

Company Registration No. 199708548K

**Skywest Airlines Ltd. and its Subsidiaries**

Annual Financial Statements  
30 June 2011

## **Skywest Airlines Ltd. and Subsidiaries**

### **General Information**

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#### **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 (resigned on 25.8.2011)

#### **Registered Office**

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

#### **Bankers**

DBS Bank Ltd  
Citibank NA  
Bank of Western Australia Ltd

#### **Auditors**

Ernst & Young LLP

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## Skywest Airlines Ltd. and its Subsidiaries

### Directors' Report

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

#### Directors of the Company

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

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

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

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

#### Directors' interests in shares and debentures

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

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

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

## Skywest Airlines Ltd. and its Subsidiaries

### Directors' Report

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

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

### Directors' contractual benefits

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

### Share options

The Warrant Share Option scheme (the "Scheme") was authorised by the members of the Company on 15 May 2006 and is administered 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
<b>Number of shares covered by the options</b>						
18/11/2009	3,040,000	–	(440,000)	2,600,000	10.25pence	17/11/2011
27/11/2010	2,700,000	–	–	2,700,000	23.50pence	26/11/2012
	<u>5,740,000</u>	<u>–</u>	<u>(440,000)</u>	<u>5,300,000</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 its Subsidiaries

### Directors' Report

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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 2011		Year ended 30 June 2010	
	Fees and salaries	Benefits	Fees and salaries	Benefits
	\$	\$	\$	\$
<u>Fees, salaries and benefits</u>				
<b>Executive</b>				
Robert Jeffries Chatfield	408,280	573,290	307,968	453,392
<b>Non-executive</b>				
Seah Kian Peng	60,000	29,334	25,000	12,368
John Leonard Jost	60,000	58,667	25,000	24,736
Ronald Lewis Aitkenhead	60,000	14,667	25,000	6,184
	<u>588,280</u>	<u>675,958</u>	<u>382,968</u>	<u>496,680</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>	7	1*	4*	—
<b>Number of Meetings Attended</b>				
Robert Jeffries Chatfield	7	—	—	—
Seah Kian Peng	4	—	—	—
John Leonard Jost	7	*	*	—
Ronald Lewis Aitkenhead	7	*	*	—
	<u>7</u>	<u>—</u>	<u>—</u>	<u>—</u>

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

Skywest Airlines Ltd. and its Subsidiaries

Directors' Report

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**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  
26 September 2011

**Skywest Airlines Ltd. and its Subsidiaries**

**Statement by Directors**

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

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

On behalf of the board of Directors,

  
Robert Jeffries Chatfield  
Director

  
Ronald Lewis Aitkenhead  
Director

Singapore  
26 September 2011

**Skywest Airlines Ltd. and its Subsidiaries**

**Independent Auditors' Report  
For the financial year ended 30 June 2011**

**To the Members of Skywest Airlines Ltd.**

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**Report on the consolidated financial statements**

We have audited the accompanying consolidated financial statements of Skywest Airlines Ltd. (the "Company") and its subsidiaries (collectively, the "Group") set out on pages 8 to 75, which comprise the statements of financial position of the Group and the Company as at 30 June 2011, the statements of changes in equity of the Group and the Company, the statement of comprehensive income and statement of cash flows of the Group for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

***Auditors' responsibility***

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

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

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

**Skywest Airlines Ltd. and its Subsidiaries**

**Independent Auditors' Report  
For the financial year ended 30 June 2011**

**To the Members of Skywest Airlines Ltd.**

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***Opinion***

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

**Report on Other Legal and Regulatory Requirements**

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



Ernst & Young LLP

Public Accountants and  
Certified Public Accountants  
Singapore

26 September 2011

**Skywest Airlines Ltd. and its Subsidiaries**

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

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

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

Skywest Airlines Ltd. and its Subsidiaries

Statements of Financial Position as at 30 June 2011

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

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

Skywest Airlines Ltd. and its Subsidiaries

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

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

Skywest Airlines Ltd. and its Subsidiaries

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

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

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

**Skywest Airlines Ltd. and its Subsidiaries**

**Consolidated Statement of Cash Flows for the financial year ended 30 June 2011**

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

**Skywest Airlines Ltd. and its Subsidiaries****Consolidated Statement of Cash Flows for the financial year ended 30 June 2011**

