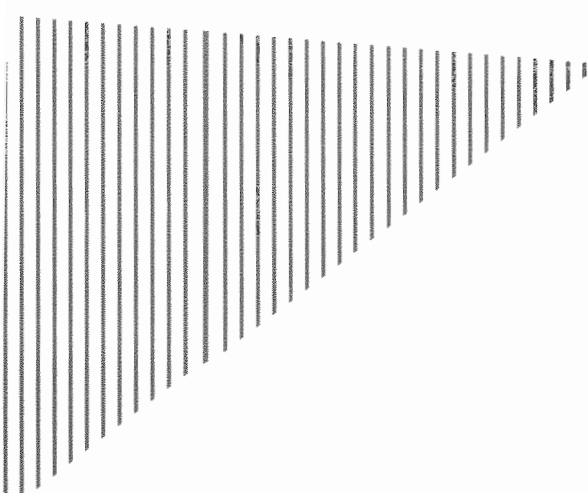


Company Registration No. 199708548K



Skywest Airlines Ltd. and Subsidiaries

Annual Financial Statements
30 June 2010

Skywest Airlines Ltd. and Subsidiaries

General Information

Directors

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

Company Secretaries

Han Kee Fong
Siobhan Mary MacGroarty Cool
Carissa Gina Tan Mui Hia (Appointed on 30 June 2010)

Registered Office

510, Thomson Road
#12-04, SLF Building
Singapore 298135

Auditors

Ernst & Young LLP

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Statements of changes in equity	10
Consolidated statement of cash flows	12
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Skywest Airlines Ltd. and Subsidiaries

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 2010.

Directors of the Company

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

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

Arrangements to enable directors to acquire shares and debentures

Except for the share option 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
The Company				
Ordinary shares				
Robert Jeffries Chatfield	100	2,400,100	31,200,000	29,700,000
Seah Kian Peng	1,586,377	1,586,377	—	—
John Leonard Jost	27,250	27,250	3,575,412	3,775,512
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.

Skywest Airlines Ltd. and Subsidiaries

Directors' Report

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 in 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

The Company

Robert Jeffries Chatfield	–	–	6,601,475	2,000,000
Seah Kian Peng	–	200,000	–	–
John Leonard Jost	–	400,000	–	–
Ronald Lewis Aitkenhead	–	100,000	–	–

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.

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.

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

Date of grant	Balance at beginning of year or later date of grant	Lapsed	Exercised	Balance at end of year	Exercise price	Expiry date
Number of shares covered by the options						
12/12/2005	6,601,475	2,501,475	4,100,000	–	S\$0.20	29/11/2009
18/11/2009	3,040,000	–	–	3,040,000	10.25pence	17/11/2011
	<u>9,641,475</u>	<u>2,501,475</u>	<u>4,100,000</u>	<u>3,040,000</u>		

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

Skywest Airlines Ltd. and Subsidiaries

Directors' Report

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

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

Directors' remuneration

	Year ended 30 June 2010		Year ended 30 June 2009	
	Fees and salaries	Benefits	Fees and salaries	Benefits
	\$	\$	\$	\$
<u>Fees, salaries and benefits</u>				
Executive				
Robert Jeffries Chatfield	307,968	453,392	307,946	169,093
Non-executive				
Seah Kian Peng	25,000	12,368	50,000	—
John Leonard Jost	25,000	24,736	50,000	—
Ronald Lewis Aitkenhead	25,000	6,184	50,000	—
	<u>382,968</u>	<u>496,680</u>	<u>457,946</u>	<u>169,093</u>

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
<u>Number of meetings held</u>	5	1	1	—
Number of Meetings Attended				
Robert Jeffries Chatfield	5	—	—	—
Seah Kian Peng	1	—	—	—
John Leonard Jost	5	1	1	—
Ronald Lewis Aitkenhead	<u>5</u>	<u>1</u>	<u>1</u>	<u>—</u>

Skywest Airlines Ltd. and Subsidiaries

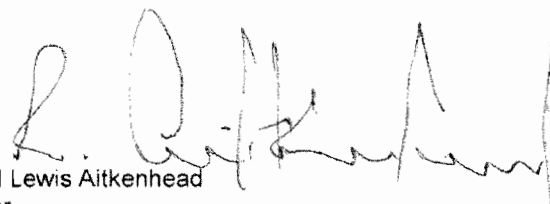
Directors' Report

Auditors

Ernst & Young LLP 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

28 SEP 2010

Skywest Airlines Ltd. and Subsidiaries

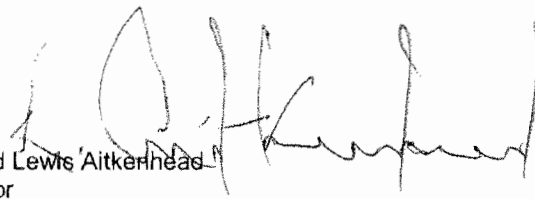
Statement by Directors

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 2010 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
28 SEP 2010

Skywest Airlines Ltd. and Subsidiaries

Independent Auditors' Report For the financial year ended 30 June 2010

To the Members of Skywest Airlines Ltd.

We have audited the accompanying financial statements of Skywest Airlines Ltd. (the "Company") and its subsidiaries (collectively, the "Group") set out on pages 8 to 64, which comprise the statements of financial position of the Group and the Company as at 30 June 2010, 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 notes. The financial statements for the financial year ended 30 June 2009 were audited by another auditor whose report dated 25 September 2009 expressed an unqualified opinion on those financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of the Singapore Companies Act, Cap. 50 (the "Act") and Singapore Financial Reporting Standards. This responsibility includes 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 account and balance sheet and to maintain accountability of assets; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these 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 whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 financial statements.

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

Skywest Airlines Ltd. and Subsidiaries

**Independent Auditors' Report
For the financial year ended 30 June 2010**

To the Members of Skywest Airlines Ltd.

Opinion

In our opinion,

- (i) 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 Singapore Financial Reporting Standards 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 2010 and the results, 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) the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Ernst & Young LLP

Ernst & Young LLP
Public Accountants and
Certified Public Accountants
Singapore
28 September 2010

Skywest Airlines Ltd. and Subsidiaries

**Consolidated Statement of Comprehensive Income
for the financial year ended 30 June 2010**

	Note	2010 \$	2009 \$
Revenue	4	215,204,636	181,315,645
Other income	5	830,297	191,724
Aircraft operating costs (excluding fuel costs)		(37,213,545)	(29,726,202)
Fuel costs		(45,514,935)	(46,606,740)
Aircraft lease rental and hire charges		(22,810,036)	(19,978,299)
Employee benefits	24	(46,461,429)	(39,060,133)
Sales and marketing costs		(5,484,762)	(4,925,649)
Engineering and maintenance costs		(19,593,403)	(14,601,635)
Office and general administrative expense		(6,434,474)	(5,522,011)
Depreciation and amortisation		(14,859,315)	(11,276,523)
Other expenses		(2,759,237)	(4,352,192)
Finance costs	6	(886,310)	(314,361)
Profit before tax	7	14,017,487	5,143,624
Income tax expense	8	(4,783,610)	(1,964,183)
Profit for the year		9,233,877	3,179,441
Other comprehensive income			
Foreign currency translation		345,664	(2,132,121)
Other comprehensive income for the year, net of tax		345,664	(2,132,121)
Total comprehensive income for the year		<u>9,579,541</u>	<u>1,047,320</u>
Profit attributable to owners of the parent		<u>9,233,877</u>	<u>3,179,441</u>
Total comprehensive income attributable to owners of the parent		<u>9,579,541</u>	<u>1,047,320</u>
Earnings per share			
- Basic (in cents)	27	4.71	1.60
- Diluted (in cents)	27	<u>4.69</u>	<u>1.55</u>

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

Skywest Airlines Ltd. and Subsidiaries
Statements of Financial Position as at 30 June 2010

