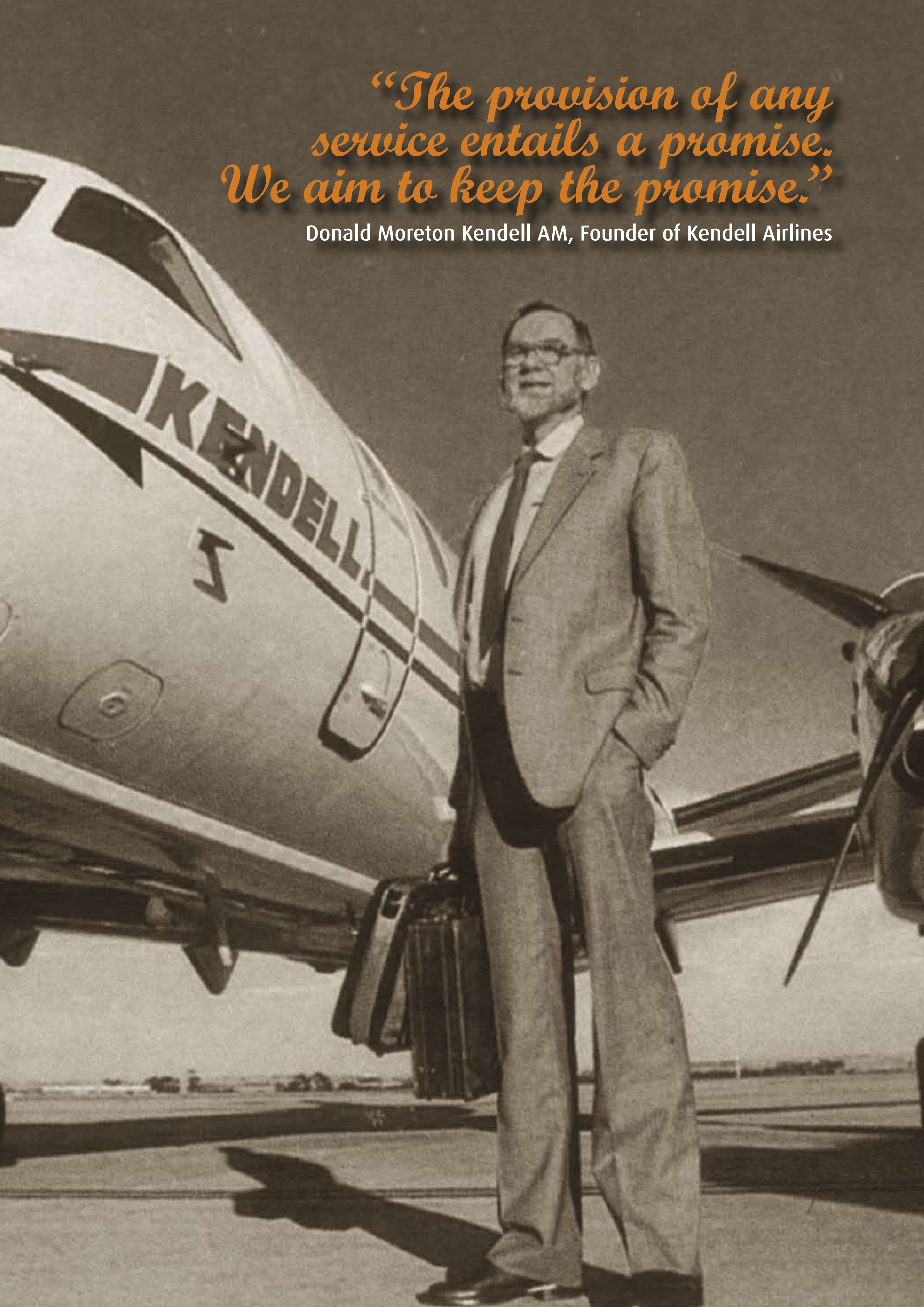
Keeping The Promise

Annual Report

For The Year Ended
30 June 2006

Regional Express Holdings Limited
ACN 099 547 270



"The provision of any service entails a promise. We aim to keep the promise."

Donald Moreton Kendell AM, Founder of Kendell Airlines

CONTENTS

CORPORATE INFORMATION

This annual report covers both Regional Express Holdings Limited as an individual entity and the consolidated entity comprising Regional Express Holdings Limited and its subsidiaries. The Group's functional and presentation currency is AUD ($).

A description of the Group's operations and of its principal activities is included in the review of operations and activities in the Directors' Report on pages 5 – 28. The Directors' Report is not part of the Financial Report.

DIRECTORS

Lim Kim Hai
John Sharp
Geoffrey Breust
James Davis
David Miller
Lee Thian Soo
Robert Winnel
Russell Hodge
Chong Meng Tak Christopher (Ceased on 9 September 2005)

COMPANY SECRETARY

Irwin Tan

REGISTERED OFFICE

Level 1, 2B Lord Street,
Botany, NSW 2019
(Ph): 02 9023 3555

SHARE REGISTRY

Link Market Services Limited
Level 4, 333 Collins Street,
Melbourne, VIC 3000

SOLICITORS

Baker & McKenzie
Level 27, AMP Centre,
Sydney, NSW 2000

BANKERS

Westpac Banking Corporation

AUDITORS

Ernst & Young
680 George Street,
Sydney, NSW 2000

FOREWORD

Keeping The Promise

It was very gratifying at the point of IPO in November 2005 to see so many investors, both institutional and individual, take the act of faith to invest in an industry that is probably one of the most challenging in the world today and in a sector – regional aviation – that traditionally underperforms even the lack-lustre legacy carriers.

I could imagine how the profit forecast in our prospectus could sound incredulous to an analyst. In an environment where fuel prices are playing havoc with airlines' profitability, Rex had, for the financial year ending 30 June 2006, boldly forecast profit before tax of $21.5m (an increase of 134% over the previous financial year).

It is therefore even more gratifying for me today to be in a position to announce in this Annual Report to all our shareholders that the Group has delivered on its forecast as follows:

- Revenue increased by 20% to $174m
- Passenger numbers increased by 15% to 1.2m
- Profit after tax increased by 141% to $15.7m
- Cash holdings increased from $4m to $23m without any interest-bearing debt
- Return on average assets of 20.2%

We are proud that we have accomplished all of this without increasing average fare prices even against a backdrop of a continuing difficult environment. Besides the sharp fuel price hikes, there were also continued pressures of steep price increases from monopoly infrastructure providers and regulators. Also QantasLink, our major competitor, has continued to introduce more capacity on routes we service.

I pay tribute to the staff and management who have made all this possible. Rex will continue to face challenges this financial year but we remain confident the team, which has already weathered the impacts of drought, SARS, the Iraq war, depressed exchange rate, fuel price escalation and terrorism attacks, will be more than able to overcome these challenges.

Finally I would like to thank the Board for its counsel, guidance and dedication and also all shareholders for their continued confidence in the Rex Group. We may never be the biggest airline in Australia but we will strive to continue to be one of the world's best performing airlines in terms of service, reliability and profitability.

Lim Kim Hai
Executive Chairman
12 September 2006

Photo courtesy of The Peak Magazine

Directors' Report

In compliance with the provisions of the Corporations Act 2001, the Directors of Regional Express Holdings Limited ('Rex') submit the following report for Rex and its consolidated entities (the 'Group') for the financial year ended 30 June 2006.

1. BOARD OF DIRECTORS

Standing: Robert WInnel, Lee Thian Soo, Jim Davis, Russell Hodge; *Seated:* David Miller, John Sharp, Lim Kim Hai, Geoff Breust

The names and particulars of the Directors of Rex during or since the end of the financial year are:

LIM KIM HAI
EXECUTIVE CHAIRMAN

M. Engg (Ecole Nationale Superieur D'ingenieurs, Caen, France), 1982
MPA (Ecole Nationale D'Administration, France), 1990
MBA (National University of Singapore), 1991
APPOINTED 27 JUNE 2003

Mr. Lim, based in Singapore, has been awarded two scholarships by the Singapore Government. The first was to complete an undergraduate Masters degree in electronics engineering in the prestigious French 'Grande Ecole' schools of engineering. The second was awarded while he was serving with the Ministry of Defence of Singapore to read a Masters in Public Administration course at the elite ENA of France. After a period of 10 years as a Defense Specialist Engineer, Mr. Lim left the Civil Service to start his own businesses. Mr. Lim currently has an extensive portfolio of businesses spanning many countries. He is the Chairman of a biomedical company Lynk Biotechnologies Private Limited which has developed a revolutionary platform for transdermal delivery of water-soluble drugs and also Chairman of WooWorld Private Limited which is a supplier of online and mobile games to telcos in China, Japan and South East Asia. Mr. Lim is also a Director in a medical supply company specialising in providing advanced medical systems to hospitals.

JOHN SHARP
DEPUTY CHAIRMAN & INDEPENDENT DIRECTOR

Associate Diploma in Farm Management, 1978
Fellow of the Chartered Institute of Transport and Logistics
APPOINTED 14 APRIL 2005

Mr. Sharp, originally from a farming and business background, is a keen aviator having being a licensed pilot of both fixed wing and rotary wing aircraft. Mr. Sharp was a member of the House of Representatives of the Commonwealth Parliament for 14 years (1984 – 1998). Following his retirement from Parliament in 1998, Mr. Sharp established his own high level aviation and transport consulting company, Thenford Consulting.

Mr. Sharp is currently Chairman of the Aviation Safety Foundation of Australia, a Director of Australian Aerospace, a wholly owned subsidiary of European Aeronautics Defence and Space (EADS) representing Airbus, ATR, CASA, Eurocopter and Astrium satellites and a Director of Skytraders, an air freight and aerial work operation providing services for Australia's Antartic Division. He is also Chairman of Power and Data Corporation. Mr. Sharp is a Trustee and Board Member of John McKeown House, Honorary Federal Treasurer, National Party of Australia and Chairman of Winifred West Schools Foundation. He is a member of the University of Wollongong Vice Chancellor's Advisory Board. Mr. Sharp's extensive experience of aviation, regional airline services and as the former Federal Minister for Transport and Regional Services in the Federal Government, adds significantly to the expertise and standing of the Board.

GEOFFREY BREUST
MANAGING DIRECTOR, CORPORATE AFFAIRS & STRATEGY

B.A. Admin & Econ Canberra University, 1976
APPOINTED 26 AUGUST 2004

Mr. Breust has extensive experience in the Australian aviation industry and extensive knowledge of regional air services. Mr. Breust began his career in the Commonwealth Public Service in Canberra and was there for 20 years before joining Kendell Airlines in 1988. He became the CEO of Kendell and remained at Kendell until 2000. Mr. Breust was then appointed General Manager of a major trucking firm and subsequently started a business in consulting and did extensive work for Air Link, another regional air services company. The Company was able and fortunate to persuade Mr. Breust to return as the Company's CEO in January 2004. Mr. Breust is a Director of the Regional Aviation Association of Australia (RAAA) and a Fellow of the Chartered Institute of Logistics and Transport. Mr. Breust's main responsibilities in the Company includes strategic planning and government and corporate relations.

JAMES ('JIM') DAVIS
MANAGING DIRECTOR, OPERATIONS

Bachelor of Aeronautical Engineering (Sydney University), 1973
Australian ATPL [133309] and Dutch ATPL [91-0021]
Command Instrument Rating
APPOINTED 26 AUGUST 2004

Mr. Davis obtained his pilot's license at 24 years of age, and has since flown professionally in Australia and Europe for over 25 years accumulating more than 12,000 hours. Upon joining Hazelton Airlines in 1999, he worked as Flight Operations and Standards Manager, which involved supervision of the check and training organisation staff and the duties of Deputy Chief Pilot for the airline. In 2001, Mr. Davis was made the Chief Pilot of Hazelton Airlines, and held that position until Hazelton Airlines was merged into and began trading as part of Rex. Mr. Davis became Executive General Manager of Operations in 2003, and oversees all aspects of the operations of Rex comprising flight operations, airport operations and engineering.

DAVID MILLER
CHIEF EXECUTIVE OFFICER, AIR LINK PTY LTD

APPOINTED AS ALTERNATE DIRECTOR TO JAMES DAVIS ON 15 FEBRUARY 2006

Mr. Miller commenced flying commercially in 1985 and bought a 50% share of Air Link which was at that time a one aircraft charter business. Between 1985 and 1991 Mr. Miller purchased all the shares of Air Link and commenced RPT services throughout Western NSW Air Link had commercial ties with Hazelton Airlines right through until the Ansett collapse in 2001. Mr. Miller has served as a Director of the Regional Aviation Association of Australia since 1992 along with industry leaders Max Hazelton and Don Kendell and held the position of chairman for four years. He is currently vice-chairman of this important industry body. Air Link continues under Mr. Miller's management to serve the smaller more remote centres in Western NSW.

LEE THIAN SOO
NON-EXECUTIVE DIRECTOR

APPOINTED 27 JUNE 2003

Mr. Lee has extensive international business experience and currently is the Chairman and owner of several businesses with subsidiaries in South East Asia. These include an aviation components and service company, specialising in military aircraft, as well as a medical equipment supply company, involved in the distribution and marketing of medical equipment and drugs. He is also on the board of a biomedical company and a mobile/internet gaming company.

ROBERT WINNEL
INDEPENDENT DIRECTOR

B.A. (Syd), Dip. Ed. (UNE), 1976
Dip. Ed. Admin (UNE), 1971
APPOINTED 2 SEPTEMBER 2003

Mr. Winnel spent 10 years in the NSW and Commonwealth public services before establishing his own building business. In 1988 he formed and became the Managing Director of the Village Building Company, which produces integrated housing estates in Brisbane, the Sunshine Coast, Coffs Harbour, Canberra and Wollongong. Mr. Winnel is a Director of the Brassey Hotel in Canberra, was previously CEO and President of the ACT Master Builders Association, and has served on a number of advisory committees for the ACT Government.

RUSSELL HODGE
EXECUTIVE DIRECTOR, PEL-AIR OPERATIONS

B.Ec (Sydney University)
LLB (Australian National University)
APPOINTED 9 SEPTEMBER 2005

Mr. Hodge practiced as a solicitor from 1973 to 1997 and specialised in aviation and commercial law. He retired as senior partner of Owen Hodge & Son Solicitors in 1992. Mr. Hodge has been an Executive Director of Pel-Air Aviation Pty Limited from November 1994 to present, and currently is Safety and Legal Director of Pel-Air. He was previously a Director of the Regional Aviation Association of Australia. He has 30 years' experience in aviation regulation, compliance, aircraft financing and the commercial operations of aircraft and airlines.

CHONG MENG TAK CHRISTOPHER
INDEPENDENT DIRECTOR

B.Sc. Econ University College of Wales, Aberystwyth
MBA London Business School
CA Institute of Chartered Accountants of Scotland
CEASED 9 SEPTEMBER 2005

Mr. Chong is a partner of ACH Investments Pte Ltd, a specialist corporate advisory firm in Singapore, and an Associate of Shadforths Limited, a leading financial firm in Tasmania, Australia. Prior to co-founding ACH Investments Pte Ltd., Mr. Chong was a multi-award winning equity analyst and the Managing Director of HSBC James Capel Securities (Singapore) Pte Ltd now known as HSBC Securities (Singapore) Pte Ltd, a member of the Hong Kong Bank Group of companies. Mr. Chong is an independent Director of several public companies listed on the Australian, Singapore and Luxembourg Stock Exchanges.

2. SENIOR MANAGEMENT EXECUTIVES

L-R: Lindsay Tanner, Chris Hine, Nick Gooneratne, Warrick Lodge, Irwin Tan

The names and particulars of the senior management executives of Rex during or since the end of the financial year are:

IRWIN TAN
GENERAL MANAGER, CORPORATE SERVICES

Grad. Dip. Financial Management (Singapore Institute of Management, Singapore), 2000
BSc (Hons) (University of New South Wales, Sydney, Australia), 1998

Mr. Tan's background was originally in genetic research after graduating with first class honours in biotechnology from the University of New South Wales in Sydney. He left the field of genetic research when he joined Morrison Express Logistics in 1999 and then Singapore Airlines in 2001. He was later transferred to Singapore Airlines Cargo as an executive where he took on various appointments in product development, advertising, sales and airline alliances before taking on the role of Regional Marketing Manager South West Pacific in 2003. Mr. Tan joined Rex in July 2005.

NAOMAL ('NICK') PRIYANTHA GOONERATNE
GENERAL MANAGER, ENGINEERING CONTROL

Australian Civil Aviation Safety Authority Airframe and Engine License
USA Aviation License (Florida Academy of Aerospace Technology)
UK Civil Aviation License (Southall College of Technology)

Mr. Gooneratne has extensive experience in line and heavy engineering maintenance. His duties include ensuring the company's aircraft are functional and meeting all civil aviation regulations and manufacturers' requirements. As such, he holds the position of Primary Maintenance Controller responsible to CASA. Mr. Gooneratne's experience is both deep and broad. He was trained in the USA and the UK and then joined Air Lanka in 1979 as a licensed aircraft maintenance mechanic and engineer. He joined Saudi Arabian Airlines in 1984 in a similar position. In 1992 he joined Hazelton and soon became a technical support engineer, then supervisor and then manager. Mr. Gooneratne has been with Rex since its inception in 2002.

LINDSAY TANNER
GENERAL MANAGER, ENGINEERING SERVICES

Bachelor of Vocational Education & Training (Charles Stuart University)
Associate Diploma in Airframe Engineering (RAAF)
Trade Certificate in Aircraft Maintenance & Engineering (RAAF)

Mr. Tanner has worked in the airframe engineering industry since 1985. He spent 11 years working for the Royal Australian Air Force as an engineer and non-commissioned officer, and brought this significant wealth of experience and knowledge to Kendell Airlines in April 1999. He served in staff engineering training and fleet managerial roles with Kendell before becoming General Manager of Technical Services at Rex. He was promoted to his present role within the company approximately two years later. He is currently in charge of all aspects of the engineering and fleet maintenance department, including budgetary management and control, and is the Certificate of Approval and Certificate of registration holder for Rex. Mr. Tanner has been with Rex since its inception at 2002.

WARRICK LODGE
GENERAL MANAGER, NETWORK STRATEGY

Dip. Travel (Jetset Travel Training College)
Post-Grad. Cert. Management Communications (Riverina Institute)

Mr. Lodge manages a team responsible for scheduling, pricing, revenue management and commercial analysis. His duties include the monitoring of network performance and analysing both existing and new market opportunities. He also manages another team responsible for reservations and sales support. Mr. Lodge has more than 10 years' regional airline experience in the specialised areas of scheduling, pricing and revenue management and held the position of Manager Network Planning with Kendell Airlines, having joined that company in 1992. Mr. Lodge has been with Rex since its inception in 2002.

CHRISTOPHER PETER HINE
GENERAL MANAGER, FLIGHT OPERATIONS/CHIEF PILOT

Australian Air Transport Pilot's License (ATPL)
Multi Engine Command Instrument Rating
Chief Pilot Approval (Rex) & Grade 2 Check Captain Approval (Rex)

Mr. Hine has over 15 years' aviation experience including 10 years with Metroliner and Saab 340 aircraft, and is a well-accomplished and knowledgeable instructor. He was with Kendell Airlines from 1995 during which he held various Check and Training Captain positions. He currently oversees all facets of Rex's flight operations and all operational matters affecting the safety of flight operations. He has also had experience as a lecturer in Cockpit Systems Management for the Bachelor of Applied Science (Civil Aviation) degree at the University of South Australia. Mr. Hine has been with Rex since its inception at 2002.

3. DIRECTORS' SHAREHOLDINGS

The following table sets out each Director's relevant interest in shares of Rex as at the date of this Report. No debentures, rights, or options in shares or debentures exist.

Director	Fully Paid Ordinary Shares Direct Interest	Fully Paid Ordinary Shares Indirect Interest [1]
Lim Kim Hai	7,854,362	38,520,127
John Sharp	150,000	0
Geoffrey Breust	50,000	2,000
James Davis	0	77,000
David Miller	0	0
Lee Thian Soo	3,727,181	3,727,181
Robert Winnel	0	1,563,758
Russell Hodge	0	100,000
Chong Meng Tak Christopher [2]	0	0

[1] *The Director is not the registered holder but still maintains a relevant interest. Shares in which the Director does not have a relevant interest, including shares held by Director related entities, are excluded from these amounts.*
[2] *Chong Meng Tak Christopher's Directorship ceased on 9 September 2005.*

4. DIRECTORSHIPS OF OTHER LISTED COMPANIES

The Directors do not hold Directorships in any other listed companies.

