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Skywest

# Annual Report 2012



WINNER: INTERNATIONAL COMPANY OF THE YEAR 2011



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*West Beach, near Esperance - Tourism Western Australia*

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Skywest aircraft at Cloudbreak (Fortescue David Forrest Airstrip)

## Chairman's Statement 2011 – 2012 Financial Year



Dear Fellow Shareholders,

On behalf of your Board of Directors, I present our consolidated financial results for Skywest Airlines Ltd and its subsidiaries for the year ended 30 June 2012 (the "Current Period").

### Fiscal Year 2012 Results

The Company announces that the Group revenue for the Current Period has increased by 26% to S\$303m (2011: S\$240m) with earnings before interest, taxation, depreciation, amortization and aircraft rentals (EBITDAR) increasing by 27% to S\$66m (2011: S\$52m). Current period consolidated net profit after tax of S\$7.1m (2011: S\$9.8m) and earnings per share of S\$3.50 cents (2011: S\$4.89 cents) declined 28% compared to last year. Fuel costs remain significant and volatile. During the year fuel costs increased 22% or S\$13m to \$69m. The Company generated a return on equity of 9.5% in the Current Period.

### Fiscal Year 2012 Review

Skywest began operations under the Australian Regional Airline Network (ARAN) wet lease agreement with Virgin Australia in October 2011. The

establishment of the ARAN required management to invest significant time, effort and money. By March 2012, ARAN outperformed its competition for both on-time arrivals and departures and has maintained that position each month since then. By 30 June 2012, Skywest was operating six ATR-72 aircraft under the ARAN wet lease agreement and had operated more than 6,200 ARAN flights. The ARAN provides Skywest with significant growth, diversification outside of Western Australia and revenues uncorrelated with the resources sector. During the second half of the fiscal year, the Australian Competition and Consumer Commission ("ACCC") granted authorisation for a corporate alliance between Skywest and Virgin to offer bundled services. Separately, the Company received net proceeds of A\$8.3 million from an investment in the Company by Virgin Australia in the Current Period which if converted to equity, would represent an A\$11 million investment for 10% of the ordinary shares of the Company on a fully diluted basis.

Skywest's Regular Passenger Transport (RPT) business responded to competition on certain routes by reducing capacity which resulted in lower revenue and slightly lower load factors. Growth in Skywest's charter business more than offset certain declines in the RPT business. Charter grew in revenue and flight hours by 30% and 25%, respectively. Skywest also signed its first charter contracts with Bechtel / Chevron for its Wheatstone LNG project. In February 2012, new daily return trip RPT services to Derby began.

The Company strengthened its capital

structure during the fiscal year and ended the year with a significantly higher cash balance of S\$25m (2011: S\$10m) as the result of improved operating cash flow and an investment in the form of convertible debt from Virgin Australia. The Company also increased its aircraft ownership by purchasing four F100 aircraft (three of which were already being leased to Skywest) which will provide future savings on aircraft rentals. As of 30 June 2012, 14 of the 20 aircraft in the non-ARAN fleet were owned by Skywest.

Total cross-hire expenses for the fiscal year were S\$10m. Skywest treats its charter customers well and will honour its obligations to provide superior customer service to its customers. When Skywest's fleet has not expanded fast enough to meet customer requirements or aircraft have not been available due to maintenance schedules, the Company has cross-hired competitor aircraft. In the Current Period, Skywest spent approximately S\$43m on engineering and maintenance (including capital expenditures) and conducted heavy maintenance on ten aircraft. This S\$43m investment is intended to increase fleet reliability and improve on time performance.

### A Dividend Consistent with Policy

The Board recognises its responsibility to reward shareholders as the owners of the Company and is therefore recommending that shareholders receive an increased final dividend payment of 1.29 Singapore cents per share. This represents a 5% increase compared to the prior period.



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The proposed dividend represents a 38% payout ratio, which is consistent with the dividend policy announced on the 24th of March 2011 specifying a minimum payout ratio of 25%. The proposed dividend record date and payment timetable will be announced in due course, along with the Notice of the Company's forthcoming Annual General Meeting ("AGM"), which is anticipated to be held in November 2012.

### Current Trading and outlook

The ARAN business continues to expand. The eighth ATR-72 aircraft has already joined the fleet and the ATR fleet is expected to double during fiscal year 2013 to reach 12 ATR-72 aircraft by June 2013. Operationally, ARAN outperformed its competitor again in July and August in on-time departures and arrivals. The Company's charter business is focused on profitable growth. All cross-hiring stopped in June. Skywest expects to continue expanding the charter business in response to customer requests for additional contracts and ad hoc flights. However, charter contract commitments will be closely aligned with fleet availability to minimize cross-hiring. Skywest has implemented schedule changes, added a double daily service to Kalgoorlie in July and enhanced revenue management systems to optimize the RPT network.

Skywest has identified firm order positions for new ATR-72 aircraft that would allow an increase in the fleet by 23% to 32 aircraft by 30 June 2013. In addition to the ATR-72 deliveries to serve the ARAN network, the Company continues to explore opportunities to acquire more

aircraft to meet growing charter demand. The Company also entered one of its owned F100 aircraft into revenue service in September. Skywest also has an additional owned F100 that could be brought into service in due course.

### Risks

Risks faced by the Group's business remain the normal commercial risks and typical airline industry related risks. The Group appears to be facing increased competition in the RPT business and in the charter business as the overall size of the resources sector client base continue to expand. Presently, the Group is experiencing the impact of significant rapid changes in exchange rate and fuel costs. These two factors still represent a significant risk to the business. Australian domestic fuel prices, when combined with a lowering in the value of the Australian dollar, cause increased overall costs to the Airline's operations. The Group does attempt to mitigate changes in the dollar and fuel costs by way of hedging, however, rapid and massive changes can quickly impact the finances of the Group with significant consequences. The Company is undergoing a period of rapid growth, and therefore faces business execution risks associated with that growth. New risks faced by Skywest relate to its relationship with Virgin Australia through the ARAN, namely the Company's concentration of revenue and specific operating risks associated with the ATR-72 aircraft. As Virgin Australia is one of the Company's largest customers, any commercial dispute or cessation of business with Virgin Australia has more potential to impact the Company than other customer relations.

While the ATR-72 fleet is being established in Australia, there are risks of regulatory or CASA-related issues. There could be growth risk and risks surrounding the Company's on-going implementation of the burgeoning regional network, Virgin Australia's requests of Skywest to deliver beyond the scope of the ARAN and the still evolving corporate alliance between Skywest and Virgin Australia. Each of these risks, either individually or in combination, may have a material adverse effect on the Company and the Group.

I would like to take this opportunity to thank you, as the shareholders, for your continued support during this exciting period in the Company's operations and look forward to keeping you informed on the progress of the Group. In due course, the Company will publish its Annual Report and Notice for the forthcoming Annual General Meeting. Accompanying documents will also be accessible to shareholders on the Company's website.

Jeff Chatfield,

Executive Chairman,

Singapore September 2012



Fokker F100 aircraft at Perth airport - V Dorosevits

## Skywest Airlines Limited Board of Directors



### Jeff Chatfield EXECUTIVE CHAIRMAN OF THE GROUP

Mr Chatfield is chairman of three listed public companies and 26 private companies. Jeff Chatfield holds both a Masters Degree and a Bachelors Degree from the University of Western Australia from which he graduated to the top of the class. He has extensive experience managing or owning a number of successful businesses both private and publicly held. Mr Chatfield has bases of operation in Singapore and in Perth.

Relevant background summary:

- Chairman of aircraft leasing company Avation PLC (LSE: AVAP);
- Group Executive Chairman of Skywest Airlines Ltd (AIM: SKYW, ASX: SXR);
- Chairman of Capital Lease Aviation PLC (AIM: CLA);
- Graduate of the AICD Company Directors' Course (Diploma) and a member of both the Singapore and Australian Institutes of Company Directors.



### Seah Kian Peng NON EXECUTIVE DIRECTOR

Mr Seah is a successful and prominent leader in the Asian business community and also a notable public figure. Mr Seah has worked in both the public and private sectors and also serves in many public and community organisations in Singapore.

Relevant background summary:

- A Member of Parliament of the Republic of Singapore since 2006;
- Deputy Speaker of the Singapore Parliament since 2011;
- CEO of NTUC Fairprice Cooperative Limited - leading food retailer in Singapore with a group annual turnover of US\$2b;
- Chairman of the Government Parliamentary Committee for Ministry of Community Development, Youth and Sports;
- Fellow of the Singapore Chartered Institute of Marketing;
- Achieved first class honors in the Bachelor of Building degree at the University of New South;
- Completed the Advanced Management Programme at Harvard Business School.;
- Formerly a board and audit committee member of Singtel, Singapore's largest public company by market capitalisation; and
- Served as an officer at the Singapore Armed Forces during his national service days and in his reserve appointment, was the chief logistics officer at an Singapore Armed Forces Brigade.



**John Jost**  
**NON EXECUTIVE DIRECTOR**

Mr Jost is a highly successful entrepreneurial investor. John is a graduate of Melbourne University Law School and has pursued this with a broad business and broadcasting career in a variety of industries over the last four decades.

Relevant background summary:

- A director and founding investor in Skywest Airlines Ltd;
- A long-standing resources sector investor;
- Led the team that designed BRW Magazine in Australia;
- Past Chairman of Beaconsfield Gold Ltd;
- Former Chief Political Correspondent to the Age Newspaper;
- Owned a regional radio network;
- Publications and New projects manager for David Syme Ltd;
- Television presenter of the highly acclaimed 7.30 Report on ABC television; and
- Investor and director in the environmentally focussed company Econopost Ltd.



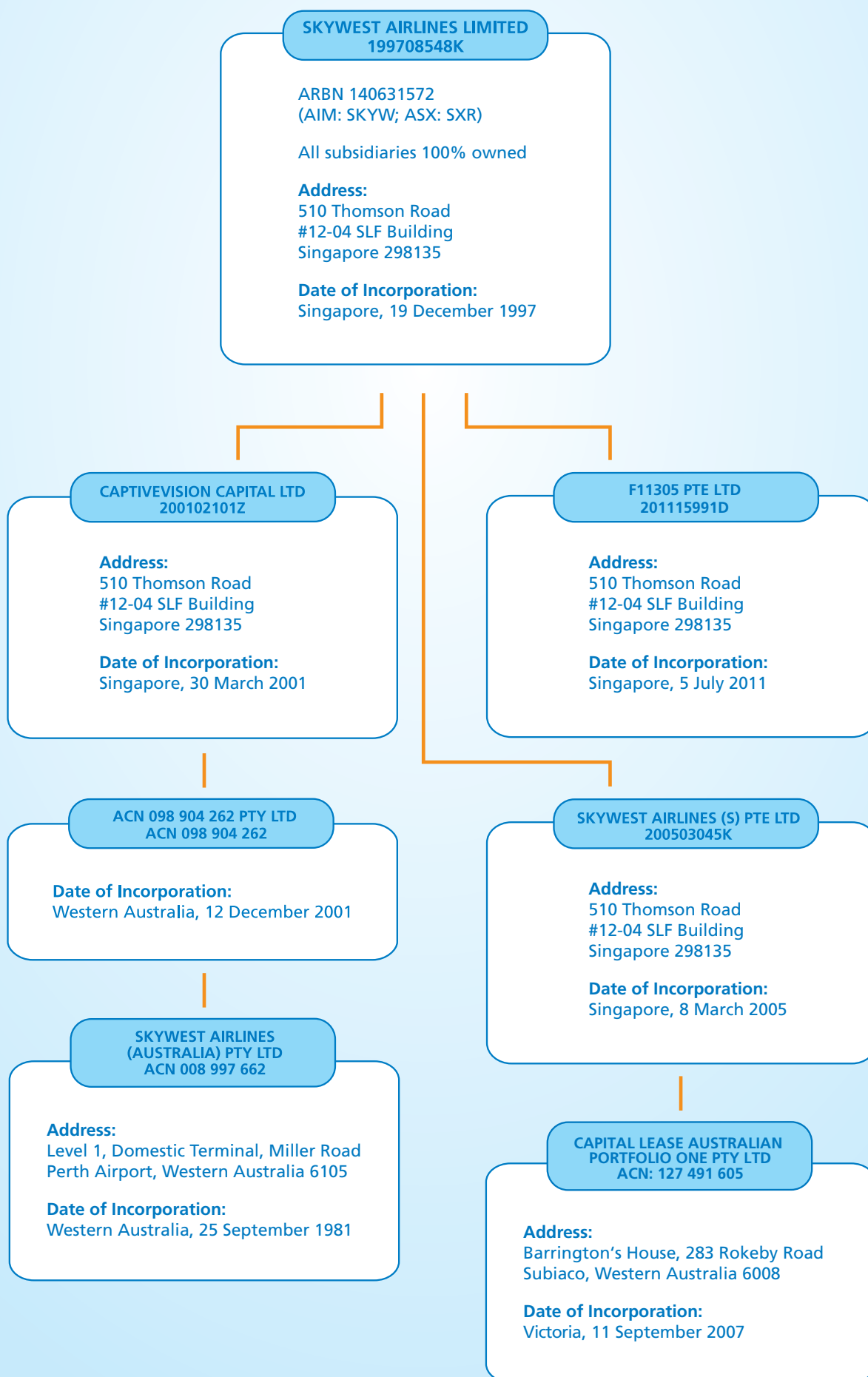
**Ron Aitkenhead (JP)**  
**NON EXECUTIVE DIRECTOR**

Mr Aitkenhead has significant private and public sector experience over many years. He has also held committee positions with several community and sporting organizations in Western Australia.

Relevant background summary:

- Past Chairman of the Port of Fremantle Western Australia;
- Past Chairman of the Board of the Central Wheatbelt of Western Australia Business Enterprise Centre;
- Membership as a Graduate and Fellow of the Australian Institute of the Company Directors (Australia).

## Group Structure



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## 2012 Highlights

- The 7<sup>th</sup> consecutive year of profits with an EBITDAR of SGD 66m and an NPAT of SGD \$7m.
- Fleet expanded to 26 aircraft, an increase of 37% from the 2011 financial year.
- 26% increase in revenues to SGD 303m - up from SGD 240m in 2011.
- Commenced Virgin Australia ARAN business, providing over 6,200 flights with six aircraft.
- A 5% increase in proposed unfranked Dividend of 1.29 (Singapore cents) per share.
- Strengthened capital structure to a cash position of SGD 25m at 30 June 2012.

The results for the Group's full financial year ended 30 June 2012, based on the unaudited Financial Statements reported pursuant to International Financial Reporting Standards "IFRS" and reported in Singapore Dollars "SGD" or "\$S" are as follows (for the convenience of international shareholders, additional columns are included to denote an equivalent value in Pounds Sterling "GBP" and Australian Dollars "AUD"):

Consolidated 12 months ended 30 June 2012	Audited In SGD	GBP Equivalent <sup>(i)</sup> In GBP	AUD Equivalent <sup>(ii)</sup> In AUD
Revenue from ordinary activities	303,316,386	151,931,178	233,401,959
EBITDAR (earnings before interest, tax, depreciation and aircraft rentals)	66,194,179	33,156,664	50,936,421
Net Profit after income tax	7,117,108	3,564,959	5,476,615
Profit attributable to shareholders	7,117,108	3,564,959	5,476,615
Basic earnings per share	3.50 cents	1.75 pence	2.69 cents
Proposed Final Dividend per share <sup>(iii)</sup>	1.29 cents	IV.	IV.
Dividend Payout Ratio	38%	N.A.	N.A.

- I. In this table, the applicable exchange rate between SGD and GBP was taken to be the average exchange rate of 1: 0.5009 which was used in the presentation of the accounts.
- II. In this table, the applicable exchange rate between SGD and AUD was taken to be the average exchange rate of 1: 0.7695 which was used in the presentation of the accounts.
- III. The timetable and exchange rate for the payment of the proposed final dividend will be announced when, and if payment of the dividend is approved by shareholders.
- IV. The proposed dividend payout to investors in GBP and AUD will be calculated at the time of the upcoming 2012 AGM.

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*Fokker F50 aircraft at Carnarvon airport - V Dorosevits*



## Corporate Governance Statement

### Statement on Corporate Governance at Skywest

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

### ASX Principles of Corporate Governance

Skywest must comply with the laws of Singapore, the Corporations Act 2001 (C'th) ("**Corporations Act**"), the Australian Securities Exchange ("**ASX**") Listing Rules ("**ASX Listing Rules**"), other Australian securities laws, the AIM Rules for Companies as published by the London Stock Exchange (the "**AIM Rules**"), other UK securities laws and any other required listing rules.

ASX Listing Rule 4.10.3 requires ASX listed companies to report on the extent to which they have followed the Principles of Good Corporate Governance and Best Practice Recommendations published by the ASX Corporate Governance Council in August 2007 (as amended 30 June 2010) ("**ASX Principles**"). The ASX Principles require the Board to consider the development and adoption of appropriate corporate governance policies and practices founded on the ASX Principles.