	Note	Group		Company	
		2010	2009	2010	2009
		\$	\$	\$	\$
ASSETS					
Non-current assets					
Property, plant and equipment	9	58,235,854	44,695,646	33,456	56,030
Intangible assets	10	17,201,255	17,223,929	–	–
Subsidiaries	11	–	–	13,054,801	13,054,801
Other receivables	12	2,947,471	–	–	–
Prepayments	13	7,049,781	–	–	–
		<u>85,434,361</u>	<u>61,919,575</u>	<u>13,088,257</u>	<u>13,110,831</u>
Current assets					
Inventories	14	4,441,957	3,619,119	–	–
Trade and other receivables	12	23,540,828	20,708,388	33,287,070	31,629,611
Prepayments	13	2,062,562	1,814,681	15,643	–
Other investments	15	456,664	227,900	–	–
Cash and cash equivalents	16	12,940,709	9,179,876	1,350,771	565,575
		<u>43,442,720</u>	<u>35,549,964</u>	<u>34,653,484</u>	<u>32,195,186</u>
Total assets		<u>128,877,081</u>	<u>97,469,539</u>	<u>47,741,741</u>	<u>45,306,017</u>
EQUITY AND LIABILITIES					
Current liabilities					
Provisions	17	4,974,775	5,189,090	–	–
Income tax payable		1,952,190	3,393,010	649,802	–
Borrowings	18	2,930,993	1,011,741	–	–
Trade and other payables	19	32,774,824	17,688,592	39,163	98,482
Revenue received in advance	20	12,091,664	11,857,626	–	–
		<u>54,724,446</u>	<u>39,140,059</u>	<u>688,965</u>	<u>98,482</u>
Net current (liabilities)/ assets		<u>(11,281,726)</u>	<u>(3,590,095)</u>	<u>33,964,519</u>	<u>32,096,704</u>
Non-current liabilities					
Provisions	17	888,728	264,309	–	–
Deferred tax liabilities	21	9,298,998	5,115,380	–	–
Borrowings	18	4,331,541	2,144,015	–	–
Other payables	19	139,870	–	–	–
		<u>14,659,137</u>	<u>7,523,704</u>	<u>–</u>	<u>–</u>
Total liabilities		<u>69,383,583</u>	<u>46,663,763</u>	<u>688,965</u>	<u>98,482</u>
Net assets		<u>59,493,498</u>	<u>50,805,776</u>	<u>47,052,776</u>	<u>45,207,535</u>
Equity attributable to owners of the parent					
Share capital	22	43,809,091	42,989,091	43,809,091	42,989,091
Treasury shares	22	–	(168,321)	–	(168,321)
Reserves	23	1,417,521	56,706	1,015,776	625
Retained earnings		14,266,886	7,928,300	2,227,909	2,386,140
Total equity		<u>59,493,498</u>	<u>50,805,776</u>	<u>47,052,776</u>	<u>45,207,535</u>
Total equity and liabilities		<u>128,877,081</u>	<u>97,469,539</u>	<u>47,741,741</u>	<u>45,306,017</u>

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

Skywest Airlines Ltd. and Subsidiaries

Statements of Changes in Equity for the financial year ended 30 June 2010

	Note	Equity attributable to owners of the parent							Total equity
		Share capital	Treasury shares	Other reserve	Capital reserve	Warrant reserve	Foreign currency translation reserve	Retained earnings	
Group		\$	\$	\$	\$	\$	\$	\$	\$
Balance at 30 June 2008		43,554,574	-	625	-	-	2,188,202	6,137,919	51,881,320
Profit for the year		-	-	-	-	-	-	3,179,441	3,179,441
Other comprehensive income		-	-	-	-	-	(2,132,121)	-	(2,132,121)
Total comprehensive income for the year		-	-	-	-	-	(2,132,121)	3,179,441	1,047,320
Dividends paid	28	-	-	-	-	-	-	(1,389,060)	(1,389,060)
Purchase of treasury shares	22	-	(168,321)	-	-	-	-	-	(168,321)
Share buyback	22	(565,483)	-	-	-	-	-	-	(565,483)
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	22	820,000	-	-	-	-	-	-	820,000
Purchase of treasury shares	22	-	(811,900)	-	-	-	-	-	(811,900)
Disposal of treasury shares	22	-	980,221	-	827,779	-	-	-	1,808,000
Warrant expense		-	-	-	-	187,997	-	-	187,997
Transfer of reserve		-	-	(625)	-	-	-	-	(625)
Dividends paid	28	-	-	-	-	-	-	(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

Skywest Airlines Ltd. and Subsidiaries

Statements of Changes in Equity for the financial year ended 30 June 2010

Company	Note	Equity attributable to owners of the parent							Total equity
		Share capital	Treasury shares	Other reserve	Capital reserve	Warrant reserve	Retained earnings	\$	
Balance at 30 June 2008		43,554,574	-	625	-	-	1,784,581	45,339,780	
Profit for the year		-	-	-	-	-	1,990,619	1,990,619	
Other comprehensive income		-	-	-	-	-	-	-	
Total comprehensive income for the year		-	-	-	-	-	1,990,619	1,990,619	
Dividends paid	28	-	-	-	-	-	(1,389,060)	(1,389,060)	
Purchase of treasury shares	22	-	(168,321)	-	-	-	-	(168,321)	
Share buyback	22	(565,483)	-	-	-	-	-	(565,483)	
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	
Other comprehensive income		-	-	-	-	-	-	-	
Total comprehensive income for the year		-	-	-	-	-	2,737,060	2,737,060	
Exercise of share warrants	22	820,000	-	-	-	-	-	820,000	
Purchase of treasury shares	22	-	(811,900)	-	-	-	-	(811,900)	
Disposal of treasury shares	22	-	980,221	-	827,779	-	-	1,808,000	
Warrant expense		-	-	-	-	187,997	-	187,997	
Transfer of reserve		-	-	(625)	-	-	-	(625)	
Dividends paid	28	-	-	-	-	-	(2,895,291)	(2,895,291)	
Balance at 30 June 2010		43,809,091	-	-	827,779	187,997	2,227,909	47,052,776	

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

Skywest Airlines Ltd. and Subsidiaries
Consolidated Statement of Cash Flows for the financial year ended 30 June 2010

	Note	2010 \$	2009 \$
Cash flows from operating activities			
Profit before taxation		14,017,487	5,143,624
Adjustments for:			
(Gain)/loss on disposal of other investments	5	(50,291)	462,376
Fair value loss/(gain) on other investments	7	121,931	(89,782)
Amortisation of intangible assets	10	24,331	21,424
Depreciation expense	9	14,834,984	11,255,099
Warrant expense	24	187,997	–
Interest expense	6	886,310	314,361
Interest income	5	(269,234)	(281,554)
(Write-back of)/allowance for inventories obsolescence	14	(404,892)	44,991
Write-back of provision for aircraft handback	17	(75,170)	(351,118)
Provision for (write-back of provision for) employee benefits	17	368,446	(396,698)
Unrealised foreign exchange differences		(60,286)	3,992,404
Operating profit before working capital changes		29,581,613	20,115,127
Increase in inventories		(417,946)	(339,260)
(Increase)/decrease in trade, other receivables and prepayments		(13,077,573)	730,986
Increase/(decrease) in trade, other payables and provisions		13,641,830	(5,687,117)
Cash generated from operations		29,727,924	14,819,736
Interest expense paid		(886,310)	(314,361)
Interest income received		269,234	281,554
Income tax paid		(2,427,116)	(1,487,417)
Net cash generated from operating activities		26,683,732	13,299,512
Cash flows from investing activities			
Acquisition and sales of other investments		(300,404)	71,062
Acquisition of property, plant and equipment		(25,536,623)	(11,794,382)
Net cash used in investing activities		(25,837,027)	(11,723,320)
Cash flows from financing activities			
Release of cash pledged as security	16	2,446,076	–
Proceeds from borrowings		5,568,400	–
Repayment of borrowings		(1,575,081)	(3,736,395)
Dividends paid on ordinary shares	28	(2,895,291)	(1,389,060)
Proceeds from issuing shares (net of cost)	22a	820,000	–
Share buy-back	22a	–	(565,483)
Purchase of treasury shares	22b	(811,900)	(168,321)
Proceeds from disposal of treasury shares	22b	1,808,000	–
Net cash generated from/(used in) financing activities		5,360,204	(5,859,259)
Net increase/(decrease) in cash and cash equivalents		6,206,909	(4,283,067)
Cash and cash equivalents at beginning of year	16	6,733,800	11,016,867
Cash and cash equivalents at end of year	16	12,940,709	6,733,800

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

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 Singapore Financial Reporting Standards ("FRS").

The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below.

2.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

On 1 July 2009, the Group adopted the following standards and interpretations mandatory for annual financial periods beginning on or after 1 January 2009.