5. DIRECTORS' MEETINGS

The following table shows the number of Directors' meetings, including meetings of each Board Committee held during the financial year and the number of meetings attended by each Director (while they were a Director or Committee member):

Director Names	Board	Audit & Risk Management Committee	Remuneration Committee	Nomination & Governance Committee
No. of Meetings Held:	5	1	2	3
No. of Meetings Attended:				
Lim Kim Hai	5 (Chairman)	–	–	–
John Sharp	5 (Member)	1 (Member)	2 (Chairman)	–
Geoffrey Breust	4 (Member)	1 (Member)	–	–
James Davis	5 (Member)	–	2 (Member)	3 (Member)
David Miller [1]	1 (Member)	–	–	–
Lee Thian Soo	3 (Member)	–	–	–
Robert Winnel	5 (Member)	–	2 (Member)	3 (Member)
Russell Hodge [2]	5 (Member)	1 (Chairman)	–	–
Chong Meng Tak Christopher [3]	0 (Member)	0 (Ex-Chairman)	–	1 (Member)

[1] *David Miller was appointed as Alternate Director to James Davis on 15 February 2006.*
[2] *Russell Hodge was appointed on 9 September 2005.*
[3] *Chong Meng Tak Christopher's Directorship ceased on 9 September 2005.*

6. COMMITTEE MEMBERSHIP

As at 30 June 2006, Rex had an Audit & Risk Management Committee, a Remuneration Committee and a Nomination & Governance Committee. Members serving on the committees of the Board during the year were:

Audit & Risk Management Committee	Remuneration Committee	Nomination & Governance Committee
Russell Hodge (Chairman)	John Sharp (Chairman)	Robert Winnel (Chairman)
John Sharp	James Davis	James Davis
Geoffrey Breust	Robert Winnel	Russell Hodge [1] Chong Meng Tak Christopher [2]

[1] *Russell Hodge was nominated into the Nomination & Governance Committee on 23 May 2006.*
[2] *Chong Meng Tak Christopher's Directorship ceased on 9 September 2005.*

7. FORMER AUDIT PARTNERS

No Directors or officers in Rex or the Group have been a partner or director of Ernst & Young, the Group's auditor.

8. COMPANY SECRETARY

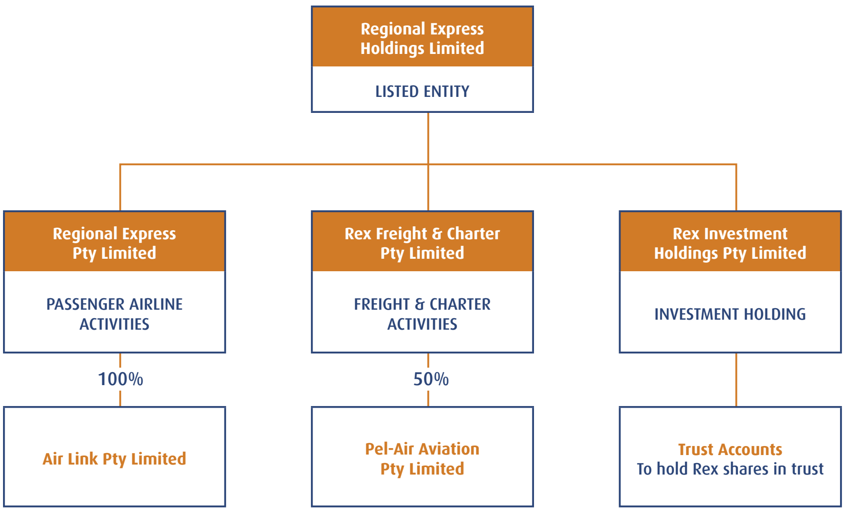
IRWIN TAN

Mr. Tan is also the General Manager of Corporate Services in Rex. He was appointed the Company Secretary on 7 September 2005. A description of his qualifications, skills and experience is included on page 8 of this Directors' Report.

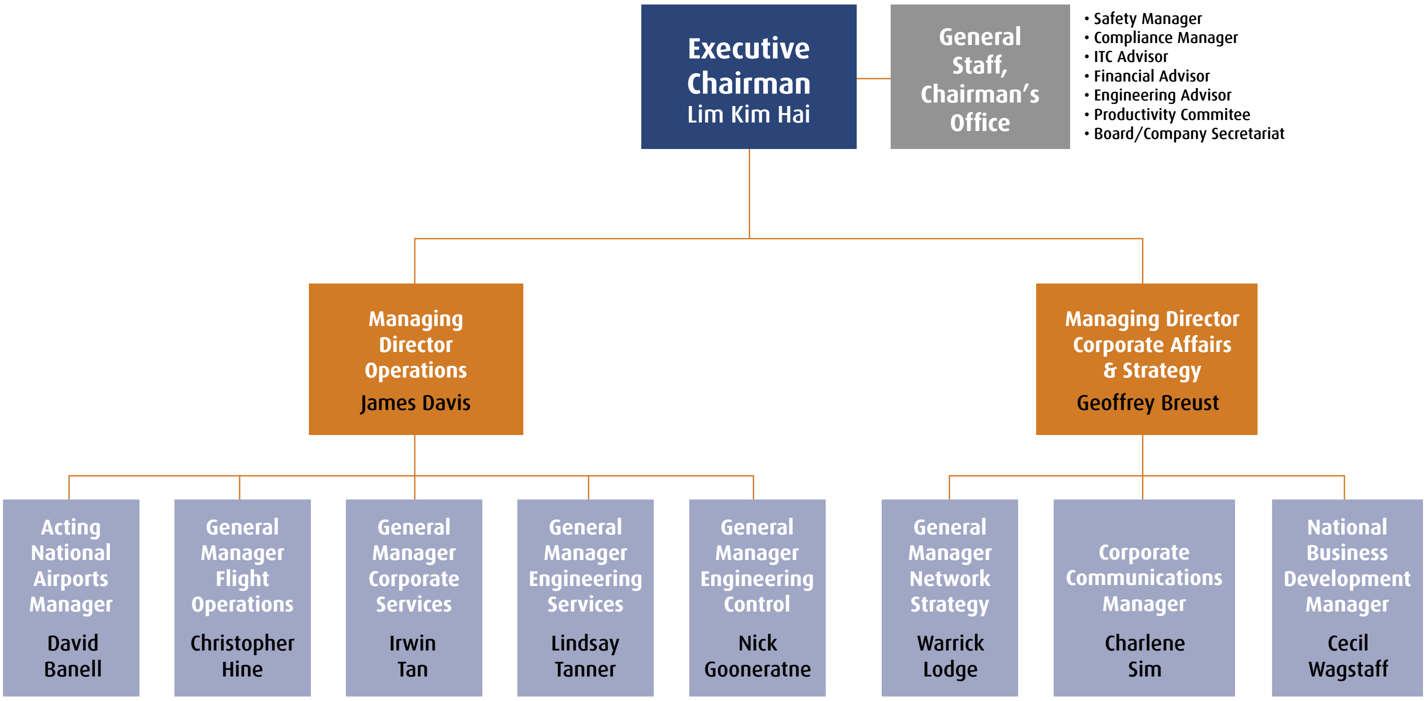
9. CORPORATE STRUCTURE

Rex is a company limited by shares that is incorporated and domiciled in Australia. The registered office is Level 1, 2B Lord Street, Botany, NSW 2019.

Rex launched an Initial Public Offering on 30 September 2005. The offer, which closed on 28 October 2005, was substantially oversubscribed. Rex commenced trading on the Australian Stock Exchange on 9 November 2005 and remains listed on the exchange.



10. MANAGEMENT STRUCTURE



11. PRINCIPAL ACTIVITIES

The Group's principal activities during the financial year were regular passenger and freight transport air services.

12. EMPLOYEES

The Group employed 712 employees as at 30 June 2006 and a FTE equivalent of 661. This includes Air Link's employees of 38 and FTE of 37. (2005: 624 employees, FTE 579).

13. CORPORATE GOVERNANCE

The underlying objective of the Board of Directors of Rex is to establish a practicable and consistent framework of control for the Group, so as to ensure compliance with legal requirements, promotion of a high standard of ethical behaviour and protection and enhancement of the interests of its Shareholders. The Board always retains ultimate authority over management of Rex and its controlled entities.

The Group's Corporate Governance Policy Statement is given on pages 82 - 86.

14. REMUNERATION REPORT

The following outlines the remuneration arrangements for Directors and senior management executives for the financial year.

REMUNERATION POLICY

Remuneration Committee

Rex's Board of Directors has established a Remuneration Committee for the purpose of determining and reviewing compensation arrangements for the Directors and the senior management executives of the Group. The Committee has a process for performance evaluation of the Board, its committees and key executives of Rex. The Committee's role is to assess the appropriateness of the nature and amount of remuneration of Directors and senior management executives on a periodic basis.

Board Policy

Remuneration levels are set to enable Rex and its subsidiaries to attract and retain appropriately qualified and experienced Directors and senior management executives, who will create sustainable value for shareholders and other stakeholders. They also fairly and responsibly reward Directors and senior management, having regard to the performance of the Group, the performance of the individual and the external compensation environment.

Remuneration Structure

In accordance with best practice corporate governance, the remuneration structure of Rex's Non-executive Directors and that of its senior management executives are distinct. This enables Rex to maintain the independence of Non-executive Directors and reward senior management executives for their performance of duties and dedication.

Rex has set in place a remuneration model for all its staff which calls for staff accepting a lower fixed annual salary increase in exchange for a Profit Share and a Share Plan as well as a Share Option Plan.

- *Share Plan*

  Rex has established the Share Plan for its executive Directors and eligible employees. This Share Plan is adopted by all the EBA groups except the Flight Attendants. The Board has also decided that this plan will be offered to all non-EBA employees who are not the subject of an adverse recommendation by the Remuneration Committee. This plan is not based on any performance measures as it was established to show its recognition of employees' contribution to Rex by providing an opportunity to share in its future growth and profitability and to align the interests of the employees more closely with the interests of the shareholders.

  Eligible employees who accept an offer of Shares under the Share Plan will be entitled to receive the equivalent of 2% of their base salary in Shares each financial year for the next three financial years. Such Shares will be issued to eligible employees on the relevant award dates. The Flight Attendants have voted on an additional 0.45% increase of fixed salary in lieu of the 2% Share Plan.

- *Profit Share Incentive Scheme*

  Rex has established a Profit Share Incentive Scheme which will take effect in the forthcoming three financial years, the first being FY 2007. Under this scheme, eligible employees will be awarded a share of Rex's profit before tax (PBT) (excluding contributions from subsidiaries and associates) for the financial year immediately preceding the award. For FY 2006, the Group has accrued $1.991m as profit share bonus for distribution to all eligible staff in FY 2007.

  The profit share is allocated on an equal share basis. Permanent part time employees will receive an amount proportional to their employment hours.

• *Share Option Plan*

Rex has established a Share Option Plan to provide Directors, senior management executives and key managers, consultants and contractors with an incentive to remain with Rex and to improve the long term performance of Rex and its return to Shareholders. No options have been granted as of 30 June 2006. It is the intention of the Board to grant Share Options in FY 2007. The exercise price in FY 2007 to FY 2009 is fixed at listing price of $1.

ELEMENTS OF DIRECTOR AND SENIOR EXECUTIVE REMUNERATION

Directors

In accordance with Rex's Constitution, the fees for Directors are set at a maximum aggregate sum. Each Director receives fees for the payment of their services. Mandatory superannuation contributions are included as part of each Director's fees and Directors may state a preference to increase their contributions by way of salary sacrifice. They also receive reimbursement of all reasonable and proper expenses incurred while carrying out their Director's duties.

The level of remuneration for each Director is determined by the Board, upon recommendation from the Remuneration Committee. This level is based upon the duties and responsibilities of the Director, which include committee membership and subsidiary directorships, as well as skills and experience.

In addition the Directors are also entitled to receive up to $100,000 worth of share options on the recommendations of the Remuneration Committee based on the performance of the Directors and the performance of the Group with the Chairman and Deputy Chairman being entitled to $150,000 worth of share options.

No options have been granted as of 30 June 2006. It is the intention of the Board to grant Share Options in FY 2007.

Senior Management Executives

The remuneration arrangements for senior management executives are set in accordance with board policy and the external compensation environment. The Group seeks to attract and retain high calibre executives who are motivated to improve and prosper Rex and its operating subsidiaries.

All senior management executives are employed under Employment Agreements. These agreements can be terminated by either the employee or the Group by giving 1 month's notice.

Senior management executives are entitled to the annual wage adjustment packages of non-EBA employees including the Fixed Annual Increase of 2.5% and Share Gift and Profit Share schemes. The Share Gift and Profit Share schemes which the Executive Directors and senior management executives participate in are part of their general employment conditions and not performance linked.

In addition, it is the stated intention of the Board that senior management executives, being directly responsible for the performance of the Group, share in the risks and rewards with shareholders by having part of their remuneration package in the form of share options. The first share option award will only take place in the FY 2007 based on the recommendations of the Remuneration Committee.

For the last four financial years, the remuneration package of the senior management executives has been fixed and independent of the performance of the Group.

Consideration for Taking Office

No payments were made to Directors or executives before they took office as part of the consideration for the person agreeing to hold office.

DIRECTORS' AND SENIOR MANAGEMENT REMUNERATION

According to the definitions of 'senior management' and 'group executive' contained in Section 9 of the Corporations Act 2001, Rex had five senior management executives for the purpose of this Report.

REMUNERATION DETAILS – DIRECTORS

The aggregate compensation of the Directors of Rex for the year ended 30 June 2006 is set out below:

Specified Directors	Year	Short-Term Benefits Cash Salary & Fees $	Short-Term Benefits Cash Profit Sharing* & Other Bonuses $	Short-Term Benefits Total $	Post-Employment Benefits Pension & Super-Annuation $	Long-Term Benefits Long Service Leave $	Equity Benefits Equity Settled Transactions: Shares and Units $	Total $	Performance Related %
Lim Kim Hai	**2006**	**75,000** [1]	–	**75,000**	–	–	–	**75,000**	–
Executive Chairman	2005	16,671 [1]	–	16,671	–			16,671	–
John Sharp	**2006**	**90,000**	–	**90,000**	**6,058**	–	–	**96,058**	–
Deputy Chairman, Independent Director	2005	15,041	–	15,041	–	–	–	15,041	–
Geoffrey Breust	**2006**	**125,000** [2]	–	**125,000**	**16,500**	–	**2,200**	**143,700**	–
Managing Director, Corporate Affairs & Strategy	2005	122,666 [3]	–	122,666	17,236	–	–	139,902	–
James Davis	**2006**	**145,000** [4]	–	**145,000**	**12,032**	–	**2,600**	**159,632**	–
Managing Director, Operations	2005	139,301 [5]	–	139,301	10,902	–	–	150,203	–
David Miller [6]	**2006**	**110,000**	–	**110,000**	**9,900**	–	–	**119,900**	–
Alternate Director	2005	–	–	–	–	–	–	–	–
Lee Thian Soo	**2006**	**25,000**	–	**25,000**	–	–	–	**25,000**	–
Non-Executive Director	2005	12,506	–	12,506	–	–	–	12,506	–
Robert Winnel	**2006**	**25,000**	–	**25,000**	**3,376**	–	–	**28,376**	–
Independent Director	2005	12,506	–	12,506	–	–	–	12,506	–
Russell Hodge [7]	**2006**	**20,205**	–	**20,205**	**1,683**	–	–	**21,888**	–
Executive Director	2005	–	–	–	–	–	–	–	–
Chong Meng Tak Christopher [8]	**2006**	**10,137**	–	**10,137**	–	–	–	**10,137**	–
Independent Director	2005	–	–	–	–	–	–	–	–

[1] Lim Kim Hai's salary was $25,000 per annum till 31 October 2005 followed by $100,000 per annum to 30 June 2006.
[2] Comprises $110,000 salary and $15,000 fees.
[3] Comprises $110,000 salary, $9,301 fees and $3,365 allowance.
[4] Comprises $130,000 salary and $15,000 fees.
[5] Comprises $130,000 salary and $9,301 fees.
[6] Appointed as Alternate Director to James Davis on 15 February 2006. Draws $110,000 base salary per annum as Chief Executive Officer of Air Link Pty Ltd.
[7] Appointed 9 September 2005.
[8] Christopher Chong was on a Director's fee of $25,000 per annum but was paid the pro-rata amount for his service until his Directorship ceased on 9 September 2005.

** Executive Directors are eligible to participate in the Group's Profit Share Incentive Scheme.*

REMUNERATION DETAILS – SENIOR MANAGEMENT EXECUTIVES

The aggregate compensation of the five senior management executives in the management team of Rex receiving the highest remuneration for the year ended 30 June 2006 is set out below:

		Short-Term Benefits				Post-Employment Benefits	Long-Term Benefits	Equity Benefits		
		Cash Salary & Fees	Cash Profit Sharing* & Other Bonuses	Others	Total	Pension & Super-Annuation	Long Service Leave	Equilty Settled Transactions: Shares and Units	Total	Performance Related
Specified Executives	Year	$	$	$	$	$	$	$	$	%
Nick Gooneratne	**2006**	**120,000**	–	**2,481** [2]	**122,481**	**10,800**	–	**2,400**	**135,681**	–
General Manager, Engineering Control	2005	120,000	–	3,255 [2]	123,255	10,453	–	–	133,708	–
Warrick Lodge	**2006**	**95,000**	–	–	**95,000**	**8,550**	–	**1,900**	**105,450**	–
General Manager, Network Strategy	2005	95,000	–	–	95,000	9,409	–	–	104,409	–
Chris Hine	**2006**	**134,000**	–	–	**134,000**	**11,877**	–	**2,680**	**148,557**	–
General Manager, Flight Operations	2005	134,000	–	–	134,000	10,544	–	–	144,544	–
Lindsay Tanner	**2006**	**120,000**	–	**4,978** [2]	**124,978**	**10,800**	–	**2,400**	**138,178**	–
General Manager, Engineering Services	2005	120,000	–	10,263 [2]	130,263	10,350	–	–	140,613	–
Irwin Tan	**2006**	**95,000**	–	–	**95,000**	**7,583**	–	**1,900**	**104,483**	–
General Manager, Corporate Services	2005	80,342 [1]	–	–	80,342	–	–	–	80,342	–

[1] *Irwin Tan commenced work in Rex on 20 July 2005 with salary of $85,000 per annum.*
[2] *Motor vehicle provided for this period.*
* *Senior management executives are eligible to participate in the Group's Profit Share Incentive Scheme.*

The table below lists the employment contract details of the Directors and senior management executives that have contracts with Rex.

Name	Commencement Date Per Latest Contract	Duration	Notice Period – Company	Notice Period – Executive
Geoffrey Breust	31 July 2004	Open	2 months	2 months
Nick Gooneratne	14 May 2004	Open	4 weeks	4 weeks
Warrick Lodge	1 March 2005	Open	4 weeks	4 weeks
Chris Hine	14 July 2003	Open	4 weeks	4 weeks
Lindsay Tanner	1 July 2003	Open	2 months	2 months
Irwin Tan	20 July 2005	Open	4 weeks	4 weeks

15. GROUP OPERATIONS REVIEW

The continuation of base strategies for the Group resulting in strong returns from its regional airline activities coupled with the realisation of synergies with the subsidiary operations has provided industry leading results and a strong foundation for future activity.

Despite rising fuel charges, which now represent almost 20% of operating costs, the Group has continued to reduce costs and increase productivity. The Group maintained its base strategies of achieving:

- Passenger and revenue growth through continued improvements in schedules, increased flight frequencies and seating capacity combined with affordable and sustainable pricing
- Improved reliability and on-time performance together with higher levels of customer service
- Increased productivity through cost minimisation, the reduction of waste, improved efficiency and increase in economies of scale

In line with its primary philosophy, the Group continues to build relationships with the regional communities throughout its network and successfully formed partnerships with local council airport operators to jointly invest in improvements to the pricing structure of the air services to those communities. This has led to continued high passenger growth rates for those services on the back of reduced entry level fares.

ROUTE NETWORK DEVELOPMENTS

FY 2006 saw continued growth in passengers and revenue. The Group's strategy of developing low entry-level fares to stimulate passenger demand has been a key element in the route network development.

Passenger growth for FY 2006 was 15% over the previous year. Overall the strategy for the year was to continue to grow capacity on the existing route network by either increasing frequency of services or by upgrading aircraft size from 19 seat Metro 23 services to 34 seat Saab 340 services. The increase in seat capacity combined with affordable pricing has been the catalyst for significant passenger growth and lower per unit costs.

While passenger growth on existing markets was the aim for the year, the Group also maintained a rational approach to poorly performing routes by conducting regular reviews of each route's profitability. Following on from the successful withdrawal from the Canberra–Sydney route in December 2004 and redeployment of the resources to other parts of the route network, the Group ceased its single daily service between Melbourne and Devonport on 18 September 2005. This provided the resources to improve the Melbourne–Burnie service in terms of schedule timings and frequency and provided the ability to increase frequency and capacity between Melbourne and Mildura.