### Compliance with ASX Principles

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

### Board Functions

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

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

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

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

- Audit
- Nomination
- Remuneration

The roles and responsibilities of these committees are discussed throughout this corporate governance statement. Skywest

also maintains a Corporate Governance page on its website for the purposes of AIM Rule 26, which is available at [www.skywest.com.sg/aim26.html](http://www.skywest.com.sg/aim26.html) ("**Aim Rule 26 Website**").

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

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

Other functions reserved to the board include:

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

ASX CGC 1.1; 1.2; 2.3

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### Structure of the Board

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

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

Name	Years in Office
Robert Jeffries Chatfield	14 years
Seah Kian Peng	12 years
John Leonard Jost	8 years
Ronald Lewis Aitkenhead	5 years

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

The following directors of Skywest are considered to be independent:

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

(ASX CGC 2.1)

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

experience of its operations and business relationships. ASX CGC 2.3

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

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

### Board Performance

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

ASX CGC 2.5

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

The board did not undertake a formal self-assessment or review of its performance or the performance of its sub-committees and directors during the reporting period. However, by virtue of its regular meetings and high attendance ratio, the board consistently monitored the sub-committees and directors’ performance and activities throughout the reporting period. The board intends to undertake these formal evaluations within the next 12 months.

### Trading Policy

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

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

### Nomination Committee

The board has established a nomination committee, which meets at least annually, to select candidates for the position of director, who will compliment the mix of skills and diversity held by the current members.

ASX CGC 2.4 and 2.6

The nomination committee comprises the following members:

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

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

For additional details regarding the nomination committee including its charter please refer to the AIM Rule 26 website.

### Audit Committee

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



control and ethical standards to the audit committee. *ASX CGC 4.1*

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

The members of the audit committee during the year were:

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

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

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

### Risk

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

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

The board oversees assessment of the effectiveness of risk management and internal compliance and control. The day to day tasks of undertaking and assessing

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

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

Key operational risks:

- Fluctuations in commodity prices, fuel cost, exchange rates & demand volumes.
- Political instability/sovereignty risk in some operating sites.
- The occurrence of force majeure events by significant suppliers.
- Increasing costs of operations, including labour costs.
- Changed operating, market or regulatory environments.

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

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

### Remuneration

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

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

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

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

*ASX CGC 8.1*

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

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

## ASX Principles Compliance Statement

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

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



3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.	Yes	671 Employees: 315 female, 356 male 9 Senior Managers: All male. 4 Board Members: All male with one female alternate director.
3.5	Companies should provide the information indicated in the Guide to Reporting on principle 3.	Developing	

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

4.1	The board should establish an audit committee.	Yes	ASX CGC 4.1
4.2	The audit committee should be structured so that it: <ul style="list-style-type: none"> <li>- Consists only of non-executive directors.</li> <li>- Consists of a majority of independent directors.</li> <li>- Is chaired by an independent chair, who is not chair of the board.</li> <li>- Has at least three members.</li> </ul>	Partial	The Audit committee consists of only two members, all other conditions are satisfied.
4.3	The audit committee should have a formal charter.	Yes	
4.4	Companies should provide the information indicated in the guide to reporting on Principle 4.	Developing	Charter to be included on the on the AIM Rule 26 website.

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

5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	Yes	Skywest has a communications policy published on the AIM Rule 26 website.
5.2	Companies should provide the information indicated in the guide to reporting on Principle 5.	Yes	

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

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

**Principle 7 - Recognise and manage risk**

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

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

**Principle 8 – Remunerate fairly and responsibly**

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

**ASX additional information**

Additional information required by the Australian Securities Exchange and not shown elsewhere in this report is as follows. The information is current as at 24<sup>th</sup> September 2012.

**(a) Distribution of equity securities**

*(i) Ordinary share capital*

210,640,000 fully paid ordinary shares are held by 1,188 shareholders (including those who hold CHESS or CREST depository interests). All issued ordinary shares carry one vote per share and carry the rights to dividends.

*(ii) Warrants*

14,210,000 warrants are held by 6 warrant holders. Warrants do not carry a right to vote.

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

	Number of holders of fully paid Ordinary Shares / despository interests	Number of holders of warrants
1 - 1,000	94	-
1,001 - 5,000	426	-
5,001 - 10,000	198	-
10,001 - 100,000	341	-
100,001 and over	129	6

Holding less than a marketable parcel: 133



**b) Substantial shareholders**

<b>Ordinary shareholders</b>	<b>Number</b>	<b>Percentage</b>
Citicorp Nominees Pty Limited	18,508,073	8.79%
Apollo Nominees Ltd	15,201,087	7.22%
UBS Nominees Pty Ltd	13,340,403	6.33%
Credit Suisse Securities (Europe) Limited	12,107,440	5.75%
Fitel Nominees Limited	10,921,867	5.19%

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

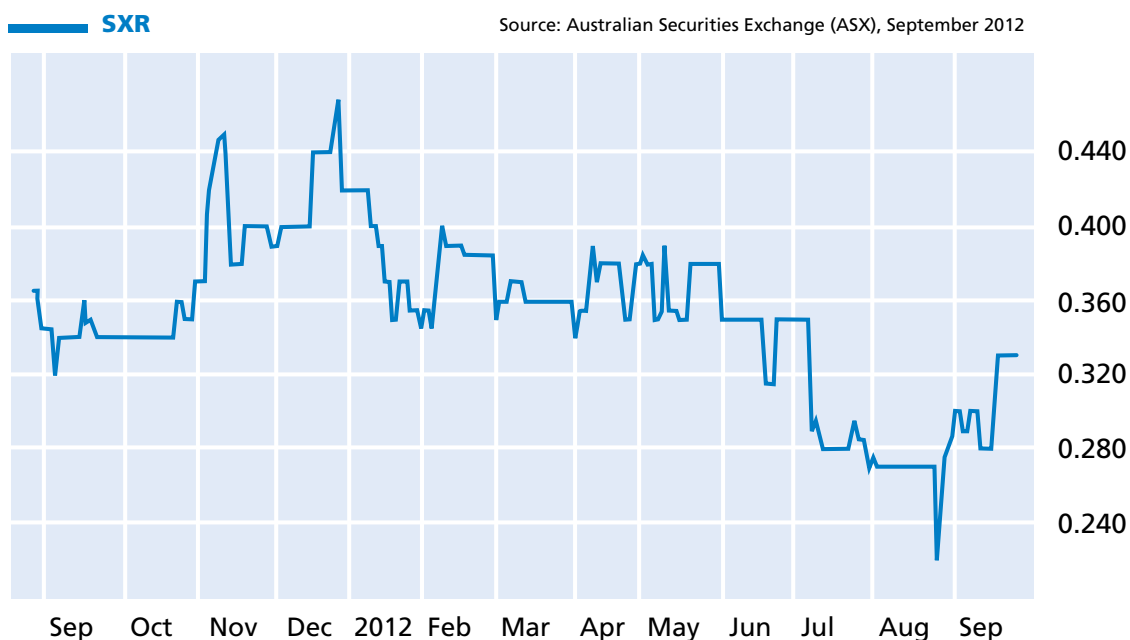
<b>Name</b>	<b>Number</b>	<b>Percentage</b>
Citicorp Nominees Pty Limited	18,508,073	8.79%
Apollo Nominees Ltd	15,201,087	7.22%
UBS Nominees Pty Ltd	13,340,403	6.33%
Credit Suisse Securities (Europe) Limited	12,107,440	5.75%
Fitel Nominees Limited	10,921,867	5.19%
Chase Nominees Limited	9,000,000	4.27%
Fitel Nominees Limited	9,000,000	4.27%
National Nominees Limited	7,025,004	3.34%
Pershing Nominees Limited	6,559,333	3.11%
UBS Wealth Management	4,700,000	2.23%
HSBC Global Custody Nominee (UK) Limited	4,270,000	2.03%
QIC LIMITED	4,215,029	2.00%
Fitel Nominees Limited	4,000,000	1.90%
Mibago (S) Pte Ltd	3,973,743	1.89%
Smith & Williamson Nominees Limited	3,632,000	1.72%
Hargreave Hale Nominees Limited	3,393,988	1.61%
Vidacos Nominees Limited	3,300,000	1.57%
The Bank Of New York (Nominees) Limited	3,190,801	1.51%
HSBC Custody Nominees	3,059,129	1.45%
Fitel Nominees Limited	3,050,000	1.45%

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

Skywest has no unquoted equity security shareholdings in issue.



## Skywest Airlines Ltd Share Price Performance (September 2011 - September 2012)



### Capital Management Program

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

### Dividends Global Payments Service

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

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

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

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

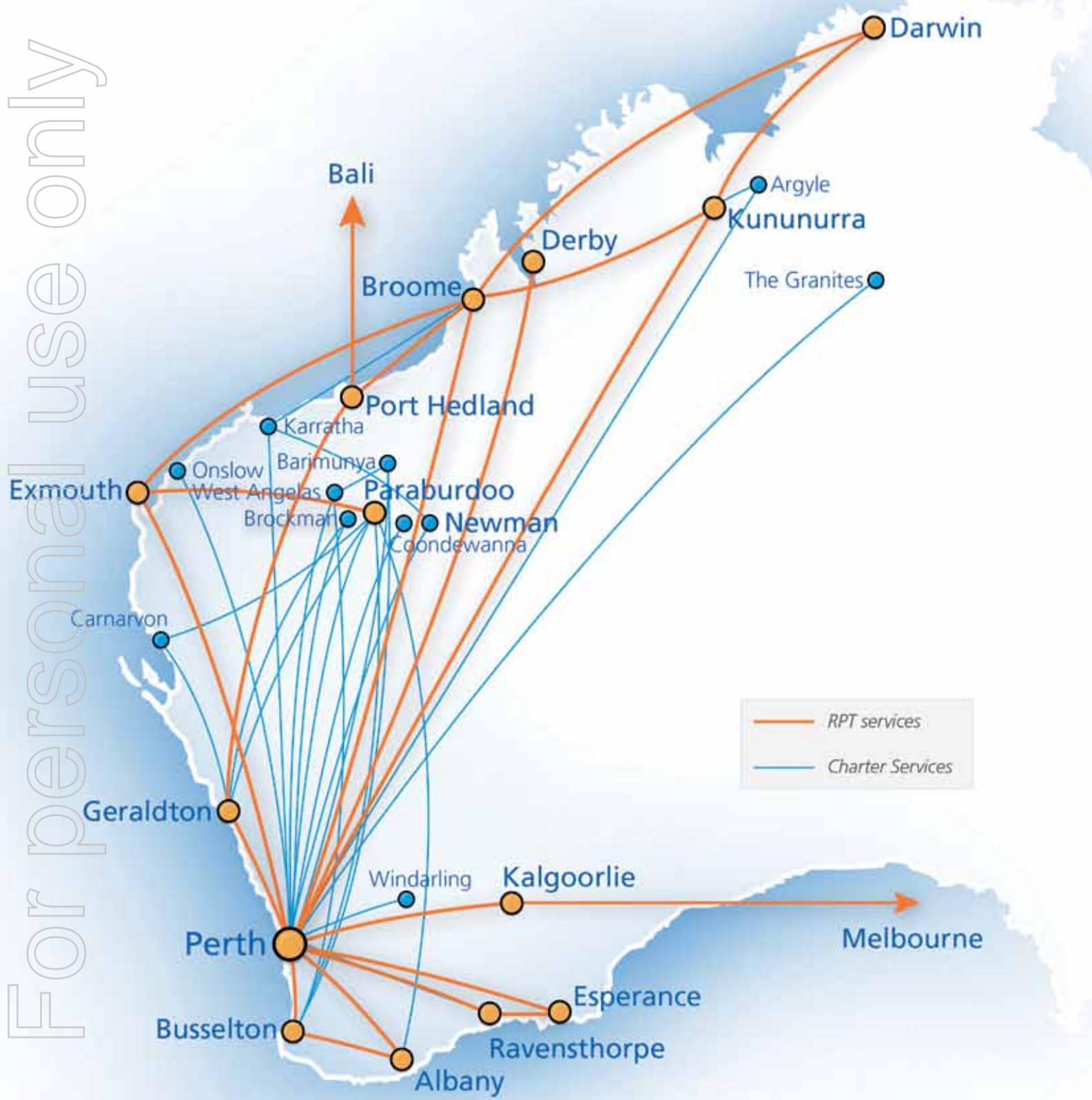
or alternatively shareholders can contact Computershare to request a paper registration form be sent to them.

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### Skywest Route Maps

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Perth CBD from Mill Point, Perth, Western Australia, JJ Harrison

## Skywest Airlines (Australia) Pty Ltd - Management Team



**Jason Bitter**  
CHIEF EXECUTIVE OFFICER

Jason is an experienced aviation professional with 15 years experience and a wide range of skills and knowledge centred on operational planning, integration and execution, cost control and team-building.

Relevant background summary:

- Wide geographic exposure;
- Experience with different airlines at different stages of their lifecycles;
- All Nippon Airways/Peach Aviation, Tokyo & Osaka Japan (start - up), responsible for aircraft procurement management and operations organisational setup; and
- CEO or COO roles at: Air Arabia (Maroc), Casablanca. SkyEurope Airlines. SpiceJet Limited, New Delhi, India. Chief Commercial Officer at V BIRD Airlines, Netherlands.



**Terry Cooper**  
CHIEF OPERATING OFFICER

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

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

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

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

Terry is also responsible for managing the ARAN with Virgin Australia Airlines.



**Brian O'Dwyer**  
GROUP CHIEF FINANCIAL OFFICER

Brian is an experienced corporate finance professional having completed over forty corporate finance transactions (including sixteen for airlines) with a total deal value of US\$15B. Educated at Duke University with an MBA in Finance and Columbia University with a Bachelor of Science in Industrial Engineering.

Relevant background summary:

- Credit Suisse Investment Banker in New York, Chicago and Singapore.
- A.T. Kearney Management Consultant, Chicago; and
- Private, commercial, instrument, multi-engine and seaplane pilot.

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

Warren has been with Skywest for 16 years and has over 10,000 hours' flying experience. Starting as a junior first officer, Warren has worked in many roles within the Airline. For almost 10 years, Warren has been heavily involved in management roles within Flight Operations from F50 Training Captain to Fleet Manager. In recent years, he progressed to Manager of Line Operations for all aircraft and 4 years ago moved into the Head of Flight Operations. The Head of Flight Operations is a regulatory accountable position.

Apart from having oversight over all regulatory compliance and ensuring all policies and procedures are followed. Warren is responsible for the management of Pilots and Cabin Crew.



**Glenn Crawford**  
**HEAD OF ENGINEERING**

Glenn holds responsibilities across the AOC and CAR 30 engineering departments managing strategic direction, and overall co-ordination of the airlines' engineering activities.

With a career that spans more than 34 years in the aviation industry and working in a wide range of roles from licenced aircraft engineer to senior management roles in engineering at several major airlines. Glenn has been instrumental in large engineering, cost-saving and change programs throughout the industry.



**Stephen Edwards**  
**HEAD OF HUMAN RESOURCES**

Stephen Edwards is Head of Human Resources. He is also responsible for training and facilities.

Stephen joined Skywest in May 2012 from private practice as a lawyer. During his legal career he was Acting President of the Western Australian Industrial Relations Commission, Chairman of Partners of Minter Ellison, Perth and founding partner and Executive Chairman of Edwards Wallace Lawyers, which represented most of the Western Australian media between 2000-2012.

Stephen is a private pilot with a full command instrument rating and he owns and flies a Bonanza and a Tiger Moth. He has a truffle farm at Cowaramup.



## Skywest Operations



### Background

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

Each year, Skywest flies approximately 300,000 RPT passengers, covering 16 destinations and providing an essential link for regional communities, tourists and businesses. The Airline caters to regional Western Australians, international and domestic tourists; corporate travellers and fly-in-fly-out mining staff.

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

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

### Skywest Business

Skywest's core business is to provide scheduled passenger services within regional Western Australia and Darwin, in the Northern Territory. The Airline also provides both regular and ad hoc charters for customers.

### Passenger Services

As part of its regular passenger service (RPT), Skywest flies to 16 destinations across Western Australia, the Northern Territory and to Melbourne. Skywest also flies to Bali, Indonesia from Geraldton, Broome and Port Hedland.

Skywest is continually examining opportunities to expand our destination network.

### Charter Services

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





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

During the year, Skywest continued “fly-in, fly-out” services for a number of key Australian resource companies, including BHP Billiton, Rio Tinto, Chevron/Bechtel, Argyle and others.

Skywest flies the leading players in the resource business.

### Growth Opportunities

The key growth opportunities for the business continue to be:

- organic growth of the ARAN fleet;
- increased resource charter services;
- increased services and frequency to existing routes (RPT);
- increased load factors and yield on existing routes;
- growth of existing routes into larger aircraft;
- new RPT routes.

The continuing resources activity in Australia has led to significant opportunities for Skywest to grow its fly-in-fly-out contract work. There are over \$180 billion in resource projects planned or underway in the state of Western Australia.