- FRS 1 Presentation of Financial Statements (Revised)
- Amendments to FRS 18 Revenue
- Amendments to FRS 23 Borrowing Costs
- Amendments to FRS 32 Financial Instruments: Presentation and FRS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation
- Amendments to FRS 101 First-time Adoption of Financial Reporting Standards and FRS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- Amendments to FRS 102 Share-based Payment – Vesting Conditions and Cancellations

2.2 Changes in accounting policies (cont'd)

- Amendments to FRS 107 Financial Instruments: Disclosures
- FRS 108 Operating Segments
- Improvements to FRSs issued in 2008
- INT FRS 116 Hedges of a Net Investment in a Foreign Operation
- Amendments to INT FRS 109 Reassessment of Embedded Derivatives and FRS 39 Financial Instruments: Recognition and Measurement – Embedded Derivatives
- INT FRS 118 Transfers of Assets from Customers
- Amendments to FRS 27 Consolidated and Separate Financial Statements
- Amendments to FRS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Item
- Revised FRS 103 Business Combinations
- Amendments to FRS 105 Non-current Assets Held for Sale and Discontinued Operations
- INT FRS 117 Distributions of Non-cash Assets to Owners
- Improvements to FRSs issued in 2009:
 - Amendments to FRS 38 Intangible Assets
 - Amendments to FRS 102 Share-based Payment
 - Amendments to FRS 108 Operating Segments
 - Amendments to INT FRS 109 Reassessment of Embedded Derivatives
 - Amendments to INT FRS 116 Hedges of a Net Investment in a Foreign Operation

Adoption of these standards and interpretations did not have any effect on the financial performance or position of the Group. They did however give rise to additional disclosures, including, in some cases, revisions to accounting policies.

The principal effects of these changes are as follows:

FRS 1 Presentation of Financial Statements – Revised Presentation

The revised FRS 1 separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented in the statement of other comprehensive income. In addition, the Standard introduces the statement of comprehensive income which presents income and expense recognised in the period. This statement may be presented in one single statement, or two linked statements. The Group has elected to present this statement as a single statement.

2.2 Changes in accounting policies (cont'd)

Amendments to FRS 107 Financial Instruments: Disclosures

The amendments to FRS 107 require additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. In addition, reconciliation between the beginning and ending balance for Level 3 fair value measurements is now required, as well as significant transfers between Level 1 and Level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures. The liquidity risk disclosure is presented in Note 31.

FRS 108 Operating Segments

FRS 108 requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary and secondary reporting segments of the Group. The Group determined that the reportable operating segments are the same as the business segments previously identified under FRS 14 Segment Reporting. Additional disclosures about each of the segments are shown in Note 34.

FRS 103 Business Combinations (revised) and FRS 27 Consolidated and Separate Financial Statements

The revised FRS 103 *Business Combinations* and FRS 27 *Consolidated and Separate Financial Statements* are applicable for annual periods beginning on or after 1 July 2009. As of 1 July 2009, the Group adopted both revised standards at the same time in accordance with their transitional provisions.

FRS 103 Business Combinations (revised)

The revised FRS 103 introduces a number of changes to the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. Changes in significant accounting policies resulting from the adoption of the revised FRS 103 include:

- Transaction costs would no longer be capitalised as part of the cost of acquisition but will be expensed immediately;
- Consideration contingent on future events are recognised at fair value on the acquisition date and any changes in the amount of consideration to be paid will no longer be adjusted against goodwill but recognised in profit or loss;
- The Group elects for each acquisition of a business, to measure non-controlling interest at fair value, or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets, and this impacts the amount of goodwill recognised; and

2.2 Changes in accounting policies (cont'd)

- When a business is acquired in stages, the previously held equity interests in the acquiree is remeasured to fair value at the acquisition date with any corresponding gain or loss recognised in profit or loss, and this impacts the amount of goodwill recognised.

According to its transitional provisions, the revised FRS 103 has been applied prospectively. Assets and liabilities that arose from business combinations whose acquisition dates are before 1 July 2009 are not adjusted.

FRS 27 Consolidated and Separate Financial Statements (revised)

Changes in significant accounting policies resulting from the adoption of the revised FRS 27 include:

- A change in the ownership interest of a subsidiary that does not result in a loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss recognised in profit or loss;
- Losses incurred by a subsidiary are allocated to the non-controlling interest even if the losses exceed the non-controlling interest in the subsidiary's equity; and
- When control over a subsidiary is lost, any interest retained is measured at fair value with the corresponding gain or loss recognised in profit or loss.

According to its transitional provisions, the revised FRS 27 has been applied prospectively, and does not impact the Group's consolidated financial statements in respect of transactions with non-controlling interests, attribution of losses to non-controlling interests and disposal of subsidiaries before 1 July 2009. The changes will affect future transactions with non-controlling interests.

Improvements to FRSs issued in 2008

In 2008, the Accounting Standards Council issued an omnibus of amendments to FRS. There are separate transitional provisions for each amendment. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group:

- FRS 1 Presentation of Financial Statements: Assets and liabilities classified as held for trading in accordance with FRS 39 Financial Instruments: Recognition and Measurement are not automatically classified as current in the statement of financial position. The Group amended its accounting policy accordingly and analysed whether Management's expectation of the period of realisation of financial assets and liabilities differed from the classification of the instrument. This did not result in any re-classification of financial instruments between current and non-current in the statement of financial position.
- FRS 16 Property, Plant and Equipment: Replaces the term "net selling price" with "fair value less costs to sell". The Group amended its accounting policy accordingly, which did not result in any change in the financial position.

2.2 *Changes in accounting policies (cont'd)*

- FRS 23 Borrowing Costs: The definition of borrowing costs is revised to consolidate the two types of items that are considered components of "borrowing costs" into one – the interest expense calculated using the effective interest rate method calculated in accordance with FRS 39. The Group has amended its accounting policy accordingly which did not result in any change in its financial position.

2.3 *Standards issued but not yet effective*

The Group has not adopted the following standards and interpretations that have been issued but not yet effective:

Description	Effective for annual periods beginning on or after
Improvements to FRSs issued in 2009:	
– Amendments to FRS 1 Presentation of Financial Statements	1 January 2010
– Amendments to FRS 7 Statement of Cash Flows	1 January 2010
– Amendments to FRS 17 Leases	1 January 2010
– Amendments to FRS 36 Impairment of Assets	1 January 2010
– FRS 39 Financial Instruments: Recognition and Measurement	1 January 2010
– Amendments to FRS 105 Non-current Assets Held for Sale and Discontinued Operations	1 January 2010
– Amendments to FRS 108 Operating Segments	1 January 2010
Amendments to FRS 102 Share-based Payment – Group Cash-settled Share-based Payment Transactions	1 January 2010
Amendments to FRS 32 Financial Instruments: Presentation – Classification of Rights Issues	1 February 2010
INT FRS 119 Extinguishing Financial Liabilities with Equity Instruments	1 July 2010
Revised FRS 24 Related Party Disclosures	1 January 2011
INT FRS 114 FRS 19-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – Amendments relating to Prepayments of a Minimum Funding Requirement	1 January 2011
INT FRS 115 Agreements for the Construction of Real Estate	1 January 2011

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

Except for the revised FRS 24, the directors expect that the adoption of the other standards and interpretations above will have no material impact on the financial statements in the period of initial application. The nature of the impending changes in accounting policy on adoption of the revised FRS 24 is described below.

Revised FRS 24 Related Party Disclosures

The revised FRS 24 clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised FRS 24 expands the definition of a related party and would treat two entities as related to each other whenever a person (or a close member of that person's family) or a third party has control or joint control over the entity, or has significant influence over the entity. The revised standard also introduces a partial exemption of disclosure requirements for government-related entities. The Group is currently determining the impact of the changes to the definition of a related party has on the disclosure of related party transaction. As this is a disclosure standard, it will have no impact on the financial position or financial performance of the Group when implemented in 2011.

2.4 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

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

Acquisitions of subsidiaries are accounted for by applying the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the identifiable liabilities assumed and any non separate identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Adjustments to those fair values relating to previously held interests are treated as a revaluation and recognised in equity. Any excess of the cost of business combination over the Group's share in the net fair value of the acquired subsidiary's identifiable assets, liabilities and contingent liabilities is recorded as goodwill on the statement of financial position. The accounting policy for goodwill is set out in Note 2.7(a). Any excess of the Group's share in the net fair value of the acquired subsidiary's identifiable assets, liabilities and contingent liabilities over the cost of business combination is recognised as income in profit or loss on the date of acquisition.

Subsidiaries are 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.

2.5 Foreign currency

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the end of the reporting period. 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 was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the end of the reporting period are recognised in the statement of comprehensive income.

The assets and liabilities of the Company's Australian subsidiaries are translated into SGD at the rate of exchange ruling at the end of the reporting period and their statement of comprehensive income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to other comprehensive income. On disposal of a foreign operation, the cumulative amount recognised in other comprehensive income relating to that particular foreign operation is recognised in the statement of comprehensive income.

2.6 Property, plant and equipment

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Subsequent to recognition, property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. When significant parts of property, plant and equipment are required to be replaced in 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 property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the statement of comprehensive income 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	- 8 to 25 years
Plant and equipment	- 3 to 15 years
Leasehold improvement	- Lease term
Motor vehicle	- 5 years
Aircraft maintenance	- 2 years

2.6 Property, plant and equipment (cont'd)

Assets under construction included in plant and equipment are not depreciated as these assets are not yet available for use.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The residual value, useful life and depreciation method are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on derecognition of the asset is included in the statement of comprehensive income in the year the asset is derecognised.

