Regional Express Holdings Limited

(formerly Australiawide Airlines Limited)
ACN 18 099 547 270

Annual Financial Report

For the year ended 30 June 2005

Directors' Report

Contents

Directors' Report

Your directors submit their report for the year ended 30 June 2005.

The names and details of Regional Express Holdings Limited's (Rex) directors in office during FY04/05 and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

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

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 Defence Specialist Engineer, Mr Lim left the Civil Service to start his own businesses. Mr Lim currently has an extensive portfolio of investments in 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 military aircraft supply company as well as a Director in a medical supply company specialising in providing advanced medical systems to hospitals.

LEE, THIAN SOO - CO CHAIRMAN

Mr. Lee has extensive international business experience and currently is the Chairman and owner of several businesses with subsidiaries in SE 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 advanced medical equipment and drugs. He is also on the board of a biomedical company and a mobile/internet gaming company.

Directors' Report

SHARP, JOHN - DEPUTY CHAIRMAN & INDEPENDENT DIRECTOR

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 National Parliament for 14 years (1984-1998). Mr. Sharp retired from Parliament in 1998 and 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 Antarctic 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, Member of the Partnership Committee National Trust of Australia NSW 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 air services and as the former Minister for Transport and Regional Services in the Federal Government, adds significantly to the expertise and standing of the Board.

BREUST, GEOFFREY - MANAGING DIRECTOR

APPOINTED 26TH AUGUST 2004

B.A. Admin & Econ Canberra University

Mr. Breust has had 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 (20 years) before joining Kendell Airlines in 1988. He became the CEO of Kendell and remained at Kendell until 2000. Mr. Breust then started a business consultancy and did extensive work for AirLink, 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's main responsibilities in the Company are all external relations including all commercial aspects.

Directors' Report

DAVIS, JAMES ('JIM') – EXECUTIVE DIRECTOR OPERATIONS

APPOINTED 26TH AUGUST 2004

Bachelor of Aeronautical Engineering (Sydney University)
Australian ATPL [133309] and Dutch ATPL [91-0021] and
Command Instrument Rating

Mr. Davis obtained his pilot's licence at 24 years of age, and has since flown professionally in Australia, Ireland, the Netherlands, Germany and throughout Northern Europe for over twenty-five years. Upon joining Hazelton Airlines in 1999, he worked as Flight Operations and Standards Manager, which involved supervision of all check and training staff and duties of deputy chief pilot for the airline. In 2001, Mr. Davis achieved promotion to the Chief Pilot of Hazelton Airlines, and held that position when Hazelton Airlines was merged into and began trading as part of Rex in 2002. Mr. Davis became Executive General Manager of Operations in 2003, and oversees all aspects of the operations of the Company comprising flight operations, airport operations and engineering.

WINNEL, ROBERT - INDEPENDENT DIRECTOR

B.A. (Syd),Dip. Ed. (UNE),
Dip. Ed. Admin (UNE)

Mr. Winnel spent ten years in the NSW & Commonwealth Public Services before establishing his own building business. In 1988 he formed and became the Managing Director of the Village Building Company, an unlisted public company with 130 shareholders and a turnover of around $100m a year. The company 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.

Directors' Report

CHONG, MENG TAK CHRISTOPHER - INDEPENDENT DIRECTOR

APPOINTED 14 APRIL 2005

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

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.

Mr. Chong is also a Director and/or advisor to many private companies and to many Asian families and the judicial branch of the Singapore Government. Mr. Chong has extensive Asia Pacific experience having previously been an advisor to listed companies on the Exchanges of Hong Kong, Jakarta (Indonesia), KL (Malaysia), Makati (Philippines) and Bangkok (Thailand). Mr. Chong is a Fellow of the Hong Kong Society of Accountants, a Fellow of the Australian Institute of Company Directors, a Fellow of the Singapore Institute of Directors and a Master Stockbroker of the Securities and Derivatives Industry Association of Australia.

LEE, KOK LEONG

RESIGNED 14 APRIL 2005

B. Engg (Hons) (Monash)

Mr. Lee held a number of management and marketing roles in the consumer goods industry. He has operated his own business in manufacturing, farming and retail for the last 16 years.

TEO, SHAE CALISSA - COMPANY SECRETARY

LL.B(Hons) (University of Nottingham, UK)

Ms. Teo joined Rex in December 2003. After a short career within the trading and shipping industry upon completing her studies in the UK, Ms. Teo joined the Civil Service of the Government of Singapore as a prosecutor, where she was actively involved in corporate projects in addition to the general legal work she was required to undertake.

Directors' Report

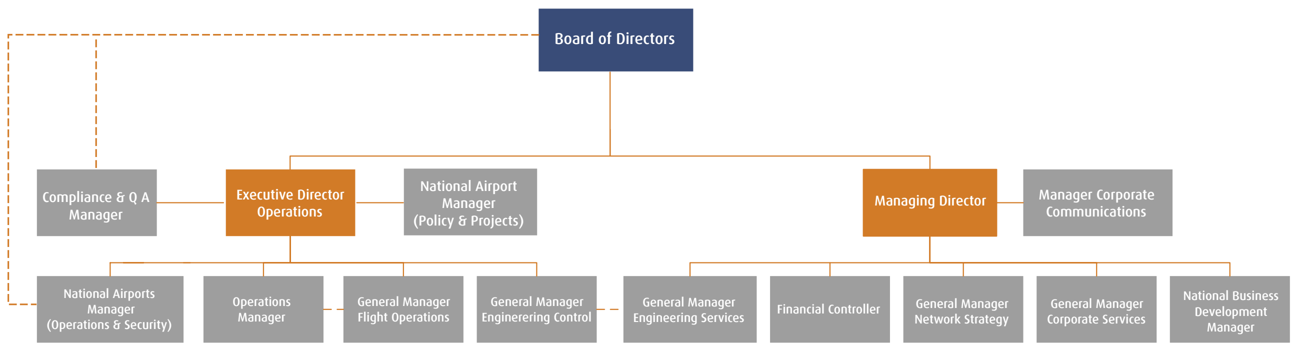
CORPORATE INFORMATION

Corporate structure

Regional Express Holdings Limited is a company limited by shares that is incorporated and domiciled in Australia. The registered office of the company is, Level 1, 2B Lord Street, Botany NSW 2019. Effective 1 August 2002, for the purposes of income taxation, Regional Express Holdings Limited has prepared a consolidated financial report incorporating the entities that it controlled during the financial year, which are outlined in the following illustration of the foup's corporate structure.

Note: Another wholly owned subsidiary Hazelton Air Services Pty Ltd has been disposed of subsequent to year end on 22 August 2005.

Management structure



Nature of Operations and Principal Activities

The principal activities during the year of the consolidated entity was regular passenger transport air services. There has been no significant change in the nature of those activities since the prior year

Employees

The entity employed 624 employees as at 30 june 2005 (2004: 594 employees), The number of full time equivalents (FTES) remained constant.

Directors' Report

Corporate Governance

Directors and Officers Insurance

In July 2004 the Company renewed its D&O insurance with Chubb, Singapore for SGD$5.0M. In July 2005 the company extended its coverage to 31 October 2005 in line with all the other renewal dates of the company.

Directors' Meetings

One director retired during the year
- Mr Lee Kok Leong (April 14th 2005)

There were four directors were appointed:

- Mr Geoffrey Breust who was the CEO. Geoff was appointed on 26 August 2004 and takes on the new designation of Managing Director with his appointment to the Board.
- Mr Jim Davis who was the GM Operations. Jim was appointed on 26 August 2004 and takes on the designation of Executive Director Operations with his appointment to the Board.
- The Hon. John Sharp who was appointed on 14 April 2005 as an independent director. He was elected Deputy Chairman on his appointment.
- Mr Christopher Chong who was appointed on 14 April 2005 as an independent director.

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

	Directors' Meetings	Audit Meetings	Remuneration Meetings	Nomination Meetings
Number of meetings held:	**6**	**1**	**5**	**1**
Number of meetings attended:				
Lim, Kim Hai	6	1	0	0
Lee, Thian Soo	6	1	0	0
Sharp, John	2	1	5	0
Breust, Geoffrey	5	1	0	0
Davis, Jim	4	0	5	1
Winnel, Robert	6	1	5	1
Chong, Christopher	2	1	0	1
Lee, Kok Leong	2	0	0	0

Notes
Kok Leong Lee attend directors meetings held prior to retirement.
John Sharp and Christopher Chong attended all directors meetings held subsequent to their appointment

Directors' Report

Committee membership

As at the date of this report, the company had an Audit Committee, a Remuneration Committee and a Nomination Committee.
Members acting on the committees of the board during the year were:

Audit	Remuneration	Nomination
Chong, Christopher (c)	Sharp, John (c)	Winnel, Robert (c)
Breust, Geoffrey	Davis, Jim	Chong, Christopher
Sharp, John	Irvine, Kelly @	Davis, Jim
	Penglis, Maree @	
	Winnel, Robert	

Notes
(c) Designates the chairman of the committee
@ Employee and non-director

REVIEW AND RESULTS OF OPERATIONS

Overview

Rex has made considerable progress in the year increasing its profit over ten fold due to the success of its strategy adopted for the year:

(i) increase passenger growth through well adapted schedules, new routes/frequencies combined with effective pricing and revenue management approaches;

(ii) improve on operational performance andcustomer service;

(iii) increase productivity through cost reductions and improved efficiencies.

Principal Focus of the Year

Increasing passenger growth

The Company's strategy of designing aggressive entry-level fares to entice travellers and adopting a formula of maximising revenue per departure has been the key to its continued strong growth. Passenger growth over the previous year averaged 22.0% including those generated from new markets, growth in existing markets and offset by withdrawal from the Canberra–Sydney route in December 2004.

Rex co-invested with the local councils to provide attractive lead-in discount fares to stimulate demand for air travel and this resulted in many routes on the Company's network enjoying passenger carriage well in excess of historic levels existing prior to the collapse of the Ansett Group in 2001.

With the exception of Sydney to Canberra and Melbourne to Devonport, all routes where the Company competed with another operator showed substantial growth in market share. Where such competition was against Qantaslink, the

Directors' Report

Company was able to achieve a market share that was at least equal if not more than its capacity share. Where the Company competed with other carriers, the Company's market share substantially exceeded its capacity share. These results show that the Company is now well accepted in the market and is a viable and effective competitor.

Total passenger numbers grew from 0.9M in FY03/04 to 1.1M in FY04/05. This represented a 22.0% increase with all bar one current route showing passenger increases year on year. The one route that did not experience passenger growth was Melbourne-Devonport, which was serviced only by a single daily middle of the day daily frequency.

Passenger revenue grew from $109.0M in FY03/04 to $126.0M in FY04/05. This represented a 16.0% increase with all but two current routes showing revenue increases year on year.

On 28 December 2004 the Company withdrew from the Sydney–Canberra route. The Company had operated this major "trunk" route since commencing services in August 2002. While passenger numbers were grown to in excess of 65,000 annually and scheduled services to six return weekdays, the route never provided enough revenue to become profitable. Over the period of operations the route accumulated losses in excess of $9.1M. In the six months to the end of December 2004, the route lost almost $1.0M.

The Canberra withdrawal provided the Company with the aircraft and crew resources to revise and expand services elsewhere on its the network. This included a revised overnighting service Mildura–Sydney via Narrandera, additional frequency and capacity on Sydney–Griffith and the ability to further upgrade services in South Australia, particularly Adelaide - Port Lincoln (which now has six return Saab services weekdays) Broken Hill and Olympic Dam.

Opportunities were also taken during the year to grow routes with the replacement of Metro services with Saab on Adelaide–Whyalla and Adelaide–Mount Gambier in August 2004 and on Sydney–Parkes in March 2005. Additional frequencies were introduced on most routes over the year providing additional passenger carriage and revenue.

Three new routes were commenced during the year. In September 2004 the Company started for the first time a service into a hitherto Qantaslink monopoly route, Sydney–Armidale. The Company's entry into this market has exceeded expectations in terms of passenger growth and revenue and currently contributes to overall profitability.

Directors' Report

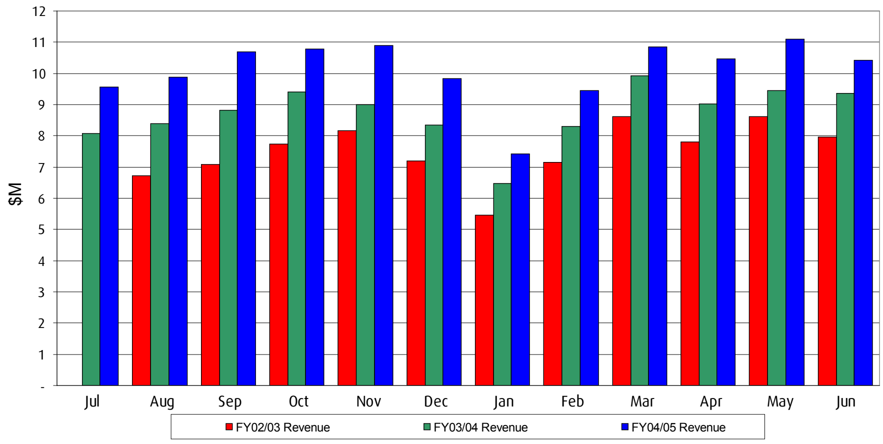
In March 2005 the Company commenced services Sydney–West Wyalong with three return Metro services weekly. This operation was put in place following an approach and a negotiated agreement to underwrite the service initially with the Bland Shire Council in association with Barrack Gold, the developer of a major gold mine to the north east of West Wyalong.

In June 2005 services were commenced on Sydney – Snowy Mountains (Cooma), a route which had been without a service since 2002. Initiated in conjunction with a consortium of entrepreneurs with other business interests in the Snowy Mountains region which agreed to purchase the airport from the Snowy River Shire Council, the service has seen substantial demand for the ski season. The Consortium has brought significant promotional capability for the service and this will add greatly to generating demand year round for the route.

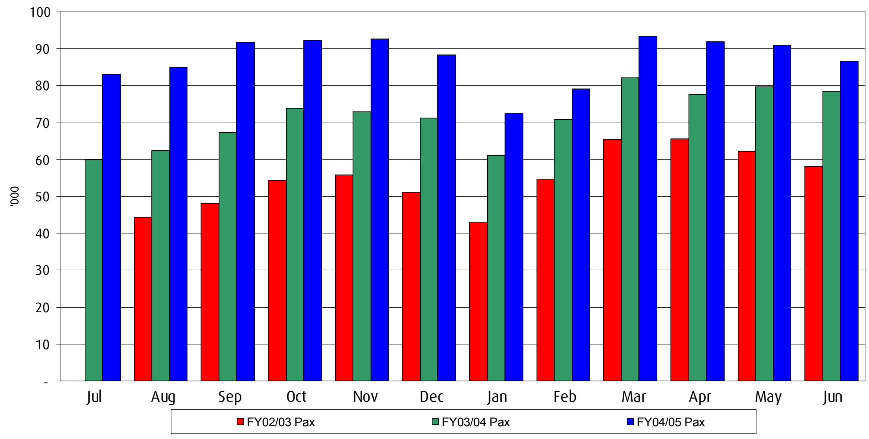
The tables below confirm the Company's improved performance year on year since commencement in August 2002.

Pax Revenue*

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



Total Pax



Directors' Report

Improving Productivity

The Company continued on the restructuring effort of the previous year and redoubled its efforts to eliminate wastages, reduce costs and improve efficiencies. A new high-powered Productivity Committee was formed under the personal leadership of the Chairman with the goal of achieving $2.0 million of cost savings by the end of the year. Some of the notable achievements of the Committee were:

- Renegotiation of the Company's insurance contracts;
- Renegotiation and reengineering of the telecommunications contract;
- Purchase of aircraft - a total of six Saab aircraft were purchased (most of them were previously on lease) during the year with a corresponding net contribution to the bottom line after allowing for depreciation;
- Renegotiation of fuel supply prices;
- Better control of advertising and marketing expenses;
- Production of uniforms in another country;
- Savings in tighter control of administrative expenses including stationery, printing, passenger documentation, travel and hotel expenses;
- Efficiencies in collection of revenue for excess baggage and ticket reissue fees;
- Reductions in catering and ground handling costs.

The sterling successes of the Productivity Committee have managed to mitigate the disastrous impact of rising prices. This can be seen in the Company's cost per Airline Seat Kilometre (ASK) which saw a significant decline from 23.8 cents to 21.8 cents in spite of the $7.0M increase in the Company's fuel bill in the FY. Without the fuel increase the cost per ASK would have been 20.7 cents.

Improving Operational and Service Standards

The Company's Engineering resources effectively managed an exceptionally heavy workload during the year. In addition to the scheduled eleven major "C" checks on the Saab 340 aircraft, installation of Terrain Avoidance Warning Systems (TAWS) to the entire Saab 340 fleet of 24 aircraft prior to the mandatory completion date of 30 June 2005 had to be completed. Another major task was the installation of Hardened Cockpit Doors on all Saab aircraft as a mandated aviation security requirement.

The Company also introduced five additional Saab 340 aircraft into the fleet and prepared four Saabs for export as well as one Metro 23 aircraft for sale. Work also continued on bringing the total Saab fleet on to a common System of Maintenance from differing systems operated in the past. This would provide the future benefits of streamlined planning, maintenance scheduling, increased aircraft utilisation and a reduction in maintenance days per aircraft.

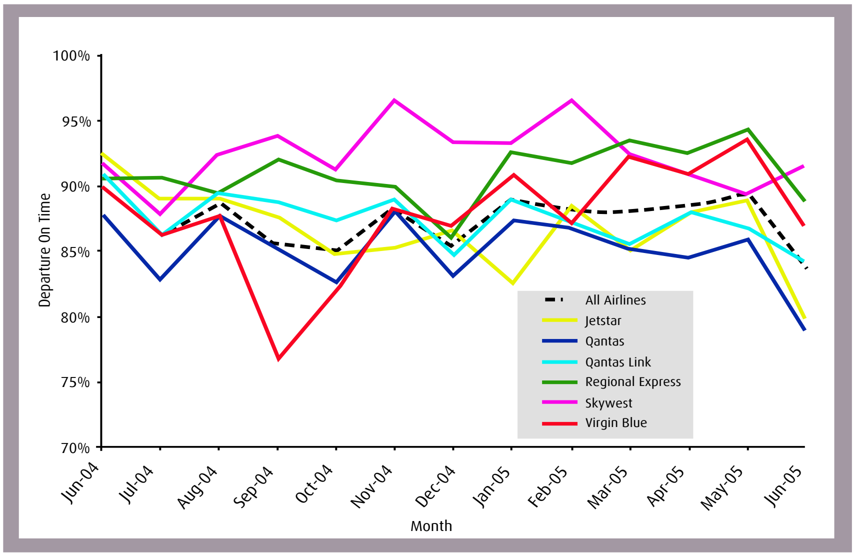
The Company managed to take this demanding workload in its stride without compromising its regulatory responsibility. During the course of the year the

Directors' Report

Company's activities were the subject of a program of audits and surveillance inspections by CASA as part of the normal compliance regime. No issues of significance were found and no substantial issues of non-compliance highlighted.

The Company also conducted a programme of internal audits and inspections as part of its Quality Assurance program.

The Company's efforts in achieving high engineering and operational standards can be measured in tangible improvements in On-Time Performance (OTP). The Company is proud that it is now one of the most reliable airlines in Australia reflected in statistics published by the Bureau of Transport and Regional Economics. This result is all the more satisfying as more than half of its operations are through Sydney Airport which has serious congestion at peak periods and can be significantly affected by strong westerly winds reducing operations to one runway.



Source: bureau of transport and regional economics website - AVSTATS website

Major flooding and bad weather in June 05 was detrimental to the OTP figures of all airlines, with the exception of skywest,which does not operate out of Sydney. The Company is also proud of its standard of customer service level. In a survey by "Choice Magazine" in April 2005, Regional Express was rated as having the best customer satisfaction level based on a survey of 500 "Choice" subscribers.

Airline	**Survey respondents' overall rating(%) based on their experience over the previous 12 months**
REGIONAL EXPRESS	71%
VIRGIN BLUE	68%
QANTAS	67%
JETSTAR	47%

Directors' Report

Principal Results

Revenue

Total revenue for the year was $137.1M, an increase of $24.7M or 22.0% on the previous year. Net passenger revenue increased by $16.3M or 15.0% with Revenue Passenger Kilometres growing by 15.0%.

Expenditure

Total expenditure increased 15.0% or $14.5M (after tax adjustments). The number of employees (full time equivalent) remained static during the period. Administration related expenses decreased by 30.0% reflecting the focus on removing inefficiencies. Selling and Port costs remained relatively constant despite increased passenger numbers.

Fuel in FY04/05 was 15.7% of total costs, up from 11.4% in the previous year. The MOPs price of fuel per litre increased 69.0% for the 12 months ended 30 June 2005. Increased capacity and improved load saw a decrease in the unit cost per ASK of 13.0%.

Balance Sheet and Capital Structure

The year end cash position was $3.2M. Cash held increased by $3.0M during FY04/05.

Net capital expenditure on new aircraft, aircraft add-ons and spares totaled $7.2M. This included payment of $1.0M for a government mandated reinforced Cockpit Door programme, for which full funding was received.

Earnings per share increased to 8.0 cents per share, up on 3.0 cents per share for the same period last year. This is a result of increased passenger revenue and the inclusion of an income tax benefit now recognised from a prior loss period.

Return on gross Assets improved from 3.0% to 22.0% reflecting the general improvement in the financial position of the Company.

During the period, 42,036,667 ordinary shares were issued due to a conversion to equity of an existing convertible note. The group has a sound capital structure clearly reflected in the debt ratio, which currently represents 9.0% of total assets. The net tangible assets improved from $1.0M in FY03/04 to $18.6M as at the close of the year.

Cash Flow

Operating cash flow increased $5.2M in the same period as a result of increased receipts from customers. Cash outflows from investing activities increased from $(2.0)M to $(8.7)M due to the purchase on additional aircraft which increased the Rex fleet from 11 to 15 owned aircraft. Cash inflows from financing activities increased from $2.1M to $8.8M due to an issue of a convertible note and borrowings to partly fund the purchase of new aircraft.

Directors' Report

Environmental Regulations
There have been no known breaches of environmental regulations.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Changes in Shareholders' Equity
In the year the shareholders equity was increased by $6.3M due to the conversion of an existing convertible note. As at the close of the FY04/05, there are no more outstanding note issues.

Sydney Airport Gate/Lounge
The Company's lease covering Gate 39 and the associated offices and Corporate Lounge facility expired on 30 November 2004. Rex was initially offered an option that had significant disadvantages to its operations and presented inconveniences to its passengers. In response to vigorous representations put up by its regional stakeholders, Rex was offered brand new facilities at Gate 47 incorporating a new check in Gate, a new Corporate Rex Lounge right next to the Gate and related facilities. Successful negotiation of these facilities was a major milestone for the Company and has reinforced its position as the premier gateway to regional New South Wales by air.

Aircraft Acquisition and Disposal
During the course of the year the Company purchased three Saab 340B model aircraft (VH-OLN, VH-OLM and VH-SBA) which were on lease from Macquarie Bank.

In addition, the Company purchased a total of three Saab 340A aircraft, including the two (VH-EKD and VH-EKT) which had been sold to Saab as part of the Harmonisation Plan.A further Saab 340A (VH-ZLY) which was available in Australia was also purchased.

One Metro 23 (VH-KDT) was sold in August 2004 and an agreement was entered into for the sale of a second Metro 23 (VH-KED) as at the end of the FY04/05.

Fuel Surcharges
The exponential increases in fuel prices in the year led to 3 rounds of fuel levies imposed by the Company. This brought the total fuel surcharge to $20 per sector (incl. ST).

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Investment in Pel-Air
On 7 July 2005 the Board approved investment in an aircraft freight and passenger charter operator, Pel Air, which specialises in overnight freight charters. The company will acquire 50% of Pel Air subject to the successful listing of Rex and the raising of required capital.

Directors' Report

Divestment of Hazelton Air Services Pty Ltd (HAS)

In line with the recommendations of the Company's advisors and as there were no foreseeable business plans or forthcoming activities, the Company had on 22 August 2005 divested itself of Hazelton Air Services Pty Ltd (HAS), a wholly owned subsidiary which had been dormant since November 2003. HAS had a net negative book value and the divestment was for a nominal sum.

Fuel Levy

On 27 August 2005 the fuel levy was increased from $20 per sector to $22 per sector in line with rising fuel costs.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The directors foresee that the FY05/06 financial year will continue to be a period of growth. The most significant areas for change will be:

Pel-Air

The investment in Pel Air is likely to bring about administrative, management and engineering synergies which will benefit both companies.

Listing Plans

The Company embarked on a plan to seek a listing on the ASX and to become a publicly quoted company before the end of FY05/06. If the Company is successful in its application, such a listing is likely to be positive for sales and especially corporate sales.

Productivity Drive

The Company is continuing its productivity drive in FY05/06 with the launch of the Productivity Committee II under the direct leadership of the Chairman. It is expected that this will result in additional cost savings and productivity gains of at least $2.0M in the year.

NSW Government Travel

The change in the NSW Government Travel Management contract from Qantas Business Travel (QBT) to Carlson Wagonlitt Travel (CWT) is believed to be positive for the Company. The Company believes that government travel on its NSW network will see an improvement from 1 January 2006 when the new contract enters into force.

Directors' Report

Auditor Independence Declaration

A copy of the Auditors's Independence Declaration was obtained from our Auditors, Ernst & Young. A copy of this declaration has been included in the financial report at page 16.

Signed in accordance with a resolution of the directors.

Geoffrey Breust
Managing Director

Sydney
1 September 2005

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 2005, 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

G J Logue

G J Logue
Partner
Sydney
Date: 1 September 2005

Directors' Declaration

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

(1) In the opinion of the directors:

(a) the financial statements and notes 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 2005 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.

On behalf of the Board

Geoffrey Breust
Managing Director

Sydney
1 September 2005

Statement of Financial Performance

For the year ended 30 June 2005

		CONSOLIDATED		REGIONAL EXPRESS HOLDINGS LIMITED	
	Notes	30 June 2005 $	30 June 2004 $	30 June 2005 $	30 June 2004 $
Revenues from ordinary activities	2	**137,146,638**	112,380,982	**137,146,638**	112,380,982
Salaries and employee benefits expense	3	**(38,548,700)**	(36,772,432)	**(38,548,700)**	(32,171,880)
Depreciation and amortisation expenses	3	**(3,460,762)**	(2,038,460)	**(2,609,349)**	(2,002,343)
Borrowing costs expense	3	**(815,654)**	(998,004)	**(815,654)**	(998,004)
Other expenses from ordinary activities	3	**(84,893,813)**	(71,572,319)	**(84,860,217)**	(76,172,874)
Profit from ordinary activities Before income tax benefit		**9,427,709**	999,767	**10,312,718**	1,035,881
Income tax benefit Relating to ordinary activities	4	**1,886,939**	-	**1,886,939**	-
Profit from ordinary activities After income tax benefit		**11,314,648**	999,767	**12,199,657**	1,035,881
Net profit		**11,314,648**	999,767	**12,199,657**	1,035,881
Net profit attributable to members of Regional Express Holdings limited	19	**11,314,648**	999,767	**12,199,657**	1,035,881
Total changes in equity Other than those resulting from transactions with owners as owners attributable to members of Regional Express Holdings limited		**11,314,648**	999,767	**12,199,657**	1,035,881

Statement of Financial Position

For the year ended 30 June 2005

		CONSOLIDATED		REGIONAL EXPRESS HOLDINGS LIMITED	
	Notes	30 June 2005 $	30 June 2004 $	30 June 2005 $	30 June 2004 $
Current assets					
Cash assets	20 (b)	**4,542,887**	1,316,100	**4,542,887**	1,316,100
Receivables	5	**7,268,970**	7,107,978	**7,527,725**	7,512,397
Consumable spares	6	**3,046,356**	2,487,706	**3,046,356**	2,487,706
Other	7	**4,521,879**	1,403,406	**4,330,068**	1,403,406
Total current assets		**19,380,092**	12,315,190	**19,447,036**	12,719,609
Non-current assets					
Other financial assets	8	**-**	-	**-**	-
Property, plant & equipment	9	**24,483,948**	17,288,337	**24,311,413**	17,079,491
Deferred tax assets	4	**1,886,939**	-	**1,886,939**	-
Consumable spares	10	**4,569,534**	3,731,560	**4,569,534**	3,731,560
Intangible assets	11	**-**	-	**-**	-
Other	12	**-**	457,690	**-**	457,690
Total non-current assets		**30,940,421**	21,477,587	**30,767,886**	21,268,741
Total assets		**50,320,513**	33,792,777	**50,214,922**	33,988,350
Current liabilities					
Payables	13	**21,860,573**	25,282,124	**20,674,400**	25,282,124
Interest-bearing liabilities	14	**511,958**	2,162,624	**511,958**	2,162,624
Provisions	15	**4,024,335**	4,231,652	**4,024,335**	4,231,652
Total current liabilities		**26,396,866**	31,676,400	**25,210,693**	31,676,400
Non-current liabilities					
Interest-bearing liabilities	16	**4,146,736**	16,972	**4,146,736**	16,972
Provisions	17	**1,193,874**	1,136,516	**1,193,874**	1,136,516
Total non-current liabilities		**5,340,610**	1,153,488	**5,340,610**	1,153,488
Total liabilities		**31,737,476**	32,829,888	**30,551,303**	32,829,888
Net assets		**18,583,037**	962,889	**19,663,619**	1,158,462
Equity					
Contributed equity	18	**36,576,685**	30,271,185	**36,576,685**	30,271,185
(Accumulated losses)	19	**(17,993,648)**	(29,308,296)	**(16,913,066)**	(29,112,723)
Total shareholder equity		**18,583,037**	962,889	**19,663,619**	1,158,462

Statement of Cash Flow

For the year ended 30 June 2005

	Notes	CONSOLIDATED 30 June 2005 $	CONSOLIDATED 30 June 2004 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2005 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2004 $
Cash flow from operating activities					
Receipts from customers		**138,561,998**	114,430,529	**138,561,998**	114,430,529
Payments to suppliers and employees		**(136,060,364)**	(115,711,705)	**(136,060,364)**	(115,711,705)
Government grants received		**1,246,050**	-	**1,246,050**	-
Interest received		**206,958**	148,688	**206,958**	148,688
Borrowing costs		**(815,654)**	(998,004)	**(815,654)**	(998,004)
Net cash flows from/(used in) Operating activities	20	**3,138,988**	(2,130,492)	**3,138,988**	(2,130,492
Cash flows from investing activities					
Proceeds from sale of property, plant & equipment		**6,404,800**	278,423	**6,404,800**	278,423
Purchase of property, plant & equipment		**(15,101,599)**	(2,308,644)	**(15,101,599)**	(2,308,644)
Net cash flows from/(used in) Investing activities		**(8,696,799)**	(2,030,221)	**(8,696,799)**	(2,030,221)
Cash flows from financing activities					
Proceeds from issues of ordinary shares		**175,000**	5,000,096	**175,000**	5,000,096
Repayment of borrowings – other		**(80,928)**	(7,300,000)	**(80,928)**	(7,300,000)
Proceeds from borrowings – other		**4,724,184**	-	**4,724,184**	-
Proceeds from the issue of convertible notes		**4,000,000**	7,300,000	**4,000,000**	7,300,000
Repayment of convertible notes		**-**	(2,766,659)	**-**	(2,766,659)
Repayment of hire purchase agreement principal		**(33,658)**	(34,273)	**(33,658)**	(34,273)
Repayment of finance lease principal		**-**	(102,484)	**-**	(102,484)
Net cash flows from/(used in) Financing activities		**8,784,598**	2,096,680	**8,784,598**	2,096,680
Net increase/(decrease) in cash held		**3,226,787**	(2,064,033)	**3,226,787**	(2,064,033)
Add opening cash brought forward		**1,316,100**	3,380,133	**1,316,100**	3,380,133
Closing cash carried forward	20	**4,542,887**	1,316,100	**4,542,887**	1,316,100

Notes to the Financial Statements

For the year ended 30 June 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 including applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

The financial report has been prepared in accordance with the historical cost convention.

Principles of consolidation

The consolidated financial statements are those of the group, 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.

Information from the financial statements of subsidiaries is included from the date the parent company obtains 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. Subsidiary acquisitions are accounted for using the purchase method of accounting.

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. Unrealised losses are eliminated unless costs cannot be recovered.

Foreign currencies

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 end of the financial year.

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. Except for certain specific hedges and hedges of foreign currency operations, all resulting exchange differences arising on settlement or re-statement are brought to account in determining the net profit or loss for the financial year, and transaction costs, premiums and discounts on forward currency contracts are deferred and amortised over the life of the contract.

Notes to the Financial Statements

For the year ended 30 June 2005

Cash and cash equivalents

Cash on hand and in banks and short-term deposits are stated at nominal value.

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash within 2 working days, net of outstanding bank overdrafts.

Bank overdrafts are carried at the principal amount. Interest is charged as an expense as it accrues.

Receivables

Trade receivables are recognised and carried at original invoice amount. Bad debts are written off as incurred. Receivables from related parties are recognised and carried at the nominal amount due. They are non-interest bearing.

Investments

Investments in subsidiaries are carried at the lower of cost and recoverable amount.

Consumable spares

Consumable spares are valued at the lower of cost and net realisable value. Consumable spares are classified between current and non-current based upon their nature and expected usage.

Recoverable amount

Non-current assets measured using the cost basis are not carried at an amount above their recoverable amount, and where carrying values exceed this recoverable amount assets are written down.

Property, plant & equipment

Cost

All classes of property, plant & equipment are measured at cost.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant & equipment.

Major depreciation periods are	2005	2004
Aircraft	**10 - 23 years**	15 - 23 years
Leasehold improvements	**40 years**	40 years
Cyclic assets	**1.5 - 5.5 years**	1.5 - 5.5 years
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
Computer software	**2 years**	2 years

Notes to the Financial Statements

For the year ended 30 June 2005

Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

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.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is the shorter.

Finance leases

Leases which effectively transfer substantially all of the risks and benefits incidental to ownership of the leased item to the group are capitalised at the present value of the minimum lease payments and disclosed as property, plant and equipment under lease. A lease liability of equal value is also recognised.

Capitalised lease assets are depreciated over the shorter of the estimated useful life of the assets and 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 into the profit and loss.

The cost of improvements to or on leasehold property is capitalised and disclosed as leasehold improvements and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is the shorter.

Intangibles

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value of identifiable net assets acquired at the time of acquisition of a business or shares in a controlled entity.

If it becomes known, subsequent to acquisition, that assets or liabilities existed at the date of acquisition but were not recognised, an adjustment is made in respect of those assets and liabilities and, where relevant, in respect of the amount of goodwill or discount on acquisition. A similar adjustment is also made where assets and liabilities which were unidentifiable at acquisition subsequently become identifiable.

Goodwill calculated on the acquisition of Hazelton Air Services Pty Limited has been fully amortised.

Payables

Liabilities for trade creditors and other amounts are carried at 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 to related parties are carried at the principal amount. No interest is charged on these amounts.

Interest-bearing liabilities
All loans are measured at the principal amount. Interest is recognised as an expense as it accrues. Finance lease liability is determined in accordance with the requirements of AASB 1008 'Leases'. Convertible notes are carried at their principal amounts.

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 directly in equity as a reduction of the share proceeds received.

Revenue recognition
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity 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 Statement of Financial Performance 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
Control of the right to receive the interest payment.

Taxes
Income taxes
Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

Goods and Services Tax (GST)
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 Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows 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.

Employee benefits

Provision is made for employee entitlement 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 twelve 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 benefit liabilities are measured at the present value of the estimated future cash outflows 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 reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

Employee entitlements expenses and revenues arising in respect of the following categories: wages and salaries, non-monetary benefits, annual leave, long service leave and other leave entitlements; and other types of employee entitlements are charged against profits on a net basis in their respective categories.

Provisions

Provisions are recognised when the economic entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or 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.

Derivative financial instruments

Forward exchange contracts

The consolidated entity enters into forward exchange contracts where it agrees to 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 purchases in foreign currencies, to protect the consolidated entity against the possibility of loss from future exchange rate fluctuations. The forward exchange contracts do not exceed 12 months maturity.

Forward exchange contracts are recognised at the date the contract is entered into. Exchange gains or losses on forward exchange contracts are charged to the Statement of Financial Performance except those relating to hedges of specific commitments that are deferred and included in the measurement of the sale or purchase.

Comparatives

Where necessary comparatives have been reclassified and repositioned for consistency with current year disclosures.

2. REVENUE FROM ORDINARY ACTIVITIES

	Notes	CONSOLIDATED 30 June 2005 $	CONSOLIDATED 30 June 2004 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2005 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2004 $
Revenues from operating activities					
Passenger revenue		**125,719,608**	109,403,139	**125,719,608**	109,403,139
Charter revenue		**762,426**	392,207	**762,426**	392,207
Freight revenue		**798,096**	722,165	**798,096**	722,165
Total revenues from operating activities		**127,280,130**	110,517,511	**127,280,130**	110,517,511
Revenues from non-operating activities					
Interest		**206,958**	148,688	**206,958**	148,688
Other revenue		**2,008,700**	1,398,349	**2,008,700**	1,398,349
Proceeds from disposal of property, plant & equipment		**6,404,800**	316,434	**6,404,800**	316,434
Grant received from the Department of Transport and Regional Services		**1,246,050**	-	**1,246,050**	-
Total revenues from non-operating activities		**9,866,508**	1,863,471	**9,866,508**	1,863,471
Total revenues from ordinary activities		**137,146,638**	112,380,982	**137,146,638**	112,380,982

Notes to the Financial Statements

For the year ended 30 June 2005

	Notes	CONSOLIDATED 30 June 2005 $	CONSOLIDATED 30 June 2004 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2005 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2004 $

3. EXPENSES AND LOSSES/(GAINS)

(a) Expenses				
Salaries and employee benefits expense	**38,548,700**	36,772,432	**38,548,700**	32,171,880
Depreciation of non-current assets				
Aircraft	**863,862**	708,933	**863,862**	708,933
Leasehold improvements	**54,857**	17,331	**54,857**	17,331
Motor vehicles	**47,669**	37,445	**47,669**	37,445
Furniture and fittings	**44,795**	45,062	**44,795**	45,062
Computer equipment	**126,278**	91,020	**126,278**	91,020
Computer software	**124,248**	23,346	**124,248**	23,346
Plant & equipment	**399,994**	365,774	**363,683**	329,657
Aircraft add ons	**227,842**	43,674	**227,842**	43,674
Total depreciation of non-current assets	**1,889,545**	1,332,585	**1,853,234**	1,296,468
Amortisation and writedown of non-current assets				
Writedown of goodwill	**815,102**	-	**-**	-
Web site development costs	**51,467**	66,884	**51,467**	66,884
Motor vehicles under finance lease	**-**	47,610	**-**	47,610
Plant & equipment under hire purchase	**13,494**	14,575	**13,494**	14,575
Cyclic assets	**691,154**	576,806	**691,154**	576,806
Total amortisation of non-current assets	**1,571,217**	705,875	**756,115**	705,875
Total depreciation and amortisation expenses	**3,460,762**	2,038,460	**2,609,349**	2,002,343
Borrowing costs expensed				
Interest expense - director related entity	**534,364**	987,692	**534,364**	987,692
Finance lease	**5,986**	10,312	**5,986**	10,312
Interest expense - other	**275,304**	-	**275,304**	-
Total borrowing costs	**815,654**	998,004	**815,654**	998,004
Less: Borrowing costs capitalised	**-**	-	**-**	-
Total borrowing costs expensed	**815,654**	998,004	**815,654**	998,004

3. EXPENSES AND LOSSES/(GAINS)

	Notes	CONSOLIDATED 30 June 2005 $	CONSOLIDATED 30 June 2004 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2005 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2004 $
Bad and doubtful debts – trade debtors		**26,335**	17,621	**26,335**	17,621
Port costs		**13,489,478**	14,080,542	**13,489,478**	14,080,542
Selling costs		**12,208,484**	12,820,710	**12,208,484**	12,820,710
Flight costs		**41,085,453**	29,380,233	**41,085,453**	29,380,233
Management fees		**-**	-	**-**	4,600,552
Administration costs		**2,373,488**	3,382,402	**2,373,488**	3,382,405
Other Expenses		**7,153,540**	3,025,402	**7,119,944**	3,025,402
		76,336,778	62,706,910	**76,303,182**	67,307,465
Operating lease rental					
– minimum lease payments		**8,536,220**	8,671,365	**8,536,220**	8,671,365
Total operating lease rental		**8,536,220**	8,671,365	**8,536,220**	8,671,365
Net foreign currency (gains)/losses					
Speculative - hedging		**(183,191)**	(413,442)	**(183,191)**	(413,442)
Other - trading (gains)/losses		**(30,300)**	473,729	**(30,300)**	473,729
Total net foreign currency (gains)/losses		**(213,491)**	60,287	**(213,491)**	60,287
Cost of entering hedge		**234,306**	133,757	**234,306**	133,757
Total Other Expenses from ordinary activities		**84,893,813**	71,572,319	**84,860,217**	76,172,874
(Gains) on disposal of property, plant & equipment					
Net (gain)		**(1,432,900)**	(22,413)	**(1,432,900)**	(22,413)
Total (gains)		**(1,432,900)**	(22,413)	**(1,432,900)**	(22,413)

Notes to the Financial Statements

For the year ended 30 June 2005

	Notes	CONSOLIDATED 30 June 2005 $	CONSOLIDATED 30 June 2004 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2005 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2004 $

3. EXPENSES AND LOSSES/(GAINS)

Specific Items

Profit from ordinary activities before income tax expense includes the following specific revenues whose disclosure is relevant in explaining the financial performance of the entity:

Stock write back	-	1,930,112	-	1,930,112
Unearned revenue	-	754,161	-	754,161
Goodwill amortisation	815,102	-	-	-

Goodwill amortisation relates to aircraft deposits and superannuation liabilities of Hazelton Air Services Pty Limited which existed at the acquisition date of the subsidiary but were not known at that time. These assets and liabilities became identifiable during the 2005 year and an adjustment has been made to the goodwill balance.

	Notes	CONSOLIDATED 30 June 2005 $	CONSOLIDATED 30 June 2004 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2005 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2004 $

4. INCOME TAX

The prima facie tax, using tax rates applicable in the country of operation, on profit and extraordinary items differs from the income tax provided in the financial statements as follows:

Prima facie tax on profit from ordinary activities	**2,828,313**	299,930	**3,093,815**	310,764
Tax effect of permanent differences				
Entertainment	**18,151**	7,078	**18,151**	7,078
Donations	**-**	1,519	**-**	1,519
Fines and penalties	**1,906**	1,560	**1,906**	1,560
Finance lease interest	**5,597**	3,163	**5,597**	3,163
Goodwill amortisation	**244,531**	-	**-**	-
Tax losses not brought to account utilised in the current year	**(3,098,498)**	(313,250)	**(3,119,469)**	(324,084)
FITB on timing differences not previously recognised brought to account	**(1,886,939)**	-	**(1,886,939)**	-
Income tax expense attributable to ordinary activities	**(1,886,939)**	**-**	**(1,886,939)**	**-**
Deferred tax assets and liabilities				
Future income tax benefit – non-current	**1,886,939**	-	**1,886,939**	-
Income tax losses				
Future income tax benefit arising from tax losses and timing differences not brought to account at reporting date as realisation of the benefit is not regarded as virtually certain is anticipated to be at least:	**4,781,713**	7,988,469	**4,749,033**	7,966,682

This future income tax benefit will only be obtained if:

(a) Future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;

(b) The conditions for deductibility mposed by tax legislation continue to be complied with; and

(c) No changes in tax legislation adversely affect the consolidated entity in realising the benefit.

Notes to the Financial Statements

For the year ended 30 June 2005

	Notes	CONSOLIDATED 30 June 2005 $	CONSOLIDATED 30 June 2004 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2005 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2004 $

5. RECEIVABLES (CURRENT)

	Notes	CONSOLIDATED 30 June 2005 $	CONSOLIDATED 30 June 2004 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2005 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2004 $
Trade debtors		**6,507,720**	3,493,177	**6,507,720**	3,493,177
Provision for doubtful debts		**(13,060)**	-	**(13,060)**	-
		6,494,660	3,493,177	**6,494,660**	3,493,177
Sundry debtors		**734,055**	3,360,700	**734,055**	3,360,694
Hedge contract receivable		**40,255**	254,101	**40,255**	254,101
Amounts other than trade debts receivable from related parties:					
Wholly-owned group					
– controlled entities	27	**-**	-	**258,755**	404,425
		7,268,970	7,107,978	**7,527,725**	7,512,397
(a) Australian dollar equivalents of amounts payable in foreign currencies not effectively hedged: United States Dollar		**3,439,397**	27,376	**3,439,397**	27,376

Terms and conditions relating to the above financial instruments:

(i) Trade receivables are non-interest bearing and have repayment terms between 7-45 days;

(ii) Hedging foreign currency receivable represents the net receivable from a foreign currency forward contract. Under the contract $US4,000,000 will be received during the month of October 2005 at a fixed exchange rate of A$1.00:US$0.76; and

(iii) Details of the terms and conditions of related party balances are detailed in note 27.

	Notes	CONSOLIDATED 30 June 2005 $	CONSOLIDATED 30 June 2004 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2005 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2004 $

6. CONSUMABLE SPARES (CURRENT)

Consumable spares				
At cost	**3,046,356**	2,487,706	**3,046,356**	2,487,706
	3,046,356	2,487,706	**3,046,356**	2,487,706

7. OTHER CURRENT ASSETS

Prepayments	**2,113,530**	624,791	**1,921,721**	624,791
Deposits and other assets	**2,408,349**	778,615	**2,408,347**	778,615
	4,521,879	1,403,406	**4,330,068**	1,403,406

8. OTHER FINANCIAL ASSETS (NON-CURRENT)

Investments at cost comprise:				
Shares				
Unlisted	-	-	**450,223**	450,223
Provision for diminution on unlisted shares	-	-	**(450,223)**	(450,223)
Total investments	-	-	**-**	-

(a) The unlisted shares at cost relate to the following investments:

Name	Country of Incorporation	Percentage of equity interest held by the consolidated entity 2005	2004
Hazelton Air Services Pty Limited	Australia	**100%**	100%
Regional Freight & Charter Pty Limited (formerly Hazelton Air Charter Pty Limited)	Australia	**100%**	100%
Regional Express Pty Limited (formerly Australia Express Airlines Pty Limited)	Australia	**100%**	100%
Rex Investment Holdings Pty Limited (formerly Country Express Pty Limited)	Australia	**100%**	100%

Notes to the Financial Statements

For the year ended 30 June 2005

	Notes	CONSOLIDATED 30 June 2005 $	CONSOLIDATED 30 June 2004 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2005 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2004 $

9. PROPERTY, PLANT & EQUIPMENT

Aircraft				
At cost	**16,040,316**	12,932,748	**16,040,316**	12,932,748
Accumulated depreciation	**(1,243,208)**	(1,235,779)	**(1,243,208)**	(1,235,779)
	14,797,108	11,696,969	**14,797,108**	11,696,969
Cyclic assets				
At cost	**5,293,258**	2,435,612	**5,293,258**	2,435,612
Accumulated amortisation	**(1,509,139)**	(817,985)	**(1,509,139)**	(817,985)
	3,784,119	1,617,627	**3,784,119**	1,617,627
Leasehold improvements				
At cost	**816,109**	658,609	**816,109**	658,609
Accumulated depreciation	**(83,847)**	(28,990)	**(83,847)**	(28,990)
	732,262	629,619	**732,262**	629,619
Motor vehicles				
At cost	**325,818**	307,758	**325,818**	307,758
Accumulated depreciation	**(98,045)**	(54,810)	**(98,045)**	(54,810)
	227,773	252,948	**227,773**	252,948
Furniture & fittings				
At cost	**334,223**	330,250	**334,223**	330,250
Accumulated depreciation	**(125,094)**	(80,299)	**(125,094)**	(80,299)
	209,129	249,951	**209,129**	249,951
Computer equipment				
At cost	**615,666**	382,247	**615,666**	382,247
Accumulated depreciation	**(280,502)**	(154,224)	**(280,502)**	(154,224)
	335,164	228,023	**335,164**	228,023
Computer software				
At cost	**337,373**	66,310	**337,373**	66,310
Accumulated depreciation	**(166,350)**	(42,102)	**(166,350)**	(42,102)
	171,023	24,208	**171,023**	24,208
Plant & equipment - ground service equipment				
At cost	**2,972,994**	2,675,964	**2,694,765**	2,397,734
Accumulated depreciation	**(1,006,651)**	(627,386)	**(900,957)**	(558,002)
	1,966,343	2,048,578	**1,793,808**	1,839,732

9. PROPERTY, PLANT & EQUIPMENT

	Notes	CONSOLIDATED 30 June 2005 $	CONSOLIDATED 30 June 2004 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2005 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2004 $
Aircraft add ons					
At cost		**2,421,076**	459,127	**2,421,076**	459,127
Accumulated depreciation		**(271,516)**	(43,674)	**(271,516)**	(43,674)
		2,149,560	415,453	**2,149,560**	415,453
Plant & equipment under hire purchase					
At cost		**145,350**	145,350	**145,350**	145,350
Accumulated amortisation		**(33,883)**	(20,389)	**(33,883)**	(20,389)
		111,467	124,961	**111,467**	124,961
Total property, plant and equipment					
Cost		**29,302,183**	20,393,975	**29,023,954**	20,115,745
Accumulated depreciation & amortisation		**(4,818,235)**	(3,105,638)	**(4,712,541)**	(3,036,254)
Total written down amount		**24,483,948**	17,288,377	**24,311,413**	17,079,491

(a) Assets pledged as security

Assets under lease and hire purchase agreement are pledged as security for the associated lease liabilities.

The book value of assets pledged as security are:

	CONSOLIDATED 30 June 2005 $	CONSOLIDATED 30 June 2004 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2005 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2004 $
- Assets under lease and hire purchase agreement	**111,467**	124,961	**111,467**	124,961
- Aircraft	**6,967,201**	2,361,946	**6,967,201**	2,361,946

(b) Reconciliations

	CONSOLIDATED 30 June 2005 $	CONSOLIDATED 30 June 2004 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2005 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2004 $
Aircraft				
Carrying amount at beginning	**11,696,969**	11,650,291	**11,696,969**	11,650,291
Additions	**9,153,272**	755,611	**9,153,272**	755,611
Disposals	**(5,189,271)**	-	**(5,189,271)**	-
Depreciation expense	**(863,862)**	(708,933)	**(863,862)**	(708,933)
	14,797,108	11,696,969	**14,797,108**	11,696,969
Cyclic assets				
Carrying amount at beginning	**1,617,627**	1,616,158	**1,617,627**	1,616,158
Additions	**2,857,646**	578,275	**2,857,646**	578,275
Depreciation expense	**(691,154)**	(576,806)	**(691,154)**	(576,806)
	3,784,119	1,617,627	**3,784,119**	1,617,627

Notes to the Financial Statements

For the year ended 30 June 2005

	Notes	CONSOLIDATED 30 June 2005 $	CONSOLIDATED 30 June 2004 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2005 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2004 $

9. PROPERTY, PLANT & EQUIPMENT

Leasehold improvements				
Carrying amount at beginning	**629,619**	563,623	**629,619**	563,623
Additions	**157,500**	83,327	**157,500**	83,327
Depreciation expense	**(54,857)**	(17,331)	**(54,857)**	(17,331)
	732,262	629,619	**732,262**	629,619
Motor Vehicle				
Carrying amount at beginning	**252,948**	193,823	**252,948**	193,823
Additions	**42,636**	123,191	**42,636**	123,191
Disposals	**(20,142)**	(26,621)	**(20,142)**	(26,621)
Depreciation expense	**(47,669)**	(37,445)	**(47,669)**	(37,445)
	227,773	252,948	**227,773**	252,948
Furniture and fittings				
Carrying amount at beginning	**249,951**	288,213	**249,951**	288,213
Additions	**3,973**	6,800	**3,973**	6,800
Depreciation expense	**(44,795)**	(45,062)	**(44,795)**	(45,062)
	209,129	249,951	**209,129**	249,951
Computer equipment				
Carrying amount at beginning	**228,023**	273,884	**228,023**	273,884
Additions	**233,419**	67,113	**233,419**	67,113
Disposals	**-**	(21,954)	**-**	(21,954)
Depreciation expense	**(126,278)**	(91,020)	**(126,278)**	(91,020)
	335,164	228,023	**335,164**	228,023
Computer software				
Carrying amount at beginning	**24,208**	22,167	**24,208**	22,167
Additions	**271,063**	25,387	**271,063**	25,387
Depreciation expense	**(124,248)**	(23,346)	**(124,248)**	(23,346)
	171,023	24,208	**171,023**	24,208
Plant & equipment - ground service equipment				
Carrying amount at beginning	**2,048,578**	2,448,858	**1,839,732**	2,203,895
Additions	**420,141**	209,813	**420,141**	209,813
Disposals	**(102,382)**	(244,319)	**(102,382)**	(244,319)
Depreciation expense	**(399,994)**	(365,774)	**(363,683)**	(329,657)
	1,966,343	2,048,578	**1,793,808**	1,839,732

	Notes	CONSOLIDATED 30 June 2005 $	CONSOLIDATED 30 June 2004 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2005 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2004 $

9. PROPERTY, PLANT & EQUIPMENT

Aircraft add ons				
Carrying amount at beginning	**415,453**	-	**415,453**	-
Additions	**1,961,949**	459,127	**1,961,949**	459,127
Depreciation expense	**(227,842)**	(43,674)	**(227,842)**	(43,674)
	2,149,560	415,453	**2,149,560**	415,453
Motor vehicles under finance lease				
Carrying amount at beginning	**-**	122,436	**-**	122,436
Amortisation expense	**-**	(47,610)	**-**	(47,610)
Reclassification	**-**	(74,826)	**-**	(74,826)
	-	-	**-**	-
Plant & equipment under hire purchase				
Carrying amount at beginning	**124,961**	139,536	**124,961**	139,536
Amortisation expense	**(13,494)**	(14,575)	**(13,494)**	(14,575)
	111,467	124,961	**111,467**	124,961

	Notes	CONSOLIDATED 30 June 2005 $	CONSOLIDATED 30 June 2004 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2005 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2004 $

10. CONSUMABLE SPARES (NON- CURRENT)

Consumable spares				
At cost	**4,569,534**	3,731,560	**4,569,534**	3,731,560
	4,569,534	3,731,560	**4,569,534**	3,731,560

11. INTANGIBLES

Goodwill	**1,391,513**	576,411	**-**	-
Accumulated amortisation	**(1,391,513)**	(576,411)	**-**	-
	-	-	**-**	-

12. OTHER NON-CURRENT ASSETS

Website development costs	**175,026**	170,026	**175,026**	170,026
Accumulated amortisation	**(175,026)**	(123,559)	**(175,026)**	(123,559)
Deferred expenditure	**-**	94,748	**-**	94,748
Long term deposits and reserves	**-**	316,475	**-**	316,475
	-	457,690	**-**	457,690

Notes to the Financial Statements

For the year ended 30 June 2005

	Notes	CONSOLIDATED 30 June 2005 $	CONSOLIDATED 30 June 2004 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2005 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2004 $

13. PAYABLES (CURRENT)

Trade creditors	**3,970,629**	2,093,590	**3,970,629**	2,093,590
Other creditors	**8,380,320**	11,302,188	**7,194,147**	11,302,188
Unearned revenue	**9,509,624**	11,886,346	**9,509,624**	11,886,346
	21,860,573	25,282,124	**20,674,400**	25,282,124

(a) Australian dollar equivalents of amounts payable in foreign currencies not effectively hedged:

United States Dollar	**2,111,773**	2,003,442	**2,111,773**	664,609
Euro	**-**	342	**-**	342
Great British Pound	**203,135**	18,475	**203,135**	18,475
New Zealand Dollar	**-**	7,920	**-**	7,920

(b) Terms and conditions relating to the above financial instruments:

(i) Trade creditors are non-interest bearing and are normally settled on 7-30 day terms;

(ii) Other creditors are non-interest bearing and have an average term of 7-30 days

	Notes	CONSOLIDATED 30 June 2005 $	CONSOLIDATED 30 June 2004 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2005 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2004 $

14. INTEREST-BEARING LIABILITIES (CURRENT)

	Notes	30 June 2005 $	30 June 2004 $	30 June 2005 $	30 June 2004 $
Hire purchase liability	21	**15,438**	32,124	**15,438**	32,124
Convertible Note					
- Shareholders		**-**	2,130,500	**-**	2,130,500
Secured loan					
- Aircraft Finance Loan		**496,520**	-	**496,520**	-
		511,958	2,162,624	**511,958**	2,162,624
(a) Secured aircraft finance loan		**496,520**	-	**496,520**	-
(b) Secured hire purchase liability		**15,438**	32,124	**15,438**	32,124

(c) Terms and conditions relating to the above financial instruments:

(i) Hire purchase agreements have an average term of 1 year. The assets must be purchased at the completion of the term. The discount rate implicit in the hire purchase agreement is 14.5%. Secured hire purchase liabilities are secured by a charge over the assets acquired under hire purchase.

(ii) At 30 June 2005 all convertible note holders had exercised their option and converted their notes held into ordinary share capital. The total value of this transaction was $6,130,500. Interest is payable on the notes at 10% pa and was payable on the last day of each calendar month. If interest was late an additional 4% interest was incurred and payable to the note holders.

(iii) The secured aircraft finance loan was utilised to fund the purchase of 3 aircraft during the year. The facility term is 60 months commencing April 2005. USD$3,600,000 was provided under the loan arrangement. Interest is payable at a variable rate determined by the lender each month. Four aircraft are registered as security for this loan.

		CONSOLIDATED		REGIONAL EXPRESS HOLDINGS LIMITED	
	Notes	30 June 2005 $	30 June 2004 $	30 June 2005 $	30 June 2004 $

15. PROVISIONS (CURRENT)

	Notes	Consolidated 30 June 2005 $	Consolidated 30 June 2004 $	Regional Express Holdings Limited 30 June 2005 $	Regional Express Holdings Limited 30 June 2004 $
Employee benefits	22	**4,024,335**	4,231,652	**4,024,335**	4,231,652
		4,024,335	4,231,652	**4,024,335**	4,231,652

16. INTEREST-BEARING LIABILITIES (NON-CURRENT)

	Notes	Consolidated 30 June 2005 $	Consolidated 30 June 2004 $	Regional Express Holdings Limited 30 June 2005 $	Regional Express Holdings Limited 30 June 2004 $
Hire purchase liability	21	**-**	16,972	**-**	16,972
Secured loan					
– Aircraft finance loan		**4,146,736**	-	**4,146,736**	-
		4,146,736	16,972	**4,146,736**	16,972
(a) Secured hire purchase liability		**-**	16,972	**-**	16,972
(b) Secured aircraft finance loan		**4,146,736**	-	**4,146,736**	-

(c) Terms and conditions relating to the above financial instruments:

(i) The secured aircraft finance loan was utilised to fund the purchase of 3 aircraft during the year. The facility term is 60 months commencing April 2005. USD$3,600,000 was provided under the loan arrangement. Interest is payable at a variable rate determined by the lender each month. Four aircraft are registered as security for this loan.

17. PROVISIONS (NON-CURRENT)

	Notes	Consolidated 30 June 2005 $	Consolidated 30 June 2004 $	Regional Express Holdings Limited 30 June 2005 $	Regional Express Holdings Limited 30 June 2004 $
Employee benefits	22	**1,193,874**	1,136,516	**1,193,874**	1,136,516
		1,193,874	1,136,516	**1,193,874**	1,136,516

	Notes	CONSOLIDATED 30 June 2005 $	CONSOLIDATED 30 June 2004 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2005 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2004 $

18. CONTRIBUTED EQUITY

(a) Issued and paid up capital

Ordinary shares fully paid	**36,576,685**	30,271,185	**36,576,685**	30,271,185
	36,576,685	30,271,185	**36,576,685**	30,271,185

(b) Movements in shares on issue

	2005		2004	
	Number of shares	$	Number of shares	$
Beginning of the financial year	**103,567,375**	**30,271,185**	35,770,705	20,101,589
Issued during the period				
- Shares issued	**42,036,667**	**6,305,500**	67,796,670	10,169,596
End of financial period	**145,604,042**	**36,576,685**	103,567,375	30,271,185

(c) Terms and condition of contributed equity

Ordinary shares
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.

19. RESERVES AND RETAINED PROFITS/(ACCUMULATED LOSSES)

		CONSOLIDATED		REGIONAL EXPRESS HOLDINGS LIMITED	
	Notes	30 June 2005 $	30 June 2004 $	30 June 2005 $	30 June 2004 $
Retained profits/(Accumulated losses)		**(17,993,648)**	(29,308,296)	**(16,913,066)**	(29,112,723)
Retained profits/(Accumulated losses)					
Balance at the beginning of year		**(29,308,296)**	(30,308,063)	**(29,112,723)**	(30,148,604)
Net profit/(loss) attributable to members of Regional Express Holdings Limited		**11,314,648**	999,767	**12,199,657**	1,035,881
Total available for appropriation		**(17,993,648)**	(29,308,296)	**(16,913,066)**	(29,112,723)
Balance at end of period		**(17,993,648)**	(29,308,296)	**(16,913,066)**	(29,112,723)

Notes to the Financial Statements

For the year ended 30 June 2005

	Notes	CONSOLIDATED 30 June 2005 $	CONSOLIDATED 30 June 2004 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2005 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2004 $

20. STATEMENT OF CASH FLOWS

(a) Reconciliation of the net profit after tax to the net cash flows from operations

Net profit/(loss)		**11,314,648**	999,767	**12,199,657**	1,035,881
Non-Cash Items					
Depreciation of non-current assets		**1,889,545**	1,332,585	**1,853,234**	1,296,468
Amortisation of non-current assets		**1,571,217**	705,875	**756,115**	705,875
Net (profit)/loss on disposal of property, plant and equipment		**(1,432,900)**	22,413	**(1,432,900)**	22,413
Changes in assets and liabilities					
(Increase)/decrease in trade and other receivables		**(160,992)**	(1,505,858)	**(15,328)**	(1,910,279)
(Increase)/decrease in consumable spares		**(1,396,624)**	(2,480,861)	**(1,396,624)**	(2,480,861)
(Increase)/decrease in future income tax benefit		**(1,886,939)**	-	**(1,886,939)**	-
(Increase)/decrease in prepayments & other assets		**(2,226,685)**	(70,692)	**(2,180,544)**	(70,692)
(Decrease)/increase in trade and other creditors		**(4,382,323)**	(1,058,446)	**(4,607,724)**	(1,991,558)
(Decrease)/increase in provisions		**(149,959)**	(75,275)	**(149,959)**	1,262,261
Net cash flow from operating activities		**3,138,988**	(2,130,492)	**3,138,988**	(2,130,492)

(b) Reconciliation of cash

Cash balance comprises:					
Cash on hand		**10,650**	10,050	**10,650**	10,050
Cash at bank		**4,532,237**	1,306,050	**4,532,237**	1,306,050
Closing cash balance		**4,542,887**	1,316,100	**4,542,887**	1,316,100

	Notes	CONSOLIDATED 30 June 2005 $	CONSOLIDATED 30 June 2004 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2005 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2004 $

21. EXPENDITURE COMMITMENTS

Lease expenditure commitments					
Operating leases (non-cancellable)					
Minimum lease payments					
– not later than one year		**8,221,308**	11,758,324	**8,221,308**	11,758,324
– later than one year and not later than five years		**12,013,224**	23,417,896	**12,013,224**	23,417,896
– later than five years		**332,625**	490,000	**332,625**	490,000
– aggregate lease expenditure contracted for at balance date		**20,567,157**	35,666,220	**20,567,157**	35,666,220
Hire Purchase Agreements					
– not later than one year		**19,044**	39,943	**19,044**	39,943
– later than one year and not later than five years		**-**	19,971	**-**	19,971
– total minimum lease payments		**19,044**	59,914	**19,044**	59,914
– future finance charges		**(3,606)**	(10,818)	**(3,606)**	(10,818)
– lease liability		**15,438**	49,096	**15,438**	49,096
– current liability		**15,438**	32,124	**15,438**	32,124
– non-current liability		**-**	16,972	**-**	16,972
		15,438	49,096	**15,438**	49,096

	Notes	CONSOLIDATED 30 June 2005 $	CONSOLIDATED 30 June 2004 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2005 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2004 $
(a) Operating leases have an average term of 3 years. Assets that are the subject of operating lease include SAAB 340 aircraft, aircraft engines, buildings and terminal space.					

22. EMPLOYEE ENTITLEMENTS AND SUPERANNUATION COMMITMENTS

	Notes	CONSOLIDATED 30 June 2005 $	CONSOLIDATED 30 June 2004 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2005 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2004 $
Employee Entitlements					
The aggregate employee entitlement liability is comprised of:					
Provisions (current)		**4,024,335**	4,231,652	**4,024,335**	4,231,652
Provisions (non-current)		**1,193,874**	1,136,516	**1,193,874**	1,136,516
		5,218,209	5,368,168	**5,218,209**	5,368,168

Superannuation Commitments
Contributions by the consolidated entity of up to 9% of employees' wages and salaries are legally enforceable in Australia.

23. CONTINGENT LIABILITIES

Regional Express Holdings Limited have provided the following performance guarantees in place at 30 June 2005:

	Notes	CONSOLIDATED 30 June 2005 $	CONSOLIDATED 30 June 2004 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2005 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2004 $
- Shell Company of Australia	(a)	**90,000**	90,000	**90,000**	90,000
- Canberra International Airport	(b)	**100,000**	100,000	**100,000**	100,000
- General Electric International	(c)	**640,251**	521,890	**640,251**	521,890
- Lakes Business Park	(d)	**45,000**	45,000	**45,000**	45,000
- Sydney Airport Corporation	(e)	**96,167**	-	**96,167**	-
		971,418	756,890	**971,418**	756,890

24. SUBSEQUENT EVENTS

The following significant transactions have occurred subsequent to year end:

1. **Disposal of Hazelton Air Services Pty Limited** - the company had on 22 August 2005 divested itself of Hazelton Air Services Pty Limited, a wholly owned subsidiary which had been dormant since November 2003. Hazelton Air Services had a significant negative book value and was sold for a nominal amount.

2. **Intention and Announcement to Invest in Pel-Air** - On 7 July 2005 the Board approved an investment in an aircraft freight and passenger charter operator, Pel Air, which specialises in overnight freight charters. The company will acquire 50% of Pel Air subject to successful listing of the company on the Australian Stock Exchange and the raising of required capital.

3. **Fuel Levy** - effective 27 August 2005, the fuel levy was increased from $20 to $22 per sector, which is in line with the rising cost of fuel.

	Notes	CONSOLIDATED 30 June 2005 $	CONSOLIDATED 30 June 2004 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2005 $	REGIONAL EXPRESS HOLDINGS LIMITED 30 June 2004 $

25. REMUNERATION OF DIRECTORS

(a) Directors' remuneration

Income paid or payable, or otherwise made available, in respect of the financial year, to all directors of each entity in the consolidated entity, directly or indirectly, by the entities of which they are directors or any related party:	**363,186**	**62,164**		
Income paid or payable, or otherwise made available, in respect of the financial year, to all directors of Regional Express Holdings Limited, directly or indirectly, from the entity or any related party			**363,186**	**62,164**

The number of directors of Regional Express Holdings Limited whose income (including superannuation contributions) falls within the following bands is:

	No	No	**No**	No
$0 – $9,999	**2**	2	**2**	2
$10,000 - $19,999	**4**	2	**4**	2
$20,000 - $29,999	**-**	1	**-**	1
$140,000 – $149,999	**1**	-	**1**	-
$150,000 – $169,999	**1**	-	**1**	-

26. AUDITOR'S REMUNERATION

Amounts received or due and receivable by Ernst & Young for:

– an audit or review of the financial report of the entity and any other entity in the consolidated entity	**100,000**	100,000	**100,000**	100,000
– other services in relation to the entity and any other entity in the consolidated entity	**53,600**	45,000	**53,600**	45,000
	153,600	145,000	**153,600**	145,000

Notes to the Financial Statements

For the year ended 30 June 2005

27. RELATED PARTY DISCLOSURES

Directors

The directors of Regional Express Holdings Limited during the financial year were:

Lim Kim Hai
Lee Thian Soo
Lee Kok Leong (resigned 14 April 2005)
Robert Winnel
John Sharp (appointed 14 April 2005)
Christopher Chong (appointed 14 April 2005)
James Davis (appointed 26 August 2004)
Geoffrey Breust (appointed 26 August 2004)

Wholly-owned group transactions

An intercompany loan receivable from Hazelton Air Services Pty Limited of $258,755 (2004: $404,425) existed at reporting date. This loan is non-interest bearing.

Director-related entity transactions

Regional Express Holdings Limited has entered into a forward exchange contract with a director related entity of Lim Kim Hai to acquire United States Dollars.
Refer to Note 5 for details of amounts outstanding at 30 June 2005.
The contracts were entered into on normal commercial terms.

Equity instruments of directors

Interests at balance date

Interests in the equity instruments of held by directors of Regional Express Holdings Limited at the reporting entity and their director-related entities:

	Ordinary Shares Fully Paid	
	2005 **Number**	**2004** **Number**
Lim Kim Hai	**47,219,453**	31,775,827
Lee Thian Soo	**13,567,315**	10,041,151
Lee Kok Leong (resigned 14 April 2005)	**7,045,502**	3,131,470
Brian Stapleton (resigned 15 April 2004)	**344,434**	344,434

Ultimate parent

Regional Express Holdings Limited is the ultimate Australian parent and the ultimate parent in the group.

28. SEGMENT INFORMATION SEGMENT PRODUCTS AND LOCATIONS

The company operates in predominately one segment and one geographical region being the provision of regular public transport within South Eastern Australia.

29. FINANCIAL INSTRUMENTS

(a) Interest rate risk

The consolidated entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at the reporting date, are as follows:

Financial Instruments	**Floating interest rate**		**Fixed interest rate maturing in**			
			1 year or less		**Over 1 to 5 years**	
	2005	2004	**2005**	2004	**2005**	**2004**
	$'000	$'000	**$'000**	$'000	**$'000**	**$'000**
(i) Financial Assets						
Cash	**4,532,237**	1,306,050	**-**	-	**-**	-
Trade and other receivables	**-**	-	**-**	-	**-**	-
Hedge contract receivables	**-**	-	**-**	-	**-**	-
Total financial assets	**4,532,237**	1,306,050	**-**	-	**-**	**-**
(ii) Financial Liabilities						
Trade and other creditors	**-**	-				-
Hire purchase agreement	**-**	-	**15,438**	32,124		16,972
Convertible note	**-**	-		2,130,500		-
Aircraft loan	**4,643,256**	-				-
Total financial liabilities	**4,643,256**	-	**15,438**	2,162,624		**16,972**

Financial Instruments	Non-interest bearing		Total carrying amount as per the statement of financial position		Weighted average effective interest rate	
	2005	2004	2005	2004	2005	2004
	$'000	$'000	$'000	$'000	$'000	$'000
(i) Financial Assets						
Cash	**10,650**	10,050	**4,542,887**	1,316,100	**2.7%**	3.4%
Trade and other receivables	**7,228,715**	6,853,877	**7,228,715**	6,853,877	**N/A**	N/A
Hedge contract receivables	**40,255**	254,101	**40,255**	254,101	**N/A**	N/A
Total financial assets	**7,279,620**	7,118,028	**11,811,857**	8,424,078		
(ii) Financial Liabilities						
Trade and other creditors	**21,860,573**	25,282,124	**21,860,573**	25,282,124	**N/A**	N/A
Hire purchase agreement	**-**	-	**15,438**	49,096	**14.5%**	14.50%
Convertible note	**-**	-	**-**	2,130,500	**10.0%**	8.0%
Aircraft loan	**-**	-	**4,643,256**	-	**6.8%**	N/A
Total financial liabilities	**21,860,573**	25,282,124	**26,519,267**	27,461,720		

Notes to the Financial Statements

For the year ended 30 June 2005

(b) Net fair values

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

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

Recognised financial instruments

- Cash, and short-term deposits: The carrying amount approximates fair value because of their short-term to maturity.
- Other debtors, trade creditors, hire purchase and other creditors: The carrying amount approximates fair value.
- Unlisted shares: The carrying amount approixmates the share of the company's interest in the net assets of the investee's.
- 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.

(c) Credit risk exposures

The consolidated entity's maximum exposure to credit risk at reporting date in relation to each class of recognised financial asset, other than derivatives, is the carrying amount of those assets as indicated in the statement of financial performance.

In relation to derivative financial instruments, whether recognised or unrecognised, credit risk arises from the potential failure of counterparties to meet their obligations under the contract or arrangement.

Concentrations of credit risk

The company minimises concentration of credit risk in relation to trade receivables by undertaking transactions with a large number of customers.

Credit risk in relation to trade receivables is managed in the following ways:

1. Payment terms are generally on 7-45 days.

(d) Hedging instruments

(i) General hedges

Regional Express Holdings Limited has entered into a forward exchange contract designed as a hedge for the anticipated purchase of supplies in United States Dollars for the 2005-2006 financial year.

At reporting date, no purchase contracts have yet been entered into, with the value of purchases to be made for the period also uncertain. In accordance with the guidance of UIG 33 'Hedges of Anticipated Purchases & Sales', this hedge is not considered to have the level of specificity required to be classify it as a specific hedge. As a result, an unrealised gain of $61,292 (2004: $812,909 gain) has been included in the net profit for the year relating to the forward exchange contract.

This contract requires Regional Express Holdings Limited to purchase $US4,000,000 (2004: $1,180,000) at an effective exchange rate of $US0.76 (2004:$US0.75).

30. IMPACT OF ADOPTING AABS EQUIVALENTS TO IASB STANDARDS

During the year, Regional Express Holdings Limited ('REH') has continued with its transition process from Australian GAAP to Australian equivalents to International Financial Reporting Standards (AIFRS). The transition to AIFRS is currently at the practical implementation phase and is not substantially complete. During the reporting period, selected areas of impact have been addressed. This includes review of impact, staff training, systems capability review and communication with stakeholders.

The opening AIFRS balance sheet as at 1 July 2004 is the priority as it forms the basis of accounting under AIFRS in the future and is required for the preparation of REH's first fully compliant financial statements for the half year ending 31 December 2005. Most adjustments on transition to AIFRS will be made, retrospectively, against the opening retained earnings as at 1 July 2004.

Stage Description	Progress
Stage 1: High Level Assessment	Completed
Stage 2: Formulation of AIFRS accounting policies	Materially completed
Stage 3: Implementation of required changes to accounting and business procedures and operational training programs for finance staff	In progress

The analysis below is management's best estimate of the changes that may impact REH as at the date of preparing the 30 June 2005 financial report. The actual areas impacted on transition to AIFRS may differ from that disclosed below due to:
(a) ongoing work being undertaken by the AIFRS project team;
(b) potential amendments to AIFRS and Interpretations thereof being issued by the standard setters and IFRIC; and
(c) emerging accepted practice in the interpretation and application of AIFRS and UIG interpretations.

As at 30 June 2005, the differences in accounting policies that are expected to arise from adopting AIFRS are set out below. This summary should not be taken as an exhaustive list.

Item Quantified

Standard	Change
AASB 120 Government Grants	Grants for the acquisition of an asset are currently recognised as revenue in the period the grant is made available. Under AIFRS the grant must initially be recognised as deferred income on the balance sheet, and recognised as revenue over the useful life of the asset. Due to the receipt of a government grant during the 2005 financial year, a significant adjustment is expected on transition to AIRFS for REH resulting in a reduction in equity and a corresponding increase in unearned revenue on the balance sheet of $1,221,615 for the year ended 30 June 2005.

Notes to the Financial Statements

For the year ended 30 June 2005

Items Not Quantified

At this stage the company has not reliably quantified all other expected impacts on the financial report had it been prepared under AIFRS:

Standard	Change
AASB 2 Share-Based Payments	Under the new standard the company would recognise the fair value of options granted to employees as remuneration as an expense on a pro-rata basis over the vesting period in the income statement with a corresponding adjustment to equity. Currently share-based payment costs are not recognised under AGAAP.
AASB 3 Business Combinations	This standard, except as specifically described, required business combinations to be accounted for by applying the purchase method. Management have elected to apply the exemption contained in AASB 1 and not apply AASB 3 retrospectively to the purchase of Hazelton Air Services Pty Limited or the purchase of the assets of Kendell Airlines, hence, prior year amortisation would not be written back as at the date of transition.
AASB 117 Leases	Applies a less prescriptive criteria to lease classification. Under AIFRS some operating leases may require recognition of finance leases in the Statement of Financial Position. Impact on transition is expected to be immaterial.
AASB 112 Income Taxes	REH will be required to use a balance sheet liability method rather than the income statement method. This method calculates temporary differences based on the carrying amount of REH's assets and liabilities in the statement of financial position and their associated tax bases. The application of AASB 112 will produce additional deferred tax assets and liabilities. As the criteria for the recognition of carried forward tax losses has changed from virtually certain to probability it is likely that REH will book in carried forward tax losses as part of the restatement of the accounts. The Company is not in a position to quantify carried forward tax losses as at reporting date.
AASB 136 Impairment of Assets	Under AIFRS the recoverable amount of an asset is determined as the higher of net selling price (fair value less costs to sell) and its value in use. This will result in a change in REH's accounting policy which determines the recoverable amount of an asset. Aircraft are the highest value asset owned by REH. They do not generate cash flows directly as revenue is derived from the sale of seats on a flight rather than seats on a specific aircraft. Aircraft will need to be aggregated into a group to determine aircraft cashflows. This may result in an impairment loss.
AASB 139 Financial Instruments	All derivative financial instruments must be recognised in the statement of financial position and measured at fair value. REH does not utilise effective hedging and therefore the profit and loss will be directly impacted by changes in the fair value of hedging instruments. This will continue to result in volatility in the statement of financial performance. Management has decided to apply the exemption provided in AASB 1 which permits entities not to apply the requirements of AASB 139 for the financial year ended 30 June 2005. The standard will be applied from 1 July 2005.

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 and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, 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 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

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.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion on them 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. 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 present 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.

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
- 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. 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 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 12 of the financial report. In addition to our audit of the financial report, 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, the financial report and the additional disclosures included in the directors report designated as audited of Regional Express holdings Limited are 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 2005 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.

Ernst & Young

Ernst & Young

G J Logue
Partner
Sydney
Date: 1 September 2005

INDEPENDENT AUDIT REPORT TO MEMBERS OF REGIONAL EXPRESS HOLDINGS LIMITED

Scope

The financial report and directors' responsibility
The financial report comprises the statement of financial position, statement of financial performance, 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
2005. The consolidated entity comprises both the company and the entities it controlled during that year.

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.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion on them 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. 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 present 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.

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
- 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. These and our other procedures did not include consideration or