During the course of the year a total of four Saab 340 aircraft were added to the fleet. They were used to increase frequency and capacity across most of the network and to continue the strategy of removing the Metro 23 aircraft from the Rex fleet. Over the period of the year two further Metro 23s were disposed of, one by sale and one via lease to another operator, bringing the Metro 23 fleet to three. The Saab fleet increased to 26.

The upgrade of services in the South Australian network from Metro 23 to Saab continued during the year with Whyalla, Mount Gambier, Broken Hill, Kingscote and Ceduna receiving more Saab frequencies to/from Adelaide. Port Lincoln and Olympic Dam services also received additional Saab frequencies to/from Adelaide during the course of the year.

On 9 November 2005, Airlines of South Australia and Emu Airways (which were part of the Capiteq Group which includes Air North based in Darwin) ceased services in South Australia and this was the catalyst for the Group to provide additional services on Adelaide–Port Lincoln and Adelaide–Kingscote. This was followed by the commencement of QantasLink Dash 8 turboprop services on these two routes in mid December 2005.

The second half year saw continued competition from QantasLink on the Adelaide–Port Lincoln and Adelaide–Kingscote routes until that carrier too withdrew services in South Australia on 28 June 2006. Since then the Group has been further increasing capacity and frequency on these routes.

Continued additional frequency and capacity was provided over the course of the year with the withdrawal of the single Metro 23 operation from the Melbourne hub network in September 2005 thereby upgrading flights on the Melbourne–Mount Gambier–Portland route and the daily service between Melbourne and King Island to the larger Saab aircraft.

In New South Wales, additional frequencies and aircraft upgrading continued with Griffith, Merimbula, Parkes, Wagga Wagga and Snowy Mountains (Cooma) receiving more Saab 340 services to/from Sydney. By year end only one Metro 23 operated services within New South Wales.

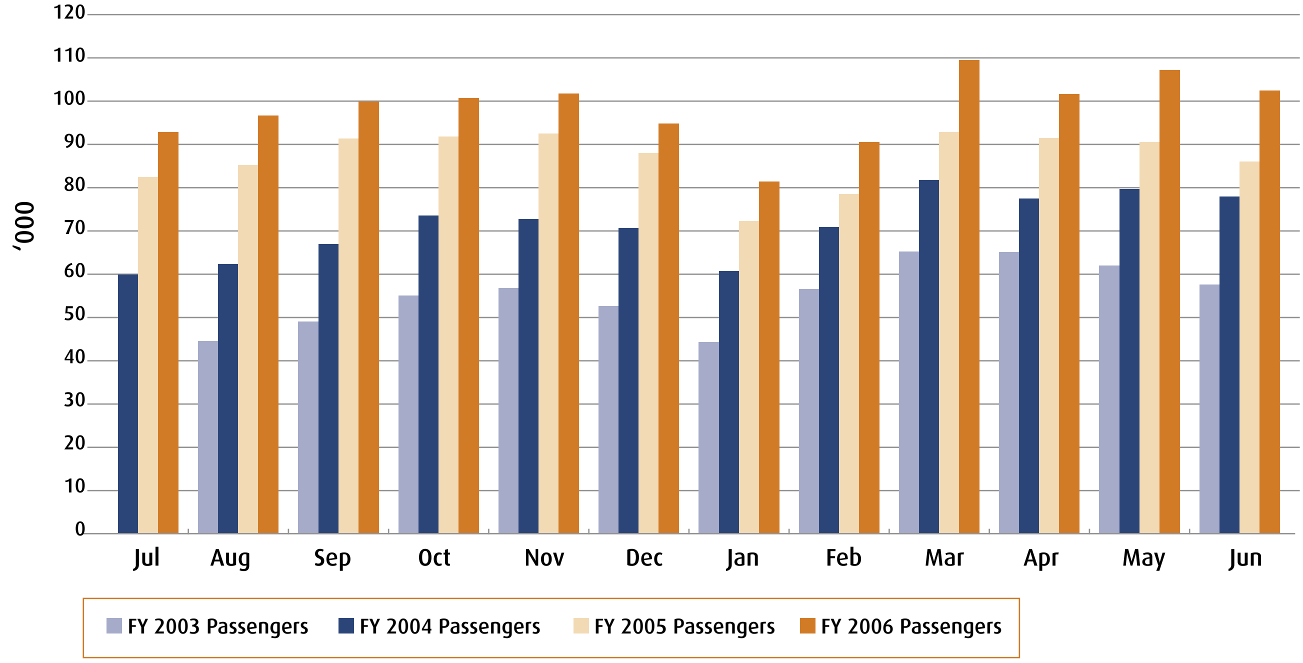
The acquisition of the Dubbo based regional airline, Air Link Pty Limited in November 2005, led to increased Group services on the Dubbo–Sydney route providing up to eight daily return services by the Group and Air Link combined. This has increased the Group's market share on the route and has fostered further overall growth in air travel on the route.

There were significant changes to the competitive market position of the Group over the course of the year. At commencement of the reporting period, the Group competed with QantasLink on eight main routes. In the first half of the reporting period, QantasLink withdrew services between Ballina–Sydney and commenced services between Adelaide–Port Lincoln and Adelaide–Kingscote, with Rex withdrawing services between Melbourne–Devonport. In the second half of the reporting period QantasLink withdrew services between Adelaide-Port Lincoln and Adelaide–Kingscote, with Rex withdrawing services between Sydney–Armidale. The financial year ended with Rex competing with QantasLink on five routes.

The tables below set out the growth in monthly passenger carriage and monthly passenger revenue over the last four financial years.

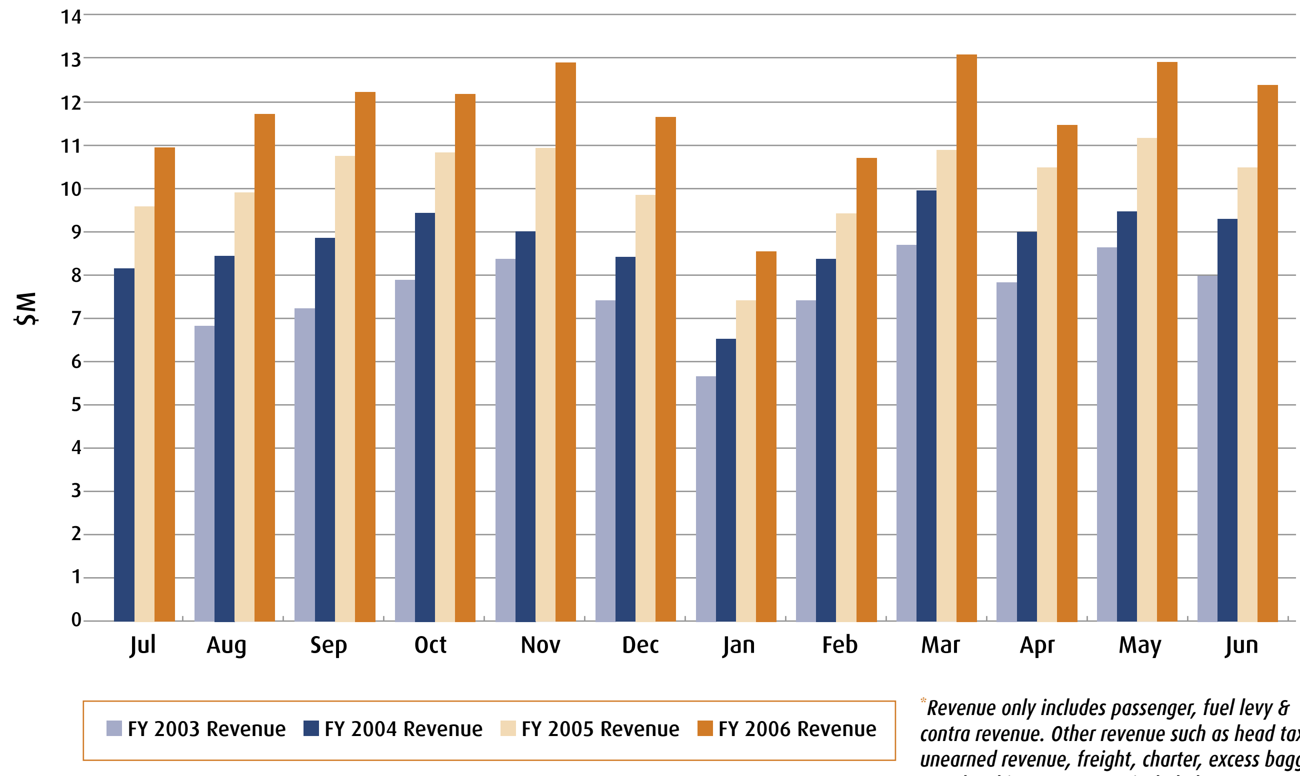
MONTHLY PASSENGERS

Total Passengers



MONTHLY PASSENGER REVENUE

Passenger Revenue*



Revenue only includes passenger, fuel levy & contra revenue. Other revenue such as head tax, unearned revenue, freight, charter, excess baggage, memberships etc. are not included.

IMPROVING PRODUCTIVITY

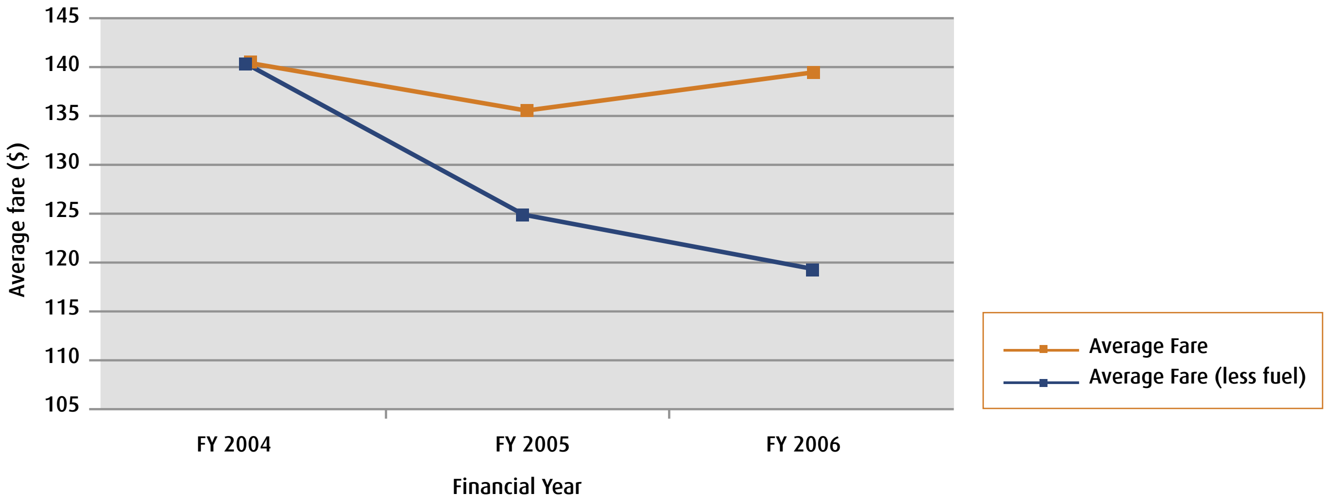
The Group's internal Productivity Committee continued its efforts throughout the year with the launching of its second productivity drive. A target of additional cost savings and efficiency gains of $2m in the year was set. The committee ended the year with realised annualised savings of over $3m.

The Group's Cost per Available Seat Kilometre (ASK) increased 1.8% from 22.2 cents in the FY 2005 to 22.6 cents in FY 2006. This increase is largely due to the continued increases in fuel costs to over $27m from under $20m in the previous financial year (a 40% increase in fuel costs).

However, the Group's Cost per ASK excluding fuel costs decreased 2.1% from 19 cents to 18.6 cents over the same period. This decrease was due to the cost savings and efficiency gains from our productivity drives.

Such cost savings enabled the Group to continue its growth strategy of keeping air fares at a competitive, affordable level. As a result, the Group's average fare of $139.10 (exclusive of GST) in FY 2006 was only a marginal 3.3% higher than in the year before. Indeed, excluding the fuel levy, the average fare in FY 2006 of $119.30 would be approximately 3.9% lower than the average fare of $124.20 in the previous year.

REGIONAL EXPRESS HOLDINGS LIMITED AVERAGE PASSENGER FARE



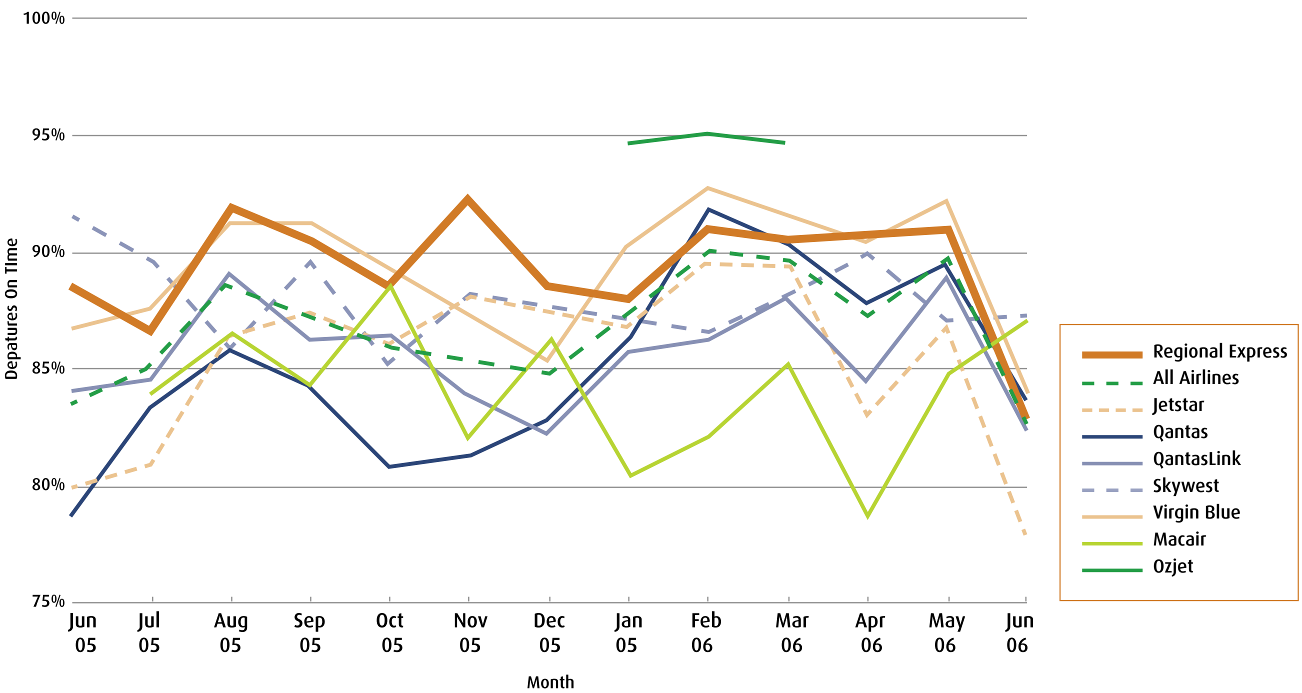
As a measure of productivity, profit before tax per FTE increased 110% from $15,839 in FY 2005 to $33,259 in FY 2006.

OPERATIONAL AND SERVICE STANDARDS

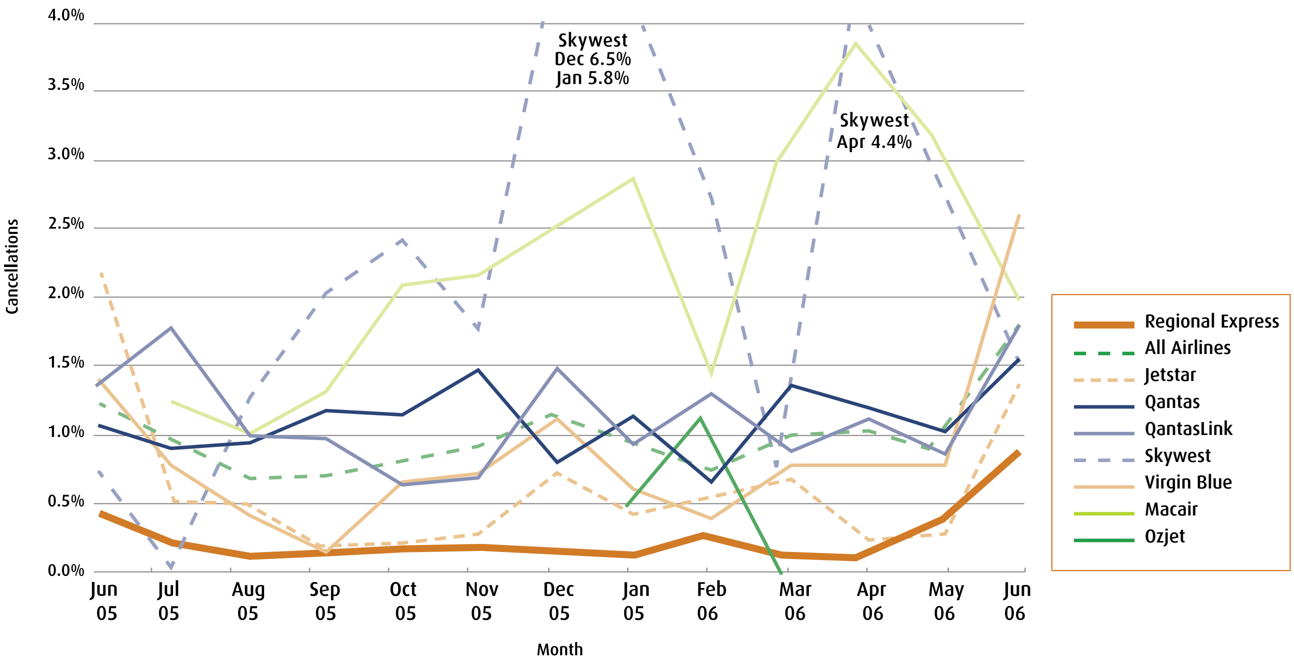
Rex continues to consistently provide one of the highest levels of On-Time Departures and the lowest level of flight cancellations of all the major airlines based on the statistics released by the Federal Department of Transport and Regional Services. Indeed in most months the other airlines' cancellation rate was more than 500% above Rex's.

The following tables reflect Rex's on-time performance on all routes in comparison with other airlines in the industry for FY 2006.

TOTAL INDUSTRY ON-TIME DEPARTURES



TOTAL INDUSTRY FLIGHT CANCELLATIONS



Source: BTRE 2005-06 OTP 34 Report, Department of Transport and Regional Services, Bureau of Transport and Regional Economics

TECHNICAL AUDITS

The Group's activities in flying operations and aircraft maintenance were the subject of both internal audit and review in accordance with its policies and procedures as well as subject to a formal programme of audit and surveillance by the Civil Aviation Safety Authority as part of normal regulatory requirements. No significant issues of non-compliance were found.

16. GROUP FINANCIAL REVIEW

Through continued efforts to grow passengers and revenues and reduce costs, the Group achieved a profit after tax of $15.7m, an increase of $9.2m or 141% over the previous financial year and some $0.6m over the forecast.

These results include the proportional contributions from Air Link Pty Limited which became a wholly owned subsidiary on 30 November 2005 and the contribution from the Group's 50% investment in Pel–Air Aviation Pty Limited also from November 2005.

REVENUE

For the Group, total revenue for the year was $174m, an increase of $29.5m or 20% on the previous year. This was on the back of an ASK growth of 12%. The revenue growth was largely due to our success in growing our passenger traffic by 15% as discussed under the operational review section above.

COSTS AND EXPENSES

Total costs and expenses for the year were $154.5m, an increase of $19.0m or 14% over the previous year. The increase came mainly from fuel costs which grew by $7.8m or almost 40% to $27.5m and in engineering and maintenance which climbed by $3.7m or 24% to $19.3m. Excluding Air Link's costs, which were consolidated into the accounts from December 2005, the increase in fuel would be $6.9m or 35% while that of engineering and maintenance would be $2.6m or 17% over last year. The higher fuel bill was mainly due to increased flight activities (9% increase in flight hours in FY 2006 versus FY 2005) and higher MOPS price per litre for aviation turbine fuel which jumped 25.4% for the year. The increase in engineering and maintenance, was in line with the growth in the fleet size and utilisation.

The other major increase was in salaries and employees' related costs which rose by $6.3m or 15% to $47.4m. Of this increase, Air Link's salaries and employee related costs contributed 2.4% or $1.0m while Rex's accrual for employees' bonus and share gift accounted for another 6% or $2.5m. The balance of 6.6% or $2.8m was due to salary adjustments of 3% granted on 1 July 2005 and higher staffing for the increased activity, especially for the flying operations and associated activities including airports and engineering. The Group's full time equivalents (FTE) increased 14% from 579 to 661 at end June 2006. This included Air Link's FTEs of 37.

Partially offsetting the above increases was the fall in selling and distribution expenses by $2.7m or 24% to $8.4m. This was mainly due to lower agent commissions which reflected the success of Rex's initiative to promote reservations through the website.