2.7 Intangible assets

(a) Goodwill

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired is allocated, from the acquisition date, to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination.

The cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired, by comparing the carrying amount of the cash-generating unit, including the allocated goodwill, with the recoverable amount of the cash-generating unit. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in the profit or loss. Impairment losses recognised for goodwill are not reversed in subsequent periods.

Where goodwill forms part of a cash-generating unit and part of the operation within that cash-generating 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 fair values of the operations disposed of and the portion of the cash-generating unit retained.

Goodwill and fair value adjustments arising on the acquisition of foreign operation on or after 1 January 2005 are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations and translated in accordance with the accounting policy set out in Note 2.5.

Goodwill and fair value adjustments which arose on acquisitions of foreign operation before 1 January 2005 are deemed to be assets and liabilities of the Company and are recorded in SGD at the rates prevailing at the date of acquisition.

2.7 Intangible assets (cont'd)

(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 the statement of comprehensive income 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.

2.8 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 such indication exists, or when an annual impairment assessment for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's 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. In assessing value in use, the estimated future cash flows expected to be generated by the asset 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, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators. Where the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount.

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. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in the profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

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 *Related parties*

An entity or individual is considered a related party of the Group if:

- i) it possesses the ability (directly or indirectly) to control or exercise significant influence over the operating and financial decisions of the group or vice versa; or
- ii) it is subject to common control or common significant influence; or
- iii) the party is a member of the key management personnel (including directors) of the entity or its parent.

2.11 *Financial assets*

Financial assets are recognised on the statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

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

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e., the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned.

(a) *Financial assets at fair value through profit or loss*

Financial assets held for trading are classified as financial assets at fair value through profit or loss. Financial assets held for trading are derivatives (including separated embedded derivatives) or financial assets acquired principally for the purpose of selling in the near term.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value of the financial assets are recognised in profit or loss. Net gains or net losses on financial assets at fair value through profit or loss include exchange differences, interest and dividend income.

(b) *Loans and receivables*

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

2.12 Impairment of financial assets

The Group assesses at each end of the reporting period whether there is any objective evidence that a financial asset is impaired.

(a) *Assets carried at amortised cost*

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been 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 discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in the profit or loss.

When the asset becomes uncollectible, the carrying amount of impaired financial assets is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against the carrying value of the financial asset.

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in the statement of comprehensive income.

(b) *Assets carried at cost*

If there is objective evidence (such as significant adverse changes in the business environment where the issuer operates, probability of insolvency or significant financial difficulties of the issuer) that an impairment loss on financial assets carried at cost has been 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 discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

2.13 Cash and cash equivalents

Cash and cash equivalents 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.

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 economic resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at each end of the reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. 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. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2.16 Financial liabilities

Financial liabilities within the scope of FRS 39 are recognised on the statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

Financial liabilities are recognised initially at fair value, plus, in the case of financial liabilities other than derivatives, directly attributable transaction costs.

Subsequent to initial recognition, derivatives are measured at fair value. Other financial liabilities are measured at amortised cost using the effective interest method.

For financial liabilities other than derivatives, gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process. Any gains or losses arising from changes in fair value of derivatives are recognised in profit or loss. Net gains or losses on derivatives include exchange differences.

A financial liability is derecognised when the obligation under the liability is extinguished. 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 the profit or loss.

2.17 Borrowing costs

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale.

2.18 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. In particular, the Singapore companies in the Group make contributions to the Central Provident Fund scheme in Singapore, a defined contribution pension scheme. 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.

(c) *Other 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 statement of comprehensive income in the period in which they arise.

2.19 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.

(a) *Operating leases*

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

2.20 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. Revenue is measured at the fair value of consideration received or receivable.

(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 unearned revenue, classified as part of trade and other payables, 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 unless collectibility is in doubt.

(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.

(e) *Others*

All other miscellaneous income is recognised when earned and the amount of income can be reliably measured on an accrual basis.

2.21 Income taxes

(a) *Current tax*

Current tax assets and liabilities 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 end of the reporting period.

Current taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity.

(b) *Deferred tax*

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

2.21 *Income taxes (cont'd)*

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

- where the deferred income 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 income 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 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.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient 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 end of the reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be utilised.

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 end of the reporting period.

Deferred income 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 and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

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

2.21 *Income taxes (cont'd)*

(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.

2.22 *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.

2.23 *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.

2.24 *Treasury shares*

When shares recognised as equity are reacquired, the amount of consideration paid is recognised directly in equity. Reacquired shares are classified as treasury shares and presented as a deduction from total equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of treasury shares.

2.25 Contingencies

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

Contingent liabilities and assets are not recognised on the statement of financial position 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 statement of financial position was \$1,952,190 (2009: \$3,393,010) and \$9,298,998 (2009: \$5,115,380) 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 2.6.

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.

(b) *Impairment of non-financial assets*

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill and other indefinite life intangibles are 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 24.

(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 aircrafts 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 in the statement of financial position by adjusting both the expense and provision. The related carrying amounts are disclosed in Note 17.

3.2 **Key sources of estimation uncertainty (cont'd)**(e) *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.

4. **Revenue**

	Group	
	2010	2009
	\$	\$
Passenger, charter and freight income	<u>215,204,636</u>	<u>181,315,645</u>

5. **Other income**

	Group	
	2010	2009
	\$	\$
Bank guarantee income from a related party	362,908	369,546
Foreign exchange gain	135,658	-
Interest income from third parties	264,044	259,554
Interest income from related parties	5,190	22,000
Gain/(loss) on sales of other investments	50,291	(462,376)
Dividend income	4,905	-
Other miscellaneous income	7,301	3,000
	<u>830,297</u>	<u>191,724</u>

6. **Finance costs**

	Group	
	2010	2009
	\$	\$
Interest expense to third parties	<u>886,310</u>	<u>314,361</u>

7. Profit before tax

The following items have been included in arriving at profit for the year:

	Group	
	2010	2009
	\$	\$
Office rental expense	25,646	18,627
Depreciation expense (Note 9)	14,834,984	11,255,099
Amortisation of intangible assets (Note 10)	24,331	21,424
(Write-back of)/allowance for inventories obsolescence (Note 14)	(404,892)	44,991
Fair value loss/(gain) on other investments (Note 15)	121,931	(89,782)
(Write-back of)/provision for aircraft handback (Note 17)	<u>(75,170)</u>	<u>246,749</u>

8. Income tax expense***Major components of income tax expense***

The major components of income tax expense for the years ended 30 June 2010 and 2009 are:

	Group	
	2010	2009
	\$	\$
Current income tax		
– Current income taxation	157,367	1,218,646
– Under-provision in respect of previous years	433,040	155,570
	590,407	1,374,216
Deferred income tax		
– Origination and reversal of temporary differences	4,320,228	580,073
– Over-provision in respect of previous years	(136,610)	–
	4,183,618	580,073
Overseas withholding tax expense	<u>9,585</u>	<u>9,894</u>
Income tax expense recognised in the statement of comprehensive income	<u><u>4,783,610</u></u>	<u><u>1,964,183</u></u>

8. Income tax expense (cont'd)

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 2010 and 2009 are as follows:

	Group	
	2010	2009
	\$	\$
Profit before tax	<u>14,017,487</u>	<u>5,143,624</u>
Tax at the domestic rates applicable to profits in the countries where the Group operates	4,137,782	1,681,335
Adjustments:		
Income not subject to tax	(1,712)	(200)
Expenses not deductible for tax purposes	544,688	84,216
Utilisation of deferred tax asset previously not recognised	(57,662)	–
Tax effect of qualifying income which is taxed at a concessionary rate of 10%	(120,253)	–
Overseas withholding tax expense	9,585	9,894
Effect of partial tax exemption and tax relief	(25,925)	(18,080)
Under-provision in respect of previous years	296,430	155,570
Others	<u>677</u>	<u>51,448</u>
Income tax expense recognised in the statement of comprehensive income	<u>4,783,610</u>	<u>1,964,183</u>

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.