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

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

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

### Fuel costs

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

In the fiscal year 2012 the Group fuel spend was SGD 68.6m. For the period ended 30 June 2011 the spend was SGD 56.0m.

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ATR-72 600 cockpit



### Skywest Website

The Skywest Website offers extensive information on travelling with Skywest, live flight information, along with 24-7 booking engine access. The Airline has been continually developing its online strategy and has seen an increase in the numbers of bookings made directly through this channel. Around 50% of direct airline bookings are made through this channel. Additionally, Skywest is further developing its ancillary revenue by offering additional related services such as insurance, car hire and accommodation to customers directly from the website.

### SKYWEST HOLIDAYS

Skywest Holidays is the packaged holiday division of Skywest.

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

### SKYWEST SPORTS & EVENTS:

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

### INTERLINE AGREEMENTS

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

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

### CODESHARE

The Airline has a memorandum of understanding with The Virgin Australia Group of Airlines over a reciprocal codeshare arrangement. This agreement means that Virgin Australia customers will have access to an expanded network in Western Australia to include destinations such as Albany, Esperance, Geraldton and Exmouth.

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



### Velocity Rewards Program

Throughout the period Skywest remained a partner in Virgin Australia's loyalty program Velocity giving our customers lounge access, a points based rewards system and other benefits.

### Charter Markets

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

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

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

Future opportunities exist within Western Australia in support of the mining industry, which typically employs a FIFO workforce.

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



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

This is occasionally a requirement in outback Australia where operations to unsealed strips arise from time to time.

**REGULAR CHARTER**

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

During the year the Airline won a contract to fly FIFO workers to the Chevron Wheatstone LNG project at Onslow.

**AD HOC CHARTER**

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

Skywest is well positioned to cater to these events.

**Air Operators Certificate (AOC)**

The Airline holds a high capacity Air Operator’s Certificate that allows the Airline to operate regular public transport services domestically and charter operations throughout the world. The certificate is valid for ATR 72-500, ATR 72-600, Fokker 50, Fokker 100 and Airbus A320 operations and also covers the maintenance of the Fokker fleet.

**Employee Relations**

Skywest has 718 dedicated, professional staff who are focused on providing a strong return to shareholders while maintaining a safe, reliable operation with outstanding service to our customers.

The Airline had a total of 671 full time employees as well as 17 part time and 30 casual staff as at 30 June 2012.

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

**Expanded Group Structure**

The Skywest Group was expanded in the fiscal year 2012 to include two new wholly owned subsidiaries. F11305 Pte Ltd was incorporated by the Company in Singapore in July 2011 to complement the aircraft leasing arm of the Group. Capital Lease Australian Portfolio One Pty Ltd (“C1”), was purchased by Skywest Airlines (S) Pte Ltd on 30 June 2012, thereby adding its three F100 aircraft assets to the Group. As the Airline has been operating the three C1 aircraft for the last several years the acquisition of C1 will also reduce external lease expenses.





Shooting a Skywest corporate video

## Community Interaction & Support

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

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

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

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



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

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

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

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



Skywest supported Buzz Aldrin's trip to open the Space Museum in Carnarvon



Buzz Aldrin makes a hand imprint in a concrete slab during the opening of the Carnarvon Space and Technology Museum opening.  
Photo: © The West Australian

### Skywest flies Buzz Aldrin to Carnarvon

In June 2012, Skywest operated a special charter flight flying former NASA astronaut Dr Buzz Aldrin.

Dr Buzz Aldrin, DFC, DSM, was the lunar module pilot on Apollo 11 which made its historic flight to the moon in 1969, and Buzz became the second man to walk on the moon.

Dr Aldrin visited Carnarvon for the official opening of the Carnarvon Space and Technology Museum.

Two Fokker 50 aircraft planes were chartered to ferry Buzz Aldrin and his party, along with nearly 100 other guests for the festivities.. These included ex-Carnarvon Tracking Station staff, paid guests, corporate sponsors and State politicians.

The nearby OTC Satellite Earth Station opened in 1966 as part of the global satellite communications system and beamed the first live broadcast into WA - aptly the first moon landing.

The Carnarvon Space and Technology Museum commemorates not only the remote town's historic role in the space race, but the development of satellite telecommunications in Australia.

Carnarvon is on the mid-west coast, about 900km north of Perth, and is the site of two stations that played vital roles in the first moon landing on July 21, 1969, and other US space missions.

Commissioned by NASA in 1964, the Carnarvon Tracking Station operated for 11 years and was the last point of communication between rockets leaving earth's orbit and space capsules returning, just before they splashed down in the Pacific Ocean.



(Photos courtesy of V Dorosevits)



Skywest operated Virgin Australia ATR-72 500 aircraft

## Australian Regional Airline Network (ARAN)



Max Fleet / News Mail / APN

Skywest operates ATR 72 aircraft for Virgin Australia under an ACMI (aircraft, crew, maintenance and insurance) agreement. In January 2011, Skywest Airlines and Virgin Australia signed a 10 year strategic alliance to service regional Australia with Skywest operating Virgin Australia branded turbo prop aircraft to a number of existing and new destinations around eastern Australia.

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

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

Presently, Skywest Airlines has taken delivery of eight brand new ATR aircraft, and expects to have twelve total aircraft by June 2013. Services using the aircraft started in October 2011, the aircraft are Virgin Australia branded and the routes serviced now include:

- Double daily weekday return Brisbane to Gladstone;
- Daily return Brisbane to Port Macquarie;
- Double daily Sydney to Port Macquarie;
- Twice daily Sydney to Albury; and
- Up to six daily return services between Sydney to Canberra.
- Services to Emerald, Cairns, Townsville and Moranbah.

New services are commencing in late 2012 when the Company takes delivery of the first and the next two new ATR 72-600.

We selected the ATR 72 series aircraft for a number of reasons, including its high fuel efficiency. For example on a 200nm sector, the ATR 72 fuel consumption per passenger is 16% lower than a typical car and 60% better than a typical regional jet. Furthermore, the ATR 72 emits about 50% less CO2 per passenger km than new generation jets. Compared to a car, the ATR 72's CO2 emissions per seat km on a 200nm sector are 15% lower.



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### Engineering and Maintenance

Skywest engineering department carries out line maintenance checks on the Fokker F50 and F100 fleet.

These aircraft are maintained under an approved system of maintenance following all OEM and regulatory requirements. Some Heavy maintenance is carried out by Skywest at the Perth engineering facility with additional F100/F50 support provided from external providers including Fokker Services Asia who operate under Australian regulatory rules.

The A320 and ATR72 line maintenance is carried out under the approved Skywest system of maintenance by third party providers John Holland Aviation Services (JHAS) and Toll Aviation Engineering (TAE) respectively. Engine support for the ATR aircraft engines is through a Power by the Hour (PBH) agreement with Pratt & Whitney, Canada.

### Quality Assurance Systems

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

Skywest has stringent audit programs set up to provide the Board and management with regular reviews on the compliance of

each department to policy and procedures. These audits have extended to encompass major suppliers who provide repair and overhaul services for aircraft components and ground handling contracting staff to maintain the standard of the quality system away from the main facility. In this way, risk is mitigated as far as possible by constantly doing a "health check" on the operational parts of the business.

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

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





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

The airline operates to a Safety Management System approved by the Australian Civil Aviation Safety Authority (CASA) under the legislation of Civil Aviation Order 82.5. This safety umbrella encompasses risk and change management mitigations where the analysis of "risk" is second nature when it comes to operational decisions that have the potential to compromise safe operations.

Skywest has adopted formal change management processes to ensure, when required and through any necessity of need, all aspects of change either to a standard operating procedure, the acquiring of new equipment, the changing of key personnel, as examples, are monitored thoroughly, managed and taken into account.

In addition, Skywest has acknowledged the need to enter into the Basis Aviation Risk Standard program. The BARS Program was created with the objective to be a more efficient means of monitoring, assessing and analysing safety risk within air operations.

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



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Airbus A320 VH-FNP

### Fleet Structure

Skywest Airlines fleet includes eight Fokker 50 turbo-prop aircraft, eleven Fokker 100 jets, one Airbus A320 and eight ATR-72 aircraft. The airline continually reviews opportunities for expansion of its fleet.

### Airbus A320 Aircraft

With a much larger capacity than the current Fokker aircraft, our A-320, VH-FNP, entered service in November 2010 in the mining charter operations area.

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



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

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



### AIRBUS A320 DIMENSIONS & SPECIFICATIONS:

Overall Length	37.57m
Wing span	34.09m
Tail height	11.76m
Wing area	122.6m <sup>2</sup>
Cabin width	3,70m
Fuselage width	3,95m
Maximum Takeoff Weight	73,500kg
Maximum Zero-Fuel Weight	62,500 kg
Basic Operating Weight	42,220kg
Maximum Payload	16,600kg
Maximum Usable Fuel	24,210 - 30,190l
Cargo Capacity	137.41 m <sup>3</sup> (1,321 cu ft)
Maximum Cruise Speed	487kts (903kph)
Maximum Range	4,874 Kms

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



Fokker F100 VH-FNU

### Fokker 100 Aircraft

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

#### GENERAL CHARACTERISTICS

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



#### FOKKER 100 DIMENSIONS & SPECIFICATIONS:

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

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

The Airline is continuing the upgrade of its fleet with the planned introduction of an integrated Global Navigation Satellite System (GNSS). The integrated GNSS will deliver more accurate aircraft tracking performance, which will allow for shorter approaches at night and in bad weather,

as well as saving time and fuel and significantly enhancing safety and schedule reliability.

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

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

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

Skywest currently operates eleven Fokker 100 aircraft, with another undergoing work for deployment into service in due course.

### Fokker 50 Aircraft

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Fokker F50 VH-FNB

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

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

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

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



**GENERAL CHARACTERISTICS:**

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

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

**FOKKER 50 DIMENSIONS & SPECIFICATIONS:**

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

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

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

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



Virgin Australia ATR-72 500 VH-FVH at Moranbah airport, Queensland - Damian Freiberg



**ATR-72 500 Aircraft**

To advance the ARAN (Australian Regional Airline Network) Agreement, Skywest has taken delivery of its first six ATR-72 500 aircraft throughout the year.

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

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

**GENERAL CHARACTERISTICS:**

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

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

**ATR-72 500 DIMENSIONS & SPECIFICATIONS:**

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

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





Virgin Australia ATR-72 600 VH-FVW

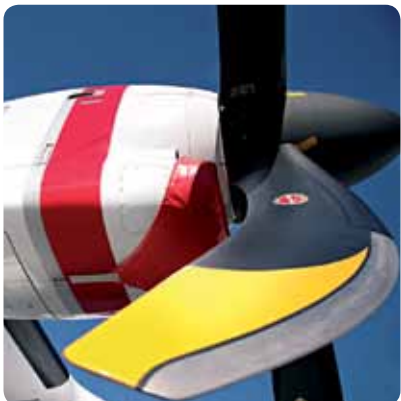
### ATR-72 600 Aircraft

Skywest has taken delivery of Australia's first two ATR-72 600 aircraft.

The ATR 72 is recognised as the most cost-effective regional aircraft, positioning it as the industry reference to serve the regional airline environment.

The ATR 72-600 feature exceptionally low operating costs when compared to similar sized turboprops and jet competitors on typical regional sectors. In addition to the lower acquisition cost, and thanks to its structural efficiency and low design weights, the ATR 72-600 benefits from a lower fuel bill, lower engine and airframe maintenance costs and significantly lower airport and navigation charges (weight related charges).

Thanks to a lighter structure, optimized speed and a well suited engine for short sectors, the ATR 72 is some 35% more fuel efficient than any other 70-seater regional turboprop aircraft and burns half the fuel of similar sized regional jets. This



efficiency makes the ATR 72 the "green" turboprop and the most environment friendly aircraft of its category.

With the lowest CO2 gas emissions in its class, the ATR 72-600 is the first regional aircraft manufacturer to be certified "environment" for the aircraft life cycle. The ATR 72-600 is ISO 14001-certified, the international reference standard in the field for environmental friendliness.

Inside the cabin, ATR and Giugiaro Design have worked closely together to create an ultra modern, appealing and comfortable cabin. The ATR 72-600 Series has the widest cabin in the regional aircraft market. The attractively and finely designed seats, ceiling, side panels and overhead bins make the cabin more spacious, airy and comfortable.

### ATR-72 600 DIMENSIONS & SPECIFICATIONS:

Overall Length	27.17m
Wingspan	27.05m
Maximum Takeoff Weight	23,000kg
Basic Operating Weight	12,950kg
Maximum Usable Fuel	6,400l
Maximum Cruise Speed	276kts (511kph)
Maximum Range	1,665 Kms

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## Western Australian Mining Industry



The Western Australian mining and petroleum resource sector is the largest and most diversified resource industry in Australia and is estimated to be worth over \$100 billion in trade for Australia.

The bulk of Australia's iron ore occurs in the Pilbara and Australia is the world's largest exporter of the mineral.

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

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

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

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

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

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

The facility will be located on the northwest coast of mainland Australia with an initial capacity of at least one 5 million-ton-per-annum LNG production train with expansion capacity.

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

The resources sector in Western Australia has led to significant opportunities for Skywest to grow its FIFO contract work. Even now there are over \$180 billion in resource projects still planned or underway in the state. Many of these projects will involve contract charter flying to supply the mines and projects with human resources.

Skywest presently conducts regular contracted charter services on behalf of Rio Tinto, BHP Billiton, Chevron/Bechtel and others.

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

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# Major Resource Projects — June 2012

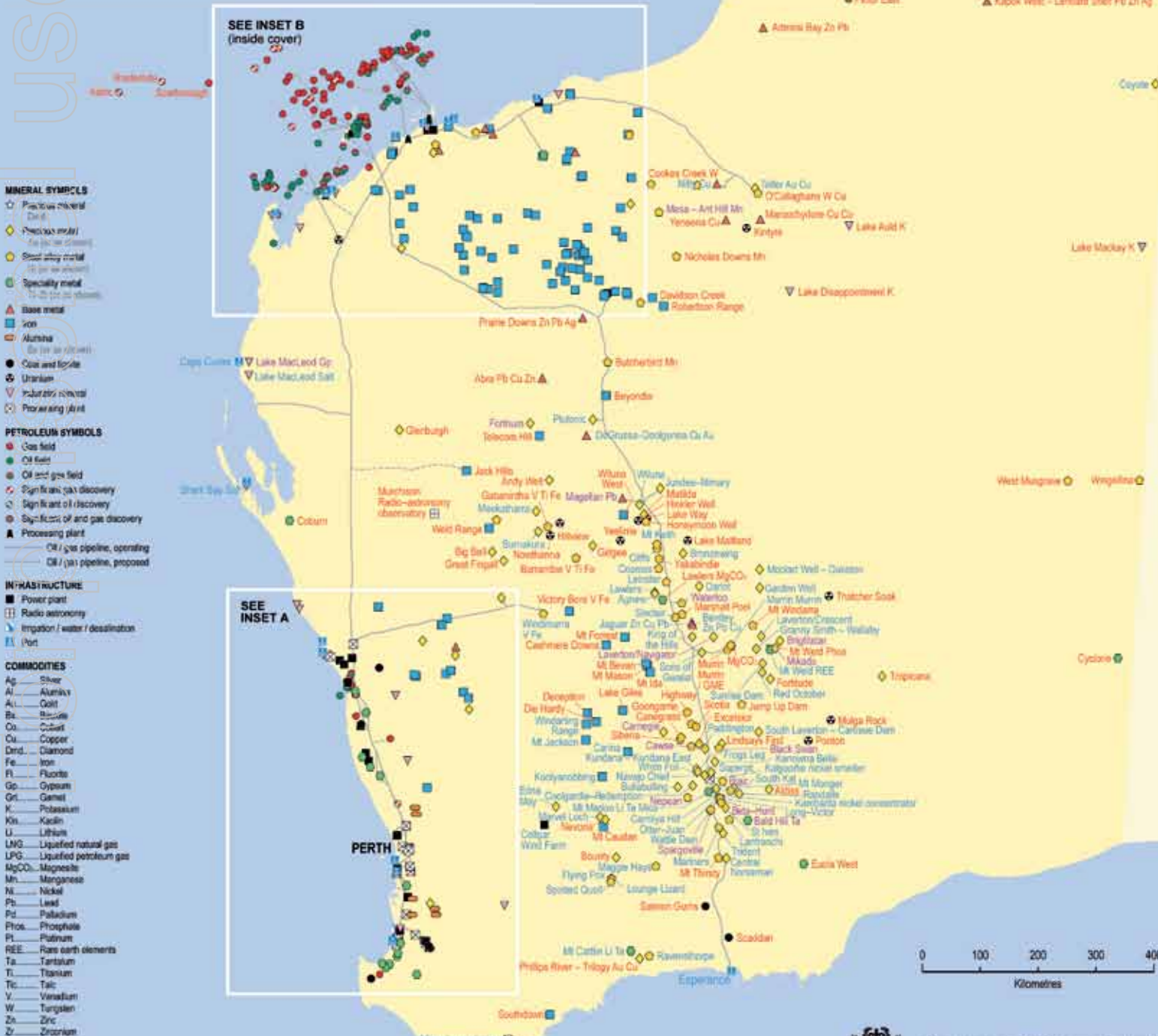


**Project labels:**

PROJECTS OPERATING OR CURRENTLY UNDER DEVELOPMENT WITH AN ACTUAL OR ANTICIPATED VALUE OF PRODUCTION (GREATER THAN \$400 MILLION) ARE SHOWN IN BLUE

PROPOSED OR POTENTIAL PROJECTS WITH A CAPITAL EXPENDITURE GREATER THAN \$400 MILLION ARE SHOWN IN RED

PROJECTS UNDER CARE AND MAINTENANCE ARE SHOWN IN PURPLE



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## Significant resource projects in Western Australia

Western Australia continues to lead the way as Australia's premier resources investment destination. There are currently more than A\$180 billion worth of projects either committed or under consideration for Western Australia during the next few years. These will create more than 50,000 construction jobs and more than 15,000 permanent jobs.

