>	<b>Total</b>
<b>2011</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Financial assets:</b>			
Trade and other receivables	31,820,245	3,061,547	34,881,792
Other investments	466,333	–	466,333
Cash and cash equivalents	9,966,329	–	9,966,329
<b>Total undiscounted financial assets</b>	<b>42,252,907</b>	<b>3,061,547</b>	<b>45,314,454</b>
<b>Financial liabilities:</b>			
Trade and other payables	30,458,047	–	30,458,047
Finance lease liability	436,216	1,594,389	2,030,605
Derivative financial instruments	827,535	–	827,535
Borrowings	1,482,222	2,880,591	4,362,813
<b>Total undiscounted financial liabilities</b>	<b>33,204,020</b>	<b>4,474,980</b>	<b>37,679,000</b>
<b>Total net undiscounted financial assets/(liabilities)</b>	<b>9,048,887</b>	<b>(1,413,433)</b>	<b>7,635,454</b>

## Notes to the Financial Statements - 30 June 2011

### 31. Financial risk management objectives and policies (cont'd)

#### (v) Liquidity risk (cont'd)

Group	Less than one year	One to five years	Total
<b>2010</b>			
<b>Financial assets:</b>			
Trade and other receivables	23,540,828	2,947,471	26,488,299
Other investments	456,664	–	456,664
Cash and cash equivalents	12,940,709	–	12,940,709
Total undiscounted financial assets	36,938,201	2,947,471	39,885,672
<b>Financial liabilities:</b>			
Trade and other payables	32,774,824	139,870	32,914,694
Borrowings	2,051,482	4,830,572	6,882,054
Total undiscounted financial liabilities	34,826,306	4,970,442	39,796,748
Total net undiscounted financial assets/(liabilities)	2,111,895	(2,022,971)	88,924

Company	Less than one year	
	2011 \$	2010 \$
<b>Financial assets:</b>		
Trade and other receivables	33,832,401	33,287,070
Cash and cash equivalents	2,357,193	1,350,771
Total undiscounted financial assets	36,189,594	34,637,841
<b>Financial liabilities:</b>		
Trade and other payables	118,707	39,163
Total undiscounted financial liabilities	118,707	39,163
Total net undiscounted financial assets	36,070,887	34,598,678

## Notes to the Financial Statements - 30 June 2011

### 32. Capital management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 30 June 2011 and 30 June 2010.

The Group monitors capital based on gearing ratio which is net debt divided by total capital plus net debt. The Group policy is to keep the gearing ratio between 25% to 35%. The Group includes within net debt, borrowings, trade and other payables and finance lease liability less cash and cash equivalents. Capital includes equity attributable to owners of the parent less cash flow hedge reserve.

	Note	Group	
		2011	2010
		\$	\$
Borrowings	18	3,905,286	7,262,534
Trade and other payables	19	30,458,047	32,914,694
Finance lease liability	21	1,301,458	–
Less: Cash and cash equivalents	16	(9,966,329)	(12,940,709)
Net debt		25,698,462	27,236,519
Equity attributable to owners of the parent		70,297,535	59,493,498
Less: Cash flow hedge reserve		(579,275)	–
Total capital		69,718,260	59,493,498
Total equity and net debt		95,416,722	86,730,017
Gearing ratio		26.95%	31.40%

### 33. Operating segments

For management purposes, the Group is organised into business units based on their products and services, and has one reportable operating segment as follows:

#### **Airline operator segment**

This segment is in the business of being a high capacity airline operator, holder of an Australian high capacity air operator's certificate operating regular passenger transport services, charter services and airfreight operations. This is the main business segment of the Group. The overall results of the segment reviewed by the Board are the financial results as presented.

No operating segments have been aggregated to form the above reportable operating segments.

Revenue from external customers by geographical locations is detailed below. Revenue is attributable to geographic location based on the location of the customers.

	Group	
	2011	2010
	\$	\$
Australia	239,910,036	215,204,636
The analysis of the geographical location of property, plant and equipment are as follows:		
Australia	62,745,893	58,197,667
Singapore	36,534	38,187
Total property, plant and equipment	62,782,427	58,235,854

## Notes to the Financial Statements - 30 June 2011

### 34. Subsequent events

Subsequent to the end of the reporting period, the following events have occurred:

- (a) The Group incorporated a wholly owned subsidiary, F11305 Pte Ltd, on 5 July 2011.
- (b) The Group entered into a lease agreement for a Fokker 100 aircraft on 15 July 2011.
- (c) A subsidiary, Skywest Airlines (Australia) Pty Ltd, signed an agreement enabling it to operate domestic services for Virgin Australia Airlines Pty Ltd on 11 May 2011.
- (d) A subsidiary, Skywest Airlines (Australia) Pty Ltd, agreed to lease eight ATR72 aircraft from a company in which a director has an interest, Airframe Leasing (S) Pte Ltd. At the date of this report, the subsidiary has taken delivery of two aircraft.
- (e) The Directors of the Company have resolved to recommend a final dividend of \$0.0123, subject to the members' approval of that dividend, which is a matter to be considered at the Company's forthcoming Annual General Meeting (AGM). Once the date of the AGM is set, the dividend timetable will also be confirmed (assuming that the dividend is approved by members at the AGM).

### 35. Authorisation of financial statements for issue

The financial statements for the year ended 30 June 2011 were authorised for issue in accordance with a resolution of the directors on 26 September 2011.

## Shareholding Information

### Register of Top 20 Ordinary Shareholders

(AS AT 13 OCTOBER 2011)

Name of Holder	Number of Shares
APOLLO NOMINEES LTD	15,476,153
CITICORP NOMINEES PTY LIMITED	13,377,538
UBS NOMINEES PTY LTD	13,340,403
CREDIT SUISSE SECURITIES (EUROPE) LIMITED	12,107,440
FITEL NOMINEES LIMITED	10,921,867
HARGREAVE HALE NOMINEES LIMITED	9,798,988
CHASE NOMINEES LIMITED	9,000,000
NATIONAL NOMINEES LIMITED	7,025,004
FITEL NOMINEES LIMITED	7,000,000
UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	4,700,000
HSBC GLOBAL CUSTODY NOMINEE (UK) LIMITED	4,500,000
QUEENSLAND INVESTMENT CORPORATION	4,215,029
SMITH & WILLIAMSON NOMINEES LIMITED	3,732,000
FITEL NOMINEES LIMITED	3,173,743
L R NOMINEES LIMITED	2,906,907
PERSHING NOMINEES LIMITED	2,774,901
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	2,688,896
BARCLAYSHARE NOMINEES LIMITED	2,556,980
TD WATERHOUSE NOMINEES (EUROPE) LIMITED	2,410,229
MR ROBERT JEFFRIES CHATFIELD	2,400,000

# Corporate Directory

## Directors

Robert Jeffries Chatfield (Executive Chairman)

Seah Kian Peng (Non-executive Director)

John Leonard Jost (Non-executive Director)

Ron Aitkenhead (Non-executive Director)

## Business Address

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## Company Secretaries

Siobhan Mary Cool

Han Kee Fong

## Registered Office

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## Nominated Adviser

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United Kingdom

## Stockbroker

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24 Martin Lane London EC4R 0DR  
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## Australian Solicitors

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Melbourne VIC 3000  
Australia

## UK Solicitors

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London EC4A 3LX  
United Kingdom

## UK Registrars

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## Australian Registrars

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## Bankers

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Bookings: 1300 66 00 88  
[www.skywest.com.au](http://www.skywest.com.au)

Baggage Drop-off

B:M