Skywest Airlines Ltd. and Subsidiaries

Notes to the Financial Statements - 30 June 2010

9. Property, plant and equipment

Group	Rotables \$	Aircraft & related equipment \$	Aircraft maintenance \$	Plant and equipment \$	Leasehold improvement \$	Motor vehicle \$	Total \$
<u>Cost:</u>							
Balance at 1 July 2008	17,754,375	30,835,028	30,916,536	6,970,346	1,143,141	71,912	87,691,338
Additions	853,117	811,181	8,381,501	813,678	934,905	-	11,794,382
Disposal/written off	-	-	-	(15,854)	(1,672)	-	(17,526)
Translation adjustments	(1,904,091)	(3,641,581)	(3,315,687)	(723,261)	(122,418)	-	(9,707,038)
Balance at 30 June 2009 and 1 July 2009	16,703,401	28,004,628	35,982,350	7,044,909	1,953,956	71,912	89,761,156
Additions	5,335,206	11,356,416	9,710,827	952,484	-	-	27,354,933
Disposal/written off	-	-	-	(3,875)	-	-	(3,875)
Translation adjustments	396,749	468,290	506,410	167,572	46,411	-	1,585,432
Balance at 30 June 2010	22,435,356	39,829,334	46,199,587	8,161,090	2,000,367	71,912	118,697,646
<u>Accumulated depreciation:</u>							
Balance at 1 July 2008	5,069,666	9,054,519	18,215,975	4,357,498	260,776	11,985	36,970,419
Charge for the year	957,534	1,899,064	7,544,571	707,973	131,574	14,383	11,255,099
Disposal/written off	-	-	-	(15,854)	(1,672)	-	(17,526)
Translation adjustments	(475,568)	(835,933)	(1,416,747)	(394,974)	(19,260)	-	(3,142,482)
Balance at 30 June 2009 and 1 July 2009	5,551,632	10,117,650	24,343,799	4,654,643	371,418	26,368	45,065,510
Charge for the year	1,594,258	2,814,027	9,469,266	762,197	180,854	14,382	14,834,984
Disposal/written off	-	-	-	(3,875)	-	-	(3,875)
Translation adjustments	76,908	148,712	251,796	84,146	3,611	-	565,173
Balance at 30 June 2010	7,222,798	13,080,389	34,064,861	5,497,111	555,883	40,750	60,461,792
<u>Net carrying amount:</u>							
Balance at 30 June 2010	15,212,558	26,748,945	12,134,726	2,663,979	1,444,484	31,162	58,235,854
Balance at 30 June 2009	11,151,769	17,886,978	11,638,551	2,390,266	1,582,538	45,544	44,695,646

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

Aircraft purchased by instalment plan

During the financial year, the Group acquired aircraft with an aggregate cost of \$2,773,678 (2009: nil) to be paid by monthly instalments. The net cash outflow as at 30 June 2010 for the acquisition of this aircraft amounted to \$955,368 (2009: nil).

Company	Leasehold improve- ments \$	Plant and equipment \$	Motor vehicle \$	Total \$
<u>Cost:</u>				
Balance at 1 July 2008	1,672	43,432	71,912	117,016
Additions	–	2,500	–	2,500
Disposal/written off	(1,672)	(15,854)	–	(17,526)
Balance at 30 June 2009 and 1 July 2009	–	30,078	71,912	101,990
Additions	–	–	–	–
Disposal/written off	–	(3,875)	–	(3,875)
Balance at 30 June 2010	–	26,203	71,912	98,115
<u>Accumulated depreciation:</u>				
Balance at 1 July 2008	1,486	24,341	11,985	37,812
Charge for the year	186	11,105	14,383	25,674
Disposal/written off	(1,672)	(15,854)	–	(17,526)
Balance at 30 June 2009 and 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	–	23,909	40,750	64,659
<u>Net carrying amount:</u>				
Balance at 30 June 2010	–	2,294	31,162	33,456
Balance at 30 June 2009	–	10,486	45,544	56,030

The motor vehicle of the Group with a net book value of \$31,362 (2009: \$45,544) 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:

		Group	
	Note	2010	2009
		\$	\$
Goodwill arising from business combinations	(a)	17,189,507	17,189,507
Other intangible assets	(b)	11,748	34,422
		<u>17,201,255</u>	<u>17,223,929</u>
(a) Goodwill			
Goodwill arising from business combinations		<u>17,189,507</u>	<u>17,189,507</u>

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% (2009: 14.5%). The long-term growth rate used to extrapolate the cash flows 14 years beyond the next financial year is 3.0% (2009: 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.

10. Intangible assets (cont'd)

(b) Other intangible assets

Group	Licence \$
<u>Cost:</u>	
At 1 July 2008	128,520
Translation adjustment	(13,783)
	<hr/>
At 30 June 2009 and 1 July 2009	114,737
Translation adjustment	2,725
	<hr/>
At 30 June 2010	117,462
	<hr/>
<u>Accumulated depreciation:</u>	
At 1 July 2008	64,258
Charge for the year	21,424
Translation adjustment	(5,367)
	<hr/>
At 30 June 2009 and 1 July 2009	80,315
Charge for the year	24,331
Translation adjustment	1,068
	<hr/>
At 30 June 2010	105,714
	<hr/>
<u>Net carrying amount:</u>	
At 30 June 2010	11,748
	<hr/> <hr/>
At 30 June 2009	34,422
	<hr/> <hr/>

Skywest Airlines Ltd. and Subsidiaries

Notes to the Financial Statements - 30 June 2010

11. Subsidiaries

	Company	
	2010	2009
	\$	\$
Unquoted equity investments, at cost	<u>13,054,801</u>	<u>13,054,801</u>

Details of the subsidiaries are as follows:

Name	Country of incorporation	Principal activities	Proportion (%) of ownership interest	
			2010	2009
<i>Held by the Company:</i>				
[^] 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
<i>Held by subsidiaries:</i>				
[*] A.C.N. 098 904 262 Pty Ltd	Australia	Investment holding	100	100
[*] Skywest Airlines (Australia) Pty Ltd (formerly known as Skywest Airlines Pty Ltd)	Australia	Airline operator	100	100

[^] Audited by Ernst & Young LLP, Singapore

^{*} Audited by Ernst & Young, Australia

12. Trade and other receivablesTrade and other receivables - current

	Group		Company	
	2010	2009	2010	2009
	\$	\$	\$	\$
Trade receivables from third parties ⁽¹⁾	17,598,018	15,795,147	–	–
Deposits	4,730,853	3,983,340	28,900	84,378
Interest bearing loan ⁽²⁾	372,346	492,514	–	–
Interest receivable ⁽²⁾	65,277	68,486	–	–
Amount due from related parties ⁽³⁾	219,237	54,987	142,944	54,987
Bank guarantee income receivable from a related party ⁽⁴⁾	555,097	313,914	–	–
Amount due from subsidiaries ⁽³⁾	–	–	33,115,226	31,490,246
	<u>23,540,828</u>	<u>20,708,388</u>	<u>33,287,070</u>	<u>31,629,611</u>

Other receivables - non-current

Deposits	2,798,447	–	–	–
Interest bearing debenture ⁽⁵⁾	149,024	–	–	–
	<u>2,947,471</u>	<u>–</u>	<u>–</u>	<u>–</u>

(1) 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.

The ageing analysis of the trade receivables at the end of the reporting period is as follows:

	Group	
	2010	2009
	\$	\$
Not past due	13,492,189	11,723,747
Past due 0 to 30 days	4,020,481	3,938,265
Past due 31 to 60 days	32,411	112,341
Past due more than 61 days	52,937	20,794
	<u>17,598,018</u>	<u>15,795,147</u>

100% (2009: 100%) of the Group's trade receivables that are past due as at the end of the reporting period are not impaired.

12. Trade and other receivables (cont'd)

⁽²⁾ Interest bearing loan and interest receivable

The interest bearing loan due from a company which a director of the Group has interest is unsecured and repayable on demand. Interest is charged as follows:

- (a) effective interest rate of 10% per annum to be applied from the drawdown date to 31 March 2008;
- (b) effective interest rate of 7% per annum to be applied from 1 April 2008 to 27 November 2008; and
- (c) interest rate of GBP LIBOR per annum to be applied from 28 November 2008 to the loan repayment date.
- (d) Singapore Inter-bank offered interest rate in respect of Singapore Dollar (SGD SIBOR) as fixed by the Association of Banks in Singapore

The interest is calculated on the outstanding principal amount of the loan on a daily rest basis of a year of 365 days.

⁽³⁾ 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.

⁽⁴⁾ Bank guarantee income receivable from a related party

The bank guarantee income receivable from a related party is secured and repayable on demand. Interest is charged at effective interest rate of 14% (2009: 14%) per annum and calculated on the commitment amount of AUD\$2,089,967 (Note 29) on a daily rest basis of a year of 365 days.

⁽⁵⁾ Interest bearing debenture

The debenture is due from a third party and is repayable on 6 November 2014. Interest is charged at 10% (2009: Nil%) per annum.