*(Source: Government of Western Australia, Department of Mines and Petroleum.)*

	Project Value	Employment	
	(estimated A\$m)	Construction	Permanent
<b>Alumina</b>			
BHP Billiton Worsley Alumina – Refinery Expansion	3400	1500	200
Sub Total	3400	1500	200
<b>Iron and Steel</b>			
Asia Iron - Extension Hill Magnetite Mine	2000	1000	350
Australian Premium Iron Joint Venture – Iron Ore Mine	6000	3500	1000
BHP Billiton Iron Ore – Inner Harbour Expansion	2300	n/a	n/a
BHP Billiton Iron Ore – Jimblebar Mine Expansion	3400	n/a	n/a
BHP Billiton Iron Ore – Outer Harbour Development, Port Hedland	n/a	n/a	n/a
BHP Billiton Iron Ore – Port Blending and Rail Yard Facilities	1700	n/a	n/a
CITIC Pacific – Cape Preston Mine & Processing Projects	5200	4000	500
Cliffs Asia Pacific Iron Ore – Koolyanobbing Iron Ore Upgrade	320	n/a	n/a
Crosslands Resources – Jack Hills Stage 2 Hematite Mine	2000	450	350
Fortescue Metals Group – Central Pilbara Project (Solomon Stage 2 and Western Hub)	7000	4800	2650
Fortescue Metals Group – Mine, Rail and Port Project	8400	3300	6800
Fortescue Metals Group – Solomon Project	4000	3000	1200
Grange Resources – Southdown Magnetite Mine	2570	2000	600
Hancock Prospecting – Iron Ore Mine - Roy Hill	7000	3600	2000
Karara Iron Ore Project	1975	1500	500
MCC – Cape Lambert Iron Ore Project	3700	3000	1000
Rio Tinto Iron Ore – Hope Downs 4 Iron Ore Mine	1600	2100	720
Sub Total	59165	32250	17670
Lithium	75	100	100
Sub Total	75	100	100
<b>Nickel/Cobalt</b>			
Ravensthorpe Nickel Operation	300	200	480
Sub Total	300	200	480
<b>Oil, Gas and Condensate</b>			
BHP Billiton – Macedon	1500	330	8
Browse LNG Precinct	30000	6000	400
Chevron – Wheatstone LNG	29000	5500	400
Gorgon Joint Venture Gas Processing Project	43000	5500	300
North Rankin Redevelopment	5000	n/a	n/a
Woodside – Pluto LNG Plant	14900	5000	300
Sub Total	123400	22330	1408
<b>Other</b>			
AngloGold Ashanti/Independence Group – Tropicana Gold Project	700	700	400
Ashburton North Strategic Industrial Area	n/a	n/a	n/a
BHP Billiton – Yeelirrie Uranium	n/a	700	300
Burrup Nitrates	600	600	65
CSBP – Kwinana Ammonium Nitrate Facility Expansion	550	300	10
Lignor Ltd – Mirambeena - Engineered Strand Lumber	273	380	125
Oakajee Port, Rail and Industrial Estate	4000	2000	300
Ord East Kimberley Expansion Project	506	761	n/a
Perdaman Chemicals & Fertilisers – Coal-to-Urea Plant	3800	2000	200
Sub Total	10429	7441	1400
<b>TOTAL</b>	<b>196769</b>	<b>63821</b>	<b>21258</b>

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## Annual Financial Report

**SKYWEST AIRLINES LIMITED**  
COMPANY REGISTRATION NO.: 199708548K  
Annual Financial Report  
For the year ended 30 June 2012

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Perth City skyline - Tourism Western Australia

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## Directors' Report

The directors are pleased to present their report to the members together with the audited consolidated financial statements of Skywest Airlines Ltd. (the "Company") and its subsidiaries (collectively, the "Group") and the statement of financial position and statement of changes in equity of the Company for the financial year ended 30 June 2012.

### Directors of the Company

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

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

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

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

### Directors' interests in shares and debentures

The following directors, who held office at the end of the financial year, had, according to the register of directors' shareholdings required to be kept under Section 164 of the Singapore Companies Act, Chapter 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	29,720,855	31,720,855
Seah Kian Peng	1,350,000	1,550,000	-	-
John Leonard Jost	27,250	27,250	3,975,412	3,975,412
Ronald Lewis Aitkenhead	-	100,000	-	-

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

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

Name of director to which warrants are granted	Direct interest		Deemed interest	
	At the beginning of financial year	At the end of financial year	At the beginning of financial year	At the end of financial year
<b>The Company</b>				
Robert Jeffries Chatfield	-	-	4,000,000	5,000,000
Seah Kian Peng	400,000	500,000	-	-
John Leonard Jost	-	-	400,000	700,000
Ronald Lewis Aitkenhead	200,000	400,000	-	-

### Directors' contractual benefits

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

## Directors' Report (ctd.)

### Share options

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

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

Date of grant	Number of shares covered by the options			Balance at end of year	Exercise price	Expiry date
	Balance at beginning of year or later date of grant	Lapsed	Exercised			
18/11/2009	2,600,000	-	(2,600,000)	-	10.25pence	17/11/2011
27/11/2010	2,700,000	-	-	2,700,000	23.50pence	26/11/2012
12/12/2011	3,900,000	-	-	3,900,000	25.78pence	11/12/2013
17/02/2012	1,200,000	-	-	1,200,000	25.78pence	01/01/2014
	10,400,000	-	(2,600,000)	7,800,000		

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

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

### Directors' remuneration

	Year ended 30 June 2012		Year ended 30 June 2011	
	Fees and salaries \$	Benefits \$	Fees and salaries \$	Benefits \$
<b>Fees, salaries and benefits</b>				
<b>Executive</b>				
Robert Jeffries Chatfield	504,528	633,256	408,280	573,290
<b>Non-executive</b>				
Seah Kian Peng	60,000	32,999	60,000	29,334
John Leonard Jost	60,000	32,999	60,000	58,667
Ronald Lewis Aitkenhead	60,000	32,999	60,000	14,667
	684,528	732,253	588,280	675,958

### Directors' meetings

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

	Directors' meetings	Audit Committee	Remuneration Committee	Nomination Committee
<b>Number of meetings held</b>	7	3	4*	-
<b>Number of Meetings Attended</b>				
Robert Jeffries Chatfield	6	-	-	-
Seah Kian Peng	6	-	-	-
John Leonard Jost	6	3	*	-
Ronald Lewis Aitkenhead	6	3	*	-

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

## Directors' Report (ctd.)

### Auditors

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

On behalf of the board of Directors,



Robert Jeffries Chatfield  
Director



Ronald Lewis Aitkenhead  
Director

Singapore  
27 September 2012

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## Statement by Directors

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

- (i) the accompanying statements of financial position, 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 2012 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  
27 September 2012

## Independent Auditors' Report for the financial year ended 30 June 2012

### To the Members of Skywest Airlines Ltd

#### Report on the consolidated financial statements

We have audited the accompanying financial statements of Skywest Airlines Ltd. (the "Company") and its subsidiaries (collectively, the "Group") set out on pages 8 to 79, which comprise the statements of financial position of the Group and the Company as at 30 June 2012, and 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 financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act, Chapter 50 (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 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 financial statements are free from material misstatement.

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

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

**Opinion**

In our opinion, the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Act and International Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 30 June 2012 and of 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.

The logo for Ernst & Young LLP, featuring the company name in a stylized, handwritten-style font.

Ernst & Young LLP

Public Accountants and  
Certified Public Accountants  
Singapore

27 September 2012

## Consolidated Statement of Comprehensive Income for the financial year ended 30 June 2012

(EXPRESSED IN SINGAPORE DOLLARS)

	Note	2012 \$	2011 \$
<b>Revenue</b>	4	303,316,386	239,910,036
Other income	5	6,684,263	2,424,079
Aircraft operating costs (excluding fuel costs)		(35,086,296)	(35,919,376)
Fuel costs		(68,638,059)	(56,044,417)
Aircraft lease rental and hire charges		(35,430,930)	(18,924,001)
Employee benefits	26	(88,828,822)	(60,502,807)
Sales and marketing costs		(3,696,577)	(4,944,585)
Engineering and maintenance costs		(24,694,081)	(21,631,229)
Office and general administration costs		(9,764,275)	(8,984,409)
Depreciation of property, plant and equipment	9	(21,544,632)	(18,775,787)
Other expenses		(13,098,360)	(2,304,205)
Finance costs	6	(2,492,899)	(746,632)
<b>Profit before tax</b>	7	6,725,718	13,556,667
Income tax benefit/(expense)	8	391,390	(3,707,463)
<b>Profit for the year attributable to owners of the Company</b>		7,117,108	9,849,204
Other comprehensive income			
Gain/(loss) on cash flow hedges		61,310	(579,275)
Foreign currency translation		(606,912)	3,267,536
Other comprehensive income for the year, net of tax		(545,602)	2,688,261
<b>Total comprehensive income for the year attributable to owners of the Company</b>		6,571,506	12,537,465
<b>Earnings per share</b>			
- Basic (in cents)	29	3.50	4.93
- Diluted (in cents)	29	3.50	4.89

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

## Statements of Financial Position as at 30 June 2012

(EXPRESSED IN SINGAPORE DOLLARS)

	Note	Group		Company	
		2012 \$	2011 \$	2012 \$	2011 \$
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	9	82,685,163	62,782,427	3,167	18,039
Intangible assets	10	17,189,507	17,189,507	–	–
Subsidiaries	11	–	–	13,054,802	13,054,801
Other receivables	12	6,041,527	3,061,547	–	–
Prepayments	13	3,519,639	4,769,019	–	–
		109,435,836	87,802,500	13,057,969	13,072,840
<b>Current assets</b>					
Inventories	14	5,126,307	5,128,926	–	–
Trade and other receivables	12	41,120,979	31,820,245	36,889,914	33,832,401
Prepayments	13	5,244,649	6,896,885	48,370	50,943
Other investments	15	342,346	466,333	–	–
Cash and cash equivalents	16	24,727,772	9,966,329	15,595,911	2,357,193
		76,562,053	54,278,718	52,534,195	36,240,537
<b>Total assets</b>		<b>185,997,889</b>	<b>142,081,218</b>	<b>65,592,164</b>	<b>49,313,377</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Current liabilities</b>					
Provisions	17	9,837,206	6,628,680	–	–
Income tax payable		6,742,440	3,130,843	257,128	746,471
Borrowings	18	7,103,428	1,240,017	–	–
Trade and other payables	19	45,098,289	30,458,047	1,327,862	118,707
Revenue received in advance	20	10,320,843	12,507,276	–	–
Finance lease liabilities	21	1,702,246	367,470	–	–
Derivative financial instruments	22	739,952	827,535	–	–
		81,544,404	55,159,868	1,584,990	865,178
<b>Net current (liabilities)/assets</b>		<b>(4,982,351)</b>	<b>(881,150)</b>	<b>50,949,205</b>	<b>35,375,359</b>
<b>Non-current liabilities</b>					
Provisions	17	665,154	1,106,736	–	–
Borrowings	18	9,825,847	2,665,269	7,676,859	–
Derivative financial instruments	22	1,177,377	–	1,177,377	–
Other payables	19	3,636,870	–	–	–
Finance lease liabilities	21	2,573,849	933,988	–	–
Deferred tax liabilities	23	7,542,770	11,917,822	–	–
		25,421,867	16,623,815	8,854,236	–
<b>Total liabilities</b>		<b>106,966,271</b>	<b>71,783,683</b>	<b>10,439,226</b>	<b>865,178</b>
<b>Net assets</b>		<b>79,031,618</b>	<b>70,297,535</b>	<b>55,152,938</b>	<b>48,448,199</b>
<b>Equity attributable to owners of the parent</b>					
Share capital	24	48,382,289	43,927,891	48,382,289	43,927,891
Treasury shares	24	(229,870)	–	(229,870)	–
Reserves	25	4,328,218	4,474,575	1,783,814	1,384,569
Retained earnings		26,550,981	21,895,069	5,216,705	3,135,739
<b>Total equity</b>		<b>79,031,618</b>	<b>70,297,535</b>	<b>55,152,938</b>	<b>48,448,199</b>
<b>Total equity and liabilities</b>		<b>185,997,889</b>	<b>142,081,218</b>	<b>65,592,164</b>	<b>49,313,377</b>

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

## Statements of Changes in Equity for the financial Year ended 30 June 2012

(EXPRESSED IN SINGAPORE DOLLARS)

Group	Note	Share capital \$	Treasury shares \$	Cash flow hedge reserve	Capital reserve \$	Warrant reserve \$	Foreign currency translation reserve \$	Retained earnings \$	Total equity \$
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	24	118,800	-	-	-	(27,210)	-	-	91,590
Warrant expense		-	-	-	-	396,003	-	-	396,003
Dividends paid	30	-	-	-	-	-	-	(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
Profit for the year		-	-	-	-	-	-	7,117,108	7,117,108
Other comprehensive income		-	-	61,310	-	-	(606,912)	-	(545,602)
Total comprehensive income for the year		-	-	61,310	-	-	(606,912)	7,117,108	6,571,506
Exercise of share warrants	24	702,003	-	-	-	(160,787)	-	-	541,216
Issue of paid up share capital	24	3,752,395	-	-	-	-	-	-	3,752,395
Purchase of treasury shares	24	-	(229,870)	-	-	-	-	-	(229,870)
Warrant expense		-	-	-	-	560,032	-	-	560,032
Dividends paid	30	-	-	-	-	-	-	(2,461,196)	(2,461,196)
Balance at 30 June 2012		48,382,289	(229,870)	(517,965)	827,779	956,035	3,062,369	26,550,981	79,031,618

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## Statements of Changes in Equity for the financial Year ended 30 June 2012

(EXPRESSED IN SINGAPORE DOLLARS)

Company	Note	Share capital \$	Treasury shares \$	Capital reserve \$	Warrant reserve \$	Retained earnings \$	Total equity \$
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	24	118,800	-	-	(27,210)	-	91,590
Warrant expense		-	-	-	396,003	-	396,003
Dividends paid	30	-	-	-	-	(2,221,021)	(2,221,021)
Balance at 30 June 2011		43,927,891	-	827,779	556,790	3,135,739	48,448,199
Profit for the year		-	-	-	-	4,542,162	4,542,162
Total comprehensive income for the year		-	-	-	-	4,542,162	4,542,162
Exercise of share warrants	24	702,003	-	-	(160,787)	-	541,216
Issue of paid up share capital	24	3,752,395	-	-	-	-	3,752,395
Purchase of treasury shares	24	-	(229,870)	-	-	-	(229,870)
Warrant expense		-	-	-	560,032	-	560,032
Dividends paid	30	-	-	-	-	(2,461,196)	(2,461,196)
Balance at 30 June 2012		48,382,289	(229,870)	827,779	956,035	5,216,705	55,152,938

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

## Consolidated Statement of Cash Flows for the financial Year ended 30 June 2012

(EXPRESSED IN SINGAPORE DOLLARS)