PROFIT

Overall, due to the Group's aggressive efforts to hold cost increases to below revenue growth, its profit after tax increased substantially by 141% to $15.7m.

17. FINANCIAL INDICATORS

	FY 2006	FY 2005
Profit Margin Before Tax (%)	12.6	6.3
Profit Margin After Tax (%)	9.0	4.5
Current Ratio	1.2	0.7
Return on Average Total Assets (%)	20.2	14.0

18. SHAREHOLDER RETURNS ANALYSIS

The Group is pleased to report that the returns to shareholders reflect its strong fundamentals and its place as one of the best performing airlines in Australia and in the world in terms of profitability.

	FY 2006
Basic Earnings Per Share ($)	0.15
Weighted Average Cost of Capital (%)	8.3
Cost of Equity (%)	5.2
Dividend Payout Ratio (%)	5
Net Debt/Equity Ratio (%)	No Debt
Return on Average Equity (%)	34.5

19. LIQUIDITY AND CAPITAL RESOURCES

The consolidated cash flow statement illustrates that there was an increase in cash and cash equivalents for FY 2006 of $19,039,843 (increase in FY 2005 was $3,226,787) in spite of the repayment of all bank borrowings during the period. The increase in cash inflow is primarily due to the funds raised in the IPO and the strong profits generated in the year.

20. ASSET AND CAPITAL STRUCTURE

Debts	Continuing Operations $'000	Discontinued Operations $'000	2006 Total Operations $'000	2005 Total Operations $'000
Interest Bearing Loans and Borrowings	Nil	Not Applicable	Nil	4,659
Cash and Short Term Deposits	23,583	Not Applicable	23,583	4,543
Net Debt	Nil	Not Applicable	Nil	116
Total Equity	68,796	Not Applicable	68,796	22,426
Total Capital Employed	68,796	Not Applicable	68,796	22,542
Gearing (%)	Not Applicable	Not Applicable	Not Applicable	0.5

20. ASSET AND CAPITAL STRUCTURE (CONTINUED)

The Group ended the year under review with a much stronger balance sheet.

Total current assets increased by $16.9m or 87% to $36.3m. The lion's share of the increase was in cash and cash equivalents which rose by $19.0m to $23.6m. The cash inflow was largely from the IPO with net proceeds of $32.0m and from operations of almost $27.0m. This was partly offset by capital expenditure on the acquisition of associate, aircraft and others of $31.0m and loan repayment of $7.0m, thus leaving the Group free of interest-bearing debt as at 30 June 2006.

Total current liabilities on the other hand only increased by $3.3m to $30.0m. The net effect was a strengthening in the current ratio (i.e. ratio of current assets to current liabilities) to 1.21 from 0.73 at the beginning of FY 2006.

The higher capital expenditure during FY 2006 increased non-current assets by $28.2m or 78% to $64.0m. As a result, total assets breached the $100m mark. Conversely, non-current liabilities fell by $4.7m to $1.4m (mainly staff leave entitlements), largely due to the loan repayment. The net effect was a healthy rise in equity from $22.4m at the beginning of the financial year to $68.8m by the end of the year. This gave a return on average equity of 34.5% and net assets per share of $0.60.

21. SHARES ISSUED DURING THE YEAR

Rex was listed on the 9 November 2005 with an initial public offer of 35,000,000 shares.

22. CAPITAL EXPENDITURE

The Group's total capital expenditure for year ended 30 June 2006 was $17,107,976 of which $11,134,976 was for new aircraft paid for in cash.

23. TREASURY POLICY

Rex has established a treasury function, coordinated within the Audit and Risk Management Committee, responsible for managing the Group's currency risks and finance facilities.

The Board will continue to pursue a policy of internal funding for all expansion plans where possible. This provides the Group with substantial debt capacity to buffer any funding requirements under prolonged adverse conditions.

As the Group has a net short USD exposure, the treasury function consists uniquely of buying USD on the spot market whenever the rates are deemed favourable. The Group does not undertake any derivative initiatives.

24. RISK MANAGEMENT POLICIES

The Audit and Risk Management Committee considers the overall risk management framework and reviews its effectiveness in meeting sound corporate governance principles. The Committee reviews with management the system for identifying, managing and monitoring the key risks of the organisation and obtains reports from management on the status of any key risk exposures or incidents.

The Group has a net cash surplus and has a limited need for external facilities. The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations and actively manages its cash deposits to derive the highest yields.

It is, and has been throughout the period under review, the Group's policy that no trading is conducted in financial instruments and or derivatives.

25. STATEMENT OF COMPLIANCE

The financial report complies with Australian accounting standards, which include Australian equivalents to International Financial Reporting Standard ('AIFRS'). Compliance with AIFRS ensures that the financial report, comprising the financial statement and notes thereto, complies with International Financial Reporting Standard ('IFRS').

This is the first financial report prepared based AIFRS and comparatives for the year ended 30 June 2005 have been restated accordingly. Reconciliations of AIFRS equity and profit for 30 June 2005 to the balances reported in the 30 June 2005 financial report are detailed in Note 30.

26. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

CHANGES IN SHAREHOLDING AND STRUCTURE

Following a successful Initial Public Offering, Rex was listed and commenced trading on the Australian Stock Exchange on 9 November 2005.

DIVESTMENT OF HAZELTON AIR SERVICES PTY LIMITED

On 22 August 2005, Hazelton Air Services Pty Limited, a then wholly owned subsidiary, was divested based on the recommendations of the Company's advisors and given that there were no foreseeable plans of activities for Hazelton Air Services Pty Limited which had been dormant since November 2003. Hazelton Air Services Pty Limited had a negative book value and divestment was for a nominal sum.

INVESTMENT IN FIFTY PERCENT EQUITY IN PEL-AIR AVIATION PTY LIMITED

In August 2005, the Group announced that it had reached an agreement with the shareholders of Pel-Air Aviation Pty Limited for Rex to invest in 50% of the equity in Pel-Air. Pel-Air is an air cargo and charter company based in Sydney with 24 turbojet and turbo-prop aircraft. The purchase agreement was executed in November 2005 following the successful IPO and listing on the ASX. Under the terms of the agreement, Rex has the right to acquire a further 25% of Pel-Air in November 2006 and the remaining 25% in November 2007, subject to certain conditions being satisfied.

ACQUISITION OF AIR LINK PTY LIMITED

In November 2005, Rex acquired all the shares of Dubbo based regional airline Air Link Pty Limited.

Air Link, which operates a fleet of nine aircraft including a Beech 1900D on services between Dubbo and Sydney has a route network from Dubbo to the north western New South Wales towns of Cobar, Bourke, Coonamble, Walgett and Lightning Ridge. Air Link also operates services between Sydney and Mudgee. The other aircraft types include five Piper Chieftains and three Cessna 310s.

In addition to regular services, Air Link conducts charter services for a range of government and business customers.

The combination of the two networks and the synergies by being part of the same Group has provided the ability to expand service coverage and reduce unit costs. It is intended that Air Link will develop the 19 seat operation of the Group.

27. SIGNIFICANT EVENTS AFTER BALANCE SHEET DATE

NEW CORPORATE HEADQUARTERS

On 7 July 2006, the Group announced that an agreement had been reached for the acquisition of a new corporate headquarters in Baxter Road, Mascot.

The four storey building purchased freehold for $4.1m will enable the consolidation of all Sydney based management and administrative staff and the staff of subsidiaries based in Sydney into one facility.

The acquisition will provide improved efficiencies through the co-location of staff and reductions in rental costs.

The acquisition was completed on 1 September 2006.

WITHDRAWAL OF ROUTES

The Group announced on 2 June 2006 its withdrawal from the Sydney–Armidale route from 3 July 2006 after having commenced services on the route in September 2004. The poor performance and stagnant demand of this route led to the decision to withdraw. The aircraft and crew resources were redeployed elsewhere on the Sydney network, principally on the Sydney–Wagga Wagga route, which increased to six return services weekdays with a morning and evening "cross-over schedule", as well as on services to the New South Wales south coast.

QantasLink also announced its intention to withdraw from the Melbourne–Burnie route from 31 July 2006. With these withdrawals, the Group competes with QantasLink on only four routes i.e. Sydney/Dubbo, Sydney/Wagga Wagga, Sydney/Albury and Melbourne/Mildura.

28. LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Disclosure of information regarding likely developments in the operations of the Group in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Group. Accordingly, this information has not been disclosed in this Report.

29. ENVIRONMENTAL REGULATION AND PERFORMANCE

There have been no known breaches of environmental regulations.

30. INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, Rex paid a premium in respect of a contract insuring its Directors and all its executive officers against a liability incurred as a Director, or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Rex has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of Rex or any related body corporate against a liability incurred as an officer or auditor.

31. NON-AUDIT SERVICES

During the year, the Group's auditors, Ernst & Young, provided non-audit services to the Group. Details of amounts paid or payable to the auditor for non-audit services provided during the year by Ernst & Young are outlined in Note 28 in the Notes to the Financial Statements.

In accordance with advice provided by the Audit and Risk Management Committee, the Directors are satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

Also in accordance with advice from the Audit and Risk Management Committee, the Directors are satisfied that this provision of non-audit services did not compromise the auditor's independence due to the following reasons:

- They have no reason to question the honesty of the auditor's independence declaration referred to in the Auditor's Independence Declaration
- The fees paid for the non-audit services are modest
- The nature of the non-audit services provided is not inconsistent with auditor independence requirements

32. AUDITOR ATTENDANCE AT THE ANNUAL GENERAL MEETING

The Directors have requested the external auditor to attend the Annual General Meeting (AGM) and be available to answer Shareholders' questions on the audit.

33. ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the Group under ASIC Class Order 98/0100. The Group is an entity to which the Class Order applies.

34. PROCEEDINGS ON BEHALF OF THE COMPANY

No proceedings have been brought on behalf of the Group, nor has any application been made in respect of the Group under s.237 of the Corporations Act 2001.

35. AUDITOR'S INDEPENDENCE DECLARATION

The Directors received an Auditor's Independence Declaration from the auditor of the Group. A copy of this declaration has been included in this report on page 28.

Signed in accordance with a resolution of the Directors made pursuant to Section 298(2) of the Corporations Act 2001.

On behalf of the Directors

Geoffrey Breust
Managing Director
Sydney, 12 September 2006

AUDITOR'S INDEPENDENCE DECLARATION

ERNST & YOUNG

Ernst & Young Centre
680 George Street
Sydney NSW 2000
Australia

GPO Box 2646
Sydney NSW 2001

Tel 61 2 9248 5555
Fax 61 2 9248 5959
DX Sydney Stock
Exchange 10172

Auditor's Independence Declaration to the Directors of Regional Express Holdings Limited

In relation to our audit of the financial report of Regional Express Holdings Limited for the financial year ended 30 June 2006, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Gregory J Logue
Partner
Sydney
Date: 12 September 2006

Liability limited by a scheme approved under
Professional Standards Legislation.

Financial Report

INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006

	Notes	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	PARENT 2006 $'000	PARENT 2005 $'000
CONTINUING OPERATIONS					
Passenger revenue		166,231	139,764	162,749	139,764
Freight revenue		876	798	831	798
Charter revenue		1,163	762	798	762
Other passenger services and amenities		1,440	747	1,319	747
Finance revenue	4 (a)	1,076	207	1,138	207
Other income	4 (b)	3,473	2,380	2,139	2,380
Total revenue and other income		**174,259**	**144,658**	**168,974**	**144,658**
Flight and port operations costs (excluding fuel)		(42,529)	(40,395)	(42,194)	(40,395)
Fuel costs		(27,455)	(19,675)	(26,586)	(19,675)
Salaries and employee related costs	4 (c)	(47,454)	(41,143)	(46,352)	(41,143)
Selling and marketing costs		(8,404)	(11,103)	(8,232)	(11,103)
Engineering and maintenance costs		(19,276)	(15,610)	(18,366)	(15,610)
Office and general administration costs		(4,774)	(4,060)	(4,563)	(4,027)
Finance costs	4 (d)	(149)	(834)	(230)	(834)
Depreciation and amortisation	4 (e)	(4,204)	(2,646)	(3,573)	(2,609)
Other expenses	4 (g)	(231)	(21)	(203)	(21)
Total costs and expenses		**(154,476)**	**(135,487)**	**(150,299)**	**(135,417)**
Share of profit from associate	12	2,201	–	–	–
Profit before income tax		**21,984**	**9,171**	**18,675**	**9,241**
Income tax expense	5	(6,260)	(2,644)	(6,220)	(2,644)
Profit after tax from continuing operations		**15,724**	**6,527**	**12,455**	**6,597**
Profit attributable to members of the parent		**15,724**	**6,527**	**12,455**	**6,597**
Earnings per share (cents per share)					
- Basic for profit for the year attributable to ordinary equity holders of the parent		15.4	11.1	N/A	N/A
- Diluted for profit for the year attributable to ordinary equity holders of the parent		15.4	11.1	N/A	N/A
- Dividends per share (cents per share)	7	5.00	–	N/A	N/A

BALANCE SHEET
AS AT 30 JUNE 2006

	Notes	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	PARENT 2006 $'000	PARENT 2005 $'000
ASSETS					
Current Assets					
Cash and cash equivalents	8	23,583	4,543	22,423	4,543
Trade and other receivables	9	8,550	11,712	36,403	11,779
Inventories	10	4,141	3,104	3,896	3,104
Derivatives		–	40	–	40
Total Current Assets		**36,274**	**19,399**	**62,722**	**19,466**
Non-current Assets					
Other financial assets	11	–	–	117	–
Investment in associate	12	14,299	–	–	–
Deferred tax assets	5	3,326	6,802	3,195	6,802
Property, plant and equipment					
Aircraft		28,516	16,947	20,684	16,947
Other property, plant and equipment		17,092	11,935	13,397	11,762
Total property, plant and equipment	13	45,608	28,882	34,081	28,709
Goodwill and intangible assets	14	793	171	170	171
Total Non-current Assets		**64,026**	**35,855**	**37,563**	**35,682**
TOTAL ASSETS		**100,300**	**55,254**	**100,285**	**55,148**
LIABILITIES					
Current Liabilities					
Trade and other payables	17	23,520	21,879	23,403	20,693
Interest-bearing loans and borrowings	18	–	512	–	512
Income tax payable		1,942	–	1,859	–
Provisions	19	4,290	4,025	3,853	4,025
Other liabilities	20	283	283	283	283
Total Current Liabilities		**30,035**	**26,699**	**29,398**	**25,513**
Non-current Liabilities					
Interest-bearing loans and borrowings	18	–	4,147	–	4,147
Provisions	19	1,028	1,193	1,028	1,193
Other liabilities	20	441	789	441	789
Total Non-current Liabilities		**1,469**	**6,129**	**1,469**	**6,129**
TOTAL LIABILITIES		**31,504**	**32,828**	**30,867**	**31,642**
NET ASSETS		**68,796**	**22,426**	**69,418**	**23,506**
EQUITY					
Equity attributable to equity holders of the parent					
Issued capital	21	69,546	36,577	69,546	36,577
Reserved shares	21	(2,810)	–	–	–
Retained earnings		1,573	(14,151)	(615)	(13,071)
Share based payments reserve		487	–	487	–
TOTAL EQUITY		**68,796**	**22,426**	**69,418**	**23,506**

CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2006

	Notes	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	PARENT 2006 $'000	PARENT 2005 $'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		190,887	152,086	184,347	152,086
Payments to suppliers and employees		(163,781)	(149,585)	(158,139)	(149,585)
Receipt of Government Grants		–	1,246	–	1,246
Interest paid		(149)	(815)	(230)	(815)
Net Cash Flows From Operating Activities	8	**26,957**	**2,932**	**25,978**	**2,932**
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant and equipment		1,522	6,405	1,495	6,405
Interest received		1,076	207	1,138	207
Purchase of aircraft		(10,918)	(9,153)	(6,583)	(9,153)
Purchase of other property, plant and equipment		(7,260)	(5,949)	(3,396)	(5,949)
Acquisition of subsidiary, net of cash acquired		(2,333)	–	–	–
Acquisition of associate		(12,097)	–	–	–
Proceeds from disposal of subsidiary, net of cash disposed		–	–	–	–
Purchase of reserved shares		(2,810)	–	–	–
Purchase of intangibles		(153)	–	(100)	–
Funds utilised to finance operations of subsidiaries		–	–	(28,091)	–
Net Cash Flows Used In Investing Activities		**(32,973)**	**(8,490)**	**(35,537)**	**(8,490)**
CASH FLOW FROM FINANCING ACTIVITIES					
Proceeds from issue of ordinary shares		35,000	175	35,000	175
Payment of share issue costs		(2,903)	–	(2,903)	–
Repayment of borrowings – other		(7,025)	(81)	(4,642)	(81)
Proceeds from borrowings – other		–	4,724	–	4,724
Proceeds from issue of convertible notes		–	4,000	–	4,000
Repayment of hire purchase agreement principal		(16)	(33)	(16)	(33)
Net Cash Flows From/(Used In) Financing Activities		**25,056**	**8,785**	**27,439**	**8,785**
Net increase in cash and cash equivalents		19,040	3,227	17,880	3,227
Cash and cash equivalents at beginning of period		4,543	1,316	4,543	1,316
Cash And Cash Equivalents At End Of Period	8	**23,583**	**4,543**	**22,423**	**4,543**

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2006

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT				
	Issued Capital $'000	Reserved Shares $'000	Retained Earnings $'000	Share Based Payments Reserve $'000	Total Equity $'000
CONSOLIDATED					
At 1 July 2004	30,271	–	(20,678)	–	9,593
Issue of share capital	6,306	–	–	–	6,306
Profit for the year		–	6,527	–	6,527
At 30 June 2005	**36,577**	**–**	**(14,151)**	**–**	**22,426**
Costs of share capital issued	(2,901)	–	–	–	(2,901)
Tax effect of share capital issued	870	–	–	–	870
Total income and expense for the year recognised directly in equity	(2,031)	–	–	–	(2,031)
Profit for the year	–	–	15,724	–	15,724
Total income/expense for the year	(2,031)	–	15,724	–	13,693
Purchase of reserved shares	–	(2,810)	–	–	(2,810)
Issues of share capital	35,000	–	–	–	35,000
Cost of share-based payments	–	–	–	487	487
At 30 June 2006	**69,546**	**(2,810)**	**1,573**	**487**	**68,796**
PARENT					
At 1 July 2004	30,271	–	(19,667)	–	10,604
Issue of share capital	6,306	–	–	–	6,306
Profit for the year	–	–	6,597	–	6,597
At 30 June 2005	**36,577**	**–**	**(13,070)**	**–**	**23,507**
Costs of share capital issued	(2,901)	–	–	–	(2,901)
Tax effect of share capital issued	870	–	–	–	870
Total income and expense for the year recognised directly in equity	(2,031)	–	–	–	(2,031)
Profit for the year	–	–	12,455	–	12,455
Total income/expense for the year	(2,031)	–	12,455	–	10,425
Issues of share capital	35,000	–	–	–	35,000
Cost of share-based payments	–	–	–	487	487
At 30 June 2006	**69,546**	**–**	**(615)**	**487**	**69,418**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006

1. CORPORATE INFORMATION

The financial report of Regional Express Holdings Limited for the year ended 30 June 2006 was authorised for issue in accordance with a resolution of the Directors on 12 September 2006.

Regional Express Holdings Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange.

The nature of the operations and principal activities of the Group are described in the Directors' Report.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) BASIS OF PREPARATION

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian accounting standards. The financial report has also been prepared on an historical cost basis, except for derivative financial instruments that have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated under the option available to the company under ASIC Class Order 98/100. The company is an entity to which the class order applies.

(B) STATEMENT OF COMPLIANCE

The financial report complies with Australian accounting standards, which include Australian equivalents to International Financial Reporting Standard ('AIFRS'). Compliance with AIFRS ensures that the financial report, comprising the financial statement and notes thereto, complies with International Financial Reporting Standard ('IFRS').

This is the first financial report prepared based on AIFRS and comparatives for the year ended 30 June 2005 have been restated accordingly. Reconciliations of AIFRS equity and profit for 30 June 2005 to the balances reported in the 30 June 2005 financial report and at transition to AIFRS are detailed in Note 30.

The Group has made its election in relation to the transitional exemptions allowed by AASB 1 'First-time Adoption of Australian Equivalents to International Reporting Standards' as follows:

AASB 3 'Business Combinations' was not applied retrospectively to business combinations that occurred before the date of transition to AIFRS.

AASB 2 'Share-Based payments' is applied only to equity instruments granted after 7 November 2002 that had not vested on or before 1 January 2005.

Certain Australian Accounting Standards and UIG interpretations have recently been issued or amended but are not yet effective and have not been adopted by the group for the annual reporting period ended 30 June 2006.