Trade and other receivables are denominated in the following currencies:

	Group		Company	
	2010	2009	2010	2009
	\$	\$	\$	\$
Australian Dollars	25,619,986	19,984,040	–	–
Euro	2,956	–	–	–
Singapore Dollars	428,710	163,348	33,287,070	31,629,611
Sterling Pounds	287,623	561,000	–	–
United States Dollars	149,024	–	–	–
	<u>26,488,299</u>	<u>20,708,388</u>	<u>33,287,070</u>	<u>31,629,611</u>

13. PrepaymentsPrepayments - current

	Group		Company	
	2010	2009	2010	2009
	\$	\$	\$	\$
Prepayments	<u>2,062,562</u>	<u>1,814,681</u>	<u>15,643</u>	<u>–</u>
<u>Prepayments – non-current</u>				
Prepaid maintenance expense	<u>7,049,781</u>	<u>–</u>	<u>–</u>	<u>–</u>

The prepaid maintenance expense represents monthly payments to lessors of aircraft in operating lease arrangements for maintenance of those aircraft. These amounts will be charged to the statement of comprehensive income when the maintenance payments are incurred.

14. Inventories

	Group	
	2010	2009
	\$	\$
Consumable spare parts	4,365,908	3,922,598
Consumable spare parts subject to retention of title clauses	76,049	78,385
Less: Allowance for inventories obsolescence	<u>–</u>	<u>(381,864)</u>
	<u>4,441,957</u>	<u>3,619,119</u>

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	373,756
(Write-back)/charge during the year	(404,892)	44,991
Translation adjustment	23,028	(36,883)
Balance at end of year	<u>–</u>	<u>381,864</u>

The cost of inventories included in consolidated statement of comprehensive income as part of engineering and maintenance costs, amounted to \$3,806,451 (2009: \$2,949,421).

15. Other investments

	Group	
	2010	2009
	\$	\$
<i>Held for trading investments</i>		
Quoted equity shares, at fair value	<u>456,664</u>	<u>227,900</u>

Quoted 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 loss on other investments recognised in the statement of comprehensive income during the current year is \$121,931 (2009: fair value gain of \$89,782)

Other investments are denominated in the following currencies:

Australian Dollars	352,089	150,473
Canadian Dollars	-	30,681
Singapore Dollars	-	18,396
Sterling Pounds	40,893	28,350
United States Dollars	63,682	-
	<u>456,664</u>	<u>227,900</u>

16. Cash and cash equivalents

	Group		Company	
	2010	2009	2010	2009
	\$	\$	\$	\$
Bank balances	12,940,709	9,179,876	1,350,771	565,575
Less: Bank balances restricted in use	<u>-</u>	<u>(2,446,076)</u>	<u>-</u>	<u>-</u>
Cash and cash equivalents in consolidated cash flow statement	<u>12,940,709</u>	<u>6,733,800</u>	<u>1,350,771</u>	<u>565,575</u>

As at 30 June 2009, the Group had AUD \$2,089,467, which is equivalent to \$2,446,076, of bank balances whose use was restricted as it was to secure borrowings for a corporation in which one of the directors has an interest. The effective interest rate per annum relating to the balances is 3.8% (2009: 2.3%).

Skywest Airlines Ltd. and Subsidiaries

Notes to the Financial Statements - 30 June 2010

16. Cash and cash equivalents (cont'd)

Cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2010	2009	2010	2009
	\$	\$	\$	\$
Australian Dollars	11,573,641	8,624,857	218,322	301,270
Euro	25,922	–	–	–
Singapore Dollars	47,509	524,374	27,389	233,660
Sterling Pounds	551,586	493	551,586	493
United States Dollars	742,051	30,152	553,474	30,152
	<u>12,940,709</u>	<u>9,179,876</u>	<u>1,350,771</u>	<u>565,575</u>

17. Provisions

	Aircraft handback	Employee benefits	Total
	\$	\$	\$
Group			
Balance at 1 July 2008	689,358	6,256,810	6,946,168
Write-back for the year	(351,118)	(396,698)	(747,816)
Currency realignment	(73,931)	(671,022)	(744,953)
	<u>264,309</u>	<u>5,189,090</u>	<u>5,453,399</u>
Balance at 30 June 2009	264,309	5,189,090	5,453,399
Less: Non-current portion	(264,309)	–	(264,309)
	<u>–</u>	<u>5,189,090</u>	<u>5,189,090</u>
Balance at 1 July 2009	264,309	5,189,090	5,453,399
Reversal	–	–	–
(Write-back)/charge for the year	(75,170)	368,446	293,276
Currency realignment	6,276	110,552	116,828
	<u>195,415</u>	<u>5,668,088</u>	<u>5,863,503</u>
Balance at 30 June 2010	195,415	5,668,088	5,863,503
Less: Non-current portion	(195,415)	(693,313)	(888,728)
	<u>–</u>	<u>4,974,775</u>	<u>4,974,775</u>

Provisions for aircraft handback are made in accordance with the respective operating lease agreements. The provisions have been made on the same basis as that in 2009.

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

18. Borrowings

	Group	
	2010	2009
	\$	\$
<u>Current liabilities</u>		
Secured loan I	658,473	559,297
Secured loan II	1,014,574	–
Secured loan III	1,257,946	452,444
	<u>2,930,993</u>	<u>1,011,741</u>
<u>Non-current liabilities</u>		
Secured loan I	235,933	920,828
Secured loan II	4,095,608	–
Secured loan III	–	1,223,187
	<u>4,331,541</u>	<u>2,144,015</u>

Secured loan I

The secured loan I 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 an effective interest rate of 6.73% (2009: 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 an effective interest rate of 6.18% (2009: nil) per annum.

The loan is secured by a charge over the purchased aircraft whose carrying amount as at 30 June 2010 is \$5,488,290 (2009: nil), 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 an effective interest rate of 8.248% (2009: 8.248%) per annum.

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:

United States Dollars	6,004,588	1,480,125
Australian Dollars	1,257,946	1,675,631
	<u>7,262,534</u>	<u>3,155,756</u>

19. Trade and other payablesTrade and other payables - current

	Group		Company	
	2010	2009	2010	2009
	\$	\$	\$	\$
Trade payables	20,814,699	10,507,466	960	–
Amount due to a related party	214	214	–	–
Instalment payments due to a supplier	1,678,440	–	–	–
Other payables and accruals	10,281,471	7,180,912	38,203	98,482
	<u>32,774,824</u>	<u>17,688,592</u>	<u>39,163</u>	<u>98,482</u>

Trade and other payables – non-current

Instalment payments due to a supplier	<u>139,870</u>	<u>–</u>	<u>–</u>	<u>–</u>
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Trade payables are normally settled on 60-day terms.

Trade and other payables are denominated in the following currencies:

Australian Dollars	23,822,125	13,153,779	–	–
Euro	665,129	601,685	–	–
New Zealand Dollars	74,413	90,931	–	–
Singapore Dollars	319,887	77,132	38,203	98,482
Sterling Pounds	960	35,679	960	–
United States Dollars	8,032,180	3,729,386	–	–
	<u>32,914,694</u>	<u>17,688,592</u>	<u>39,163</u>	<u>98,482</u>

20. Revenue received in advance

	Group	
	2010	2009
	\$	\$
Revenue received in advance	<u>12,091,664</u>	<u>11,857,626</u>

This pertains to passenger, charter or freight income that has been received in advance and will be recognised as revenue in the statement of comprehensive income when the tickets are utilised or expire, or when freight is uplifted.

21. Deferred tax liabilities

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal tax authority.

The amounts are shown in the statements of financial position as follows:

	Group	
	2010	2009
	\$	\$
Deferred tax assets arises as result of:		
Provisions and accruals	1,923,938	2,164,122
Revenue received in advance	99,199	117,150
Property, plant and equipment	-	218,538
Trade and other receivables	137,825	-
Unutilised tax losses	2,499,576	112,782
Others	114,603	199,902
	<u>4,775,141</u>	<u>2,812,494</u>
Deferred tax liabilities arises as result of:		
Inventories	1,332,588	1,109,660
Property, plant and equipment	9,288,276	6,808,388
Trade and other receivables	-	9,826
Maintenance reserves	3,381,148	-
Unrealised foreign exchange gain	72,127	-
	<u>14,074,139</u>	<u>7,927,874</u>
Net deferred tax liabilities	<u><u>9,298,998</u></u>	<u><u>5,115,380</u></u>

At the end of the reporting period, the Group has capital tax losses of approximately AUD\$9,075,517 (2009: AUD\$9,075,517) 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.