	Note	2012 \$	2011 \$
<b>Cash flows from operating activities</b>			
Profit before tax		6,725,718	13,556,667
Adjustments for:			
Allowance for inventory obsolescence	7,14	887,075	–
Allowance for doubtful trade receivables	7,12	645,078	131,706
Amortisation of intangible assets	7	–	12,522
Depreciation of property, plant and equipment	7,9	21,544,632	18,775,787
Dividend income		(157)	(8,829)
Fair value loss/(gain) on other investments	15	18,474	(3,122)
Fair value gain on embedded derivatives of convertible loan financial instruments	5,22	(2,065,119)	–
Finance costs	6	2,492,899	746,632
Loss/(gain) on sale of other investments	5,7	47,301	(140,328)
Guarantee income from a related party	5	–	(158,926)
Interest income	5	(1,745,213)	(334,129)
(Write-back of)/provision for aircraft handback	7,17	(12,616)	19,978
Provision for employee benefits	7,17	3,035,702	1,121,364
(Write-back of)/provision for structural maintenance	7,17	(151,503)	149,721
Warrant expense	26	560,032	396,003
Write-back of maintenance reserve	5	(1,529,055)	–
Negative goodwill	5,11	(1,339,719)	–
<b>Operating profit before working capital changes</b>		29,113,529	34,265,046
Increase in inventories		(884,456)	(686,969)
Increase in trade, other receivables and prepayments		(5,921,884)	(13,245,446)
Increase in trade, other payables and provisions		4,736,986	2,258,715
<b>Cash generated from operations</b>		27,044,175	22,591,346
Interest expense paid		(2,373,918)	(746,632)
Income tax paid		(842,011)	(701,476)
Interest income received		1,745,213	334,129
Guarantee income received		–	158,926
Foreign exchange differences		476,704	121,867
<b>Net cash generated from operating activities</b>		26,050,163	21,758,160
<b>Cash flows from investing activities</b>			
Cash inflow arising from the acquisition of a subsidiary	11	254,175	–
(Increase)/decrease in long-term other receivables and prepayments		(1,730,600)	2,166,686
Purchase of other investments		(108,548)	(483,156)
Proceeds from sale of other investments		166,760	593,091
Dividend income received		157	8,829
Acquisition of property, plant and equipment		(24,252,691)	(18,076,914)
Proceeds from disposal of property, plant and equipment		–	980,299
<b>Net cash used in investing activities</b>		(25,670,747)	(14,811,165)

## Consolidated Statement of Cash Flows for the financial Year ended 30 June 2012

(EXPRESSED IN SINGAPORE DOLLARS)

	Note	2012 \$	2011 \$
<b>Cash flows from financing activities</b>			
Increase/(decrease) in long-term other payables and provisions		2,665,601	(1,653,905)
Proceeds from borrowings		1,768,234	–
Repayment of borrowings		(1,232,225)	(3,357,248)
Repayment of finance lease liabilities		(858,908)	–
Proceeds from issuance of convertible loan		10,345,331	–
Repayment of instalment due to a supplier		–	(1,818,310)
Dividends paid on ordinary shares	30	(2,461,196)	(2,221,021)
Proceeds from issuance of ordinary shares	24	4,293,612	91,590
Purchase of treasury shares	24	(229,870)	–
<b>Net cash generated from/(used in) financing activities</b>		<b>14,290,579</b>	<b>(8,958,894)</b>
Net increase/(decrease) in cash and cash equivalents		14,669,995	(2,011,899)
Effect of exchange rate changes on cash and cash equivalents		91,448	(962,481)
Cash and cash equivalents at beginning of year		9,966,329	12,940,709
<b>Cash and cash equivalents at end of year</b>	16	<b>24,727,772</b>	<b>9,966,329</b>

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

## Notes to the Financial Statements - 30 June 2012

### 1. Corporate information

Skywest Airlines Ltd. (the "Company") is a limited liability company which is incorporated and domiciled in Singapore. It is dual-listed on the London Stock Exchange's AIM Market, 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 Going concern assumption

The Group's current liabilities exceeded its current assets by \$4,982,351 (2011: \$881,150). This factor indicates the existence of an uncertainty which may cast doubt about the Group's ability to continue as a going concern. The directors have prepared these financial statements on a going concern basis as the directors are of the view that the Group is able to generate sufficient positive cash flows from its operations.

#### 2.3 Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Group has adopted all the new and revised standards and Interpretations of FRS (INT FRS) that are effective for annual periods beginning on or after 1 July 2011. The adoption of these standards and interpretations did not have any effect on the financial performance or position of the Group and the Company.

#### 2.4 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.

##### *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 2015. In subsequent phases, the Board will address hedge accounting and impairment. 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.

##### *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 12 Disclosure of Involvement with Other Entities*

IFRS 12 is effective for annual periods beginning on or after 1 January 2013. IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The Group does not expect adoption of this standard to have material impact to the financial statements.

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

#### *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.

#### *Amendments to IAS 1 Presentation of Items of Other Comprehensive Income*

The Amendments to IAS 1 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 7 Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendment)*

The Amendments to IFRS 7 is effective for annual periods beginning on or after 1 January 2013. The Amendments to IFRS 7 provides disclosure requirements that are intended to help investors and other financial statement users to better assess the effect or potential effect of offsetting arrangements on a company's financial position. The new disclosures require information about the gross amount if financial assets and liabilities before offsetting and the amounts set off in accordance with the offsetting model in IAS 32. As this is a disclosure standard, it will have no impact to the financial position and financial performance of the Group when implemented in 2013.

#### *IAS 32 Offsetting Financial Assets and Financial liabilities (Amendment)*

The Amendments to IAS 32 is effective for annual periods beginning on or after 1 January 2014. The Amendments to IAS 32 clarifies the meaning of 'currently has a legally enforceable right of set-off'; and that some gross settlement systems may be considered equivalent to net settlement. The Group does not expect adoption of this standard to have material impact to the financial statements.

#### *Improvements to IFRSs 2012*

The Improvements to IFRSs 2012 is effective for annual periods beginning on or after 1 January 2013. Some of the key amendments are listed below:

##### *Amendment to IAS 1 Presentation of Financial Statements*

The amendment clarifies that an entity must include comparative in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. However, unlike the voluntary comparative information, the related notes are not required to accompany the third balance sheet.

##### *Amendment to IAS 16 Property, Plant and Equipment*

The amendment provides clarification that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

##### *Amendment to IAS 32 Financial Instruments: Presentation*

The amendment clarifies that income tax arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*.

Previously, IAS 32 requires that distributions to holders of an equity instrument to be recognised directly in equity net of any related income tax while IAS 12 requires that tax consequences of dividends generally to be recognised in profit or loss unless certain conditions are met. IAS 32 was amended to address the inconsistencies by referring to IAS 12 for the accounting for income tax relating to distributions to holders of an equity instrument and transaction costs of an equity transaction.

## Notes to the Financial Statements - 30 June 2012

### 2.5 Basis of consolidation

The consolidated financial statements comprise the financial statements of Skywest Airlines Ltd and its subsidiaries as at 30 June 2012. 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 Group's share of components previously recognised in other comprehensive income to profit or loss.

### 2.6 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.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill. The accounting policy for goodwill is set out in Note 2.9(a). In instances where the latter amount exceeds the former, the excess is recognised as gain on bargain purchase in profit or loss on the acquisition date.

#### *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.

## Notes to the Financial Statements - 30 June 2012

### 2.6 Business combinations (cont'd)

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

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.

### 2.7 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) Consolidated financial statements

For consolidation purpose, 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.

### 2.8 Property, plant and equipment

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

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

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

The carrying value of property, plant and equipment are reviewed for impairment when events or circumstances indicate that the carrying value may not be recoverable. More details are disclosed in Note 2.11.

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.

## Notes to the Financial Statements - 30 June 2012

### 2.9 Intangible assets

#### (a) Goodwill

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

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

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

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

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

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

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

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

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

### 2.10 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.

### 2.11 Impairment of non-financial assets

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

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

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

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

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

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

### 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.

### Available-for-sale financial assets

Available-for-sale financial assets include equity securities. Equity investments classified as available-for sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss.

After initial recognition, available-for-sale financial assets are subsequently measured at fair value. Any gains or losses from changes in fair value of the financial assets are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is de-recognised.

Investments in equity instruments whose fair value cannot be reliably measured are measured at cost less impairment loss.

## Notes to the Financial Statements - 30 June 2012

### 2.12 Financial assets (cont'd)

#### Derecognition

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.

### 2.13 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.

#### Financial assets carried at amortised costs

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.

#### Available-for-sale financial assets

In the case of equity investments classified as available-for-sale, objective evidence of impairment include (i) significant financial difficulty of the issuer or obligor, (ii) information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in equity instrument may not be recovered; and (iii) a significant or prolonged decline in the fair value of the investment below its costs. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost.

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

If an available-for-sale financial asset is impaired, an amount comprising the difference between its acquisition cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from other comprehensive income and recognised in profit or loss. Reversals of impairment losses in respect of equity instruments are not recognised in profit or loss; increase in their fair value after impairment are recognised directly in other comprehensive income.

**2.14 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.

**2.15 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.

**2.16 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.

**2.17 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. Financial liabilities are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. 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 liabilities and derivative financial instruments.

After initial recognition, interest bearing 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.

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling 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. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value of the financial liabilities are recognised 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.

## Notes to the Financial Statements - 30 June 2012

### 2.18 Convertible loan

The equity conversion option of the convertible loan and the attached warrants exhibit characteristics of embedded derivatives and are separated from its liability component. On initial recognition, the embedded derivatives are measured at their fair values and presented as part of derivative financial instruments. The difference between total proceeds and the fair value of the embedded derivatives is recognised as the liability component.

The embedded derivatives are subsequently carried at their fair values with fair value changes recognised in the profit or loss. The liability component is carried at amortised cost until the liability is extinguished on conversion or redemption.

When the equity conversion option and/or warrants are exercised, the carrying amounts of the liability components and the equity conversion option and/or warrants are derecognised with a corresponding recognition of share capital. When an equity conversion option and/or warrants lapses, any gain or losses on the derecognition of derivative financial instruments are recognised in the income statement.

### 2.19 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.

#### 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.

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

*Cash flow hedges (cont'd)*

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.

**2.20 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.

**2.21 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 post-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.

(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.

## Notes to the Financial Statements - 30 June 2012

### 2.21 Employee benefits (cont'd)

#### (e) *Warrant Share Option scheme (cont'd)*

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.

### 2.22 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, even if that right is not explicitly specified in an arrangement.

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.

### 2.23 Revenue

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

#### (a) *Passenger, charter and freight revenue*

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

#### (b) *Revenue from services*

Revenue from services are recognised when services are rendered.

#### (c) *Interest income*

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

#### (d) *Dividend income*

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

#### (e) *Sales of other investments*

Profit on sales of investments is recognised on trade date.

**2.24 Income taxes**

(a) *Current tax*

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

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

(b) *Deferred tax*

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

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

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

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

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

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.

## Notes to the Financial Statements - 30 June 2012

### 2.25 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.

### 2.26 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.

### 2.27 Treasury shares

The Group's own equity instruments, which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount of treasury shares and the consideration received, if reissued, is recognised directly in equity. Voting rights related to treasury shares are nullified for the Group and no dividends are allocated to them respectively.

### 2.28 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.

### 2.29 Related parties

A related party is defined as follows:

- (a) A person or a close member of that person's family is related to the Group and Company if that person:
  - (i) Has control or joint control over the Company;
  - (ii) Has significant influence over the Company; or
  - (iii) Is a member of the key management personnel of the Group or Company or of a parent of the Company.
- (b) An entity is related to the Group and the Company if any of the following conditions applies:
  - (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

### 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 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) *Income taxes*

Uncertainties exist with respect to the interpretation of complete tax regulations and the amount and timing of future taxable income. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the relevant tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile

The carrying amount of the Group's income tax payables and deferred tax liabilities at the date of the statement of financial position was \$6,742,440 (2011: \$3,130,843) and \$7,542,770 (2011: \$11,917,822) respectively.

(b) *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 2.8.

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.

(c) *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 are disclosed in Note 10.

(d) *Share-based payment transactions*

The Group measures the cost of equity-settled transactions with directors and third parties by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the evaluation model including the expected life of the share warrant, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 24.

(e) *Provision for aircraft handback*

Provisions have 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 provisions 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.

(f) *Prepaid maintenance assets*

The Group has incurred maintenance expenditure on leased aircraft which is capitalised as prepaid maintenance reserve. 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.

## Notes to the Financial Statements - 30 June 2012

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

(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) *Derivative financial instruments – Fuel hedging contracts*

These fuel hedging contracts are carried at fair value on the Group's statement of financial position. The fair value of fuel hedging contracts is determined using discounted cash flow valuation techniques. The cash flow estimates are based on observable and unobservable forward prices for jet fuel. The valuation is performed by the counterparty to these contracts. The valuation of derivative financial instruments is described in more details in Note 31.

(i) *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 other instruments is described in more detail in Note 31.

(j) *Derivative financial instruments – Embedded derivatives of convertible loan*

The fair values of the embedded derivatives of the convertible loan are calculated using the binomial option pricing method based on certain assumption of volatility that is not supported by observable market data. Judgement is required to establish fair values. The judgements include considerations of model inputs regarding the volatility. The valuations of these derivative financial instruments are described in more detail in Note 31 to the financial statements.

### 4. Revenue

	2012	Group	2011
	\$		\$
Passenger revenue	108,814,469		125,921,053
Freight revenue	3,060,615		2,606,662
Charter revenue	140,367,270		107,979,402
Revenue from services	46,166,246		–
Others (Fuel sales, security screening, advertising)	4,907,786		3,402,919
	303,316,386		239,910,036

## Notes to the Financial Statements - 30 June 2012

### 5. Other income

	Note	2012 \$	Group 2011 \$
Dividend income		157	8,829
Fair value gain on embedded derivative of convertible loan – warrants	22	497,987	-
Fair value gain on embedded derivative of convertible loan – conversion option	22	1,567,132	-
Foreign exchange gains		-	1,775,745
Gain on sales of other investments		-	140,328
Guarantee income from a related party <sup>(1)</sup>		-	158,926
Interest income from third parties		1,667,421	299,317
Interest income from related parties		77,792	34,812
Negative goodwill written off	11	1,339,719	-
Net fair value gain on other investments		-	3,122
Other miscellaneous income		5,000	3,000
Write-back of maintenance reserve <sup>(2)</sup>		1,529,055	-
		6,684,263	2,424,079

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

<sup>(2)</sup> On 28 June 2012, following the acquisition of Capital Lease Australian Portfolio One Pty Ltd ("C1"), the accumulated maintenance reserve between C1 and a subsidiary, previously charged to the profit or loss was written back.

### 6. Finance costs

	Note	2012 \$	Group 2011 \$
Amortisation of interest expense on convertible loan liability		118,981	-
Interest expense on convertible loan liability	18	174,208	-
Interest expense on other borrowings		1,862,293	711,984
Interest expense on loan due to related parties		86,047	-
Interest expense on finance lease liabilities		251,370	34,648
		2,492,899	746,632

## Notes to the Financial Statements - 30 June 2012

### 7. Profit before tax

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

	Note	2012 \$	Group 2011 \$
Allowance for inventory obsolescence	14	887,075	-
Allowance for doubtful receivables	12	645,078	131,706
Amortisation of intangible assets		-	12,522
Depreciation of property, plant and equipment	9	21,544,632	18,775,787
Fair value loss/(gain) on other investments	5,15	18,474	(3,122)
Loss on sales of other investment		47,301	-
Office rental expense		87,750	87,750
Foreign exchange loss		66,146	-
(Write-back of)/ provision for aircraft handback	17	(12,616)	19,978
Provision for employee benefits	17	3,035,702	1,121,364
(Write-back of)/ provision for structural maintenance	17	(151,503)	149,721

### 8. Income tax expense

#### Major components of income tax expense

The major components of income tax expense for the years ended 30 June 2012 and 2011 are:

	2012 \$	Group 2012 \$
Current income tax		
– Current income taxation	4,146,948	2,314,016
– Under/(over) provision in respect of previous years	86,486	(657,237)
	4,233,434	1,656,779
Deferred income tax		
– Origination and reversal of temporary differences	(2,794,373)	1,573,971
– Over/(under) provision in respect of previous years	(1,834,468)	467,565
	(4,628,841)	2,041,536
Overseas withholding tax expense	4,317	9,148
Income tax (benefit)/expense recognised in the consolidated statement of comprehensive income	(391,390)	3,707,463
	2012 \$	Group 2011 \$
Deferred tax related to other comprehensive income:		
Net loss on revaluation of cash flow hedges	223,205	248,260

## Notes to the Financial Statements - 30 June 2012

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

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

The reconciliation between tax expense and the product of accounting profit multiplied by the applicable corporate tax rate for the years ended 30 June 2012 and 2011 are as follows:

	2012 \$	Group 2011 \$
Profit before tax	6,725,718	13,556,667
Tax at the domestic rates applicable to profits in the countries where the Group operates	1,057,865	3,732,080
Adjustments:		
Income not subject to tax	(67,594)	(27,475)
Non-deductible expenses	623,112	471,519
Utilisation of deferred tax asset previously not recognised	-	(76,778)
Tax effect of qualifying income which is taxed at a concessionary rate of 10%	(184,431)	(186,491)
Overseas withholding tax expense	4,317	9,148
Effect of partial tax exemption and tax relief	(42,625)	(27,047)
(Over)/under provision in respect of previous years	(1,770,079)	(189,672)
Others	(11,955)	2,179
Income tax expense recognised in the consolidated statement of comprehensive income	(391,390)	3,707,463

Commencing 1 February 2009, a subsidiary was awarded a 5-year Aircraft Leasing Scheme incentive from the Economic Development Board of Singapore. This incentive entitles the subsidiary 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 the subsidiary 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 expected to be met.