The Directors have assessed the impact of these new or amended standards (to the extent relevant to the group) and interpretations as follows:

AASB Amendment	Affected Standard(s)	Nature of Change to Accounting Policy	Application Date of Standard	Application Date for Group	Summary
2004-3	AASB 1 *First-time Adoption of AIFRS* AASB 101 *Presentation of Financial Statements* AASB 124 *Related Party Disclosures*	No change to accounting policy required therefore no impact	1 January 2006	1 July 2006	Consequential amendments to the affected standards as a result of the release of the revised AASB 119.
2005-1	AASB 139 *Financial Instruments: Recognition and Measurement*	No change to accounting policy required therefore no impact	1 January 2006	1 July 2006	Amendment to AASB 139 to allow the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the hedged item in certain circumstances.
2005-4	AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 1 *First-time Adoption of AIFRS*, AASB *1023 General Insurance Contra*cts and AASB 1038 *Life Insurance Contracts*	No change to accounting policy required therefore no impact	1 January 2006	1 July 2006	Amendments relate to the restriction on designating financial instruments at fair value through profit and loss.
2005-5	AASB 1 *First-time Adoption of AIFRS* and AASB 139 *Financial Instruments: Recognition and Measurement*	No change to accounting policy required therefore no impact	1 January 2006	1 July 2006	Consequential amendments made to AASB 1 due to the issue of UIG Interpretation 4. Consequential amendments made to AASB 139 due to the issue of UIG Interpretation 5.
2005-6	AASB 3 *Business Combinations*	No change to accounting policy required therefore no impact	1 January 2006	1 July 2006	The definition of 'contribution by owners' is removed and the AASB 3 scope exclusion for business combinations involving entities or businesses under common control is adopted.

(B) STATEMENT OF COMPLIANCE (CONTINUED)

AASB Amendment	Affected Standard(s)	Nature of Change to Accounting Policy	Application Date of Standard	Application Date for Group	Summary
2005-10	AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 101 *Presentation of Financial Statements*, AASB 114 *Segment Reporting*, AASB 117 *Leases*, AASB 133 *Earnings per Share*, AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 1 *First-time Adoption of AIFRS*, AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*	No change to accounting policy required therefore no impact	1 January 2007	1 July 2006	These amendments arise from the release of AASB 7 relating to financial instrument disclosures.
2006-1	AASB 121 *The Effects of Change in Foreign Currency Rates*	No change to accounting policy required therefore no impact	1 January 2006	1 July 2006	The amendment clarifies the requirements relating to an entity's investment in foreign operations and assists the financial reporting of entities with investments in operations that have a different functional currency.

New or Revised Standard/UIG Affected Standard(s)	Nature of Change to Accounting Policy	Application Date of Standard/ Interpretation	Application Date for Group	Summary
AASB 119 *Employee Benefits*	No change to accounting policy required therefore no impact	1 January 2006	1 July 2006	Amendment to AASB 119 to incorporate changes to IFRS in connection with the 'corridor approach' to account for movements in actuarial gains and losses for defined benefit plans.
AASB 7 *Financial Instruments: Disclosures*	No change to accounting policy required therefore no impact	1 January 2007	1 July 2007	The Standard requires disclosure of: – The significance of financial instruments for an entity's financial position and performance; and – Qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk.
UIG 4 *Determining Whether an Arrangement Contains a Lease*	No change to accounting policy required therefore no impact	1 January 2006	1 July 2006	Specifies criteria for determining whether an arrangement is, or contains, a lease.
UIG 8 *Scope of AASB 2*	No change to accounting policy required therefore no impact	1 May 2006	1 July 2006	Clarifies that the scope of AASB 2 deals with transactions in which an entity cannot identify specifically some or all of the goods or services received as consideration for the share-based payment instrument.
UIG 9 *Reassessment of Embedded Derivatives*	No change to accounting policy required therefore no impact	1 June 2006	1 July 2006	Requires an embedded derivative that has been combined with a non-derivative to be separated from the host contract and accounted for as a derivative in certain circumstances.

The following amendments are not applicable to the group and therefore have no impact:

UIG 5 *Rights to Interests in Decommissioning, Restoration and Environmental Rehabilitation Funds*

UIG 6 *Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment*

UIG 7 *Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies*

AASB 4 *Insurance Contracts, AASB 1023 General Insurance Contracts*

(C) BASIS OF CONSOLIDATION

The consolidated financial statements are those of the consolidated entity, comprising Regional Express Holdings Limited (the parent company) and all entities that Regional Express Holdings Limited controlled from time to time during the year and at reporting date ('the Group'). Investments in controlled entities are subsequently measured at cost in the separate financial statements of the parent.

Information from the financial statements of subsidiaries is included from the date the parent company obtained control until such time as control ceases. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the parent company has control.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full.

Air Link Pty Limited has been included in the consolidated financial statements using the purchase method of accounting, which measures the acquiree's assets, liabilities and contingent liabilities at their fair value at acquisition date. Accordingly, the consolidated financial statements include the results of Air Link Pty Limited for the seven month period from its acquisition on 30 November 2005. The purchase consideration has been allocated to the assets and liabilities on the basis of the fair value at the date of acquisition.

(D) INVESTMENT IN ASSOCIATE

The Group's investment in its associate, Pel-Air Aviation Pty Limited, is accounted for under the equity method of accounting in the consolidated financial statements. This is an entity in which the group has significant influence and which is neither a subsidiary nor a joint venture.

The financial statements of the associate are used by the group to apply the equity method. The reporting dates of the associate and the group are identical and both use consistent accounting policies.

The investment in the associate is carried in the consolidated balance sheet at cost plus post-acquisition changes in the group's share of the net assets of the associate, less any impairment in value. The consolidated income statement reflects the group's share of the results of the operations of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised.

Where there has been a change recognised directly in the associate's equity, the group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

(E) FOREIGN CURRENCY TRANSLATION

Both the functional and presentation currency of Regional Express Holdings Limited and the group is Australian dollars (A$).

Translation of foreign currency transactions

Transactions in foreign currencies of entities within the consolidated entity are converted to local currency at the rate of exchange ruling at the date of the transaction. Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the balance sheet date.

A monetary item arising under a foreign currency contract outstanding at the reporting date where the exchange rate for the monetary item is fixed in the contract is translated at the exchange rate fixed in the contract.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

(F) PROPERTY, PLANT AND EQUIPMENT

All classes of property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment over the estimated useful life of the asset. The rates applied are as follows:

	2006	2005
Aircraft	50,000 - 60,000 hours	50,000 - 60,000 hours
Engines	10 years	10 years
Leasehold Improvements	40 years	40 years
Rotable Assets	1.5 - 5.5 years	1.5 - 5.5 years
Rotable Spares Not In Use	N/A	N/A
Plant & Equipment – Ground Service Equipment	8 years	8 years
Furniture & Fittings	8 years	8 years
Computer Equipment	4 years	4 years
Motor Vehicles	7 years	7 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end. Rotable spares not in use are not depreciated.

Impairment

The carrying values of property, plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the asset or cash–generating unit is written down to its recoverable amount.

The recoverable amount of property, plant and equipment is the greater of fair value less costs to sell and value in use. 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. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised in the profit or loss immediately.

Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further 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 in the year the asset is derecognised.

(G) BORROWING COSTS

Borrowing costs are recognised as an expense when incurred.

(H) GOODWILL

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

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

Goodwill is not amortised.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

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, or groups of cash generating units, that are expected to benefit from the synergies of the

(H) GOODWILL (CONTINUED)

combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- Represents the lower level within the Group at which the goodwill is monitored for internal management purposes; and
- Is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with AASB 114 Segment Reporting.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the asset is less than the carrying amount, an impairment loss is recognised.

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 the disposal of the operation.

Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

(I) INTANGIBLE ASSETS

Acquired both separately and from a business combination
Intangible assets acquired separately are capitalised at cost and from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

The useful lives of these intangible assets are assessed to be either finite or indefinite. Where amortisation is charged on assets with finite or indefinite lives, this expense is taken to the income statement through the "depreciation & amortisation" line item. Intangible assets are tested for impairment where an indictor of impairment exists, and in the case of indefinite lived intangibles annually, either individually or at the cash generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Research and development costs
Research costs are expensed as incurred.

Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured.

Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried forward at cost less any accumulated amortisation and accumulated impairment losses.

Any expenditure carried forward is amortised over the period of expected future sales from the related project.

The carrying value of the development costs is reviewed for impairment annually when the asset is not yet in use, or more frequently when an indicator of impairment arises during the reporting year indicating that the carrying value may not be recoverable.

A summary of the policies applied to the group's intangible assets is as follows:

	Computer Software	**Development Costs**
Useful Lives	Finite	Finite
Amortisation Method Used	2 years straight line	2.5 years straight line
Internally Generated/Acquired	Acquired	Internally generated
Impairment Test/Recoverable Amount Testing	Annually and where an indicator of impairment exists	Amortisation method reviewed at each financial year-end; Reviewed annually for indicator of impairment

Gains and losses arising from the 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 the income statement when the asset is derecognised.

(J) IMPAIRMENT OF ASSETS

At each reporting date, the Group assesses whether there is an indication that an asset may be impaired. Where an indictor of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflow that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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 values of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which the impairment loss is treated as a revaluation decrease).

(K) INVENTORIES

Consumable spares are valued at the lower of cost and net realisable value. 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.

(L) TRADE AND OTHER RECEIVABLES

Trade receivables, which generally have 7-30 day terms, are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when there is objective evidence that the full amount is no longer recoverable. Bad debts are written off as incurred.

Receivables from related parties are recognised and carried at the nominal amount due. They are repayable on demand and non-interest bearing.

(M) CASH AND CASH EQUIVALENTS

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(N) INTEREST-BEARING LOANS AND BORROWINGS

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are derecognised.

(O) PROVISIONS

Provision are recognised when the Group has a present legal or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(P) SHARE-BASED PAYMENT TRANSACTIONS

The Group provides benefits to employees (including Directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

(P) SHARE-BASED PAYMENT TRANSACTIONS (CONTINUED)

There are currently three plans in place to provide these benefits:

- Employee Share Option Plan (ESOP);
- Tax Deferred Share Plan; and
- Tax Exempt Employee Share Plan.

The cost of these equity-settled transaction with employees is measured by reference to the fair value at the date at which they are granted.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of shares of Regional Express, where appropriate ('market conditions').

The cost of equity-settled transactions, is recognised together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting period').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the Directors of the group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum, an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where the terms of an equity-settled award are cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However,if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if there were a modification of the original award, as described in the previous paragraph. The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earning per share.

AASB 2 'Share Based Payments' is applied only to equity instruments granted after 7 November 2002 that had not vested on or before 1 January 2005.

(Q) EARNINGS PER SHARE

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element. Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- Costs of servicing equity (other than dividends) and preference share dividends;
- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;
  divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(R) LEASES

The determination of whether an arrangement is or contains a lease in based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset and the arrangement conveys the right to use the asset.

Operating leases
The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as the lease income.

Finance leases
Leases which effectively transfer substantially all the risk and benefits incidental to ownership of the leased item to the group are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease

payments. A liability of equal value is also recognised.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. Minimum lease payments are allocated between interest expense and reduction of the lease liability with the interest expense calculated using the interest rate implicit in the lease and recognised directly in net profit.

(S) 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. The following specific recognition criteria must also be met before revenue is recognised:

Passenger, charter and freight revenue
Passenger, charter and freight revenue is included in the income statement at the fair value of the consideration received net of sales discounts and net of goods and services tax ('GST'). Commissions are treated as a cost of sale. Passenger, charter and freight sales are credited to unearned revenue and subsequently transferred to revenue when tickets are utilised or charter and freight uplifted.

Interest
Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

(T) GOVERNMENT GRANTS

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.
When the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

(U) INCOME TAX

Current 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 balance sheet date. Deferred income tax is provided on all temporary differences at the balance sheet 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 income tax liability 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 taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and carry-forward of unused tax assets 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 investment in subsidiaries and associates, deferred tax assets are only recognised 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 temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred

(U) INCOME TAX (CONTINUED)

tax assets and liabilities relates to the same taxable entity and same taxation authority.

Deferred income 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 balance sheet date. Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

(V) OTHER TAXES

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

- Where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST 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 are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(W) DERECOGNITION OF FINANCIAL INSTRUMENTS

The derecognition of a financial instrument takes place when the Group no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

(X) DERIVATIVE FINANCIAL INSTRUMENTS

Forward exchange contracts

The consolidated entity enters into forward exchange contracts where it agrees to buy or sell specified amounts of foreign currencies in the future at a predetermined exchange rate. The objective is to match the contract with anticipated future cash flows from sales and purchases in foreign currencies, to protect the consolidated entity against the possibility of loss from future exchange rate fluctuations. The forward exchange contracts are usually for no longer than 12 months.

Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken to profit and loss in the period incurred.

In relation to forward foreign currency contracts, hedge accounting under AASB 132 and AASB 139 has not been applied. As these instruments are held for trading, any gain or loss on the forward foreign currency contract is recognised directly in the income statement.

(Y) EMPLOYEE LEAVE BENEFITS

Provision is made for employee leave benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave. Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within 12 months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled.All other employee leave benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability are used. Employee leave benefit expenses and revenues arising in respect of the following categories: wages and salaries, non-monetary benefits, annual leave, long service leave and other leave benefits; and other types of employee leave benefits are recognised against profits on a net basis in their respective categories.

(Z) PAYABLES

Liabilities for trade creditors and other amounts are carried at amortised cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity. Payables are generally on 30 day terms. Payables to related parties are generally on 30 day terms. No interest is charged on these amounts.

(aa) Contributed equity

Issued and paid up capital is recognised at the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised, net of taxation, directly in equity as a reduction of the share proceeds received.

(ab) Reserved shares

Own equity instruments which are reacquired for later payment as employee share-based payment awards (reserved shares) are 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.

(ac) Significant accounting judgements, estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Impairment of goodwill and intangibles with indefinite useful lives

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash generating units to which the goodwill and intangibles with indefinite useful lives are allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill and intangibles with indefinite useful lives are discussed in Note 15.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. As share gifts were granted during the year, AASB 2 requires that these share gifts be valued at their market value at grant date. Market value is deemed to be the value of the shares on the ASX at grant date. As share options were not granted on or before 30 June 2006, there was no need to perform any additional valuation in accordance with AASB 2 that would require the use of accounting judgments, estimates and assumptions.

3. SEGMENT INFORMATION

The consolidated entity continues to operate in one segment being the provision of regular public transport within South East Australia.

4. REVENUES AND EXPENSES

	CONSOLIDATED		PARENT	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
(a) Finance revenue				
Interest	1,076	207	1,138	207
(b) Other income				
Net gain on disposal of property, plant & equipment	359	1,464	359	1,464
Net foreign currency gains	1,126	–	1,126	–
Grant – Department of Transport and Regional Sevices	283	174	283	174
Gain on sale of subsidiary	1,081	–	–	–
Other income	624	742	371	742
	3,473	2,380	2,139	2,380
(c) Salaries & employee related costs				
Wages and salaries (excluding bonus - profit share scheme)	41,427	37,771	40,410	37,771
Bonus - profit share scheme	1,991	–	1,991	–
Workers' compensation costs	512	711	501	711
Superannuation costs	3,037	2,661	2,963	2,661
Expense of share-based payments	487	–	487	–
	47,454	41,143	46,352	41,143
(d) Finance costs				
Interest expense – director related entity	–	534	–	534
Interest expense – other	145	294	226	294
Finance lease	4	6	4	6
Total finance costs	149	834	230	834
(e) Depreciation & amortisation				
Depreciation and amortisation	4,098	2,470	3,472	2,433
Amortisation of development costs and software	106	176	101	176
	4,204	2,646	3,573	2,609
(f) Lease payments included in income statement				
Included in flight and port operations costs				
Minimum lease payments – operating lease	7,712	8,536	8,035	8,536
(g) Other expenses				
Foreign exchange loss	–	21	–	21
Other expenses	231	–	203	–
	231	21	203	21

5. INCOME TAX

	CONSOLIDATED		PARENT	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
The major components of income tax expense are:				
Income Statement				
Current income tax				
Current income tax charge	6,330	3,207	6,159	3,207
Adjustments in respect of current income tax of previous years	21	–	21	–
Deferred income tax				
Relating to origination and reversal of temporary differences	(91)	(563)	40	(563)
Income tax expense reported in the income statement	6,260	2,644	6,220	2,644
A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Group's effective income rate for the years ended 30 June 2006 and 2005 is as follows:				
Accounting profit before income tax	21,984	9,171	18,675	9,241
At the statutory income tax rate 30% (2005:30%)	6,595	2,751	5,603	2,772
Expenditures not allowable for income tax purposes	520	26	520	26
Other	(855)	(133)	97	(154)
Income tax expense reported in income statement	6,260	2,644	6,220	2,644

5. INCOME TAX (CONTINUED)

	BALANCE SHEET		INCOME STATEMENT	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Deferred income tax				
Deferred income tax at 30 June relates to the following:				
CONSOLIDATED				
Deferred tax assets				
Losses available for offset against future taxable income	–	4,436	–	–
Employee related provisions	1,595	1,565	(30)	9
Deferred government grant	217	322	105	(322)
Provision for doubtful debts	65	4	(61)	(4)
Listing costs deductible over five years	696	–	173	–
Other items	753	475	(278)	(246)
Total deferred tax assets	3,326	6,802	(91)	(563)
PARENT				
Deferred tax assets				
Losses available for offset against future taxable income	–	4,436	–	–
Employee related provisions	1,464	1,565	101	9
Deferred government grant	217	322	105	(322)
Provision for doubtful debts	65	4	(61)	(4)
Listing costs deductible over five years	696	–	173	–
Other items	753	475	(278)	(246)
Total deferred tax assets	3,195	6,802	40	(563)

The Group has utilised all tax losses arising in Australia during the 2006 financial year (2005: $4,435,976).

At 30 June 2006, there is no recognised or unrecognised deferred income tax liability for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or associate as the Group has no liability for additional taxation should such amounts be remitted.

TAX CONSOLIDATION

Regional Express Holdings Limited and its 100% owned Australian resident subsidiaries have formed a tax consolidated group. Regional Express Holdings Limited is the head entity of the tax consolidated group.

Tax effect accounting by members of the tax consolidated group
Members of the tax consolidated group have not entered into a tax funding agreement.

The allocation of taxes in the absence of a tax funding agreement is recognised as an increase/ decrease in the subsidiaries' equity accounts and an increase in the parent company investment accounts. In preparing the accounts for Regional Express Holdings Limited for the current year, the following amounts have been recognised as tax-consolidation contribution adjustments.

6. EARNINGS PER SHARE

Basic earning per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary shareholders by the weighted average numberof ordinary shares outstanding during the year (adjusted for the effects of dilutive options).

The following reflects the income and share data used in the total operations basic and diluted earnings per share computations:

TAX CONSOLIDATION

	PARENT	
	2006 $'000	2005 $'000
Total increase to tax payable of Regional Express Holdings Limited	117	–
Total increase to investment in subsidiary assets of Regional Express Holdings Limited	117	–

EARNINGS PER SHARE

	CONSOLIDATED	
	2006 $'000	2005 $'000
Net profit attributable to equity holders of the parent	15,724	6,527
Net profit attributable to basic and ordinary shareholders for diluted earnings per share	15,724	6,527
Weighted average number of ordinary shares (excluding reserved shares) for basic and diluted earnings per share	102,340	58,746

To ensure comparability the weighted average number of ordinary shares utilised for the 30 June 2005 year basic and diluted earnings per share calculations has been adjusted for the share consolidation which was undertaken in the 2006 year.

The weighted average number of ordinary shares for basic and diluted earnings per share calculations are the same as there have been no dilutive equity instruments issued.

7. DIVIDENDS PROPOSED

	CONSOLIDATED		PARENT	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Proposed for approval at AGM (not recognised as a liability as at 30 June 2006):				
Dividends on ordinary shares:				
Final unfranked dividend for 2006: 5.00 cents (2005: nil)	5,750	–	5,750	–
Franking credit balance				
The amount of franking credits available for the subsequent financial year are:				
- Franking account balance as at the end of the financial year at 30% (2005: 30%)	–	–	–	–
Franking credit that will arise from the payment of income tax payable as at the end of the financial year	1,942	–	1,859	–
	1,942	–	1,859	–
The amount of franking credits available for future reporting periods:				
- Impact on the franking account of dividends proposed or declared before the financial report was authorised for issue but not recognised as a distribution to equity holders during the period	–	–	–	–
	1,942	–	1,859	–

Dividends proposed will be unfranked.

8. CASH AND CASH EQUIVALENTS

	CONSOLIDATED		PARENT	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Cash at bank and in hand	22,536	4,543	21,552	4,543
Short term deposits	1,047	–	871	–
	23,583	4,543	22,423	4,543

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposits rates.

The fair value of cash and cash equivalents is $23,582,731 (2005: $4,542,887).