22. Share capital and treasury shares

(a) *Share capital*

	Group and Company			
	2010		2009	
	No. of shares	\$	No. of shares	\$
Issued and fully paid:				
At 1 July	195,500,000	42,989,091	199,500,000	43,554,574
Share buy-back	–	–	(4,000,000)	(565,483)
Issue of shares under warrant scheme	4,100,000	820,000	–	–
At 30 June	<u>199,600,000</u>	<u>43,809,091</u>	<u>195,500,000</u>	<u>42,989,091</u>

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 acquired 4,000,000 of its shares through purchases on the AIM during the last financial year. The total amount paid to acquire the shares was \$565,483.

The Company issued 4,100,000 (2009: Nil) of its shares under the warrant scheme at \$0.20 per share during the financial year, these were fully vested on issue.

(b) *Treasury shares*

	Group and Company			
	2010		2009	
	No. of treasury shares	\$	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)	(1,000,000)	(168,321)
Disposed during the year:				
- Cash consideration net of expenses	4,000,000	1,808,000	–	–
- Gain transferred to capital accretion reserve	–	(827,779)	–	–
	<u>4,000,000</u>	<u>980,221</u>	<u>–</u>	<u>–</u>
At 30 June	<u>–</u>	<u>–</u>	<u>(1,000,000)</u>	<u>(168,321)</u>

The Company acquired 3,000,000 (2009: 1,000,000) shares through purchases on the AIM during the financial year. The total amount paid to acquire the shares was \$811,900 (2009: \$168,321) and this was presented as a component within shareholders' equity.

The Company disposed 4,000,000 (2009: Nil) treasury shares on the AIM during the financial year and the total cash consideration net of expenses received was \$1,808,000 (2009: nil).

23. 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 which are issued fully vested at grant date.

(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.

24. Employee benefits

	Group	
	2010	2009
	\$	\$
Employee benefits expense (including directors):		
Directors' fees	75,000	150,000
Short term benefits	42,900,099	36,078,991
Defined contribution plan contributions	3,298,333	2,831,142
Warrant expense	187,997	-
	<u>46,461,429</u>	<u>39,060,133</u>

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.

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

Directors' fees	75,000	150,000
Short term benefits	1,834,831	715,967
Defined contribution plan contributions	72,961	7,946
Warrant expense	185,523	-
	<u>2,168,315</u>	<u>873,913</u>
Comprise amounts paid to:		
Directors	879,648	627,039
Key management personnel	1,288,667	246,874
	<u>2,168,315</u>	<u>873,913</u>

24. Employee benefits (cont'd)

Warrant expense

The Company has a warrant 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:

	2010		2009	
	No.	WAEP	No.	WAEP
Outstanding at 1 July	6,601,475	S\$0.20	12,321,275	S\$0.32
		S\$0.24		
- Granted	3,040,000	(10.25 pence)	-	-
				S\$0.34
- Lapsed	(2,501,475)	S\$0.20	(5,719,800)	(15.25 pence)
- Exercised	(4,100,000)	S\$0.20	-	-
		S\$0.24		
Outstanding at 30 June	<u>3,040,000</u>	<u>(10.25 pence)</u>	<u>6,601,475</u>	<u>S\$0.20</u>
		S\$0.24		
Exercisable at 30 June	<u>3,040,000</u>	<u>(10.25 pence)</u>	<u>6,601,475</u>	<u>S\$0.20</u>

- The weighted average fair value of the warrants granted during the financial year was S\$0.06 (2009: Nil).
- The weighted average share price at the date of exercise of the warrant exercised during the financial year was 9.34 pence. (2009: Nil).
- The exercise price for warrant outstanding at the end of the year was S\$0.24 (10.25 pence) (2009: S\$0.20).

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 2010 and 2009:

	2010	2009
Dividend yield	7.24%	-
Expected volatility	65%	-
Risk-free interest rate	1.25% per annum	-
Expected life of warrant	1 year	-
Weighted average share price	<u>10.25 pence</u>	<u>-</u>

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.

25. 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:

	Group		Company	
	2010	2009	2010	2009
	\$	\$	\$	\$
<i>Transactions with related parties</i>				
Interest income	5,190	22,000	–	–
Bank guarantee income	362,908	369,546	–	–
Aircraft lease rental	22,043,933	13,834,160	–	–
Management fee expense	663,325	530,501	600,000	418,833
Purchases of goods and services	<u>2,559,823</u>	<u>248,784</u>	<u>–</u>	<u>–</u>
<i>Transactions with subsidiaries</i>				
Dividend income	–	–	2,360,000	350,000
Interest income	–	–	2,254,016	2,369,676
Management fee income	<u>–</u>	<u>–</u>	<u>980,332</u>	<u>980,000</u>

For remuneration information in relation to directors and key management personnel, please refer to Note 24.

26. Operating lease commitments – as lessee**(a) In respect of operating lease for office premises**

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

	Group		Company	
	2010	2009	2010	2009
	\$	\$	\$	\$
Less than one year	57,038	76,050	–	–
Between two to five years	<u>–</u>	<u>57,038</u>	<u>–</u>	<u>–</u>
	<u>57,038</u>	<u>133,088</u>	<u>–</u>	<u>–</u>

At the end of the reporting period, the remaining lease term is 1 year (2009: 2 years), out of the original lease term of 2 years.

26. Operating lease commitments – as lessee (cont'd)

(b) In respect of operating leases for aircraft

The Group has 9 (2009: 8) aircraft under operating leases. At the end of the reporting period, the remaining lease terms are 2 to 4 years. The original lease terms for the aircraft are as follows:

10 years	-	2 aircraft
6 years	-	1 aircraft
5 years	-	5 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	
	2010	2009	2010	2009
	\$	\$	\$	\$
Less than one year	15,906,206	13,214,797	-	-
Between two to five years	30,858,618	40,881,105	-	-
More than five years	-	8,395,031	-	-
	<u>46,764,824</u>	<u>62,490,933</u>	<u>-</u>	<u>-</u>

27. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issued during the financial year.

Diluted earnings per share is calculated by dividing the profit for the financial year attributable to ordinary equity holders of the Company 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	
	2010	2009
	\$	\$
Profit for the year	<u>9,233,877</u>	<u>3,179,441</u>
	No. of ordinary shares	
Weighted average number of ordinary shares for basic earnings per share computation *	196,186,027	198,793,151
Effects of dilutive warrants	<u>513,975</u>	<u>6,601,475</u>
Weighted average number of ordinary shares for diluted earnings per share computation *	<u>196,700,002</u>	<u>205,394,626</u>

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

28. Dividends

	Company	
	2010	2009
	\$	\$
Declared and paid during the financial year		
<i>Dividends on ordinary shares</i>		
- Final exempt (one-tier) dividend for 2009: \$0.010 (2008: \$0.007) per share	1,920,075	1,389,060
- Interim exempt (one-tier) dividend for 2010: \$0.005 (2009: nil) per share	<u>975,216</u>	<u>—</u>
	<u>2,895,291</u>	<u>1,389,060</u>
Proposed but not recognised as a liability as at 30 June		
<i>Dividends on ordinary shares, subject to shareholders' approval at the Annual General Meeting</i>		
- Final exempt (one-tier) dividend for 2010: \$0.011 (2009: \$0.010) per share	<u>2,195,600</u>	<u>1,945,000</u>

29. Contingent liability

The Group has agreed to extend a guarantee of US\$2,000,000 to a related company, for the related company to obtain a US\$2,000,000 loan to acquire two aircraft for its operations.

30. Fair value of financial instruments

Determination of fair value

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.

Fair value of financial instruments that are carried at fair value

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)

The Group's held for trading quoted equity shares are classified as Level 1 of the fair value hierarchy.

Determination of fair value

Quoted 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.

Fair value of financial instruments by classes that are not carried at fair value and whose carrying amounts are 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, and borrowings are reasonable approximations of fair values either due to their short-term nature, or because the interest rate charged closely approximates market interest rates, or that the financial instruments have been discounted to their fair value at a current pre-tax interest rate.

30. Fair value of financial instruments (cont'd)*Fair values versus carrying amounts*

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statements of financial position are as follows:

Group	2010		2009	
	Carrying amount \$	Fair value \$	Carrying amount \$	Fair value \$
Trade and other receivables	26,488,299	26,488,299	20,708,388	20,708,388
Cash and cash equivalents	12,940,709	12,940,709	9,179,876	9,179,876
Borrowings	(7,262,534)	(7,262,534)	(3,155,756)	(3,155,756)
Trade and other payables	(32,914,694)	(32,914,694)	(17,688,592)	(17,688,592)
	<u>(748,220)</u>	<u>(748,220)</u>	<u>9,043,916</u>	<u>9,043,916</u>
Company				
Other receivables	33,287,070	33,287,070	31,629,611	31,629,611
Cash and cash equivalents	1,350,771	1,350,771	565,575	565,575
Other payables	(39,163)	(39,163)	(98,482)	(98,482)
	<u>34,598,678</u>	<u>34,598,678</u>	<u>32,096,704</u>	<u>32,096,704</u>

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 analyze 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.