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

*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 International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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

**2.2 *Changes in accounting policy and disclosures***

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

**2.3 *Standards issued but not yet effective***

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

*IAS 24 Related Party Disclosures (Amendment)*

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

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

*IFRS 9 Financial Instruments: Classification and Measurement*

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

*IAS 1 Presentation of Financial Statements (Amendment)*

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

*IAS 19 Employee Benefits (Amendment)*

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

*IFRS 10 Consolidated Financial Statements*

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

*IFRS 13 Fair value measurement*

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

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

*Improvements to IFRSs (issued in May 2010)*

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

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

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

2.4 **Basis of consolidation**

The consolidated financial statements comprise the financial statements of Skywest Airlines Ltd and its subsidiaries as at 30 June 2011.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

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

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

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

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

2.5 ***Business combinations***

Business combinations from 1 July 2009

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

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

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

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

Business combinations prior to 1 July 2009

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

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

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

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

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

2.6 *Foreign currency*

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

(a) *Transactions and balances*

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

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

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

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

(b) *Group companies*

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

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

2.7 *Property, plant and equipment*

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

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

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

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

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

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

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

**2.8 *Intangible assets***

**(a) *Goodwill***

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

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

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

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

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

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

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

2.9 **Subsidiaries**

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

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

2.10 **Impairment of non-financial assets**

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

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

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

2.10 *Impairment of non-financial assets (cont'd)*

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

2.11 *Financial assets*

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

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

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

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

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

*Financial assets at fair value through profit or loss*

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

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

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

2.11 **Financial assets (cont'd)**

Loans and receivables

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

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

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

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

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

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

2.12 **Impairment of financial assets**

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

**2.12 *Impairment of financial assets (cont'd)***

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

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

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

**2.13 *Cash and cash equivalents***

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

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

**2.14 *Inventories***

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

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

**2.15 Provisions**

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

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

**2.16 Financial liabilities**

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

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

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

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

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

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

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

2.17 *Derivative financial instruments and hedging*

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

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

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

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

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

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

*Fair value hedges*

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

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

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

*Cash flow hedges*

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

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

2.18 ***Borrowing costs***

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

2.19 ***Employee benefits***

(a) *Defined contribution plans*

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

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

(b) *Employee leave entitlement*

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

2.19 *Employee benefits (cont'd)*

(c) *Short-term employee benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

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

(d) *Long-term employee benefits*

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

(e) *Warrant Share Option scheme*

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

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

**2.20 Leases – as lessee**

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

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

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

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

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

**2.21 Revenue**

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

*(a) Passenger, charter and freight revenue*

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

**2.21 Revenue (cont'd)**

*(b) Interest income*

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

*(c) Dividend income*

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

*(d) Sale of other investments*

Profit on sales of investments is recognised on trade date.

**2.22 Income taxes**

*(a) Current tax*

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

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

*(b) Deferred tax*

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

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

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

**2.22 Income taxes (cont'd)**

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

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

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

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

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

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

**(c) Sales tax**

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

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

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

**2.23 Segment reporting**

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

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

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

**2.24 Share capital and share issuance expenses**

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

**2.25 Contingencies**

A contingent liability is:

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

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

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

**2.26 Related parties**

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

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

**3. Significant accounting estimates and judgements**

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

**3.1 Judgements made in applying accounting policies**

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

*Income taxes*

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

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

3.2 *Key sources of estimation uncertainty*

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

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

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

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

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

(b) *Impairment of non-financial assets*

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

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

(c) *Share-based payment transactions*

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

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

(d) *Provision for aircraft handback*

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

(e) *Prepaid maintenance assets*

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

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

(f) *Derivative financial instruments*

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

(g) *Impairment of loans and receivables*

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

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

(h) *Fair value of other investments*

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

**Skywest Airlines Ltd. and its Subsidiaries****Notes to the Financial Statements - 30 June 2011**

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**4. Revenue**

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

**5. Other income**

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

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

**6. Finance costs**

	<b>Group</b>	
	<b>2011</b>	<b>2010</b>
	\$	\$
Interest expense on bank loans	<u>746,632</u>	<u>886,310</u>

**7. Profit before tax**

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

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

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

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

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

## 8. Income tax expense (cont'd)

	Group	
	2011	2010
	\$	\$
Deferred tax related to other comprehensive income:		
Net loss on revaluation of cash flow hedges	<u>248,260</u>	<u>—</u>
<b><i>Relationship between tax expense and accounting profit</i></b>		
The reconciliation between tax expense and the product of accounting profit multiplied by the applicable corporate tax rate for the years ended 30 June 2011 and 2010 are as follows:		
Profit before tax	<u>13,556,667</u>	<u>14,017,487</u>
Tax at the domestic rates applicable to profits in the countries where the Group operates	3,732,080	4,137,782
Adjustments:		
Income not subject to tax	(27,475)	(1,712)
Non-deductible expenses	471,519	544,688
Utilisation of deferred tax asset previously not recognised	(76,778)	(57,662)
Tax effect of qualifying income which is taxed at a concessionary rate of 10%	(186,491)	(120,253)
Overseas withholding tax expense	9,148	9,585
Effect of partial tax exemption and tax relief	(27,047)	(25,925)
(Over)/under provision in respect of previous years	(189,672)	296,430
Others	<u>2,179</u>	<u>677</u>
Income tax expense recognised in the consolidated statement of comprehensive income	<u>3,707,463</u>	<u>4,783,610</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. All the terms and conditions set by the Economic Development Board are met.

Skywest Airlines Ltd. and its Subsidiaries

Notes to the Financial Statements - 30 June 2011

9. Property, plant and equipment

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

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

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

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

Aircraft purchased by instalment plan

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

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

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

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

**10. Intangible assets**

The breakdown of intangible assets is as follows:

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

(a) **Goodwill**

Goodwill arising from business combinations	<u>17,189,507</u>	<u>17,189,507</u>
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*Impairment test of goodwill*

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

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

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

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

## 10. Intangible assets (cont'd)

(b) *Other intangible assets*

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

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

11. Subsidiaries

	Company	
	2011	2010
	\$	\$
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	
			2011	2010
<b><i>Held by the Company:</i></b>				
^ CaptiveVision Capital Ltd	Singapore	Investment holding and trading of quoted and unquoted securities	100	100
^ Skywest Airlines (S) Pte. Ltd.	Singapore	Provision of management, aircraft leasing/finance and parts procurement services to the holding company and other related companies	100	100
<b><i>Held by subsidiaries:</i></b>				
* A.C.N. 098 904 262 Pty Ltd	Australia	Investment holding	100	100
* Skywest Airlines (Australia) Pty Ltd	Australia	Airline operator	100	100
^ Audited by Ernst & Young LLP, Singapore				
* Audited by Ernst & Young, Australia				

## 12. Trade and other receivables

*Trade and other receivables - current*

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

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

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

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

*Trade receivables that are past due but not impaired*

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

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

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

*Trade receivables that are impaired*

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

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

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

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

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

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

**12. Trade and other receivables (cont'd)**<sup>(4)</sup> *Guarantee income receivable from a related party*

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

<sup>(5)</sup> *Deposits – non-current*

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

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

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

Trade and other receivables are denominated in the following currencies:

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

**13. Prepayments***Prepayments - current*

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

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

## 13. Prepayments (cont'd)

*Prepayments – non-current*

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

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

## 14. Inventories

	Group	
	2011	2010
	\$	\$
Consumable spare parts	5,054,950	4,365,908
Consumable spare parts subject to retention of title clauses	<u>73,976</u>	<u>76,049</u>
	<u>5,128,926</u>	<u>4,441,957</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
Write-back during the year	–	(404,892)
Translation adjustment	–	23,028
	<u>–</u>	<u>–</u>
Balance at end of year	<u>–</u>	<u>–</u>

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

## 15. Other investments

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

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

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

Other investments are denominated in the following currencies:

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

## 16. Cash and cash equivalents

Cash and cash equivalents are denominated in the following currencies:

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

## 17. Provisions

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

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

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

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

## 18. Borrowings

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

***Secured loan I***

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

***Secured loan II***

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

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

***Secured loan III***

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

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

Borrowings are denominated in the following currencies:

United States Dollars	3,905,286	6,004,588
Australian Dollars	–	1,257,946
	<u>3,905,286</u>	<u>7,262,534</u>

**19. Trade and other payables***Trade and other payables - current*

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

*Trade and other payables – non-current*

Instalment payments due to a supplier	–	139,870	–	–
	<u>–</u>	<u>139,870</u>	<u>–</u>	<u>–</u>

Trade and other payables are non-interest bearing. Trade payables are normally settled on 60-day terms. Accrued operating expenses mainly relate to fuel costs and leasing costs for aircraft.

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

Trade and other payables are denominated in the following currencies:

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

**20. Revenue received in advance**

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

**21. Finance lease liability**

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

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

**22. Deferred tax liabilities**

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

**22. Deferred tax liabilities (cont'd)**

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

**23. Share capital and treasury shares****(a) Share capital**

	<b>Group and Company</b>			
	<b>2011</b>		<b>2010</b>	
	No. of shares	\$	No. of shares	\$
Issued and fully paid:				
At 1 July	199,600,000	43,809,091	195,500,000	42,989,091
Issue of shares under warrant scheme	<u>440,000</u>	<u>118,800</u>	<u>4,100,000</u>	<u>820,000</u>
At 30 June	<u><u>200,040,000</u></u>	<u><u>43,927,891</u></u>	<u><u>199,600,000</u></u>	<u><u>43,809,091</u></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 issued 440,000 (2010: 4,100,000) of its shares under the Warrant Share Option Scheme at 10.25pence (2010:\$0.20) per share during the financial year, which were fully vested on issue.

**(b) Treasury shares**

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

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

**24. Reserves****(a) Capital reserve**

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

**(b) Warrant reserve**

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

**(c) Foreign currency translation reserve**

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

**(d) Cash flow hedge reserve**

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

**25. Employee benefits**

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

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

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

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

**Warrant expense**

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

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

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

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

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

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

*Fair value of warrants granted*

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

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

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

**26. Related party transactions**

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

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

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

**26. Related party transactions (cont'd)**

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

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

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

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

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

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

**27. Operating lease commitments – as lessee****(a) In respect of operating lease for office 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	
	2011	2010	2011	2010
	\$	\$	\$	\$
Less than one year	87,750	57,038	–	–
Between two to five years	65,813	–	–	–
	<u>153,563</u>	<u>57,038</u>	<u>–</u>	<u>–</u>

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

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

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

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

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

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

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

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

**28. Earnings per share**

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

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

**28. Earnings per share (cont'd)**

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:

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

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

**29. Dividends**

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

## 30. Fair value of financial instruments

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

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

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

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

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

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

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

*Fair value hierarchy*

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

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

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

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

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

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

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

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

*Classification of financial instruments*

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

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

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

Group	Financial assets at fair value through profit or loss \$	Loans and receivables \$	Financial liabilities carried at amortised cost \$	Non-financial assets/liabilities \$	Total \$
<b>30 June 2010</b>					
<b>Assets</b>					
Property, plant and equipment	–	–	–	58,235,854	58,235,854
Intangible assets	–	–	–	17,201,255	17,201,255
Trade and other receivables	–	26,488,299	–	–	26,488,299
Prepayments	–	–	–	9,112,343	9,112,343
Inventories	–	–	–	4,441,957	4,441,957
Other investments	456,664	–	–	–	456,664
Cash and cash equivalents	–	12,940,709	–	–	12,940,709
	456,664	39,429,008	–	88,991,409	128,877,081
<b>Liabilities</b>					
Provisions	–	–	–	5,863,503	5,863,503
Income tax payable	–	–	–	1,952,190	1,952,190
Deferred tax liabilities	–	–	–	9,298,998	9,298,998
Borrowings	–	–	7,262,534	–	7,262,534
Trade and other payables	–	–	32,914,694	–	32,914,694
Revenue received in advance	–	–	–	12,091,664	12,091,664
	–	–	40,177,228	29,206,355	69,383,583

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

Company	Loans and receivables \$	Financial liabilities carried at amortised cost \$	Non- financial assets/ liabilities \$	Total \$
<b>30 June 2011</b>				
<b>Assets</b>				
Property, plant and equipment	–	–	18,039	18,039
Subsidiaries	–	–	13,054,801	13,054,801
Trade and other receivables	33,832,401	–	–	33,832,401
Prepayments	–	–	50,943	50,943
Cash and cash equivalents	2,357,193	–	–	2,357,193
	<u>36,189,594</u>	<u>–</u>	<u>13,123,783</u>	<u>49,313,377</u>
<b>Liabilities</b>				
Income tax payable	–	–	746,471	746,471
Trade and other payables	–	118,707	–	118,707
	<u>–</u>	<u>118,707</u>	<u>746,471</u>	<u>865,178</u>
<b>30 June 2010</b>				
<b>Assets</b>				
Property, plant and equipment	–	–	33,456	33,456
Subsidiaries	–	–	13,054,801	13,054,801
Trade and other receivables	33,287,070	–	–	33,287,070
Prepayments	–	–	15,643	15,643
Cash and cash equivalents	1,350,771	–	–	1,350,771
	<u>34,637,841</u>	<u>–</u>	<u>13,103,900</u>	<u>47,741,741</u>
<b>Liabilities</b>				
Income tax payable	–	–	649,802	649,802
Trade and other payables	–	39,163	–	39,163
	<u>–</u>	<u>39,163</u>	<u>649,802</u>	<u>688,965</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 analyse the risks faced by the Group and Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group and Company's activities. Through training and management standards and procedures, the Group and Company aims to develop a discipline and constructive control environment in which all employees understand their roles and obligations.

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

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

Skywest Airlines Ltd. and its Subsidiaries

Notes to the Financial Statements - 30 June 2011

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

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

Skywest Airlines Ltd. and its Subsidiaries

Notes to the Financial Statements - 30 June 2011

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

(i) Foreign currency risk (cont'd)

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

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

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

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

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

**(ii) Market price risk**

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

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

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

\* Amount less than \$1,000.

**31. Financial risk management objectives and policies (cont'd)****(iii) Interest rate risk**

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

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

**(iv) Credit risk**

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

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

*Exposure to credit risk*

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

*Credit risk concentration profile*

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

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

**31. Financial risk management objectives and policies (cont'd)****(iv) Credit risk (cont'd)***Financial assets that are either past due or impaired*

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

**(v) Liquidity risk**

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

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

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

*Analysis of financial instruments by remaining contractual maturities*

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

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

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

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

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

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

**32. Capital management**

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes during the years ended 30 June 2011 and 30 June 2010.

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

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

	<b>Group</b>	
	<b>2011</b>	<b>2010</b>
	\$	\$
Australia	<u>239,910,036</u>	<u>215,204,636</u>

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

Australia	62,745,893	58,197,667
Singapore	<u>36,534</u>	<u>38,187</u>
Total property, plant and equipment	<u>62,782,427</u>	<u>58,235,854</u>

**34. Subsequent events**

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

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

**35. Authorisation of financial statements for issue**

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