RECONCILIATION OF CASH

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following at 30 June:

Cash on hand	13	11	12	11
Cash at bank and short term deposits	23,570	4,532	22,411	4,532
	23,583	4,543	22,423	4,543
RECONCILIATION FROM THE NET PROFIT AFTER TAX TO THE NET CASH FLOWS FROM OPERATIONS				
Net profit	15,724	6,527	12,455	6,597
Adjustments for:				
Depreciation	4,098	1,890	3,472	1,853
Amortisation	106	1,571	101	756
Interest received	(1,076)	(207)	(1,138)	(207)
Net (profit)/loss on disposal of property, plant and equipment	(359)	(1,433)	(359)	(1,433)
Net (profit)/loss on disposal of subsidiary	(1,081)	–	–	–
Share of associates' net (profits) and losses	(2,201)	–	–	–
Share based payments expense	487	–	487	–
CHANGES IN ASSETS AND LIABILITIES				
(Increase)/decrease in trade and other receivable	3,673	(2,388)	3,468	(2,196)
(Increase)/decrease in inventories	(426)	(1,397)	(793)	(1,397)
(Decrease)/increase in tax balances	6,289	2,644	6,337	2,644
(Decrease)/increase in trade and other payables	2,423	(4,125)	2,710	(3,535)
(Increase)/decrease in other financial asset (investment in subsidiary) relating to UIG 1052 adjustment	–	–	(117)	–
(Decrease)/increase in provisions	(392)	(150)	(337)	(150)
(Decrease)/increase in other liabilities	(348)	–	(348)	–
(Increase)/decrease in derivatives	40	–	40	–
NET CASH FROM OPERATING ACTIVITIES	26,957	2,932	25,978	2,932

9. TRADE AND OTHER RECEIVABLES (CURRENT)

	CONSOLIDATED		PARENT	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Trade receivables	4,781	6,508	4,683	6,508
Provision for doubtful debts	(13)	(13)	(13)	(13)
	4,768	6,495	4,670	6,495
Sundry debtors	936	736	537	736
Provision for loan	(203)	–	(203)	–
	733	736	334	736
Related party receivables:				
Wholly owned group – controlled entities	–	–	28,350	259
Prepayments	1,410	2,082	1,410	1,890
Deposits and other assets	1,639	2,399	1,639	2,399
	8,550	11,712	36,403	11,779

Trade receivables are non-interest bearing and are generally on 30 day terms.

A provision for doubtful debts is made when there is objective evidence that a trade receivable is impaired. The amount of the provision has been measured as the difference between the carrying amount of the trade receivables and the estimated future cash flows expected to be received from the relevant debtors.

Related party receivables are loan receivables from controlled entities. They are non-interest bearing and repayable at call.

10. INVENTORIES

	CONSOLIDATED		PARENT	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
CURRENT				
Consumable spares (at cost)	4,141	3,104	3,896	3,104
Total consumable spares at lower of cost and net realisable value	4,141	3,104	3,896	3,104

11. OTHER FINANCIAL ASSETS (NON-CURRENT)

	CONSOLIDATED		PARENT	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Investments in controlled entities (Note 26)	–	–	117	–
	–	–	117	–

12. INVESTMENT IN ASSOCIATE

Investment in associate	14,299	–	–	–

During the year, Regional Express Holdings Limited acquired a 50% interest in Pel-Air Aviation Pty Limited, which is in the business of providing charter and freight services throughout Australia.

Pel-Air Aviation Pty Limited is a small proprietary company incorporated in Australia that is not listed on any public exchange and therefore there is no published quotation price for the fair value of this investment.

The reporting date of Pel-Air Aviation Pty Limited is the same as Regional Express Holdings Limited.

There were no impairment losses relating to the investment in associate and no capital commitments or other commitments relating to the associate.

The following table illustrates summarised financial information relating to the Group's investment in Pel-Air Aviation Pty Limited:

	CONSOLIDATED	
	2006 $'000	2005 $'000
SHARE OF ASSOCIATE'S BALANCE SHEET		
Current assets	4,426	–
Non-current assets	17,081	–
	21,507	–
Current liabilities	(3,090)	–
Non-current liabilities	(7,144)	–
	(10,234)	–
Net assets	11,273	–
SHARE OF ASSOCIATES' REVENUE AND PROFIT		
Revenue	16,455	–
Profit before income tax	3,102	–
Income tax expense	(901)	–
Profit after income tax	2,201	–

13. PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED		PARENT	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Aircraft				
At cost	34,172	18,461	23,756	18,461
Accumulated depreciation and impairment	(5,656)	(1,514)	(3,072)	(1,514)
	28,516	16,947	20,684	16,947
Rotable assets				
At cost	15,775	9,863	12,792	9,863
Accumulated depreciation and impairment	(2,662)	(1,509)	(2,473)	(1,509)
	13,113	8,354	10,319	8,354
Leasehold Improvements				
At cost	813	816	787	816
Accumulated depreciation and impairment	(100)	(84)	(100)	(84)
	713	732	687	732
Motor vehicles				
At cost	487	326	309	326
Accumulated depreciation and impairment	(187)	(98)	(139)	(98)
	300	228	170	228
Furniture and fittings				
At cost	527	334	379	334
Accumulated depreciation and impairment	(250)	(125)	(172)	(125)
	277	209	207	209
Computer equipment				
At cost	976	616	809	616
Accumulated depreciation and impairment	(486)	(281)	(473)	(281)
	490	335	336	335
Plant and equipment – ground service equipment				
At cost	3,585	2,973	2,996	2,695
Accumulated depreciation and impairment	(1,386)	(1,007)	(1,318)	(902)
	2,199	1,966	1,678	1,793
Plant and equipment under hire purchase				
At cost	–	145	–	145
Accumulated depreciation and impairment	–	(34)	–	(34)
	–	111	–	111
Total property plant and equipment				
At cost	56,335	33,534	41,828	33,256
Accumulated depreciation and impairment	(10,727)	(4,652)	(7,747)	(4,547)
	45,608	28,882	34,081	28,709

	CONSOLIDATED		PARENT	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
RECONCILIATIONS				
Aircraft				
Net carrying amount at beginning of the period	16,947	12,112	16,947	12,112
Additions	10,918	11,115	6,583	11,115
Disposals	(1,059)	(5,189)	(1,059)	(5,189)
Acquisition of subsidiary	3,875	–	–	–
Depreciation charge for the year	(2,165)	(1,091)	(1,787)	(1,091)
	28,516	16,947	20,684	16,947
Rotable assets				
Net carrying amount at beginning of the period	8,354	5,350	8,354	5,350
Additions	5,912	3,696	2,929	3,696
Amortisation charge for the year*	(1,153)	(690)	(964)	(690)
	13,113	8,354	10,319	8,354
Leasehold improvements				
Net carrying amount at beginning of the period	732	630	732	630
Additions	3	157	–	157
Acquisition of subsidiary	23	–	–	–
Depreciation charge for the year	(45)	(55)	(45)	(55)
	713	732	687	732
Motor vehicles				
Net carrying amount at beginning of the period	228	253	228	253
Additions	109	43	–	43
Disposals	(10)	(20)	(10)	(20)
Acquisition of subsidiary	29	–	–	–
Depreciation charge for the year	(56)	(48)	(48)	(48)
	300	228	170	228
Furniture and fittings				
Net carrying amount at beginning of the period	209	250	209	250
Additions	106	4	45	4
Disposals	–	–	–	–
Acquisition of subsidiary	20	–	–	–
Depreciation charge for the year	(58)	(45)	(47)	(45)
	277	209	207	209
Computer equipment				
Net carrying amount at beginning of the period	335	228	335	228
Additions	362	233	194	233
Disposals	–	–	–	–
Depreciation charge for the year	(207)	(126)	(193)	(126)
	490	335	336	335

**Rotable assets not in use are not depreciated.*

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	CONSOLIDATED		PARENT	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Plant and equipment – ground service equipment				
Net carrying amount at beginning of the period	1,966	2,046	1,793	1,840
Additions	768	421	228	420
Disposals	(239)	(101)	(65)	(102)
Reclassification	105	–	105	–
Acquisition of subsidiary	7	–	–	–
Depreciation charge for the year	(408)	(400)	(383)	(365)
	2,199	1,966	1,678	1,793
Plant and equipment under hire purchase				
Net carrying amount at beginning of the period	111	125	111	125
Amortisation charge for the year	(7)	(14)	(7)	(14)
Reclassification	(104)	–	(104)	–
	–	111	–	111
Total property, plant and equipment				
Net carrying amount at beginning of the period	28,882	20,996	28,709	20,787
Additions	18,178	15,669	9,979	15,669
Disposals	(1,308)	(5,312)	(1,134)	(5,313)
Acquisition of subsidiary	3,954	–	–	–
Amortisation charge for the year	(1,159)	(704)	(970)	(704)
Depreciation charge for the year	(2,939)	(1,765)	(2,503)	(1,730)
	45,608	28,882	34,081	28,709

Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

No impairment loss has been recognised over items of property, plant and equipment for the year ended 30 June 2006. (2005: Nil).

14. GOODWILL & INTANGIBLE ASSETS

	CONSOLIDATED		PARENT	
	Goodwill $'000	Software and Development Costs $'000	Goodwill $'000	Software and Development Costs $'000
AT 30 JUNE 2005				
Cost	–	337	–	337
Accumulated amortisation and impairment	–	(166)	–	(166)
Net carrying amount	–	171	–	171
Total goodwill and intangible assets		171		171
Reconciliation				
At 1 July 2004, net of accumulated amortisation	–	24	–	24
Additions	–	271	–	271
Amortisation	–	(124)	–	(124)
	–	171	–	171
Total goodwill and intangible assets		171		171
AT 30 JUNE 2006				
Cost	576	665	–	612
Accumulated amortisation and impairment	–	(448)	–	(442)
Net carrying amount	576	217	–	170
Total goodwill and intangible assets		793		170
Reconciliation				
At 1 July 2005, net of accumulated amortisation	–	171	–	171
Acquisition of a subsidiary	576	–	–	–
Additions	–	153	–	100
Amortisation at 30 June 2006	–	(107)	–	(101)
	576	217	–	170
Total goodwill and intangible assets		793		170
AT 1 JULY 2004				
Cost	–	66	–	66
Accumulated amortisation and impairment	–	(42)	–	(42)
Net carrying amount	–	24	–	24
YEAR ENDED 30 JUNE 2005				
At 1 July 2004, net of accumulated amortisation	–	24	–	24
Additions	–	271	–	271
Amortisation at 30 June 2005	–	(124)	–	(124)
At 30 June 2005 net of accumulated amortisation	–	171	–	171
AT 30 JUNE 2005				
Cost	–	337	–	337
Accumulated amortisation and impairment	–	(166)	–	(166)
Net carrying amount	–	171	–	171

As from 1 July 2005, goodwill is no longer amortised but is now subject to annual impairment testing (see Note 15). No impairment loss was recognised for continuing operations in the 2006 financial year. Software have been capitalised at cost. This intangible asset has been assessed as having a finite life and is amortised using the straight line method over a period of 2 – 2.5 years. If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

15. IMPAIRMENT TESTING OF GOODWILL

Goodwill acquired through business combinations has been allocated to one cash generating unit being Passenger Transport to and from Dubbo. The recoverable amount of the passenger transport to and from Dubbo cash generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering the following twelve month period. As this period is less, not greater than one year, there is no need to discount this cash flow projection.

Key assumptions used in value in use calculations for the passenger transport to and from Dubbo cash generating unit for 30 June 2006:

*Budgeted profit and loss – the basis used to determine the value assigned to the budgeted profit and loss is that achieved in the prior year immediately before the budgeted year, increased for expected efficiency improvements.

16. EMPLOYEE BENEFITS

(A) EMPLOYEE SHARE OPTION PLAN

The company has established a Share Option Plan (SOP) to provide eligible employees (including Directors), consultants and contractors incentive to remain with the company to improve the long term performance of the company and its return to shareholders. The Board may in its absolute discretion determine criteria to apply to any employee for participation in the SOP, such as minimum period of service.

The Board may specify any vesting and/or exercise conditions and any other terms and conditions when making an offer of options. Subject to the satisfaction of any applicable vesting and/or exercise conditions, options are exercisable during the specified exercise period by giving notice of the exercise to the company and by paying the exercise price for the options exercised. Each option entitles the holder to subscribe for one share. The shares allotted upon exercise of the options will rank equally in all respects with all other issued shares of the company.

Other relevant terms and conditions applicable to options granted under the SOP include:

- The exercise price will be determined by the Board and stated in the offer of options;
- Subject to the satisfaction of any applicable vesting and exercise conditions, the options will be exercisable during the option exercise period specified by the Board at the time of making an offer of options;
- Options are not transferable or assignable, except with prior written consent of the Board; and
- Upon exercise, these options will be settled in ordinary shares of Regional Express Holdings Limited.

Currently there are 38 Management Committee members, key managers and Directors eligible to participate in the SOP. The specific key terms for their participation in the SOP were detailed in the prospectus issued in September 2005.

The award dates for each financial year will be determined by the Remuneration Committee but will not commence earlier than 1 July 2006.

As at 30 June 2006, there are no options issued under this plan. Subsequent to year end nil options were issued under this plan.

(B) SHARE GIFT PLAN

The company has established a Share Plan to show its recognition of employees' contribution to the Group by providing an opportunity to share in the future growth and profitability of the company and to align the interests of the employees more closely with the interests of the shareholders.

Eligible employees who accept an offer of shares under the Share Plan will be entitled to receive the equivalent of 2.0% of their base salary in shares each financial year for the financial years ending 30 June 2006, 30 June 2007 and 30 June 2008. The company has established that eligible employees include those that have elected to participate in the Share Plan under the terms of their Enterprise Bargaining Agreement (EBA), or those whose terms of the employment are not governed by an EBA who are selected by the Remuneration Committee to participate in the Share Plan and who accept an offer of shares under the plan.

The following are the key terms and conditions of the Share Plan:

- Each share will be issued free of charge but will be issued as credited as fully paid for the amount of the award price. The award price will be fixed at the offer price for each financial year, except that in the event that the shares fall in value below the offer price, they will be awarded at the current market price at the award date;

- The vesting conditions for EBA eligible employees will be set out in the terms of the EBA. The Remuneration Committee will determine the vesting conditions for the non EBA eligible employees which will be mainly contingent on the absence of adverse appraisals;
- Any shares issued under the Share Plan will be subject to restrictions for a period ending on the earlier of the date on which the eligible employee ceases to be an employee of the company or other member of the group and the date that the Share Plan terminates;
- During the restriction period, a holder of such restricted shares must not mortgage, charge, pledge, lien, encumber or otherwise dispose of or deal with the shares; and
- The total number of shares issued under the Share Option Plan together with the number of options on issued under the Share Option Plan any shares issued under the Share Plan or Share Option Plan or under any other employee share plan of the company in the previous five years, must not exceed 5.0% of the issued shares of the company.

The award dates for each financial year will be determined by the Remuneration Committee but will not commence earlier than 1 July 2006.

As at 30 June 2006, there were 473,000 Share Gifts approved but not issued at 30 June 2006. According to AASB 2, share gifts are valued according to reference to their market price at the date they were granted, which has been calculated at $1.03 per share. Total expense recognised during the year ended 30 June 2006 was $487,000.

(C) EXEMPT SHARE PLAN

The company also has established an Exempt Share Plan which is intended to allow employees to take advantage of a tax exemption of up to $1,000 per year in respect of shares acquired under the Exempt Share Plan. The terms of the Exempt Share Plan are substantially similar to those of the Share Gift Plan above. No share gifts under the exempt share plan were issued at 30 June 2006.

(D) PROFIT SHARE INCENTIVE SCHEME

The company has established a Profit Share Incentive Scheme which will take effect in the financial year commencing 1 July 2006. Under the Profit Share Incentive Scheme, eligible employees will be awarded a share of the company's Profit Before Tax (PBT) for the financial year immediately preceding the award. The total amount of the company's PBT which may be awarded to all eligible employees in the financial year ending 30 June 2007 has been set at 10% of the company's PBT for the financial year ending 30 June 2006. The base rate for the Profit Share Incentive Scheme is 6% of the company's PBT. This will be increased to:

- 8.0% of the company's PBT in the event that the PBT for the relevant financial year on which the award amount is based meets or exceeds that of the previous financial year; and
- 10.0% of the company's PBT in the event that the company's forecast profit for the relevant financial year on which the award amount is based is met or exceeded. This will apply even if the company's PBT for the previous financial year is not exceeded provided that the forecast profit is met or exceeded.

To determine the amount that each individual eligible employee will be entitled to receive under the Profit Share Incentive Scheme, an amount equal to the aggregate amount that may be awarded under the Profit Share Incentive Scheme will be divided by the number of full time and permanent part time employees of the company. Full time permanent employees will each be entitled to receive the resulting amount (Individual Profit Share Amount). All eligible full time employees will receive an amount equal to the Individual Profit Share Amount under the Profit Share Incentive Scheme, regardless of their position or salary. Permanent part time employees will receive a proportionate share of the Individual Profit Share Amount based on the number of hours they work relative to a full time permanent employee.

Any person who is a full time or permanent part time employee of a member of the Group, with at least 12 months service or such other service period as the Board decides, and who is invited by the Board to participate in the Profit Share Incentive Scheme is eligible to participate. As at the date of the prospectus, the company's pilots and flight attendants had elected under their EBAs to receive lower fixed annual wage increases in exchange for being entitled to participate in the Profit Share Incentive Scheme. The company's non EBA staff are also entitled to participate in the Profit Share Incentive Scheme.

This incentive will be settled by way of cash payment to the eligible employees.

17. TRADE AND OTHER PAYABLES (CURRENT)

	CONSOLIDATED		PARENT	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Trade payables	3,705	3,971	3,315	3,971
Other payables	8,074	8,399	8,045	7,213
Unearned revenue	11,741	9,509	11,741	9,509
	23,520	21,879	23,101	20,693
Related party payables				
Wholly owned group – controlled entities	–	–	302	–
	23,520	21,879	23,403	20,693

Trade payables are non-interest bearing and are normally settled on 7-30 day terms. Other payables are non-interest bearing and have an average term of 7-30 days.

Related party payables are non-interest bearing and are normally settled on 7-30 day terms.

18. INTEREST-BEARING LOANS AND BORROWINGS

	Effective Interest Rate %	CONSOLIDATED		PARENT	
		2006 $'000	2005 $'000	2006 $'000	2005 $'000
CURRENT					
Hire purchase liability	14.5	–	16	–	16
Secured loan – Aircraft Finance Loan	6.8	–	496	–	496
		–	512	–	512
NON-CURRENT					
Secured loan – Aircraft Finance Loan	6.8	–	4,147	–	4,147

HIRE PURCHASE LIABILITY

The hire purchase liability matured during the year ended 30 June 2006.

SECURED LOAN – AIRCRAFT FINANCE LOAN

The secured aircraft finance loan was utilised to fund the purchase of three aircraft during 2005. This loan was repaid during the 2006 financial year.

19. PROVISIONS

	CONSOLIDATED		PARENT	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
CURRENT				
Annual leave and long service leave	4,290	4,025	3,853	4,025
NON-CURRENT				
Long service leave	1,028	1,193	1,028	1,193
Total provisions	5,318	5,218	4,881	5,218

	Annual Leave and Long Service Leave $'000
CONSOLIDATED	
At 1 July 2005	5,218
Arising during the year	4,138
Utilised	(4,038)
At 30 June 2006	5,318
PARENT	
At 1 July 2005	5,218
Arising during the year	3,628
Utilised	(3,965)
At 30 June 2006	4,881

20. OTHER LIABILITIES

	CONSOLIDATED		PARENT	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
CURRENT				
Government Grant	283	283	283	283
NON-CURRENT				
Government Grant	441	789	441	789

Government grants of $1,246,050 were received in the 30 June 2005 year in relation to the installation of hardened cockpit doors on all 30 to 59 seat passenger aircraft. The grant is to ensure the hardened cockpit doors meet the standards established by the United States Federal Aviation Regulations on three Saab 340 aircraft. The work in relation to this grant was to be completed by 1 July 2005 and funding could only be used for this purpose. The grant is being amortised over the useful life of the asset to which the grant relates.

21. CONTRIBUTED EQUITY AND RESERVES

	CONSOLIDATED		PARENT	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
ORDINARY SHARES				
Issued and fully paid	69,546	36,577	69,546	36,577

	Shares – thousands	$'000	Shares – thousands	$'000
MOVEMENT IN ORDINARY SHARES ON ISSUE				
At 1 July 2004	103,567	30,271	103,567	30,271
Issued shares on expiry of convertible notes	42,037	6,306	42,037	6,306
At 1 July 2005	145,604	36,577	145,604	36,577
Share consolidation	(65,604)	–	(65,604)	–
Issued on 7 November 2005 as part of share capital raising (net of capital raising costs*)	35,000	32,969	35,000	32,969
At 30 June 2006	115,000	69,546	115,000	69,546
Reserved shares				
Reserved shares held	2,810	–	–	–
MOVEMENT IN RESERVED SHARES				
At 30 June 2005	–	–	–	–
Shares purchased	2,862	2,810	–	–
At 30 June 2006	2,862	2,810	–	–

* *Costs associated with the capital raising (net of the tax effect) amounted to $2,030,648.*

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

The company has two share option schemes under which options to subscribe for the company's shares can be granted to certain eligible employees (refer to Note 16). There have not been any options granted as at 30 June 2006.