It is, and has been throughout the financial year under review, the Group and Company's policy that no trading in derivative financial instruments shall be undertaken. The Group and the Company do not apply hedge accounting.

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.

Skywest Airlines Ltd. and Subsidiaries

Notes to the Financial Statements - 30 June 2010

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

(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, trade and other payables, and borrowings that are denominated in foreign currencies; and also hold cash and cash equivalents denominated in foreign currencies for working capital purposes

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

Group	Australian Dollars \$	United States Dollars \$	Sterling Pounds \$	Euro \$	Canadian Dollars \$	New Zealand Dollars \$	Singapore Dollars \$	Total \$
2010								
Financial assets								
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
Financial liabilities								
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)

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

(i) Foreign currency risk (cont'd)

Group	Australian Dollars \$	United States Dollars \$	Sterling Pounds \$	Euro \$	Canadian Dollars \$	New Zealand Dollars \$	Singapore Dollars \$	Total \$
2009								
Financial assets								
Trade and other receivables	19,984,040	-	561,000	-	-	-	163,348	20,708,388
Other investments	150,473	-	28,350	-	30,681	-	18,396	227,900
Cash and cash equivalents	8,624,857	30,152	493	-	-	-	524,374	9,179,876
	28,759,370	30,152	589,843	-	30,681	-	706,118	30,116,164
Financial liabilities								
Borrowings	1,675,631	1,480,125	-	-	-	-	-	3,155,756
Trade and other payables	13,153,541	3,729,386	35,917	601,685	-	90,931	77,132	17,688,592
	14,829,172	5,209,511	35,917	601,685	-	90,931	77,132	20,844,348
Net financial assets/(liabilities)	13,930,198	(5,179,359)	553,926	(601,685)	30,681	(90,931)	628,986	9,271,816

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 \$
2010					
Financial assets					
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
Financial liabilities					
Other payables	–	–	960	38,203	39,163
Net financial assets	218,322	553,474	550,626	33,276,256	34,598,678
2009					
Financial assets					
Other receivables	–	–	–	31,629,611	31,629,611
Cash and cash equivalents	301,270	30,152	493	233,660	565,575
	301,270	30,152	493	31,863,271	32,195,186
Financial liabilities					
Other payables	–	–	–	98,482	98,482
Net financial assets	301,270	30,152	493	31,764,789	32,096,704

31. Financial risk management objectives and policies (cont'd)**(i) Foreign currency risk (cont'd)***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	
		2010	2009
		\$	\$
AUD	- strengthened 10% (2009: 10%)	+ 1,246,00	+ 1,392,000
	- weakened 10% (2009: 10%)	- 1,246,000	- 1,392,000
EUR	- strengthened 10% (2009: 10%)	- 64,000	- 60,000
	- weakened 10% (2009: 10%)	+ 64,000	+ 60,000
GBP	- strengthened 10% (2009: 10%)	+ 88,000	+ 55,000
	- weakened 10% (2009: 10%)	- 88,000	- 55,000
USD	- strengthened 10% (2009: 10%)	- 1,308,000	- 518,000
	- weakened 10% (2009: 10%)	+ 1,308,000	+ 518,000

(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 investments in quoted equity shares. These shares are mainly quoted on the Australian Stock Exchange (ASX) in Australia and are classified as held for trading financial assets.

Sensitivity analysis for equity price risk

At the end of the reporting period, if shares on the ASX had performed 2% (2009: 2%) better/worse with all other variables held constant, the Group's profit before tax would have been \$7,000 (2009: \$3,000) higher/lower, arising as a result of higher/lower fair value gains on held for trading investments in equity shares.

(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.

31. Financial risk management objectives and policies (cont'd)**(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	2010		2009	
	\$	%	\$	%
By country				
Australia	<u>17,598,018</u>	<u>100%</u>	<u>15,795,147</u>	<u>100%</u>
By industry				
Airline operator	<u>17,598,018</u>	<u>100%</u>	<u>15,795,147</u>	<u>100%</u>

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.

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) and Note 15 (Other investments).

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

(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% (2009: 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 40% (2009: 32%) of the Group's borrowings (Note 18) will mature in less than one year based on the carrying amount reflected in the financial statements. The Company does not have any borrowings as at 30 June 2010 and 2009.

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.

Group 2010	Less than one year \$	One to five years \$	Total \$
<i>Financial assets:</i>			
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
<i>Financial liabilities:</i>			
Trade and other payables	32,774,824	139,870	32,914,694
Borrowings	2,930,993	4,331,541	7,262,534
Total undiscounted financial liabilities	35,705,817	4,471,411	40,177,228
Total net undiscounted financial assets/(liabilities)	1,232,384	(1,523,940)	(291,556)

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

(v) Liquidity risk (cont'd)

Group 2009	Less than one year \$	One to five years \$	Total \$
Financial assets:			
Trade and other receivables	20,708,388	–	20,708,388
Other investments	227,900	–	227,900
Cash and cash equivalents	9,179,876	–	9,179,876
Total undiscounted financial assets	30,116,164	–	30,116,164
Financial liabilities:			
Trade and other payables	17,688,592	–	17,688,592
Borrowings	1,011,741	2,144,015	3,155,756
Total undiscounted financial liabilities	18,700,333	2,144,015	20,844,348
Total net undiscounted financial assets/(liabilities)	11,415,831	(2,144,015)	9,271,816

Company	2010 Less than one year \$	2009 Less than one year \$
Financial assets:		
Trade and other receivables	33,287,070	31,629,611
Cash and cash equivalents	1,350,771	565,575
Total undiscounted financial assets	34,637,841	32,195,186
Financial liabilities:		
Trade and other payables	39,163	98,482
Total undiscounted financial liabilities	39,163	98,482
Total net undiscounted financial assets	34,598,678	32,096,704

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 2010 and 30 June 2009.

The Group monitors capital based on gearing ratio. The target for the Group's gearing ratio is between 25% to 35%. The gearing ratio is calculated as net debt divided by total equity and net debt.

	Group	
	2010	2009
	\$	\$
Borrowings (Note 18)	7,262,534	3,155,756
Trade and other payables (Note 19)	32,914,694	17,688,592
Less: Cash and cash equivalents (Note 16)	<u>(12,940,709)</u>	<u>(9,179,876)</u>
Net debt	<u>27,236,519</u>	<u>11,664,472</u>
Total equity	<u>59,493,498</u>	<u>50,805,776</u>
Total equity and net debt	<u>86,730,017</u>	<u>62,470,248</u>
Gearing ratio	<u>31.40%</u>	<u>18.67%</u>

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 Board reviews revenue from regular passenger transport and charter and freight sales separately as follows:

	Group	
	2010	2009
	\$	\$
Regular passenger transport	95,259,175	83,989,597
Charter and freight sales	119,945,461	97,326,048
Total revenue	<u>215,204,636</u>	<u>181,315,645</u>

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	
	2010	2009
	\$	\$
Australia	<u>215,204,636</u>	<u>181,315,645</u>

The analysis of the geographical location of property, plant and equipment are as follows:

Australia	58,197,667	44,638,841
Singapore	38,187	56,805
Total property plant and equipment	<u>58,235,854</u>	<u>44,695,646</u>

34. Subsequent events

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

- (a) A subsidiary, Skywest Airlines (Australia) Pty Ltd has committed to lease additional Hangar Space from Hawker Pacific Pty Ltd in line with increasing operational requirements. At the date of this report, the subsidiary has begun the process of moving into the new Hangar Space.
- (b) A subsidiary, Skywest Airlines (Australia) Pty Ltd has entered into a memorandum of understanding with Virgin Blue Group of Airlines over a reciprocal codeshare arrangement. This agreement means that Virgin Blue customers will have access to an expanded network in Western Australia to include destinations such as Albany, Esperance, Geraldton, Exmouth Carnavon, Monkey Mia and Kalbarri.
- (c) The Board of Skywest Airlines (Australia) Pty Ltd accepted an offer of facilities for AUD\$6.68 million from Bankwest (Bank of Western Australia) to provide additional working capital to fund the entity's growing working capital requirements.
- (d) The directors of the Company have resolved to recommend a dividend of \$0.011 per share, subject to shareholders' approval at the Company's Annual General Meeting.

35. Comparative figures

The financial statements for the year ended 30 June 2009 were audited by another firm. Certain comparative figures have been reclassified to conform with the current period's presentation.

36. Authorisation of financial statements for issue

The financial statements for the year ended 30 June 2010 were authorised for issue in accordance with a resolution of the directors on 28 September 2010.