## Notes to the Financial Statements - 30 June 2012

### 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 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 and 1 July 2011	37,296,488	71,450,816	16,422	9,865,825	3,286,161	71,912	121,987,624
Additions	10,688,711	15,947,373	4,300	1,004,394	441,458	–	28,086,236
Arising on acquisition of subsidiary	–	14,144,879	–	–	–	–	14,144,879
Disposal	–	–	–	(11,570)	–	–	(11,570)
Derecognition of fully depreciated assets	(1,889,930)	(20,105,010)	–	(4,719,702)	(238,622)	–	(26,953,264)
Translation adjustments	(553,294)	(839,186)	–	(109,637)	(45,506)	–	(1,547,623)
Balance at 30 June 2012	45,541,975	80,598,872	20,722	6,029,310	3,443,491	71,912	135,706,282
Accumulated depreciation and impairment:							
Balance at 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 and 1 July 2011	13,832,233	37,442,660	2,003	6,899,196	973,973	55,132	59,205,197
Charge for the year	11,350,173	8,495,722	5,980	1,131,426	546,948	14,383	21,544,632
Disposal	–	–	–	(11,570)	–	–	(11,570)
Derecognition of fully depreciated assets	(1,889,930)	(20,105,010)	–	(4,719,702)	(238,622)	–	(26,953,264)
Translation adjustments	(239,228)	(436,461)	–	(73,344)	(14,843)	–	(763,876)
Balance at 30 June 2012	23,053,248	25,396,911	7,983	3,226,006	1,267,456	69,515	53,021,119
Net carrying amount:							
Balance at 30 June 2012	22,488,727	55,201,961	12,739	2,803,304	2,176,035	2,397	82,685,163
Balance at 30 June 2011	23,464,255	34,008,156	14,419	2,966,629	2,312,188	16,780	62,782,427

## Notes to the Financial Statements - 30 June 2012

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

#### Assets held under finance leases

During the financial year, the Group acquired property, plant and equipment with an aggregate cost of \$3,833,545 (2011: \$1,301,458) by means of finance leases.

The carrying amount of aircraft and related equipment held under finance leases at the end of the reporting period was \$5,082,440 (2011: \$1,478,183).

Leased assets are pledged as security for the related finance lease liabilities.

#### Assets pledged as security

In addition to assets held under finance leases, the Group's aircraft with carrying values of \$18,973,026 (2011: \$5,158,281) are mortgaged to secure the Group's borrowings (Note 18).

#### Assets held in trust

The motor vehicle of the Group with a carrying value of \$2,397 (2011: \$16,780) is registered in the name of a Director of the Company who is holding the motor vehicle in trust for the Group.

Company	Furniture and fittings \$	Plant and equipment \$	Motor vehicle \$	Total \$
Cost:				
Balance at 1 July 2010	–	26,203	71,912	98,115
Additions	1,260	–	–	1,260
Disposal/written off	–	(20,705)	–	(20,705)
Balance at 30 June 2011 and 1 July 2011	1,260	5,498	71,912	78,670
Disposal/written off	–	(2,998)	–	(2,998)
Balance at 30 June 2012	1,260	2,500	71,912	75,672
Accumulated depreciation:				
Balance at 1 July 2010	–	23,909	40,750	64,659
Charge for the year	70	2,225	14,382	16,677
Disposal/written off	–	(20,705)	–	(20,705)
Balance at 30 June 2011 and 1 July 2011	70	5,429	55,132	60,631
Charge for the year	420	69	14,383	14,872
Disposal/written off	–	(2,998)	–	(2,998)
Balance at 30 June 2012	490	2,500	69,515	72,505
Net carrying amount:				
Balance at 30 June 2012	770	–	2,397	3,167
Balance at 30 June 2011	1,190	69	16,780	18,039

### 10. Intangible assets

The breakdown of intangible assets is as follows:

	Note	Group 2012 \$	Group 2011 \$
<b>Goodwill</b>			
Goodwill arising from business combinations		17,189,507	17,189,507

## Notes to the Financial Statements - 30 June 2012

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

#### *Impairment testing 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 the Board of Directors covering the next financial year.

The pre-tax risk adjusted discount rate applied to these cash flow projections is 19% (2011: 19%). The long-term growth rate used to extrapolate the cash flows beyond the next financial year is 2.6% (2011: 4.3%) per annum.

The calculations of value in use for the CGUs are most sensitive to the following assumptions:

**Growth rates** – The forecasted growth rates are based on published industry research and do not exceed the long-term average growth rate for the industry relevant to the CGU.

**Pre-tax risk adjusted discount rate** – Discount rate represents the current market assessment of the risk specific to the CGU, regarding the time value of money and individual risks of the underlying assets which have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data.

**Market share assumptions** – These assumptions are important because, as well as using industry data for growth rates (as noted above), management assesses how the CGU's position, relative to its competitors, might change over the budget period.

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.

### 11. Investment in subsidiaries

	Company 2012	2011
	\$	\$
Unquoted equity investments, at cost	13,054,802	13,054,801

Details of the subsidiaries are as follows:

Name	Country of incorporation	Principal activities	Proportion (%) of ownership interest	
			2012	2011
<b>Held by the Company:</b>				
^ CaptiveVision Capital Ltd	Singapore	Investment holding, provision of aircraft leasing service and trading of quoted and unquoted securities	100	100
^ F11305 Pte Ltd	Singapore	Provision of aircraft leasing service	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

## Notes to the Financial Statements - 30 June 2012

### 11. Investment in subsidiaries (cont'd)

#### Held by subsidiaries:

	Name	Country of incorporation	Principal activities	Proportion (%) of ownership interest	
				2012	2011
*	A.C.N. 098 904 262 Pty Ltd	Australia	Investment holding	100	100
#	Capital Lease Australian Portfolio One Pty Ltd	Australia	Provision of aircraft leasing service	100	–
*	Skywest Airlines (Australia) Pty Ltd	Australia	Airline operator	100	100
^	Audited by Ernst & Young LLP, Singapore				
*	Audited by Ernst & Young, Australia				
#	Audited by Moore Stephens, Australia				

On 28 June 2012, the Group's subsidiary, Skywest Airlines (S) Pte. Ltd. acquired a 100% equity interest in Capital Lease Australian Portfolio One Pty Ltd ("C1") from a related party, Capital Lease Aviation PLC for a cash consideration of \$1,685,102. In addition, an amount of \$3,809,192 was extended to C1 from the Group in respect of acquiring existing amounts owing to Capital Lease Aviation PLC. C1 is a company whose principal activity is in the business of aircraft leasing and owns three F100 aircraft, all of which are leased to Skywest Airlines (Australia) Pty Ltd.

The fair value of the identifiable assets and liabilities as at acquisition date were:

	\$
Cash	254,175
Trade and other receivables	2,371,692
Property, plant and equipment	14,144,879
	16,770,746
Trade and other payables	(5,093,167)
Borrowings	(4,751,649)
Provisions	(3,246,657)
Income tax payable	(654,452)
	(13,745,925)
Total identifiable assets at fair value	3,024,821
Negative goodwill	(1,339,719)
	1,685,102

#### The effect of the acquisition on cash flows

The total consideration was paid subsequent to the year-end. Consequently the net cash inflow arising from the acquisition of C1 amounts to \$254,175.

#### Impact of the acquisition on profit or loss

From the acquisition date, C1 has contributed \$Nil to the Group's revenue and \$1,529,055 to the Group's profit for the year arising from the write-back of accumulated maintenance reserve between C1 and a subsidiary, previously charged to the profit or loss. If the business combination had taken place at the beginning of the year, the Group's revenue would remain the same while the Group's profit for the year would have been \$7,841,148.

#### Negative goodwill

The negative goodwill has arose due to the acquisition of C1, a non-core subsidiary of Capital Lease Aviation PLC, for a consideration that was below the fair value of the assets acquired.

## Notes to the Financial Statements - 30 June 2012

### 12. Trade and other receivables

#### Trade and other receivables – current

	Group		Company	
	2012	2011	2012	2011
	\$	\$	\$	\$
<b>Trade receivables - current</b>				
Trade receivables from third parties <sup>(1)</sup>	38,455,671	18,579,273	–	–
Less: Allowance for doubtful receivables	(771,480)	(131,706)	–	–
	37,684,191	18,447,567	–	–
<b>Other receivables - current</b>				
Interest bearing loan <sup>(2)</sup>	254,519	358,918	–	–
Interest receivable <sup>(2)</sup>	68,109	65,072	–	–
Amounts due from related parties <sup>(3)</sup>	661,516	12,308,831	81,106	126,493
Guarantee income receivable from a related party <sup>(4)</sup>	–	278,884	–	–
Deposits	534,144	178,770	30,610	31,005
Other receivables	1,918,500	182,203	–	–
Amounts due from subsidiaries <sup>(3)</sup>	–	–	36,778,198	33,674,903
	3,436,788	13,372,678	36,889,914	33,832,401
<b>Total</b>	<b>41,120,979</b>	<b>31,820,245</b>	<b>36,889,914</b>	<b>33,832,401</b>
<b>Other receivables - non-current</b>				
Deposits <sup>(5)</sup>	5,879,668	2,916,123	–	–
Interest bearing debenture <sup>(6)</sup>	161,859	145,424	–	–
<b>Total</b>	<b>6,041,527</b>	<b>3,061,547</b>	<b>–</b>	<b>–</b>

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

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

*Trade receivables that are past due but not impaired*

The Group has trade receivables amounting to \$24,086,286 (2011: \$12,442,890) that are past due at the reporting period but not impaired. The analysis of the ageing at the end of the period is as follows:

	Group	
	2012	2011
	\$	\$
Neither past due nor impaired	13,597,905	6,004,677
Past due 0 to 30 days	18,975,032	10,915,251
Past due 31 to 60 days	631,482	1,151,060
Past due more than 61 days	4,479,772	376,579
	37,684,191	18,447,567

Guarantees have been provided by a bank on behalf of to a subsidiary, Skywest Airlines (Australia) Pty Ltd, to various third parties. As at 30 June 2012, these guarantees amount to \$7,771,847 (2011: \$2,423,685).

## Notes to the Financial Statements - 30 June 2012

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

#### *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:

	2012	Group	2011
	\$		\$
Trade receivables – nominal amount	5,251,252		1,659,346
Less: Allowance for doubtful receivables	(771,480)		(131,706)
	4,479,772		1,527,640
<hr/>			
Movement in allowance accounts:			
Balance at beginning of year	131,706		–
Charge for the year	645,078		128,398
Translation adjustment	(5,304)		3,308
Balance at end of year	771,480		131,706

Trade receivables that are individually determined to be impaired at the end of the reporting period relate to debtors where certain invoices have significant delay in payment. These receivables are not secured by any collateral or credit enhancements.

<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 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 relating to the outstanding principal balance is 1% (2011: 1%) per annum. The interest bearing loan is repayable in cash.

<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 in cash.

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

The guarantee income receivable from a related party was secured and repayable on demand in cash. Interest was charged at an effective interest rate of 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 in cash.

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

The debenture is due from a third party and is repayable on 6 November 2014 in cash. Interest is charged at 10% (2011: 10%) per annum.

Trade and other receivables denominated in foreign currencies are as follows:

	Group		Company	
	2012	2011	2012	2011
	\$	\$	\$	\$
Australian Dollars	33,169,476	33,859,315	–	–
Euro	481,344	3,175	–	–
Sterling Pounds	322,639	270,035	–	–
United States Dollars	12,419,197	276,876	35,708	–
New Zealand Dollars	26,787	–	–	–

## Notes to the Financial Statements - 30 June 2012

### 13. Prepayments

#### *Prepayments - current*

	Group		Company	
	2012	2011	2012	2011
	\$	\$	\$	\$
Prepayments	1,286,286	3,231,348	48,370	50,943
Prepaid maintenance reserve	3,958,363	3,665,537	–	–
	5,244,649	6,896,885	48,370	50,943

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

#### *Prepayments – non-current*

	Group		Company	
	2012	2011	2012	2011
	\$	\$	\$	\$
Prepaid maintenance reserve	3,519,639	4,769,019	–	–

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	
	2012	2011
	\$	\$
Consumable spare parts	6,008,535	5,054,950
Consumable spare parts subject to retention of title clauses	–	73,976
Less: Allowance for inventory obsolescence	(882,228)	–
	5,126,307	5,128,926

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 inventory obsolescence is as follows:

Balance at beginning of year	–	–
Charge for the year	887,075	–
Translation adjustment	(4,847)	–
Balance at end of year	882,228	–

The cost of inventories included in the consolidated statement of comprehensive income as part of engineering and maintenance costs, amounted to \$1,048,431 (2011: \$3,456,959).

### 15. Other investments

	Group	
	2012	2011
	\$	\$
<b><i>Held for trading investments</i></b>		
Equity shares (quoted)	85,932	209,919
<b><i>Available-for-sale investments</i></b>		
Equity shares (unquoted)	256,414	256,414
	342,346	466,333

## Notes to the Financial Statements - 30 June 2012

### 15. Other investments (cont'd)

For the Group's other investments that are held for trading, the net fair value loss on quoted equity shares debited to profit or loss during the current year is \$18,474 (2011: net fair value gain of \$3,122).

Other investments denominated in foreign currencies are as follows:

	Group	
	2012	2011
	\$	\$
Australian Dollars	10,055	24,171
Sterling Pounds	75,877	82,789
United States Dollars	256,414	359,373

### 16. Cash and cash equivalents

Cash and cash equivalents denominated in foreign currencies are as follows:

	Group		Company	
	2012	2011	2012	2011
	\$	\$	\$	\$
Australian Dollars	20,671,995	7,776,754	13,217,828	879,752
Euro	365,322	229,621	-	-
Sterling Pounds	2,111,357	129,658	2,111,357	129,658
United States Dollars	895,121	1,346,122	108,162	1,308,568

### 17. Provisions

	Structural maintenance	Aircraft handback	Employee benefits	Total
	\$	\$	\$	\$
<b>Group</b>				
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
Translation adjustment	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
<b>Group</b>				
Balance at 1 July 2011	153,578	234,157	7,347,681	7,735,416
(Write-back)/Charge for the year	(151,503)	(12,616)	3,035,702	2,871,583
Translation adjustment	(2,075)	(3,165)	(99,399)	(104,639)
Balance at 30 June 2012	-	218,376	10,283,984	10,502,360
Less: Non-current portion	-	-	(665,154)	(665,154)
Current portion	-	218,376	9,618,830	9,837,206

Provision for structural maintenance is 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.

Provision for aircraft handback to meet contractual return aircraft minimum conditions, at the end of the lease terms for the aircraft under operating leases, is 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.

## Notes to the Financial Statements - 30 June 2012

### 18. Borrowings

	Group		Company	
	2012 \$	2011 \$	2012 \$	2011 \$
<b>Current liabilities</b>				
Secured loan I	–	285,467	–	–
Secured loan II	1,045,737	954,550	–	–
Secured loan III	1,111,829	–	–	–
Secured loan IV	2,247,234	–	–	–
Secured loan V	940,178	–	–	–
Unsecured loan	1,758,450	–	–	–
	7,103,428	1,240,017	–	–
<b>Non-current liabilities</b>				
Secured loan II	1,696,579	2,665,269	–	–
Secured loan V	452,409	–	–	–
Convertible loan	7,676,859	–	7,676,859	–
	9,825,847	2,665,269	7,676,859	–
<b>Total</b>	16,929,275	3,905,286	7,676,859	–

#### 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% (2011: 6.73%) per annum. The loan is secured by a first registered equitable mortgage over all the assets and undertakings of the Group. The loan has been fully repaid during the financial year.

#### 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% (2011: 6.18%) per annum. The loan is secured by a charge over the purchased aircraft whose carrying amount as at 30 June 2012 is \$4,828,147 (2011: \$5,158,218), 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 a loan between Capital Lease Australian Portfolio One Pty Ltd and Capital Finance Australia Ltd taken out for the purchase of an aircraft. The loan is for a five year period maturing December 2012 and bears a fixed effective interest of 6.495% per annum. The loan is secured by an aircraft of its subsidiary, Capital Lease Australian Portfolio One Pty Ltd and a guarantee from Skywest Airlines Ltd.

#### Secured loan IV

The secured loan IV is a loan between Capital Lease Australian Portfolio One Pty Ltd and Capital Finance Australia Ltd taken out for the purchase of two aircraft. The loan is for a five year period maturing June 2013 and bears a fixed effective interest of 6.37% per annum. The loan is secured by an aircraft of its subsidiary, Capital Lease Australian Portfolio One Pty Ltd and a guarantee from Skywest Airlines Ltd.

#### Secured loan V

The secured loan V is a loan between Capital Lease Australian Portfolio One Pty Ltd and Capital Finance Australia Ltd. The loan is for a three year period maturing December 2013 and bears a fixed effective interest of 5.23% per annum. The loan is secured by an aircraft of its subsidiary, Capital Lease Australian Portfolio One Pty Ltd and a guarantee from Skywest Airlines Ltd.

#### Unsecured loan

The unsecured loan relates to insurance premium borrowing between Skywest Airlines (Australia) Pty Ltd and Macquarie Bank Ltd, maturing on December 2012 and bears fixed interest at between 3.59% to 4.29% per annum.