Of the share capital issued at 30 June 2006, 71,783,457 ordinary shares are held in escrow until one year after the ASX listing date of 9 November 2005.

SHARE BASED PAYMENTS RESERVES

This reserve is used to record the value of equity benefits provided to employees and Directors as part of their remuneration. Refer to Note 16 for further details of these plans.

RESERVED SHARES

Own equity instruments which are reacquired for later payment as employee share-based payment awards are described as reserved shares and deducted from equity.

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, cash and short-term deposits.

The main purpose of these financial instruments is to raise finance for the capital expenditure in the Group's operations.

The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

The Group also enters into derivative transactions, principally forward currency contracts. The purpose is to manage the currency risks arising from the Group's operations.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The Board reviews and agrees policies for managing each of these risk and they are summarised below.

The Group's accounting policies in relation to derivatives are set out in Note 2.

INTEREST RATE RISK

There were no long term debt amounts owing at 30 June 2006.

FOREIGN CURRENCY RISK

As a result of significant purchases in US dollars, the Group's balance sheet can be affected significantly by movements in the US$/A$ exchange rates.

The Group uses forward contracts to eliminate the foreign currency exposures on significant transactions.

The forward currency contracts must be in the same currency as the hedged item.

It is the Group's policy to negotiate the terms of derivatives to match the terms of the item being hedged to maximise the effectiveness of foreign currency risk management.

COMMODITY PRICE RISK

The Group is exposed to the rising price of fuel. The Group does not enter into any hedge transactions to fix the price of fuel to mitigate this risk.

CREDIT RISK

The Group trades only with recognised, 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. The risk is also managed through the establishment of payment terms which are generally 30 days.

There are no significant concentrations of credit risk within the Group.

22. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

LIQUIDITY RISK

The liquidity risk exposure at the year end is minimal.

23. FINANCIAL INSTRUMENTS

FAIR VALUES

All financial assets and liabilities have been recognised in the balance sheet at their net fair values.

The following methods and assumptions are used to determine the net fair values of financial assets and liabilities:

Cash and short term deposits:
The carrying amount approximates fair value because of the short term to maturity.

Other debtors, trade creditors, hire purchase and other creditors:
The carrying amount approximates fair value.

Payables and receivables to related parties:
The carrying amount approximates fair value.

Aircraft finance loan:
The fair value of the aircraft finance loan is estimated using discounted cash flow analysis, based on current incremental lending rates for similar types of borrowing arrangements.

INTEREST RATE RISK

The following tables set out the carrying amount, by maturity, of the financial instruments that are exposed to interest rate risk.

Year ended 30 June 2006	<1 year $'000	>1-<2 years $'000	>2-<3 years $'000	>3-<4 years $'000	>4-<5 years $'000	>5 years $'000	Total $'000
CONSOLIDATED							
Financial Assets							
Floating rate							
Cash assets	23,583	–	–	–	–	–	23,583
Weighted average effective interest rate	4.2%						
PARENT							
Financial Assets							
Floating rate							
Cash assets	22,423	–	–	–	–	–	22,423
Weighted average effective interest rate	4.2%						
Fixed rate							
Intercompany loan	2,337	–	–	–	–	–	2,337
Weighted average effective interest rate	6%						

Year ended 30 June 2005	<1 year $'000	>1-<2 years $'000	>2-<3 years $'000	>3-<4 years $'000	>4-<5 years $'000	>5 years $'000	Total $'000
CONSOLIDATED							
Financial Assets							
Floating rate							
Cash assets	4,532	–	–	–	–	–	4,532
Weighted average effective interest rate	2.7%						
Financial Liabilities							
Fixed rate							
Hire purchase agreement	16	–	–	–	–	–	16
Weighted average effective interest rate	14.5%						
Floating rate							
Aircraft loan	4,643	–	–	–	–	–	4,643
Weighted average effective interest rate	6.8%						
PARENT							
Financial Assets							
Floating rate							
Cash assets	4,532	–	–	–	–	–	4,532
Weighted average effective interest rate	2.7%						
Financial Liabilities							
Fixed rate							
Hire purchase agreement	16	–	–	–	–	–	16
Weighted average effective interest rate	14.5%						
Floating rate							
Aircraft loan	4,643	–	–	–	–	–	4,643
Weighted average effective interest rate	6.8%						

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year.
Interest on financial instruments classified as fixed rate is fixed until maturity of the instrument.
The other financial instruments of the Group and Parent that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

DERIVATIVE ACTIVITIES

Forward currency contracts (not applying Hedge Accounting under AASB 139)

At 30 June 2006, the group did not hold any foreign exchange contracts.
At 30 June 2005, the group held one foreign exchange contract to hedge future purchases. The terms of this contract required the purchase of US$4,000,000 at an exchange rate of $0.76 with a maturity date of 31 October 2005. The fair value of the agreement recognised at 30 June 2005 was $40,255.

24. BUSINESS COMBINATION

(I) ACQUISITION OF AIR LINK PTY LIMITED

On 30 November 2005, Regional Express Holdings Limited acquired 100% of the voting shares of Air Link Pty Limited, an unlisted company based in Dubbo, engaging in regional aviation.

From the date of acquisition, Air Link Pty Limited has contributed $111,455 to the net profit after tax of the Group.

If the combination had taken place at the beginning of the financial year, the profit of the Group would have been $16,028,000 and revenue from continuing operations contributed would have been $181,225,000.

The fair value of the identifiable assets and liabilities of Air Link Pty Limited as at the date of acquisition are:

	CONSOLIDATED	
	Recognised on Acquisition $'000	**Carrying Value $'000**
Cash assets	671	671
Receivables	444	444
Inventories	611	611
Property, plant and equipment	3,980	2,724
Intangible assets	57	60
	5,763	4,510
Payables	(461)	(461)
Provisions	(492)	(492)
Interest bearing liabilities	(2,382)	(2,382)
	(3,335)	(3,335)
Fair value of net assets	2,428	1,175
Goodwill arising on acquisition	576	
	3,004	
Consideration:		
Cash paid	3,000	
Direct costs relating to the acquisition	4	
Total consideration	3,004	
The cash outflow on acquisition is as follows:		
Net cash acquired with subsidiary	(671)	
Cash paid	3,004	
Net cash outflow	2,333	

An excess over the fair value of assets acquired was paid due to synergies expected on the integration of the Air Link Pty Limited and the Group's operations.

(II) DISPOSAL OF HAZELTON AIR SERVICES PTY LIMITED

This wholly owned subsidiary was divested on 22 August 2005. Hazelton Air Services Pty Limited had been dormant since November 2003.

	CONSOLIDATED 2006 $'000
CONSIDERATION RECEIVED:	
Cash	–*
Total disposal consideration	–
Carrying amount of net assets sold	(1,081)
Gain on sale before income tax	1,081

* *Hazelton Air Services Pty Limited was divested for a nominal amount of $2.*

25. COMMITMENTS AND CONTINGENCIES

OPERATING LEASE COMMITMENTS

The Group has entered into commercial leases on certain items where it is not in the best interest of the Group to purchase these assets.

Operating leases have an average term of three years. Assets that are the subject of operating lease include Saab 340 aircraft, aircraft engines, buildings, hangar and terminal space.

There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

	CONSOLIDATED		PARENT	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Within one year	7,760	8,221	7,760	8,221
After one year but not more than five years	11,586	12,013	11,586	12,013
More than five years	700	333	700	333
	20,046	20,567	20,046	20,567

25. COMMITMENTS AND CONTINGENCIES (CONTINUED)

FINANCE LEASE AND HIRE PURCHASE COMMITMENTS

There were no finance lease and hire purchase commitments outstanding at 30 June 2006.

Future minimum lease payments under finance leases and hire purchase contracts together with the present value of the net minimum lease payments are as follows:

	2006		2005	
	Minimum Payments $'000	Present Value of Payments $'000	Minimum Payments $'000	Present Value of Payments $'000
CONSOLIDATED				
Within one year	–	–	19	19
Total minimum lease payments	–	–	19	19
Less amounts representing finance charges	–	–	(3)	(3)
Present value of minimum lease payments	–	–	16	16
PARENT				
Within one year	–	–	19	19
Total minimum lease payments	–	–	19	19
Less amounts representing finance charges	–	–	(3)	(3)
Present value of minimum lease payments	–	–	16	16

CAPITAL COMMITMENTS

At 30 June 2006 the Group has commitments of $4,100,000 relating to the purchase of a new Corporate premises in Sydney, Australia. Additionally the Group has committed to purchase two Saab Aircraft for US$1,530,000 each for delivery in December 2006. A 10% deposit has already been paid for these aircraft.

The commitments contracted for at reporting date, but not provided for:

	CONSOLIDATED		PARENT	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Within one year	7,772	–	7,772	–
Total	7,772	–	7,772	–

LEGAL CLAIM

There are no legal claims outstanding which require disclosure.

BANK GUARANTEES

Regional Express Holdings Limited has the following contingent liabilities at 30 June 2006:

	CONSOLIDATED		PARENT	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
- Shell Company of Australia [a]	90	90	90	90
- Canberra International Airport [b]	100	100	100	100
- General Electric International [c]	490	640	490	640
- Lakes Business Park [d]	45	45	45	45
- Sydney Airports Corporation [e]	96	96	96	96
	821	971	821	971

[a] *This bank guarantee was issued in relation to the supply of fuel.*
[b] *This bank guarantee was issued in relation to the lease of terminal space at Canberra Airport.*
[c] *This bank guarantee was issued in relation to the General Electric engine care maintenance program.*
[d] *This bank guarantee was issued in relation to the lease of building premises in Botany, Sydney.*
[e] *This bank guarantee was issued in relation to the lease of terminal space at Sydney Airport.*

26. RELATED PARTY DISCLOSURE

The consolidated financial statements include the financial statements of Regional Express Holdings Limited and the subsidiaries listed in the following table.

Name	Country of Incorporation	Equity Interest (%) 2006	Equity Interest (%) 2005	Investment ($'000) 2006	Investment ($'000) 2005
Regional Express Pty Limited ***	Australia	100	100	117	–^
Air Link Pty Limited **	Australia	100	–	–	–^
Rex Freight & Charter Pty Limited	Australia	100	100	–^	–^
Rex Investment Holdings Pty Limited	Australia	100	100	–^	–^
Hazelton Air Services Pty Limited *	Australia	–	100	–^	–^
				117	–

* *Hazelton Air Services Pty Limited was disposed of on 22 August 2005. Refer to Note 24 for details of this disposal.*
** *Air Link Pty Limited is owned by Regional Express Pty Limited.*
*** *Includes UIG 1052 adjustment to bring post acquisition tax provisions of Air Link Pty Limited to the parent entity accounts as no tax funding agreement was in place at 30 June 2006. Refer to note 5 for specific details.*
^ *Investments in subsidiaries are at nominal amounts.*

Regional Express Holdings Limited is the ultimate Australian parent entity and ultimate parent of the Group.

26. RELATED PARTY DISCLOSURE (CONTINUED)

The following table provides the total amount of transactions which have been entered into with related parties for the relevant financial year (for information regarding outstanding balances at year end, refer to Note 10 and Note 19):

Related party	Revenue from Related Parties $'000	Purchases from Related Parties $'000	Amounts Owed by Related Parties $'000	Amounts Owed to Related Parties $'000
PARENT				
Regional Express Pty Limited	–	323	11,106	–
Air Link Pty Limited	83	–	2,337	302
Rex Freight and Charter Pty Limited	–	–	12,097	–
Rex Investment Holdings Pty Limited	–	–	2,810	–

During the year Rex Investment Holdings purchased 2,861,572 ordinary shares of the Regional Express Holdings Limited share capital. These shares are disclosed as reserved shares in the consolidated accounts.

Regional Express Pty Limited leases certain property, plant and equipment to Regional Express Holdings Limited. During the year lease rental charges were $322,975 (2005:nil).

A loan of $2,337,012 is due by Air Link Pty Limited to Regional Express Holdings Limited. Interest is charged at a rate of 6% per annum calculated monthly on the outstanding balance. Interest charged for year was $82,607.

TERMS AND CONDITIONS OF TRANSACTION WITH RELATED PARTIES

Sales to and purchases from related parties are made in arms length transactions at both normal market prices and normal commercial terms.

Outstanding balances at year-end are unsecured and settlement occurs in cash.

There have been no guarantees provided or received for any related party receivables.

CONTRACTS TO WHICH A DIRECTOR IS ENTITLED TO A BENEFIT

There are no contracts entered into to which a Director is entitled to a benefit.

27. EVENTS AFTER THE BALANCE SHEET DATE

On 7 July 2006, an agreement was reached for the acquisition of a new corporate headquarters in Mascot, Sydney. The four storey building purchased freehold for $4,100,000 will enable the consolidation of all Sydney based management and administrative staff and the staff of subsidiaries based in Sydney into one facility. The acquisition will provide improved efficiencies through the co-location of staff and reduction in rental costs. It is expected the acquisition will be completed and occupancy achieved by January 2007.

Rex announced on 2 June 2006 its withdrawal from the Sydney-Armidale route from 3 July 2006 after having commenced services on the route in September 2004. The poor performance and stagnant demand for these routes led to the decision to withdraw. The aircraft and crew resources were redeployed elsewhere on the Sydney network, principally on the Sydney-Wagga Wagga route, which increased to six return services weekdays with a morning and evening 'cross-over schedule' as well as on services to the New South Wales south coast. QantasLink also announced its intention to withdraw from the Melbourne-Burnie route from 31 July 2006. With these withdrawals, Rex competes with QantasLink on only four routes — Sydney/Dubbo, Sydney/Wagga Wagga, Sydney/Albury and Melbourne/Mildura.

28. AUDITOR'S REMUNERATION

	CONSOLIDATED		PARENT	
	2006 $	2005 $	2006 $	2005 $
Amounts received or due and receivable by Ernst & Young Australia for:				
• An audit or review of the financial report of the entity and any other entity in the consolidated entity	150,000	100,000	150,000	100,000
• Other services in relation to the entity and any other entity in the consolidated entity				
- Tax compliance	40,950	30,000	40,950	30,000
- Assurance related	23,000	23,600	23,000	23,600
	213,950	153,600	213,950	153,600

29. DIRECTOR AND EXECUTIVE DISCLOSURES

(A) DETAILS OF KEY MANAGEMENT PERSONNEL

(i) Directors
Lim Kim Hai – Executive Chairman
John Sharp – Deputy Chairman & Independent Director
Geoffrey Breust – Managing Director
James Davis – Executive Director Operations
Lee Thian Soo – Non-Executive Director
Robert Winnel – Independent Director
Russell Hodge – Executive Director (appointed 9 September 2005)
David Miller – Alternate Director for James Davis (appointed 15 February 2006)
Chong Meng Tak Christopher (resigned 9 September 2005)

(ii) Executives
Christoper Hine – General Manager, Flight Operations/Chief Pilot
Naomal Priyantha Gooneratne – General Manager, Engineering Control
Warrick Lodge – General Manager, Network Strategy
Lindsay Tanner – General Manager, Engineering Services
Irwin Tan – General Manager, Corporate Services (commenced 20 July 2005)

29. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

B) COMPENSATION OF KEY MANAGEMENT PERSONNEL

	CONSOLIDATED		PARENT	
	2006 $	2005 $	2006 $	2005 $
Short Term	1,196,801	881,551	1,196,801	881,551
Post Employment	89,259	68,894	89,259	68,894
Share Based Payment	16,080	–	16,080	–
	1,302,140	950,445	1,302,140	950,445

Director and Executive Remuneration

The company has applied the relief available under ASIC Class Order CO 06/50, which exempts listed companies from providing remuneration disclosures in their annual financial report as required by paragraphs Aus25.4 to Aus25.7.2 of Accounting Standard AASB 124 Related Party Disclosures. These remuneration disclosures are provided in the section 'Remuneration Report' of the Directors' Report designated as audited.

(C) SHAREHOLDINGS OF KEY MANAGEMENT PERSONNEL

The following tables detail shareholdings (direct and indirect) of key management personnel in Regional Express Holdings Limited:

	Balance 1 July 2005 ^	Movement	Balance 30 June 2006
(I) DIRECTORS			
Lim Kim Hai	40,852,758	5,521,731	46,374,489
John Sharp	–	150,000	150,000
Geoffrey Breust	–	52,000	52,000
James Davis	–	77,000	77,000
Lee Thian Soo	7,454,362	–	7,454,362
Robert Winnel	1,563,758	–	1,563,758
Russell Hodge	–	100,000	100,000
David Miller	–	–	–
Chong Meng Tak Christopher	–	–	–
(II) EXECUTIVES			
Christopher Hine	–	5,000	5,000
Naomal Priyantha Gooneratne	–	10,000	10,000
Irwin Tan	–	57,000	57,000

	Balance 1 July 2004 ^	Movement ^	Balance 30 June 2005 ^
(I) DIRECTORS			
Lim Kim Hai	28,492,686	12,360,072	40,852,758
John Sharp	–	–	–
Geoffrey Breust	–	–	–
James Davis	–	–	–
Lee Thian Soo	5,517,163	1,973,199	7,454,362
Robert Winnel	1,563,758	–	1,563,758
Russell Hodge	–	–	–
David Miller	–	–	–
Lee Kok Leong	1,720,541	21,527,180	23,247,721

(II) EXECUTIVES

No executives identified as key management personnel had shareholdings in Regional Express Holdings Limited during the year ended 30 June 2005.

^ *Disclosure adjusted for the impact of the share consolidation to ensure comparability between the reported periods.*

(D) OTHER ITEMS

No key management personnel held options over shares at 30 June 2006. No key management personnel had loans and transactions with the group at 30 June 2006.

30. TRANSITION TO AIFRS

For all periods up to and including the year ended 30 June 2005, the Group prepared its financial statements in accordance with Australian generally accepted accounting practice (AGAAP). These financial statements for the year ended 30 June 2006 are the first the Group is required to prepare in accordance with Australian Equivalents to International Financial Reporting Standards (AIFRS).

Accordingly, the Group has prepared financial statements that comply with AIFRS applicable for periods beginning on or after 1 January 2005 and the significant accounting policies meeting those requirements are described in note 2. In preparing these financial statements, the Group has started from an opening balance sheet as at 1 July 2004, the Group's date of transition to AIFRS, and made those changes in accounting policies and other restatements required by AASB 1 'First-time adoption of AIFRS'.

This note explains the principal adjustments made by the Group in restating its AGAAP balance sheet as at 1 July 2004 and its previously published AGAAP financial statements for the year ended 30 June 2005.

EXEMPTIONS APPLIED

AASB 1 allows first-time adopters certain exemptions from the general requirement to apply AIFRS retrospectively.

The Group has taken the following exemptions:

- AASB 3 'Business Combinations' was not applied retrospectively to past business combinations (ie business combinations occurred before the date of transition to AIFRS).
- AASB 2 'Share-Based Payments' is applied only to equity instruments granted after 7 November 2002 that had not bested on or before 1 January 2005.

EXPLANATION OF MATERIAL ADJUSTMENTS TO THE CASH FLOW STATEMENT

There were no material differences between the cash flow statement presented under AIFRS and the cash flow statement presented under previous AGAAP.