## Notes to the Financial Statements - 30 June 2012

### 18. Borrowings (cont'd)

#### Convertible loan

On 10 April 2012, the Company issued a convertible loan of A\$8,000,000 to VB Investco Pty Ltd (the "holder") which matures on 15 April 2015 and the holder has an option to convert the loan to ordinary shares of the Company at any time during the term up to maturity at A\$0.45 per share. The convertible loan bears interest at 7.5% per annum. In addition, the Company has granted the holder two tranches of 4 million warrants and 2.41 million warrants respectively, at a grant price of A\$0.05 per warrant, and are convertible to ordinary shares of the Company at any time until 15 April 2015, at a conversion price of A\$0.45 per share. The convertible loan holder has subscribed to the two tranches of warrants during the financial year and none of these have been converted to ordinary shares as at year-end.

The carrying amount of the convertible loan is as follows:

	Group and Company	
	2012	2011
	\$	\$
Face value of convertible loan and warrants	10,800,374	–
Fair value of embedded derivative – warrants	(791,362)	–
Fair value of embedded derivative – conversion option	(2,451,134)	–
Liability component of convertible loan, at initial recognition	7,557,878	–
Amortisation of interest expense on convertible loan liability	118,981	–
Liability component of convertible loan, at balance sheet date	7,676,859	–

Borrowings are denominated in foreign currencies are as follows:

	Group		Company	
	2012	2011	2012	2011
	\$	\$	\$	\$
United States Dollars	7,493,842	3,905,286	–	–
Australian Dollars	9,435,556	–	7,676,859	–

### 19. Trade and other payables

#### Trade and other payables - current

	Group		Company	
	2012	2011	2012	2011
	\$	\$	\$	\$
Trade payables	21,420,009	14,315,874	88,490	49,446
Amount due to related parties	6,935,226	2,676,194	–	–
Amount due to a subsidiary	–	–	1,015,694	–
Loan due to a related party	214,180	–	–	–
Accrued operating expenses	16,528,874	13,465,979	223,677	69,261
	45,098,289	30,458,047	1,327,861	118,707

#### Other payables – non-current

Deposits	3,636,870	–	–	–
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Trade and other payables are non-interest bearing. Trade payables are normally settled on 60-day terms and in cash. Accrued operating expenses mainly relate to fuel costs and leasing costs for aircraft.

The amounts due to related parties and a subsidiary are non-trade in nature, unsecured, non-interest bearing, and are repayable on demand in cash.

The loan due to a related party is non-trade in nature, unsecured and is repayable on demand in cash. Interest is charged at 7% per annum on the outstanding balance of the loan.

## Notes to the Financial Statements - 30 June 2012

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

Non-current deposits 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 in cash.

Trade and other payables denominated in foreign currencies are as follows:

	Group		Company	
	2012 \$	2011 \$	2012 \$	2011 \$
Australian Dollars	37,770,920	24,773,969	1,266,911	1,726
Euro	1,836,704	886,510	15,915	–
New Zealand Dollars	120,665	46,291	–	–
Sterling Pounds	231,257	4,459	–	919
United States Dollars	3,123,345	3,728,111	–	–

### 20. Revenue received in advance

Revenue received in advance arises from sales made where tickets have been issued but the flight has yet to take place and will be recognised as revenue in the profit or loss when the tickets are availed (the flight takes place).

### 21. Finance lease liabilities

The Group has finance leases for an aircraft engine and aircraft (2011: an aircraft engine). These leases expire between September 2014 and April 2018 and the Group may exercise options to purchase the engine and aircraft. These leases contain no escalation clauses or any restrictions such as those concerning dividends, additional debt, and further leasing.

	Group			
	2012		2011	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Within one year	1,956,604	1,702,246	436,216	367,470
Later than one year but not later than five years	2,893,729	2,487,173	1,376,812	769,891
More than five years	98,221	86,676	217,577	164,097
Total minimum lease payments	4,948,554	4,276,095	2,030,605	1,301,458
Less: amounts representing finance charges	(672,459)	–	(729,147)	–
	4,276,095	4,276,095	1,301,458	1,301,458

### 22. Derivative financial instruments

	Group		Company	
	2012 \$	2011 \$	2012 \$	2011 \$
<b>Current:</b>				
Fuel hedging contracts	739,952	827,535	–	–
<b>Non-current:</b>				
Fair value of embedded derivative of convertible loan – warrants	293,375	–	293,375	–
Fair value of embedded derivative of convertible loan – conversion option	884,002	–	884,002	–
	1,177,377	–	1,177,377	–
	1,917,329	827,535	1,917,329	–

The fair value gain of embedded derivatives relating to the warrants and conversion option of the convertible loan amounts to \$497,987 (2011: \$Nil) and \$1,567,132 (2011: \$Nil) respectively and have been recognised in profit or loss (Note 5).

The notional amount of fuel hedging contracts outstanding as at 30 June 2012 amounted to \$2,003,242 (2011: \$1,084,853) and mature within 12 months.

## Notes to the Financial Statements - 30 June 2012

### 23. Deferred tax liabilities

	Group	
	2012	2011
	\$	\$
Deferred tax assets:		
Provisions and accruals	3,415,376	2,357,260
Revenue received in advance	76,975	85,793
Derivative financial instruments	221,985	248,260
Accruals	221,974	–
Trade and other receivables	148,661	150,697
Unutilised tax losses	235,011	209,916
Others	372,713	32,918
	4,692,695	3,084,844
Deferred tax liabilities:		
Inventories	1,802,561	1,534,279
Property, plant and equipment	8,096,199	10,549,685
Prepayments	291,326	388,336
Prepaid maintenance reserves	2,045,379	2,530,366
	12,235,465	15,002,666
Net deferred tax liabilities	7,542,770	11,917,822

At the end of the reporting period, the Group through its Australian subsidiary has capital tax losses of approximately \$11,729,198 (2011: \$11,889,835) that are available for offset against future capital taxable profits in its current tax legislation. These capital tax losses do not expire under the subsidiary's current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits there from.

### 24. Share capital and treasury shares

#### (a) Share capital

	Group and Company			
	2012		2011	
	No. of shares	\$	No. of shares	\$
Issued and fully paid:				
At 1 July	200,040,000	43,927,891	199,600,000	43,809,091
Issue of shares under warrant scheme	2,600,000	702,003	440,000	118,800
Issue of shares	8,000,000	3,752,395	–	–
At 30 June	210,640,000	48,382,289	200,040,000	43,927,891

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 2,600,000 (2011: 440,000) of its shares under the Warrant Share Option scheme at 10.25 pence (\$0.24) (2011: 10.25 pence (\$0.24)) per share during the financial year, which were fully vested on issue.

The Company issued 4,000,000 of its shares at 25 pence (\$0.50) per share and 4,000,000 of its shares at A\$0.38 (\$0.50) per share during the year.

## Notes to the Financial Statements - 30 June 2012

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

#### (b) Treasury shares

	Group and Company 2012	
	No. of treasury shares	\$
Issued and fully paid:		
At 1 July	–	–
Acquired during the year	(500,000)	(229,870)
At 30 June	(500,000)	(229,870)

During the financial year, the Company acquired 500,000 treasury shares through purchases on the AIM. The total amount paid to acquire the shares was \$229,870 and this was presented as a component within shareholders' equity.

### 25. 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.

### 26. Employee benefits

	Group	
	2012 \$	2011 \$
Employee benefits expense (including directors):		
Directors' fees	180,000	180,000
Short term benefits	88,068,415	56,205,955
Defined contribution plans	20,375	3,720,849
Warrant expense	560,032	396,003
	88,828,822	60,502,807

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

## Notes to the Financial Statements - 30 June 2012

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

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

	Group	
	2012	2011
	\$	\$
Directors' fees	180,000	180,000
Short term benefits	1,904,705	2,082,759
Defined contribution plans	40,954	71,117
Warrant expense	560,032	396,003
	2,685,691	2,729,879
Comprise amounts paid to:		
Directors	1,416,781	1,264,238
Key management personnel	1,268,910	1,465,641
	2,685,691	2,729,879

#### **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. Warrants are issued fully vested and expire if not exercised within 1 to 2 years from grant date.

#### *Movement of warrants during the financial year*

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

	2012		2011	
	No.	WAEP	No.	WAEP
Outstanding at 1 July	5,300,000	\$0.34 (17.00 pence)	3,040,000	\$0.24 (10.25 pence)
- Granted	5,100,000	\$0.52 (25.78 pence)	2,700,000	\$0.47 (23.50 pence)
- Exercised	(2,600,000)	\$0.24 (10.25 pence)	(440,000)	\$0.24 (10.25 pence)
Outstanding at 30 June	7,800,000	\$0.49 (24.99 pence)	5,300,000	\$0.34 (17.00 pence)
Exercisable at 30 June	7,800,000	\$0.49 (24.99 pence)	5,300,000	\$0.34 (17.00 pence)

- The weighted average remaining contractual life for the warrants outstanding as at 30 June 2012 is 1.13 years (2011: 0.92 years).
- The weighted average fair value of the warrants granted during the financial year was \$0.11 (2011: \$0.15).
- The weighted average share price at the date of exercise of the warrant exercised during the financial year was 26.75 pence (2011: 31.6 pence).
- The exercise price for warrant outstanding at the end of the year was \$0.49 (24.99 pence) (2011: \$0.34 (17 pence)).

## Notes to the Financial Statements - 30 June 2012

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

#### *Fair value of warrants granted*

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

The following table lists the inputs into the binomial option pricing model year ended 30 June 2012 and 2011:

	2012	2011
Dividend yield	3.23%	3.23%
Expected volatility	40%	65%
Risk-free interest rate	0.35% per annum	1.29% per annum
Expected life of warrant	2 years	2 years
Weighted average share price	25.78 pence	23.50 pence

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

### 27. 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
		\$	\$	\$	\$
Aviation PLC	2012	39,476	541,776	146,664	214,180
	2011	34,694	-	103,561	1,359,930
Aviation Airframe Holding Pte Ltd	2012	-	6,392	-	-
	2011	-	-	-	-
Aviation Eastern Fleet Pte. Ltd.	2012	406,136	-	434,565	-
	2011	-	-	-	-
Airframe Leasing (S) Pte Ltd	2012	-	11,553,604	2,649,137	-
	2011	-	-	-	-
Airframe Leasing (S) II Pte Ltd	2012	-	4,525,071	1,483,041	545,572
	2011	-	-	-	-
Aviation.net Inc	2012	-	570,056	170,140	28,587
	2011	-	1,494,972	151,121	103,417
Capital Lease Aviation PLC	2012	5,497	1,685,102	745,755	5,351,650
	2011	221,019	67,513	1,080,443	-
Capital Lease Australian Portfolio One Pty Ltd	2012	907,672	6,026,231	-	-
	2011	142,694	6,927,701	1,933,191	127,668
Diamond Distribution & Polishing Pte Ltd	2012	-	-	-	-
	2011	-	-	200	-
Epsom Assets Ltd	2012	3,226	-	322,638	-
	2011	3,674	-	423,990	-
F100 Pty Ltd	2012	1,119,463	9,850,263	-	964,289
	2011	2,638,100	10,260,265	8,017,734	217,439

## Notes to the Financial Statements - 30 June 2012

### 27. Related party transactions (cont'd)

Related parties		Sales to/income from related parties	Purchases from related parties	Amount owed by related parties	Amount owed to related parties
		\$	\$	\$	\$
Luflet SRO	2012	–	103,960	–	12,924
	2011	–	–	–	–
MSN 429 Limited	2012	–	2,856,215	932,547	248,085
	2011	–	2,967,086	1,255,156	850,504
PPT Consulting Pte. Ltd.	2012	–	761,944	–	–
	2011	–	183,717	–	–
Takeoff Services Pte. Ltd.	2012	–	561,317	40,426	–
	2011	–	123,539	46,309	17,236

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

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 \$570,056 (2011: \$1,494,972), \$Nil (2011: \$67,513) and \$561,317 (2011: \$123,539) to Avation.net Inc, Capital Lease Aviation PLC and Takeoff Services Pte Ltd respectively during the financial year.
- (2) The Group paid \$16,078,675 (2011:\$Nil) for the lease of ATR 72 aircraft, \$16,537,271 (2011:\$17,187,966) for the lease of F100 aircraft, \$2,856,215 (2011:\$2,967,086) for the lease of A320 aircraft to the following related parties:
  - Capital Lease Australia Portfolio One Pty Ltd
  - Airframe Leasing (S) Pte. Ltd.
  - Airframe Leasing (S) II Pte. Ltd.
  - F100 Pty Ltd
  - MSN 429 Limited
  - Avation PLC
  - Takeoff Services Pte Ltd
- (3) Service fees of \$761,944 (2011: \$183,717) was paid to PPT Consulting Pte Ltd during the financial year.
- (4) Service fees of \$103,960 (2011: \$Nil) was paid to Luflet SRO during the financial year.
- (5) The Group paid \$1,685,102 to a related party, Capital Lease Aviation PLC to purchase a wholly owned subsidiary, Capital Lease Australian Portfolio One Pty Ltd on 28 June 2012.

#### **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 2012, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2011: \$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 26.

## Notes to the Financial Statements - 30 June 2012

### 28. 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	
	2012	2011	2012	2011
	\$	\$	\$	\$
Less than one year	115,405	87,750	–	–
Between two to five years	–	65,813	–	–
	115,405	153,563	–	–

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 0.75 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 12 (2011: 10) aircraft under operating leases. At the end of the reporting period, the remaining lease terms are 1 to 10 years. The lease terms for the aircraft are as follows:

##### West Coast (Australia)

3 years	-	1 aircraft
2 years	-	3 aircraft
1 years	-	2 aircraft

##### East Coast (Australia)

10 years	-	4 aircraft
9 years	-	2 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	
	2012	2011	2012	2011
	\$	\$	\$	\$
Less than one year	25,110,467	13,917,446	–	–
Between two to five years	72,604,799	13,200,173	–	–
More than 5 years	73,883,994	–	–	–
	171,599,260	27,117,619	–	–

Non-cancellable leases are as follows separated into West Coast Skywest Fleet and East Coast Australian Regional Airline Network:

	Group	
	2012	2011
	\$	\$
West Coast	13,142,395	27,117,619
East Coast	158,456,865	–

## Notes to the Financial Statements - 30 June 2012

### 29. Earnings per share

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

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

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

	Group	
	2012 \$	2011 \$
Profit for the year	7,117,108	9,849,204
	<b>No. of ordinary shares</b>	
Weighted average number of ordinary shares for basic earnings per share computation *	203,537,842	199,686,795
Effects of dilutive warrants	–	1,527,225
Weighted average number of ordinary shares for diluted earnings per share computation *	203,537,842	201,214,020

The convertible loan and warrants issued in connection with the convertible loan and to the directors and other executives of the Group have an anti-dilutive effect on the basic earnings per share for the year and were not taken into account in the calculation of diluted earnings per share for the year. Accordingly, diluted earnings per share are the same as basic earnings per share.

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

### 30. Dividends

	Company	
	2012 \$	2011 \$
<b>Declared and paid during the financial year</b>		
<i>Dividends on ordinary shares</i>		
- Final exempt (one-tier) dividend for 2011: \$0.0123 (2011: \$0.011) per share	2,461,196	2,221,021
<b>Proposed but not recognised as a liability as at 30 June</b>		
<i>Dividends on ordinary shares, subject to shareholders' approval at the Annual General Meeting</i>		
- Final exempt (one-tier) dividend for 2012: \$0.0129 (2011: \$0.0123) per share	2,710,806	2,460,492

## Notes to the Financial Statements - 30 June 2012

### 31. 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>2012</b>				
<b>Financial asset:</b>				
Held for trading investment				
- Equity shares (quoted)	15	85,932	-	85,932
<b>At 30 June 2012</b>		<b>85,932</b>	<b>-</b>	<b>85,932</b>
<b>Financial liabilities:</b>				
Derivative financial instruments				
- Fuel hedging contracts	22	-	739,952	739,952
- Convertible loan embedded derivative (warrants)	22	-	293,375	293,375
- Convertible loan embedded derivative (conversion option)	22	-	884,002	884,002
<b>At 30 June 2012</b>		<b>-</b>	<b>1,917,329</b>	<b>1,917,329</b>
<b>2011</b>				
<b>Financial asset:</b>				
Held for trading investment				
- Equity shares (quoted)	15	209,919	-	209,919
<b>At 30 June 2011</b>		<b>209,919</b>	<b>-</b>	<b>209,919</b>
<b>Financial liabilities:</b>				
Derivatives				
- Fuel hedging contracts		-	827,535	827,535
<b>At 30 June 2011</b>		<b>-</b>	<b>827,535</b>	<b>827,535</b>

31. Fair value of financial instruments (cont'd)

A. **Fair value of financial instruments that are carried at fair value (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 2012 and 2011.

Quoted equity shares (Note 15): The fair values of these shares are determined directly by reference to their published market bid price at the end of the reporting period.

Derivative financial instruments (Fuel hedging contracts): 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.

Derivative financial instruments (Convertible loan): The fair values of the embedded derivatives of the convertible loan are calculated using the binomial option pricing method based on certain assumption of volatility that is not supported by observable market data. The Binomial option pricing method takes into account changes in the stock price, which is determined by parameters such as risk free rate, time step and the volatility of the stock price.

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.

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

Management has determined that the carrying amounts of short-term available-for-sale investment in unquoted equity shares (Note 15) are not reasonable approximations of fair values. These investments are carried at cost and fair value information has not been disclosed for these instruments because fair value cannot be reliably measured. 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. The Group intends to dispose of this investment in the foreseeable future through sale to investors.

## Notes to the Financial Statements - 30 June 2012

### 31. 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 2012 and 2011 by categories.

Group	Financial assets		Available-for-sale financial assets	Loans and receivables	Financial liabilities carried at amortised cost	Derivatives at fair value through profit or loss	Non-financial assets/liabilities		Total
	Derivatives used for hedging	at fair value through profit or loss					assets/liabilities		
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>30 June 2012</b>									
<b>Assets</b>									
Property, plant and equipment	-	-	-	-	-	-	82,685,163	82,685,163	82,685,163
Intangible assets	-	-	-	-	-	-	17,189,508	17,189,508	17,189,508
Trade and other receivables	-	-	-	47,162,506	-	-	-	47,162,506	47,162,506
Prepayments	-	-	-	-	-	-	8,764,288	8,764,288	8,764,288
Inventories	-	-	-	-	-	-	5,126,307	5,126,307	5,126,307
Other investments	-	85,932	256,414	-	-	-	-	342,346	342,346
Cash and cash equivalents	-	-	-	24,727,772	-	-	-	24,727,772	24,727,772
	-	85,932	256,414	71,890,278	-	-	113,765,266	185,997,889	185,997,889
<b>Liabilities</b>									
Provisions	-	-	-	-	-	-	10,502,360	10,502,360	10,502,360
Income tax payable	-	-	-	-	-	-	6,742,440	6,742,440	6,742,440
Deferred tax liabilities	-	-	-	-	-	-	7,542,770	7,542,770	7,542,770
Borrowings	-	-	-	-	16,929,276	1,177,377	-	18,106,653	18,106,653
Trade and other payables	-	-	-	-	48,735,159	-	-	48,735,159	48,735,159
Revenue received in advance	-	-	-	-	-	-	10,320,843	10,320,843	10,320,843
Finance lease liability	-	-	-	-	4,276,095	-	-	4,276,095	4,276,095
Derivative financial instruments	739,952	-	-	-	-	-	-	739,952	739,952
	739,952	-	-	-	69,940,530	1,177,377	35,108,413	106,966,272	106,966,272

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

Group	Financial assets		Available-for-sale financial assets	Loans and receivables	Financial liabilities carried at amortised cost	Non-financial assets/liabilities	Total
	Derivatives used for hedging	at fair value through profit or loss					
	\$	\$	\$	\$	\$	\$	\$
<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	-	209,919	256,414	-	-	-	466,333
Cash and cash equivalents	-	-	-	9,966,329	-	-	9,966,329
	-	209,919	256,414	44,848,121	-	96,766,764	142,081,218
<b>Liabilities</b>							
Provisions	-	-	-	-	-	7,735,416	7,735,416
Income tax payable	-	-	-	-	-	3,130,843	3,130,843
Deferred tax liabilities	-	-	-	-	-	11,917,822	11,917,822
Borrowings	-	-	-	-	3,905,286	-	3,905,286
Trade and other payables	-	-	-	-	30,458,047	-	30,458,047
Revenue received in advance	-	-	-	-	-	12,507,276	12,507,276
Finance lease liability	-	-	-	-	1,301,458	-	1,301,458
Derivative financial instruments	827,535	-	-	-	-	-	827,535
	827,535	-	-	-	35,664,791	35,291,357	71,783,683

## Notes to the Financial Statements - 30 June 2012

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

Company	Loans and receivables \$	Financial liabilities carried at amortised cost \$	Derivatives at fair value through profit or loss \$	Non-financial assets/liabilities \$	Total \$
<b>30 June 2012</b>					
<b>Assets</b>					
Property, plant and equipment	-	-	-	3,167	3,167
Subsidiaries	-	-	-	13,054,802	13,054,802
Trade and other receivables	36,889,914	-	-	-	36,889,914
Prepayments	-	-	-	48,370	48,370
Cash and cash equivalents	15,595,911	-	-	-	15,595,911
	52,485,825	-	-	13,106,339	65,592,164
<b>Liabilities</b>					
Income tax payable	-	-	-	257,128	257,128
Trade and other payables	-	1,327,862	-	-	1,327,862
Borrowings	-	7,676,859	1,177,377	-	8,854,236
	-	9,004,721	1,177,377	257,128	10,439,226
<b>30 June 2011</b>					
<b>Assets</b>					
Property, plant and equipment	-	-	-	18,039	18,039
Subsidiaries	-	-	-	13,054,801	13,054,801
Trade and other receivables	33,832,401	-	-	-	33,832,401
Prepayments	-	-	-	50,943	50,943
Cash and cash equivalents	2,357,193	-	-	-	2,357,193
	36,189,594	-	-	13,123,783	49,313,377
<b>Liabilities</b>					
Income tax payable	-	-	-	746,471	746,471
Trade and other payables	-	-	118,707	-	118,707
	-	-	118,707	746,471	865,178

## Notes to the Financial Statements - 30 June 2012

### 32. Financial risk management objectives and policies

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

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

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

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

#### (i) Foreign currency risk

The Group operates in Australia and Singapore, and has transactional currency exposures arising from sales or purchases that are denominated in a currency other than the respective functional currencies of the Group entities. The Group and Company also has trade and other receivables, other investments, trade and other payables, borrowings and finance lease liabilities 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:

	United States Dollars \$	Sterling Pounds \$	Euro \$	New Zealand Dollars \$	Total \$
<b>Group</b>					
<b>2012</b>					
<b>Financial assets</b>					
Trade and other receivables	12,419,197	322,639	481,344	26,787	13,249,967
Other investments	256,414	75,877	–	–	332,291
Cash and cash equivalents	895,121	2,111,357	365,322	–	3,371,800
	13,570,732	2,509,873	846,666	26,787	16,954,058
<b>Financial liabilities</b>					
Borrowings	7,493,843	–	–	–	7,493,843
Trade and other payables	3,123,345	231,257	1,836,704	120,665	5,311,971
Finance lease liability	4,276,094	–	–	–	4,276,094
	14,893,282	231,257	1,836,704	120,665	17,081,908
Net financial assets/ (liabilities)	(1,322,550)	2,278,616	(990,038)	(93,878)	(127,850)

## Notes to the Financial Statements - 30 June 2012

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

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

Group	United States Dollars \$	Sterling Pounds \$	Euro \$	New Zealand Dollars \$	Total \$
<b>2011</b>					
<b>Financial assets</b>					
Trade and other receivables	276,876	270,035	3,175	–	550,086
Other investments	359,373	82,789	–	–	442,162
Cash and cash equivalents	1,346,122	129,658	229,621	–	1,705,401
	1,982,371	482,482	232,796	–	2,697,649
<b>Financial liabilities</b>					
Borrowings	3,905,286	–	–	–	3,905,286
Trade and other payables	3,728,111	4,459	886,510	46,291	4,665,371
	7,633,397	4,459	886,510	46,291	8,570,657
Net financial assets/ (liabilities)	(5,651,026)	478,023	(653,714)	(46,291)	(5,873,008)

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

Company	Euro \$	United States Dollars \$	Sterling Pounds \$	Total \$
<b>2012</b>				
<b>Financial assets</b>				
Other receivables	–	35,708	–	35,708
Cash and cash equivalents	–	108,162	2,111,357	2,219,519
	–	143,870	2,111,357	2,255,227
<b>Financial liabilities</b>				
Trade and other payables	15,915	–	–	15,915
<b>Net financial assets</b>	(15,915)	143,870	2,111,357	2,239,312
<b>2011</b>				
<b>Financial assets</b>				
Cash and cash equivalents	–	1,308,568	129,658	1,438,226
<b>Financial liabilities</b>				
Trade and other payables	–	–	919	919
<b>Net financial assets</b>	–	1,308,568	128,739	1,437,307

#### 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	
		2012 \$	2011 \$
AUD	- strengthened 10% (2011: 10%)	547,000	1,689,000
	- weakened 10% (2011: 10%)	(547,000)	(1,689,000)
EUR	- strengthened 10% (2011: 10%)	99,000	(65,000)
	- weakened 10% (2011: 10%)	(99,000)	65,000
GBP	- strengthened 10% (2011: 10%)	228,000	48,000
	- weakened 10% (2011: 10%)	(228,000)	(48,000)
USD	- strengthened 10% (2011: 10%)	132,000	(695,000)
	- weakened 10% (2011: 10%)	(132,000)	695,000

## Notes to the Financial Statements - 30 June 2012

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

#### (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	
		2012	2011
		\$'000	\$'000
ASX	- 2% better (2011: 2%)	*	*
	- 2% worse (2011: 2%)	*	*
NYSE	- 2% better (2011: 2%)	5	2
	- 2% worse (2011: 2%)	(5)	(2)
LSE	- 2% better (2011: 2%)	2	2
	- 2% worse (2011: 2%)	(2)	(2)

\* Amount less than \$1,000.

The Group deals in aviation fuel forward commodity contracts for the purposes of providing an economic hedge against aviation fuel costs. The limits of this trading are set by the Board.

A 10 percent increase in the price of US\$ denominated Mean of Platts Singapore Jet A-1 spot price would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant and the hedge is still deemed effective. The analysis is performed on the same basis for 2011. Amounts are post tax and with an assumed delta of 90% and excludes any savings or losses the company would make on fuel.

	Profit or Loss 10% price increase	Equity 10% price decrease	10% price increase	10% price decrease
	\$	\$	\$	\$
<b>30 June 2012</b>				
Hedging Instruments	-	-	(708,957)	679,872
Cash flow sensitivity (net)	-	-	(708,957)	679,872

#### (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.

## Notes to the Financial Statements - 30 June 2012

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

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

##### *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	2012		2011	
	\$	%	\$	%
By country				
Australia	38,455,671	100%	18,579,273	100%
By industry				
Airline operator	38,455,671	100%	18,579,273	100%

Financial assets that are neither past due nor impaired

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

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% (2011: 45%) of 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 39% (2011: 34%) 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.

Group	Less than one	One to five	More than	Total
	year	years	five years	
2012	\$	\$	\$	\$
<b>Financial assets:</b>				
Trade and other receivables	41,120,979	7,294,461	–	48,415,440
Other investments	342,346	–	–	342,346
Cash and cash equivalents	24,727,772	–	–	24,727,772
Total undiscounted financial assets	66,191,097	7,294,461	–	73,485,558
<b>Financial liabilities:</b>				
Trade and other payables	45,098,289	4,240,796	–	49,339,085
Finance lease liabilities	1,956,604	2,893,729	98,221	4,948,554
Derivative financial instruments	739,952	–	–	739,952
Borrowings	7,103,428	12,573,564	–	19,676,992
Total undiscounted financial liabilities	54,898,273	19,708,089	98,221	74,704,583
Total net undiscounted financial assets/(liabilities)	11,292,824	(12,413,628)	(98,221)	(1,219,025)

## Notes to the Financial Statements - 30 June 2012

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

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

Group	Less than one year	One to five years	More than five years	Total
2011	\$	\$	\$	\$
<b>Financial assets:</b>				
Trade and other receivables	31,820,245	3,199,091	–	35,019,336
Other investments	466,333	–	–	466,333
Cash and cash equivalents	9,966,329	–	–	9,966,329
Total undiscounted financial assets	42,252,907	3,199,091	–	45,451,998
<b>Financial liabilities:</b>				
Trade and other payables	30,458,047	–	–	30,458,047
Finance lease liabilities	436,216	1,376,812	217,577	2,030,605
Derivative financial instruments	827,535	–	–	827,535
Borrowings	1,240,017	2,880,591	–	4,120,608
Total undiscounted financial liabilities	32,961,815	4,257,403	217,577	37,436,795
Total net undiscounted financial assets/(liabilities)	9,291,092	(1,058,312)	(217,577)	8,015,203

Company	Less than one year	One to five years	Total
2012	\$	\$	\$
<b>Financial assets:</b>			
Trade and other receivables	36,889,914	–	36,889,914
Cash and cash equivalents	15,595,911	–	15,595,911
Total undiscounted financial assets	52,485,825	–	52,485,825
<b>Financial liabilities:</b>			
Trade and other payables	1,327,862	–	1,327,862
Borrowings	–	10,339,200	10,339,200
Total undiscounted financial liabilities	1,327,862	10,339,200	11,667,062
Total net undiscounted financial assets/(liabilities)	51,157,963	(10,339,200)	40,818,763

Company	Less than one year
2011	\$
<b>Financial assets:</b>	
Trade and other receivables	33,832,401
Cash and cash equivalents	2,357,193
Total undiscounted financial assets	36,189,594
<b>Financial liabilities:</b>	
Trade and other payables	118,707
Total undiscounted financial liabilities	118,707
Total net undiscounted financial assets	36,070,887

## Notes to the Financial Statements - 30 June 2012

### 33. 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 2012 and 30 June 2011.

The Group monitors capital based on gearing ratio which is defined by the Group as borrowings, finance lease liabilities net of cash divided by total capital plus borrowings, finance lease liabilities net of cash. Capital includes equity attributable to owners of the Company less cash flow hedge reserve.

	Note	Group	
		2012	2011
		\$	\$
Borrowings	18	16,929,275	3,905,286
Finance lease liabilities	21	4,276,095	1,301,458
Less: Cash and cash equivalents	16	(24,727,772)	(9,966,329)
Net debt		(3,522,402)	(4,759,585)
Equity attributable to owners of the Company		79,031,618	70,297,535
Less: Cash flow hedge reserve		(517,965)	(579,275)
Total capital		78,513,653	69,718,260
Total equity and net debt		74,991,251	64,958,675
Gearing ratio		4.70%	7.33%

### 34. Operating segments

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

#### **Airline operator segment**

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

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

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

	Group	
	2012	2011
	\$	\$
<b>Australia</b>	303,316,386	239,910,036
The analysis of the geographical location of property, plant and equipment are as follows:		
Australia	82,648,334	62,745,893
Singapore	36,829	36,534
Total property, plant and equipment	82,685,163	62,782,427

## Notes to the Financial Statements - 30 June 2012

### 35. Subsequent events

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

- (a) A subsidiary, Skywest Airlines (Singapore) Pte Ltd on 9 July 2012 purchased an aircraft engine.
- (b) A subsidiary, Skywest Airlines (Australia) Pty Ltd took delivery of 2 ATR 72-600 series aircraft on 3 August 2012 and 6 September 2012, leased from its related party, Airframe Leasing (S) Pte Ltd.
- (c) The Directors of the Company have resolved to recommend a final dividend of \$0.0129, 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).

### 36. Authorisation of financial statements for issue

The financial statements for the year ended 30 June 2012 were authorised for issue in accordance with a resolution of the directors on 27 September 2012.

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## Shareholding Information

### Register of Top 20 Ordinary Shareholders

(AS AT 24 SEPTEMBER 2012)

Name of Holder	Number of Shares
CITICORP NOMINEES PTY LIMITED	18,508,073
APOLLO NOMINEES LTD	15,201,087
UBS NOMINEES PTY LTD	13,340,403
CREDIT SUISSE SECURITIES (EUROPE) LIMITED	12,107,440
FITEL NOMINEES LIMITED	10,921,867
CHASE NOMINEES LIMITED	9,000,000
FITEL NOMINEES LIMITED	9,000,000
NATIONAL NOMINEES LIMITED	7,025,004
PERSHING NOMINEES LIMITED	6,559,333
UBS WEALTH MANAGEMENT	4,700,000
HSBC GLOBAL CUSTODY NOMINEE (UK) LIMITED	4,270,000
QIC LIMITED	4,215,029
FITEL NOMINEES LIMITED	4,000,000
MIBAGO (S) PTE LTD	3,973,743
SMITH & WILLIAMSON NOMINEES LIMITED	3,632,000
HARGREAVE HALE NOMINEES LIMITED	3,393,988
VIDACOS NOMINEES LIMITED	3,300,000
THE BANK OF NEW YORK (NOMINEES) LIMITED	3,190,801
HSBC CUSTODY NOMINEES	3,059,129
FITEL NOMINEES LIMITED	3,050,000

## Corporate Directory

### Directors

Robert Jeffries Chatfield (Executive Chairman)  
Seah Kian Peng (Non-executive Director)  
John Leonard Jost (Non-executive Director)  
Ronald Lewis Aitkenhead (Non-executive Director)

### Business Address

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### Company Secretaries

Siobhan Mary Cool  
Han Kee Fong

### Registered Office

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### Nominated Adviser

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### Stockbroker

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### Australian Registrars

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