30. TRANSITION TO AIFRS (CONTINUED)

BALANCE SHEET
AS AT 1 JULY 2004

	Note	CONSOLIDATED AGAAP $'000	CONSOLIDATED AIFRS Impact $'000	CONSOLIDATED AIFRS $'000	PARENT AGAAP $'000	PARENT AIFRS Impact $'000	PARENT AIFRS $'000
ASSETS							
Current Assets							
Cash and cash equivalents		1,316	–	1,316	1,316	–	1,316
Trade and other receivables	b	8,511	485	8,996	8,916	340	9,256
Inventories		2,488	–	2,488	2,488	–	2,488
Total Current Assets		**12,315**	**485**	**12,800**	**12,720**	**340**	**13,060**
Non-Current Assets							
Deferred income tax asset	a	–	9,446	9,446	–	9,446	9,446
Property, plant and equipment	b, e	21,020	(364)	20,656	20,811	(364)	20,447
Intangible assets	e	–	24	24	–	24	24
Other		459	–	459	458	–	458
Total Non-current Assets		21,479	9,106	30,585	21,269	9,106	30,375
TOTAL ASSETS		**33,794**	**9,591**	**43,385**	**33,989**	**9,446**	**43,435**
LIABILITIES							
Current Liabilities							
Trade and other payables	b	25,282	961	26,243	25,282	–	25,282
Interest-bearing loans and borrowings		2,163	–	2,163	2,163	–	2,163
Provisions		4,232	–	4,232	4,232	–	4,232
Total Current Liabilities		**31,677**	**961**	**32,638**	**31,677**	**–**	**31,677**
Non-current Liabilities							
Interest-bearing loans and borrowings		17	–	17	17	–	17
Provisions		1,137	–	1,137	1,137	–	1,137
Total Non-current Liabilities		**1,154**	**–**	**1,154**	**1,154**	**–**	**1,154**
TOTAL LIABILITIES		**32,831**	**961**	**33,792**	**32,831**	**–**	**32,831**
NET ASSETS		**963**	**8,630**	**9,593**	**1,158**	**9,446**	**10,604**
EQUITY							
Issued capital		30,271	–	30,271	30,271	–	30,271
Retained earnings	d	(29,308)	8,630	(20,678)	(29,113)	9,446	(19,667)
TOTAL EQUITY		**963**	**8,630**	**9,593**	**1,158**	**9,446**	**10,604**

BALANCE SHEET
AS AT 30 JUNE 2005

		CONSOLIDATED			PARENT		
	Note	AGAAP $'000	AIFRS Impact $'000	AIFRS $'000	AGAAP $'000	AIFRS Impact $'000	AIFRS $'000
ASSETS							
Current Assets							
Cash and cash equivalents		4,543	–	4,543	4,543	–	4,543
Trade and other receivables	f	11,752	(40)	11,712	11,819	(40)	11,779
Inventories		3,104	–	3,104	3,104	–	3,104
Derivatives	f	–	40	40	–	40	40
Total Current Assets		**19,399**	**–**	**19,399**	**19,466**	**–**	**19,466**
Non-current Assets							
Deferred income tax asset	a	1,887	4,915	6,802	1,887	4,915	6,802
Property, plant and equipment	e	29,053	(171)	28,882	28,880	(171)	28,709
Intangibles	e	–	171	171	–	171	171
Total Non-current Assets		**30,940**	**4,915**	**35,855**	**30,767**	**4,914**	**35,682**
TOTAL ASSETS		**50,339**	**4,915**	**55,254**	**50,233**	**4,914**	**55,148**
LIABILITIES							
Current Liabilities							
Trade and other payables		21,879	–	21,879	20,693	–	20,693
Interest-bearing loans and borrowings		512	–	512	512	–	512
Provisions		4,025	–	4,025	4,025	–	4,025
Other liabilities	c	–	283	283	–	283	283
Total Current Liabilities		**26,416**	**283**	**26,699**	**25,230**	**283**	**25,513**
NON-CURRENT LIABILITIES							
Interest-bearing loans and borrowings		4,147	–	4,147	4,147	–	4,147
Provisions		1,193	–	1,193	1,193	–	1,193
Other liabilities	c	–	789	789	–	789	789
Total Non-current Liabilities		**5,340**	**789**	**6,129**	**5,340**	**789**	**6,129**
TOTAL LIABILITIES		**31,756**	**1,072**	**32,828**	**30,570**	**1,072**	**31,642**
NET ASSETS		**18,584**	**3,843**	**22,426**	**19,663**	**3,843**	**23,506**
EQUITY							
Issued capital		36,577	–	36,577	36,577	–	36,577
Retained earnings	d	(17,994)	3,843	(14,151)	(16,914)	3,843	(13,071)
Other reserves		–	–	–	–	–	–
TOTAL EQUITY		**18,583**	**3,843**	**22,426**	**19,663**	**3,843**	**23,506**

30. TRANSITION TO AIFRS (CONTINUED)

INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2005

		CONSOLIDATED			PARENT		
	Note	AGAAP $'000	AIFRS Impact $'000	AIFRS $'000	AGAAP $'000	AIFRS Impact $'000	AIFRS $'000
CONTINUING OPERATIONS							
Passenger revenue		139,764	–	139,764	139,764	–	139,764
Freight revenue		798	–	798	798	–	798
Charter revenue		762	–	762	762	–	762
Other passenger services and amenities		747	–	747	747	–	747
Finance revenue		207	–	207	207	–	207
Other income	c, d	8,412	(6,032)	2,380	8,412	(6,032)	2,380
Revenue		**150,690**	**(6,032)**	**144,658**	**150,690**	**(6,032)**	**144,658**
Flight and port operations (excluding fuel)		(40,395)	–	(40,395)	(40,395)	–	(40,395)
Fuel costs		(19,675)	–	(19,675)	(19,675)	–	(19,675)
Salaries & employee related costs		(41,143)	–	(41,143)	(41,143)	–	(41,143)
Selling and marketing costs		(11,103)	–	(11,103)	(11,103)	–	(11,103)
Engineering and maintenance costs		(15,610)	–	(15,610)	(15,610)	–	(15,610)
Office and general administration costs		(4,060)	–	(4,060)	(4,027)	–	(4,027)
Finance costs		(834)	–	(834)	(834)	–	(834)
Depreciation and amortisation	b	(3,461)	815	(2,646)	(2,609)		(2,609)
Other expenses	d	(4,981)	4,960	(21)	(4,981)	4,960	(21)
Profit before income tax		**9,428**	**(257)**	**9,171**	**10,313**	**(1,072)**	**9,241**
Income tax expense	a	1,887	(4,531)	(2,644)	1,887	(4,531)	(2,644)
Profit after tax from continuing operations		**11,315**	**(4,788)**	**6,527**	**12,200**	**(5,603)**	**6,597**
Profit attributable to members of the parent		**11,315**	**(4,788)**	**6,527**	**12,200**	**(5,603)**	**6,597**

Outlined below are the areas impacted upon adoption of AIFRS, including the financial impact on equity and profit:

(A) INCOME TAX

Under AGAAP the income statement method was used, which involved tax effecting only those items that impacted the profit and loss. Under AIFRS AASB 112 'Income Taxes' requires the balance sheet method to be used, which recognises deferred tax balances when there is a difference between the carrying value of an asset or liability and its tax base.

AASB 112 required the recognition of deferred tax assets in the balance sheet to the extent that it is probable that future taxable amounts will be available to the Group against which the tax losses can be utilised. Previous AGAAP recognition criteria had a stricter application, with tax losses only being recognised if the utilisation of those losses was 'virtually certain'. This adjustment therefore arises to recognise the deferred tax asset relating to tax losses and temporary tax differences on transition. The amount below represents the usage of tax losses and movement in temporary tax differences under AASB 112 for the year ended 30 June 2005.

As a result of the above adjustments, the deferred tax assets have increased as follows:

	CONSOLIDATED		PARENT	
	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Recognise carry forward tax losses on transition	7,582	7,582	7,582	7,582
Recognise use of tax losses on 30 June 2005 tax position	(3,146)	–	(3,146)	–
Recognise temporary differences	479	1,864	479	1,864
	4,915	9,446	4,915	9,446

(B) WRITE BACK OF FAIR VALUE ADJUSTMENT (INCLUDING GOODWILL AMORTISATION) IDENTIFIED AFTER ACQUISITION

Under AGAAP goodwill was amortised over its useful life (not exceeding 20 years). Under AIFRS, the Group has chosen to adopt the exemption available under AASB 1 of not retrospectively applying AASB 3 'Business Combinations' to its business combinations occurring before transition date. Under AASB 3 goodwill is subject to annual impairment testing and amortisation of goodwill is strictly prohibited.

Under AGAAP fair value adjustments on acquisition accounting are reflected in the year of the adjustment. AIFRS requires such adjustments to be applied retrospectively in the period which the acquisition occurred. The fair value adjustment raised related to Hazelton Air Services Pty Limited and was identified in the 30 June 2005 financial year. As the acquisition of Hazelton Air Services occurred in the 30 June 2003 financial year, the fair value adjustment has been reversed from profit for the year 30 June 2005 and taken to retained earnings as at 1 July 2004.

(C) GOVERNMENT GRANTS

Under AGAAP the fair value of the government grant was recognised as revenue when the entity gained control of the grant. Under AIFRS AASB 120 'Accounting for Government Grants and Disclosure of Government Assistance', when the government grant relates to an asset, the fair value of the grant is credited to a deferred income account and is released to the profit or loss over the expected useful life of the relevant asset by equal instalments.

The government grant received in the 30 June 2005 financial year was for the purchase of reinforced cockpit doors. This is now being recognised over the useful life of the asset acquired.

30. TRANSITION TO AIFRS (CONTINUED)

(C) GOVERNMENT GRANTS (CONTINUED)

The impact of this is an increase in the current liabilities at 30 June 2005 by $283,407 and an increase in the non-current liabilities at 30 June 2005 by $788,594 in the parent and consolidated entity and a decrease in the profit for the year ended 30 June 2005 by $1,072,001.

(D) PROFIT ON SALE OF ASSETS

Under AGAAP the proceeds on sale of assets were recorded as revenue and the written down value of the assets were recorded as expenses. AIFRS requires that only the net profit or loss be recorded in the income statement. This adjustment has resulted in a decrease of $4,959,992 in Other Revenue and Other Expenses of the parent and consolidated entity.

(E) COMPUTER SOFTWARE

Under AGAAP computer software assets were classified as property plant and equipment. Under AIFRS, these assets have been reclassified as intangible assets.

(F) DERIVATIVES

Derivatives are separately disclosed on the face of the balance sheet. The requirements to fair value derivatives under AASB 132 and AASB 139 has been adopted from transition date 1 July 2004. There were no material differences noted in the fair valuation of these instruments from that previously recorded under AGAAP to AIFRS.

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Regional Express Holdings Limited, I state that:

In the opinion of the Directors:

(a) the financial report and the additional disclosures included in the Directors' report designated as audited, of the company and of the consolidated entity are in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and
  (ii) complying with Accounting Standards and Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made to Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2006.

On behalf of the Board

Geoffrey Breust
Managing Director
Sydney, 12 September 2006

Regulatory Reports

INDEPENDENT AUDIT REPORT

ERNST & YOUNG

Ernst & Young Centre
680 George Street
Sydney NSW 2000
Australia

GPO Box 2646
Sydney NSW 2001

Tel 61 2 9248 5555
Fax 61 2 9248 5959
DX Sydney Stock Exchange 10172

Independent audit report to members of Regional Express Holdings Limited

Scope

The financial report, remuneration disclosures and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Regional Express Holdings Limited (the company) and the consolidated entity, for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The company has disclosed information as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard 124 *Related Party Disclosures* ("remuneration disclosures"), under the heading "Remuneration Report" on pages *13* to *16* of the directors' report, as permitted by Corporations Regulation 2M.6.04

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for the remuneration disclosures contained in the directors' report.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with Accounting Standard AASB 124 *Related Party Disclosures*. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows and whether the remuneration disclosures comply with Accounting Standard AASB 124 *Related Party Disclosures*.

ERNST & YOUNG

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report and the remuneration disclosures; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report and the remuneration disclosures. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

Independence

We are independent of the company and the consolidated entity and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration a copy of which is included on page 28 of the annual report. In addition to our audit of the financial report and the remuneration disclosures, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Audit opinion

In our opinion:

1. the financial report of Regional Express Holdings Limited is in accordance with:

(a) the *Corporations Act 2001*, including:

(i) giving a true and fair view of the financial position of Regional Express Holdings Limited and the consolidated entity at 30 June 2006 and of their performance for the year ended on that date; and

(ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and

(b) other mandatory financial reporting requirements in Australia.

2. the remuneration disclosures that are contained on pages *13* to *16* of the directors' report comply with Accounting Standard AASB 124 *Related Party Disclosures*

Ernst & Young

Ernst & Young

Gregory J Logue
Partner
Sydney
Date: 12 September 2006

CORPORATE GOVERNANCE STATEMENT

OVERVIEW

The underlying objective of the Board of Directors of Rex is to establish a practicable and consistent framework of control for the Group, so as to ensure compliance with legal requirements, promotion of a high standard of ethical behaviour and protection and enhancement of the interests of its Shareholders. The Board always retains ultimate authority over management of Rex and its controlled entities.

The Board endorses the ASX Principles of Good Corporate Governance and Best Practice Recommendations, and has adopted corporate governance charters and policies reflecting those recommendations to the extent appropriate having regard to the size and circumstances of the Group.

The Board is committed to ensuring that its corporate governance systems comply with statutory requirements and to maintaining the Group's focus on transparency, responsibility and accountability.

These are required by the ASX Corporate Governance Rules, but fall outside of the audit opinion and therefore has no impact on the audit report issued.

The Board of Regional Express is made up of an Executive Chairman, three Executive Directors, one Non-executive Director and two Independent Directors. As a team, the Board brings together members with a broad range of qualifications and a diversity of experience to provide strategic guidance and effective oversight of management. The Board is embarking on a review of the composition of its members with a view to inducting more independent Directors into its rank so as to enhance the Board's capabilities and to comply fully with ASX's corporate governance recommendations, including recommendation 2.1.

The Board recognises its responsibility to act honestly, fairly and in accordance with law and is dedicated to serving the interests of the Group's Shareholders, as well as its employees, customers and the community. The Board is committed to discharging its duties with integrity and objectivity, consistent with the ethical and other standards set out in the Group's corporate governance policies and codes of conduct.

RESPONSIBILITIES OF THE BOARD

The Board's responsibilities include:

- Formulating the strategic direction and performance/financial objectives for the Group;
- Establishing corporate governance, legal compliance, safety and risk management, accounting and reporting systems and policies;
- Monitoring the implementation of the policies, strategies and objectives of the Group;
- Ensuring that adequate systems of internal control are in place and appropriately monitored for compliance with regulatory requirements and ethical standards;
- Monitoring financial performance and approving the Group's financial statements and annual budget;
- Approving major capital expenditure and capital management, any major investment, acquisitions or divesture;
- Selection, appointment and review of the performance of the Group's senior managers;
- Ensuring significant business risks are identified and appropriately managed;
- Conducting regular reviews of the Board's own performance and procedures followed;
- Establishing special purpose sub-committees to deal with specific issues as and when they arise; and
- Reporting to Shareholders on the Group's performance.

The Board has established additional committees to assist it in carrying out its responsibilities. These committees act by examining various issues and making recommendations to the Board.

The committees which have been established are:

- The Audit and Risk Management Committee
- The Nomination and Governance Committee
- The Remuneration Committee

Formal charters setting out the objectives, scope and administration of each committee have been adopted.

L-R: John Sharp, Russell Hodge, Geoff Breust

AUDIT AND RISK MANAGEMENT COMMITTEE

It is intended that the Audit and Risk Management Committee comprise three Board members who will meet periodically throughout the year. The charter of the Audit and Risk Management Committee provides that the Committee shall predominantly be made up of independent, non-executive Directors who are financially literate.

It is intended that the Chief Financial Controller and external auditors be invited to attend the meetings of the Committee from time to time.

The main functions of the Audit and Risk Management Committee are to:

- Assist the Board to fulfil its oversight responsibilities in respect of the financial reporting process, the system of internal controls relating to all matters affecting the Group's financial performance, the audit process, and monitoring compliance with laws and regulations and the Group's code of conduct
- Implement and supervise the Group's risk management framework

L-R: Robert WInnel, Jim Davis, Russell Hodge

NOMINATION AND GOVERNANCE COMMITTEE

It is intended that the Nomination and Governance Committee comprise three Board members who will meet periodically throughout the year, which will include a majority of independent non-executive Directors.

The main functions of the Nomination and Governance Committee are to:

- Review and advise the Board on the composition of the Board and its committees
- Review the performance of the Board, the Chairman of the Board (Chairman), the executive and non-executive Directors and other individual members of the Board
- Ensure that proper succession plans are in place for consideration by the Board
- Advise the Board on good governance standards and appropriate corporate governance policies for the Group
- Critically review the Group's performance against its corporate governance policies

L-R: Robert WInnel, John Sharp, Jim Davis

REMUNERATION COMMITTEE

It is intended that the Remuneration Committee comprise three Board members who will meet periodically throughout the year, which will include a majority of independent non-executive Directors.

The main functions of the Remuneration Committee will be to consider whether:

- The Directors and senior management of the Group are remunerated fairly and appropriately
- The Group's remuneration policies and outcomes strike an appropriate balance between the interests of the Group's Shareholders, and rewarding and motivating the Group's executives and employees in order to secure the long term benefits of their energy and loyalty
- The human resources policies and practices are consistent with and complementary to the strategic direction and objectives of the Group as determined by the Board

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

STRUCTURE OF THE BOARD

The skills, experience and expertise relevant to the position of Director held by each Director in office at the date of the annual report is included in the Directors' Report pages 5 to 8.

A table showing the number of Directors' meetings, including meetings of each Board Committee held during the financial year and the number of meetings attended by each Director (while they were a Director or Committee member) is included in the Directors' Report page 10.

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

CODE OF CONDUCT

The Group has established a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders and have made that code publicly available on the Rex website (http://www.rex.com.au/AboutRex/pdf/Code_of_Conduct.PDF).

CONTINUOUS DISCLOSURE POLICY

The Group has written policies and procedures designed to ensure compliance with ASX listing rule disclosure requirements and to ensure accountability at a senior management level. A copy of the Company's Continuous Disclosure Policy is available on the Rex website (http://www.rex.com.au/AboutRex/pdf/Disclosure_Policy.PDF).

EMPLOYEE SECURITIES TRADING POLICY

There is also a policy in place to regulate dealings by employees, management and the Board in the Group's securities. Refer to Rex website for the Employee Securities Trading Policy (http://www.rex.com.au/AboutRex/pdf/Trading_Policy.PDF).

For further information on corporate governance policies adopted by Regional Express Holdings Limited, refer to the Corporate Governance section of Rex's website (http://www.rex.com.au/AboutRex/OurCompany/corporate_charter.aspx).

ASX ADDITIONAL INFORMATION

This is required by the ASX rules, but falls outside of the audit opinion and therefore has no impact on the audit report issued.

(A) DISTRIBUTION OF EQUITY SECURITIES (AS AT 31 AUGUST 2006)

Ordinary Share Capital

115,000,000 fully paid ordinary shares are held by 1,672 individual shareholders.

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

FULLY PAID ORDINARY SHARES

	Investors	Securities	Issued Capital (%)
1 - 1000	85	69,205	0.06
1,001 - 5,000	1,075	3,386,635	2.95
5,001 - 10,000	259	2,337,822	2.03
10,001 - 100,000	212	6,829,001	5.94
100,001 and over	41	102,377,337	89.02
Total	**1,672**	**115,000,000**	**100.00**

(B) SUBSTANTIAL SHAREHOLDERS (AS AT 31 AUGUST 2006)

	FULLY PAID	
Ordinary Shareholders	**Number**	**Percentage**
Kim Lark Lim	11,462,058	9.97%
Kerk Chuan Seah	10,385,494	9.03%
Canberra Air Pty Limited	8,816,643	7.67%
Kim Hai Lim	7,854,362	6.83%
Joo Chye Chua	7,454,362	6.48%
Ming Yew See Toh	7,454,362	6.48%
Joe Tiau Tjoa	6,627,615	5.76%

ASX ADDITIONAL INFORMATION (CONTINUED)

C) TWENTY LARGEST HOLDERS OF QUOTED EQUITY SECURITIES (AS AT 31 AUGUST 2006)

	FULLY PAID	
Ordinary Shareholders	**Number**	**Percentage**
Kim Lark Lim	11,462,058	9.97%
Kerk Chuan Seah	10,385,494	9.03%
Canberra Air Pty Limited	8,816,643	7.67%
Kim Hai Lim	7,854,362	6.83%
Joo Chye Chua	7,454,362	6.48%
Ming Yew See Toh	7,454,362	6.48%
Joe Tiau Tjoa	6,627,615	5.76%
Hui Ling Tjoa	5,521,730	4.80%
UBS Nominees Pty Limited	4,800,000	4.17%
ANZ Nominees Limited	4,443,786	3.86%
Thian Soo Lee	3,727,181	3.24%
Lay Khim Ng	3,727,181	3.24%
Kok Leong Lee	3,420,047	2.97%
Rex Investment Holdings Pty Limited	2,960,468	2.57%
J P Morgan Nominees Australia Limited	1,761,095	1.53%
Kaycraft Pty Limited J S Connor Harris & Co	1,563,758	1.36%
National Nominees Limited	1,550,862	1.35%
Citicorp Nominees Pty Limited	1,152,281	1.00%
Mirrabooka Investments Limited	1,000,000	0.87%
Thian Song Tjoa	1,000,000	0.87%

(D) THE NUMBER OF SECURITY INVESTORS HOLDING LESS THAN A MARKETABLE PARCEL OF 481 SECURITIES ($1.040) ON 31/08/2006 IS TWO AND THEY HOLD 312 SECURITIES.


VH-EKX
rex.
Regional Express

Rex Group of Companies: