ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2007
REGIONAL EXPRESS HOLDINGS LIMITED
ACN 099 547 270

rex.
Regional Express

Staying the Course

REGIONAL EXPRESS VALUE STATEMENT

WHAT DOES IT PROFIT A COMPANY IF IT GAINS THE WHOLE WORLD AND LOSES ITS SOUL

CUSTOMER

- We are committed to providing our customers with safe and reliable air transportation with heartfelt hospitality.
- As a regional carrier, we constantly strive to keep fares low through our commitment to simplicity, efficiency and good value.
- We are committed to treating our customers as individuals and will respond to all their comments and complaints.

COMPANY

Staff members are part of the Rex family. This comes with both privileges and responsibilities.

- We expect every staff member to take ownership of issues encountered:
  - Ownership means that if something is wrong then it is everyone's job to fix it.
  - Matters that cannot be handled by the staff member ought to be pursued further with senior management.
  - Staff have the right to make mistakes if they act in the best interest of the customer and the company.
- We strive to be a learning organization where we actively seek to identify issues no matter how small in order to continually transform ourselves to a better organization:
  - This entails a culture where issues are highlighted as learning experiences even though they may place our colleagues in a bad light.
  - An excellent airline is one that is outstanding in a thousand small ways.
- We believe that we can only count on ourselves for our continued success:
  - All staff members must embrace the 'can do' and 'will do' spirit that has been the defining characteristic of our initial success.
  - Hard work is the cornerstone of our work ethic.
  - All staff share in the profits and so all staff are expected to contribute his/her fair share.
- We value open communication and will strive to create an environment that removes barriers to communication:
  - Staff members have a right to be heard regardless of their position.
  - Staff members are encouraged to contact directly the members of the Management Committee and Board if they see the need.
- We respect the dignity of each staff member and will treat each other with respect and fairness:
  - The customer does not always come first and we will stand by our staff member if the customer is unreasonable.
  - While we can be single minded in tackling issues and problems, we will focus on the issue and not the person.
  - We accept that staff members may have different talents and capabilities and will strive to fit the job to the person rather than the other way around.
  - Important decisions concerning staff matters are always referred to the Management Committee to ensure transparency, fairness and consistency.
- We are committed to standing behind our staff members and their families and will do all we can to help them in their times of special need:
  - We believe in the value of the family and will strive to create a working environment that is supportive of the family.
  - All staff members have the right to appeal to the Management Committee if special assistance or consideration is needed.

CONTRACTORS

- We believe that our suppliers are partners in our business.
- In all our dealings with suppliers we will seek to be fair and honest and will strive to work only with like-minded suppliers.

COMMUNITY

- Rex is mindful of the tremendous social and economic impact its services have on the regional communities and works in partnership with these communities to balance their needs against Rex commercial imperatives.
- We are also committed to giving back to the regional communities by supporting worthwhile charitable causes which are focused on helping the less fortunate.
- We strive to do our part in preserving the environment to the measure of our capabilities.

CAPITAL

- Rex believes that its shareholders' interest is best served by pursuing a path of steady but sustainable growth of its earnings.
- We believe that maximizing shareholders' returns in the long term is not incompatible with our duties and responsibilities towards our other stakeholders outlined above.

FOREWORD

Staying the Course

In the year under review, the aviation industry was largely dominated by the spectacular bid for Qantas and the equally spectacular failure of the initiative.

By association, Rex was also swept up by the buoyant sentiment with its share price closing 176% above the opening price for the year. While it is easy to be carried away by the euphoria of a steeply rising share price, I have to keep reminding myself that the primary role of the Board is to ensure that the Company is performing well and not that its share price is performing well.

In this respect I am pleased to announce to shareholders that the management and staff of the Company had been able to remain focused on its primary mission, delivering an improvement of 50.4% in group profit after tax to $23.6m.

Equally satisfying is the fact that Rex has been voted for the second consecutive time by the readers of Australia's leading consumer magazine as the best domestic airline, coming top in nine of the twelve categories. Also the authoritative Aviation Week magazine has ranked Rex as the world's second best performing airline in the revenue category of USD 1 billion or below.

These excellent outcomes belie the fact that conditions for regional aviation remain difficult with continued high fuel prices and the ever increasing burden of regulatory and security compliance. Two regional operators have folded and more are expected to follow suit.

Rex will therefore continue to focus on its core strengths and expand only very cautiously. We continue to exercise strict financial discipline and will attempt to be free of debt. This is in line with our Value Statement which the Board has recently promulgated to reflect the things that are important to our Company and the way we do business.

I take this opportunity to pay tribute to all the sacrifices and hard work of the staff and management who have enabled Rex to be ranked among the best performing airlines in the world.

Lim Kim Hai
Executive Chairman
14 September 2007

CORPORATE INFORMATION

This annual report covers both Regional Express Holdings Limited as an individual entity and the consolidated entity comprising Regional Express Holdings Limited and its subsidiaries.

The Group's functional and presentation currency is AUD ($).

DIRECTORS

Lim Kim Hai

The Hon. John Sharp

Geoffrey Breust

James Davis

Russell Hodge

David Miller (Appointed 26 February 2007)

Lee Thian Soo

Robert Winnel

Stephen Jermyn (Appointed 26 February 2007)

COMPANY SECRETARY

Irwin Tan

REGISTERED OFFICE

81 – 83 Baxter Road,

Mascot, NSW 2020

(Ph): 02 9023 3555

(Fax): 02 9023 3599

SHARE REGISTRY

Link Market Services Limited

Level 12, 680 George Street,

Sydney, NSW 2000

SOLICITORS

Baker & McKenzie

Level 27, AMP Centre,

50 Bridge Street,

Sydney, NSW 2000

BANKERS

Westpac Banking Corporation

AUDITORS

Deloitte Touche Tohmatsu

CONTENTS

DIRECTORS' REPORT

LEE THIAN SOO
Non-Executive Director

GEOFFREY BREUST
Managing Director

RUSSELL HODGE
Chief Executive Officer, Pel-Air Aviation Pty Ltd

DAVID MILLER
Chief Executive Officer, Air Link Pty Ltd

ROBERT WINNEL
Independent Director

In compliance with the provisions of the Corporations Act 2001, the directors of Regional Express Holdings Limited ('Rex') submit herewith the annual report for Rex and its consolidated entities (the 'Group') for the financial year ended 30 June 2007.

LIM KIM HAI
Executive Chairman

JAMES DAVIS
Chief of Staff, Chairman's Office

THE HON. JOHN SHARP
Deputy Chairman and Independent Director

STEPHEN JERMYN
Independent Director

01. BOARD OF DIRECTORS

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

LIM KIM HAI

Executive Chairman

Appointed 27 June 2003 and re-appointed 16 November 2006

Mr. Lim, based in Singapore, has been awarded two scholarships by the Singapore government. The first was to complete an undergraduate cum 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 complete a Masters in Public Administration course at the elite Ecole Nationale d'Administration 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 investment and has business interests in many countries. He is the Chairman of a biomedical company, Lynk Biotechnologies Private Limited, and is also Chairman of WooWorld Private Limited which is a supplier of online and mobile games to telecommunication companies in China, Japan and South East Asia.

THE HON. JOHN SHARP
Deputy Chairman and Independent Director
Appointed 14 April 2005

The Honourable John Sharp, originally from a farming and business background, is an aviator having been a licensed pilot of both fixed wing and rotary wing aircraft. Mr. Sharp was a member of the House of Representatives of the Commonwealth Parliament for 14 years (1984 – 1998). Mr. Sharp retired from the House of Representatives 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 (the aircraft manufacturer of 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 Chairman of Parsons Brinkerhoff Advisory Board. This is an engineering and design company operating throughout Australia. He is also Chairman of Power and Data Corporation Pty Limited and Chairman of Pel-Air Aviation Pty Limited. Mr. Sharp is a Trustee and Board Member of John McKeown House, Honorary Federal Treasurer, National Party of Australia and Chairman of Winifred West Schools Foundation. He is a member of the University of Wollongong Vice Chancellor's Advisory Board. Mr. Sharp's extensive experience of aviation, regional air services and as the former Federal Minister for Transport and Regional Development in the Federal Government, adds significantly to the expertise and standing of the Board.

GEOFFREY BREUST
Managing Director
Appointed 26 August 2004

Mr. Breust has extensive experience in the Australian aviation industry and extensive knowledge of regional air services. Mr. Breust began his career in the Commonwealth Public Service in Canberra, working there for 20 years in a range of economic, regulatory and aviation policy roles before joining Kendell Airlines in 1988. He was soon appointed General Manager and later became CEO of Kendell and remained at Kendell until 2000. Mr. Breust then started a business consultancy and did extensive work for regional airline, Air Link. Mr. Breust joined Rex as CEO in January 2004.

01. BOARD OF DIRECTORS (CONTINUED)

JAMES DAVIS

Chief of Staff, Chairman's Office

Appointed 26 August 2004

Mr. Davis is a qualified Aeronautical Engineer and worked for 4 years with the Civil Aviation Safety Authority before obtaining his Air Transport Pilots Licence. Since then he has flown professionally in Australia and overseas for some 25 years. Upon joining Hazelton Airlines in 1999, he was appointed Flight Operations and Standards Manager, which involved the supervision of all check and training staff and performing the duties of Deputy Chief Pilot for the airline. In 2001, Mr. Davis was promoted to Chief Pilot of Hazelton, and held that position when Hazelton was merged into and began trading as part of Rex in 2002. Mr. Davis became Executive General Manager Operations in 2003, and subsequently Managing Director Operations. Mr. Davis became Chief of Staff in the Chairman's Office in 2007. Mr. Davis also sits on the Aviation Safety Forum, an advisory body to the CEO of the Civil Aviation Safety Authority.

RUSSELL HODGE

Chief Executive Officer, Pel-Air Aviation Pty Ltd

Appointed 9 September 2005

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

DAVID MILLER

Chief Executive Officer, Air Link Pty Ltd

Appointed 26 February 2007

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

LEE THIAN SOO
Non-Executive Director
Appointed 27 June 2003 and re-appointed 16 November 2006

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

ROBERT WINNEL
Independent Director
Appointed 2 September 2003 and re-appointed 16 November 2006

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

STEPHEN JERMYN
Independent Director
Appointed 26 February 2007

Mr. Jermyn served on the Board of McDonalds Australia Ltd from 1987 to November 2006. Mr. Jermyn joined McDonalds Australia Ltd as CFO in 1984 and was appointed Vice President in 1986. He was appointed to the Board of Directors in 1987 and appointed Executive Vice President in 1993. In June 1999, Mr. Jermyn was appointed Deputy Managing Director. Mr. Jermyn has been involved in all aspects of the development of the McDonalds restaurant business in Australia and as Deputy Managing Director was responsible for Finance, Accounting, Information Services, Legal, Restaurant Design and Construction, Research, Employee Relations and the development and expansion of McDonalds restaurants. In this role he had significant experience in the development of new businesses and franchising. Mr. Jermyn retired from active involvement in McDonalds Australia at the end of 2005 but continued to consult to McDonalds in Greater China during 2006. Mr. Jermyn is a past council member of the Franchising Council of Australia and a Fellow of the Australian Society of Certified Practising Accountants. He is currently the Chairman of RMHC Australia and is also a director of Mortgage Choice Ltd, Reverse Corp Ltd and a number of private companies.

BRETT DAVIDSON
Engineering Services Manager

JAMES DAVIS
Chief of Staff, Chairman's Office

DALE HALL
Maintenance Control Manager

IRWIN TAN
General Manager, Corporate Services

CHRIS HINE
General Manager, Flight Operations and Chief Pilot

MAYOORAN THANABALASINGHAM
Information Technology and Communication Advisor, Chairman's Office

02. SENIOR MANAGEMENT EXECUTIVES

GEOFFREY BREUST
Managing Director

WARRICK LODGE
General Manager, Network Strategy and Sales

GARRY FILMER
Engineering Advisor, Chairman's Office

02. SENIOR MANAGEMENT EXECUTIVES (CONTINUED)

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

WARRICK LODGE

General Manager, Network Strategy and Sales

Warrick manages a team responsible for scheduling, pricing, revenue management, sales and commercial analysis. His duties include the monitoring of network performance and analysing both existing and new market opportunities. Warrick has more than 15 years regional airline experience in the specialised areas of scheduling, pricing and revenue management and held the position of Manager Network Planning with Kendell Airlines, having joined that company in 1992. Warrick has been with Rex since its inception in 2002 and is also a member of the Rex Management Committee.

CHRIS HINE

General Manager, Flight Operations and Chief Pilot

Chris has over 17 years aviation experience including 12 years as a First Officer and Captain of Metroliner and Saab 340 aircraft. He is a well-accomplished training and checking pilot and has been Chief Pilot of Rex since the Company's inception in August 2002. Prior to Rex he worked in the same fields in Kendell Airlines from 1995. He currently oversees all facets of the Company's flight operations and all operational matters affecting the safety of flight operations. Chris also has experience as a lecturer in Cockpit Systems Management for the Bachelor of Applied Science (Civil Aviation) degree at the University of South Australia. Chris is a member of the Rex Management Committee.

IRWIN TAN

General Manager, Corporate Services

Irwin's background was originally in genetic research after graduating with 1st class honours in biotechnology from the University of New South Wales in Sydney. Irwin left the field of genetic research when he joined Morrison Express Logistics in 1999 and then Singapore Airlines in 2001. He was later transferred to Singapore Airlines Cargo as an executive where he took on various appointments in product development, advertising, sales and airline alliances before taking on the role of Regional Marketing Manager in South West Pacific in 2003. Irwin joined Rex in July 2005 and was appointed the Company Secretary on 7 September 2005. Irwin is also a member of the Rex Management Committee.

DALE HALL

Maintenance Control Manager

Dale has 26 years of aviation engineering experience. He began his career as an apprentice in the Royal Australian Air Force where he served for nine years. He then spent the next 17 years in the industry working in turbine engine and component overhaul facilities, on and offshore gas and petroleum helicopter industries and maintaining aero-medical charter aircraft. Dale joined Kendell Airlines in 1999 as a Licensed Aircraft Maintenance Engineer and held the position of a Technical Support Engineer with both Kendell and Rex. In late 2006 Dale was appointed as a Maintenance Controller for Rex and took up the position of Maintenance Control Manager in 2007. Dale is a Rex Management Committee designate.

BRETT DAVIDSON
Engineering Services Manager

Brett is a licensed Aircraft Maintenance Engineer (LAME) with 24 years experience in aviation maintenance. He learned basic mechanical skills working in his family's farm machinery business during his school years. His aviation career started in 1983 as an Apprentice in Sydney. Brett joined Kendell Airlines in 1987. He has been a LAME for 18 years and was the Hangar Foreman at the Rex Heavy Maintenance Base in Wagga Wagga since 1995. Brett played a key role in the acceptance and import process of 15 Saab 340 aircraft into the Rex fleet between 2004 and 2007. Brett was appointed Engineering Services Manager in March 2007 and now heads the team of professionals that carry out maintenance on Rex's fleet of Saab 340 aircraft. Brett is a Rex Management Committee designate.

GARRY FILMER
Engineering Advisor, Chairman's Office

Garry is a Licensed Aircraft Maintenance Engineer with 30 years experience and has been involved in Regional Airline and Maintenance Repair Organization management over the last 15 years, holding positions such as Engineering Manager and General Manager Engineering. Garry joined Rex earlier this year as Engineering Advisor in the Chairman's Office and as a member of the Engineering Management Committee is involved in the coordination of projects such as the management of Ground Support Equipment, review of Engineering resources and the recruitment of staff. Garry is a Rex Management Committee designate.

MAYOORAN THANABALASINGHAM
Information Technology and Communication Advisor, Chairman's Office

Mayooran completed his Associate Diploma of Electrical Engineering / Computer Engineering in 2001. He commenced with Rex in April 2004 and leads a team of IT professionals responsible for ensuring day-to-day operations of the airline. With over eight years experience and an extensive background in information technology, Mayooran has managed a range of IT projects and initiatives for Rex including the Internet Booking Engine, the Amend Booking Engine and Web check-in. Mayooran is a member of the Rex Management Committee.

GEOFFREY BREUST
Managing Director

Geoff is a member of the Rex Management Committee. A description of his qualifications, skills and experience is included on page 7.

JAMES DAVIS
Chief of Staff, Chairman's Office

Jim is a member of the Rex Management Committee. A description of his qualifications, skills and experience is included on page 8.

NAOMAL PRIYANTHA GOONERATNE
General Manager, Engineering Control

Resigned 9 January 2007

LINDSAY TANNER
General Manager, Engineering Services

Resigned 27 April 2007

03. DIRECTORSHIPS OF OTHER LISTED COMPANIES

Directorships of other listed companies held by directors in the three years immediately before the end of the financial year are as follows:

Name	Company	Period of Directorship
Stephen Jermyn	Mortgage Choice Ltd	Early 2004 to present
	Reverse Corp Ltd	Late 2005 to present

04. DIRECTORS' SHAREHOLDINGS

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

Directors	Fully Paid Ordinary Shares Direct Interest	Fully Paid Ordinary Shares Indirect Interest	Share Options
Lim Kim Hai	8,004,362	38,603,127	0
The Hon. John Sharp	300,000	100,000	0
Geoffrey Breust	205,000	2,000	0
James Davis	205,417	75,000	0
Russell Hodge	100,000	1,000,000	0
David Miller	55,000	0	0
Lee Thian Soo	7,722,181	3,727,181	0
Robert Winnel	80,000	1,563,758	0
Stephen Jermyn	0	850,000	0

05. DIRECTORS' MEETINGS

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, five board meetings, three remuneration and nominations committee meetings, two audit and corporate governance committee meetings and one risk management committee meeting were held.

Directors	Board	Remuneration & Nominations Committee	Audit & Corporate Governance Committee [1]	Risk Management Committee
No. of Meetings Held:	5	3	2	1
Attendance:				
Lim Kim Hai	5 (Chair)	-	-	-
The Hon. John Sharp	5	3 (Chair)	2	-
Geoffrey Breust	5	-	1	1
James Davis	5	3	-	1
Russell Hodge	5	-	1 (Chair)	1 (Chair)
David Miller	5	-	-	1
Lee Thian Soo	5	-	-	-
Robert Winnel	5	3	1	-
Stephen Jermyn	2	-	1 (Chair)	-

[1] The Audit and Corporate Governance Committee consisted of Russell Hodge (Chairman), John Sharp and Geoffrey Breust for period 1 July 06 to 26 Feb 07. This Committee had a change in membership from 26 Feb 07 onwards and its new members are Stephen Jermyn (Chairman), Robert Winnel and John Sharp.

06. SHARE OPTIONS

During and since the end of the financial year an aggregate 1,770,938 share options were granted to the following directors and executives of the company and the consolidated entity as part of their remuneration:

Directors and Executives	No. of Options Granted	Issuing Entity	Expiry Date of Options	No. of Ordinary Shares under Options
Lim Kim Hai	150,000	Rex	4 March 2007	150,000
The Hon. John Sharp	150,000	Rex	4 March 2007	150,000
Geoffrey Breust	155,000	Rex	4 December 2007	155,000
James Davis	205,417	Rex	4 December 2007	205,417
Russell Hodge	100,000	Rex	4 March 2007	100,000
David Miller	55,000	Rex	4 March 2007	55,000
Lee Thian Soo	80,000	Rex	4 March 2007	80,000
Robert Winnel	80,000	Rex	4 March 2007	80,000
Stephen Jermyn	0	-	4 March 2007	0
Warrick Lodge	134,583	Rex	4 December 2007	134,583
Chris Hine	167,500	Rex	4 December 2007	167,500
Irwin Tan	134,583	Rex	4 December 2007	134,583
Dale Hall	0	-	-	0
Brett Davidson	31,944	Rex	4 December 2007	31,944
Garry Filmer	0	-	-	0
Mayooran Thanabalasingham	26,911	Rex	4 December 2007	26,911
Naomal Gooneratne*	150,000	Rex	9 April 2007	150,000
Lindsay Tanner**	150,000	Rex	27 July 2007	150,000

** Naomal Gooneratne ceased employment with Rex on 9 January 2007.*
*** Lindsay Tanner ceased employment with Rex on 27 April 2007.*

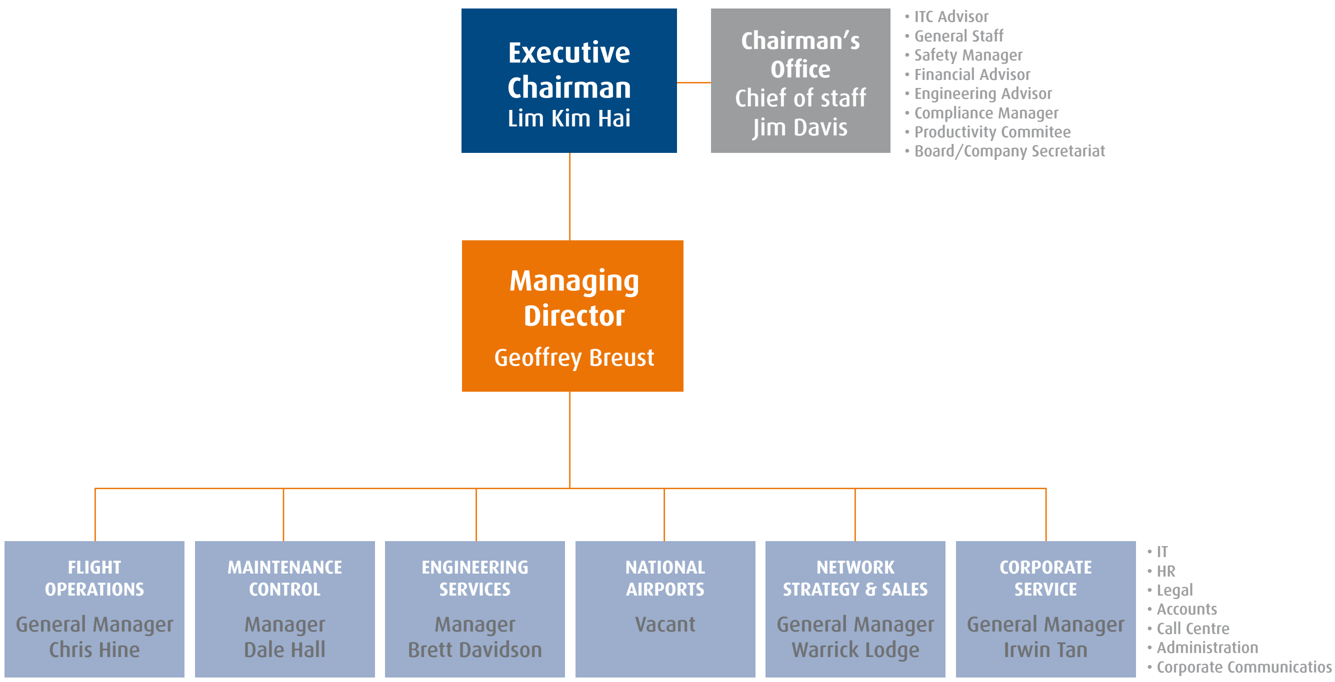
07. FORMER PARTNERS OF THE AUDIT FIRM

No directors or officers in Rex or the Group have been a partner or director of Deloitte Touche Tohmatsu, the Group's auditor.

08. PRINCIPAL ACTIVITIES

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

09. ORGANISATION & GROUP STRUCTURES



10. REVIEW OF OPERATIONS

Rex maintained its focus in FY 2007 on its base strategies resulting in strong returns from its regional airline activities coupled with the realisation of synergies from the subsidiaries' operations. This has again provided industry leading results and further strong foundations for the future.

High average fuel prices have remained although reductions during the year enabled the per flight sector fuel surcharge to fall from $27.00 to $24.00. Across the board, the Group has maintained its focus on reducing costs and improving productivity.

The Group's base strategies include:

- passenger and revenue growth through continued improvements in schedules, increased flight frequencies and seating capacity combined with affordable and sustainable pricing;
- continued focus on improving reliabilitiy and on time performance together with higher levels of customer service; and
- increased productivity through cost minimisation, the reduction of waste, improved efficiency and increased economies of scale thereby reducing unit costs.

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

ROUTE NETWORK DEVELOPMENTS

FY 2007 saw continued growth in passengers and revenue. The partnership with local government who own and operate most regional airports was an integral part of the network developments which occurred in FY 2007. The combination of affordable fares, increased frequency and the partnership approach adopted with Local Councils has shaped the route network development during FY 2007.

Rex's passenger growth for FY 2007 was 16.3% over the previous year. In addition to the continued strategy to grow capacity and frequency on the existing route network, the Group completed the planned phase out of the 19 seat Metro 23 from Rex regular public transport passenger services. This was finalised in October 2006. The Rex transition to a single fleet of Saab 340 (34 seat) aircraft has produced efficiency gains especially in flight crew and engineering which has assisted in enabling more affordable pricing on top of increased seat capacity while not reducing frequency. This has been the catalyst for continued passenger growth from lower per unit costs providing lower average fares. The four remaining Metro 23 aircraft were transferred to Pel – Air Aviation for charter and freight services.

As part of its regular network review, Rex decided to cease operations between Armidale – Sydney on the 2nd July 2006, with the resources deployed to the Wagga Wagga – Sydney route under a special passenger growth incentive arrangement with the Wagga Wagga City Council. This resulted in a significant improvement to the Wagga Wagga – Sydney flight schedule in terms of schedule timings and frequency to the convenience of our customers and increased passenger carriage.

The phase out of the Metro 23 aircraft in the first and early into the second quarter and its replacement with the larger 34 seat Saab aircraft produced increases in capacity between Adelaide and Broken Hill, Ceduna, Coober Pedy, Mount Gambier and Whyalla. The two additional Saab aircraft that were deployed to South Australia during this period also enabled increased frequency between Adelaide and Port Lincoln and Adelaide and Kangaroo Island. This occurred in the wake of QantasLink's withdrawal of services on these routes in June 2006.

Following QantasLink's withdrawal of services between Melbourne and Burnie in July 2006, an additional Saab aircraft was deployed to Melbourne in October of that year. Following a partnership agreement with Burnie Airport Corporation and Burnie City Council, services were increased on the Burnie – Melbourne route with two Saab 340s allocated to this route. Flight frequency and schedule convenience were vastly improved which led to further increases in passenger carriage and revenue.

10. REVIEW OF OPERATIONS (CONTINUED)

At the end of December 2006 services were withdrawn between Portland and Melbourne due to poor route profitability performance and increased airport charges imposed at Portland Airport. The service had previously been combined with the Mount Gambier to Melbourne service and following the withdrawal all flights between Mount Gambier and Melbourne became non-stop.

The Group rationalised services on the Sydney – Bathurst route during FY 2007 with operations transferred from Rex to Air Link in January 2007. This route had been traditionally operated with a Rex 19 seat Metro 23 aircraft. A second Beech 1900D was acquired to achieve this transition.

On 26 February 2007 an additional Saab 340 aircraft was deployed into the Sydney network to enable the commencement of services on the New South Wales licensed routes of Taree – Sydney and Grafton – Sydney. This followed the withdrawal of services by Big Sky Express in November 2006. In partnership with the Greater Taree Shire Council and the Clarence Valley Council, Rex successfully commenced eighteen return services with 34 seat Saab 340 aircraft each week. The partnership agreements with the two local Councils provided the environment to introduce lower fares and this, combined with the increased seat capacity has translated into significant passenger growth on both of these routes.

Flight frequency was increased between Broken Hill and Sydney on the 26 March 2007. In partnership with the Broken Hill City Council, new direct services were introduced while maintaining the current return service via Dubbo. The new direct service operates from Sydney to Broken Hill in the evening and returns again the following morning, Sunday through Friday. This provides a marked benefit to the Broken Hill community with a day return business service to Sydney. The improved Broken Hill – Sydney and Adelaide schedules implemented during FY 2007, has resulted in substantial passenger growth benefiting all the stakeholders - Rex, the Council and the wider regional community.

During the course of the year a total of 6 Saab 340 aircraft were added to the fleet bringing the total to 32. They were used to phase out the Metro 23 from Rex services and to increase frequency and capacity across most of the network, in addition to commencing new services between Taree – Sydney and Grafton - Sydney.

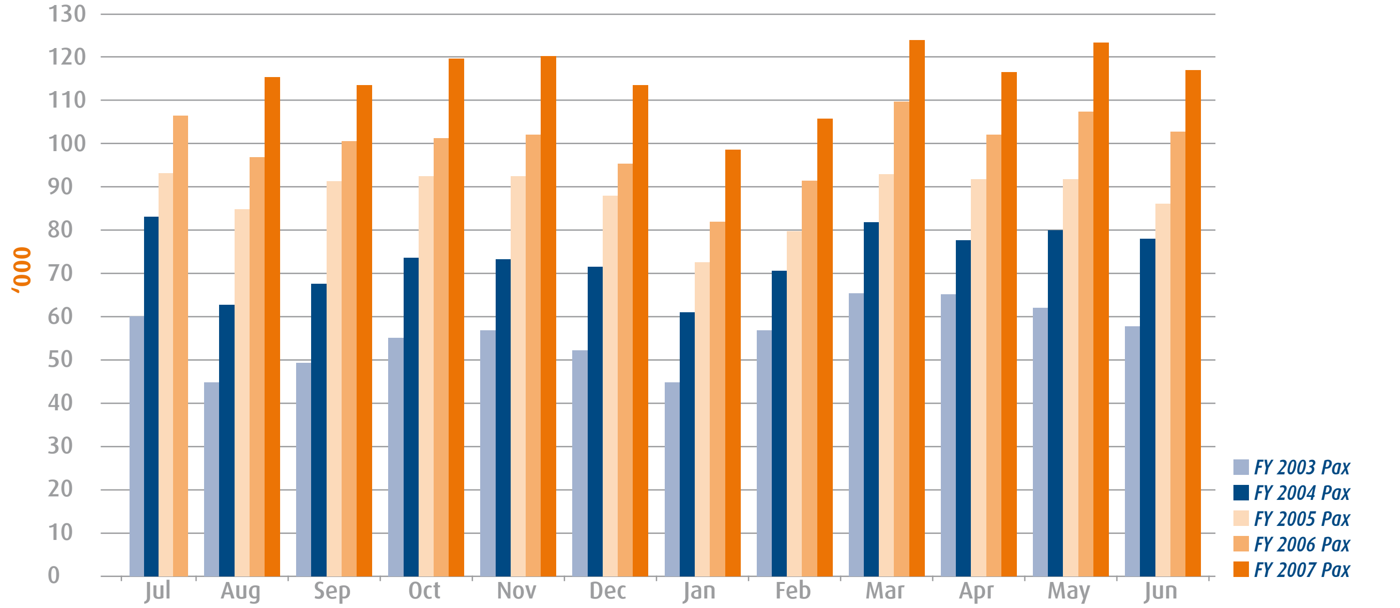
There were significant changes to the competitive market position of the Group over the course of the year. Just prior to the commencement of the reporting period, QantasLink withdrew from Port Lincoln – Adelaide and Kingscote – Adelade, and in July, withdrew from Burnie – Melbourne.

O'Connor Airlines announced it was discontinuing services between Mount Gambier and Melbourne at the end of FY 2007. The financial year ended with Rex competing with QantasLink on only four routes and convincingly beating QuantasLink in the annual charity cricket challenge yet again.

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

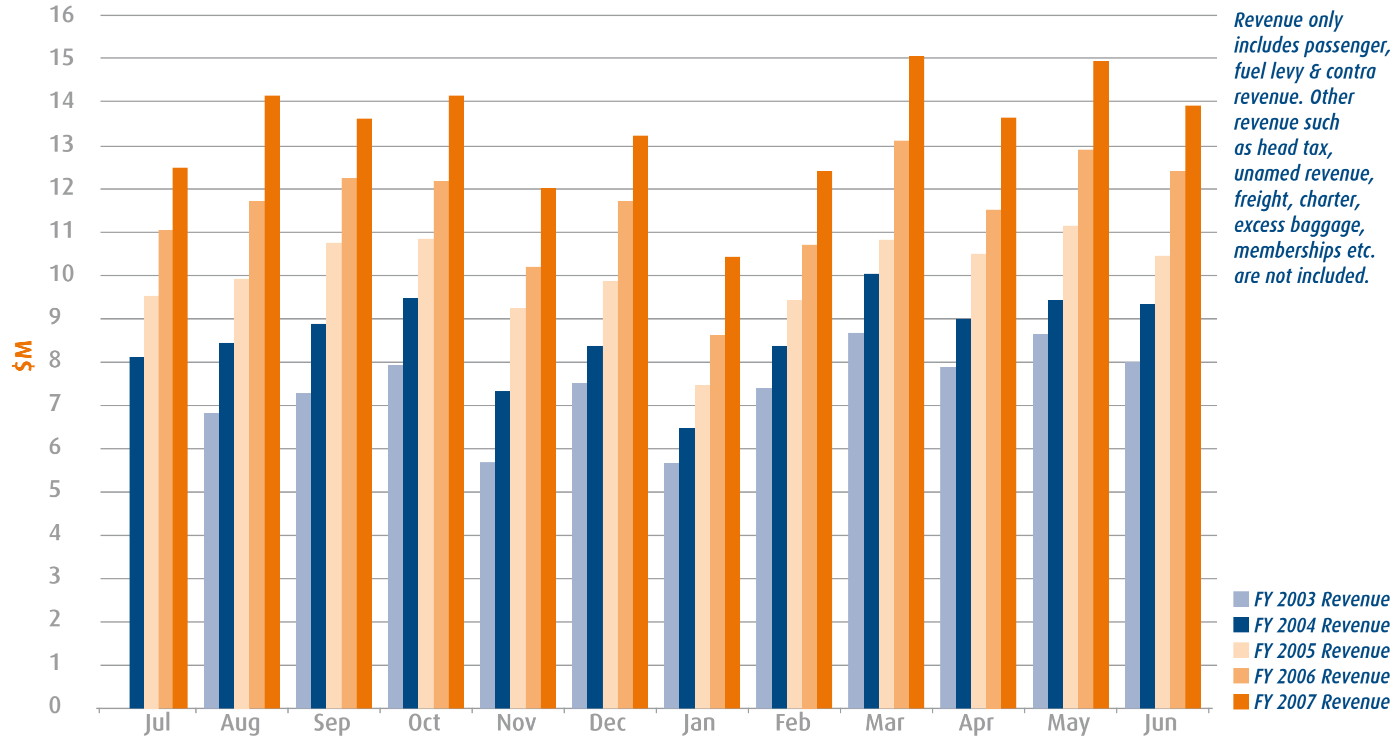
Monthly Passenger Chart

Total Passengers



Monthly Passenger Revenue Chart

Passenger Revenue



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

10. REVIEW OF OPERATIONS (CONTINUED)

FLEET CHANGES

In November 2006, an agreement was reached with Saab Aircraft Leasing for Rex to lease 25 Saab 340 B Plus aircraft for delivery over the next three years. These aircraft will be used for fleet replacement and network expansion when the opportunities arise.

Four Metro 23 aircraft were transferred from Rex to Pel-Air for charter and freight operations. A ninth Westwind corporate jet was acquired for VIP and executive charter.

A second B1900D aircraft was acquired for Air Link's operations.

One Saab 340 B aircraft that was coming to the end of lease was acquired in June 2007 and full payment was made for the acquisition of another 4 in the first week of the FY 2008.

The purchase of all the above aircraft was funded by Rex's operating cash flows.

IMPROVING PRODUCTIVITY

The Group's internal Productivity Committee continued its efforts throughout the year with the launching of its third consecutive productivity drive. The committee ended the year with a total realised savings of $3.2m.

Rex's Cost per Available Seat Kilometre (ASK) decreased 0.6% from 22.3 cents in the FY 2006 to 22.1 cents in FY 2007.

The realised productivity savings enabled the Group to continue its growth strategy of keeping air fares at a competitive, affordable level. As a result, the Group's average fare of $141.30 (exclusive of GST) in FY 2007 was only a marginal 1.6% higher than in the year before. Excluding the fuel levy, the average fare in FY 2007 of $118.50 would be approximately 0.7% lower than the average fare of $119.30 in the previous year.

OPERATIONAL AND SERVICE STANDARDS

Over the year, Rex provided one of the highest levels of On Time Departures and the lowest level of flight cancellations of all the major airlines based on the statistics released by the Federal Department of Transport and Regional Services.

For the second consecutive time running Rex was voted by the readers of Australia's leading consumer magazine as the best domestic airline, coming in tops in 9 of the 12 categories considered.

Rex was also ranked number two in Aviation Week's worldwide ranking of top performing airlines with revenues under 1 billion dollars.

COMMUNITY INVOLVEMENT

During the year Rex has sponsored, participated in and fostered a number of community and charitable projects. Of particular note was the Company's assistance to drought affected communities through a special scheme established to provide concessional travel for individuals and organisations engaged in relief services. The South Australian Rural Counselling Service was one such organisation assisted to extend and enhance its services across the State.

In September 2006 Rex held a special Open Day at its major heavy maintenance facility at Wagga Wagga Airport. Rex staff opened the doors of the facility to the community and conducted a special day of activities and events designed especially for families. The day generated $10,000 which was donated to Sunflower House, a Wagga based special facility for people with intellectual disabilities. Throughout the year Rex has contributed over half a million dollars in sponsoring more than 274 charitable causes and events.

In 2006 and 2007, Rex has provided special gifts to all passengers during the month of August in recognition of the anniversary of the Company commencing operations. These gifts have featured handcrafted dried flower arrangements supplied under a special arrangement with Care Channels, a non-government charitable organisation based in the Philippines. The project provides work and dignity to families living in the slums of Manilla. Rex's involvement in this project has assured the livelihood of thirty such families in Manilla for one year on each occasion.

TECHNICAL AUDITS

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

The Regional Express Pty Ltd Air Operators Certificate was renewed in May 2007 for a further three years and expires on 31 May 2010. Additionally the Certificate of Approval for the Regional Express maintenance organisation was renewed in June 2007 for a further two years with an expiry date of 30 June 2009.

11. CHANGES IN STATE OF AFFAIRS

ACQUISITION OF PEL-AIR AVIATION PTY LIMITED

On 29 June 2007 Rex purchased the remaining 25% of Pel-Air Aviation Pty Ltd, making Pel-Air a wholly owned subsidiary in the Rex Group of companies. The purchase was funded by Rex shares in line with the Put and Call Option Deed entered into by Rex and the original shareholders of Pel-Air as disclosed in the prospectus.

MOVE TO NEW CORPORATE HEADQUARTERS

Rex acquired its new corporate headquarters in Baxter Road, Mascot on 1 September 2006 and moved in on the 22 January 2007. The $4.1m acquisition was funded by Rex's operating cash flows.

12. SUBSEQUENT EVENTS

CESSATION OF SERVICES ON OLYMPIC DAM

As of 30 June 2006 Rex ceased operations between Adelaide and Olympic Dam following a review of the route by BHP Billiton the owner and operator of the Olympic Dam mining operation. Resources used in this operation were immediately re-directed to other services within South Australia, particularly Mount Gambier and Port Lincoln. The cessation of services on Olympic Dam will have an impact on the company's revenue and profit but not to an overall material extent.

PURCHASE OF FOUR SAAB 340 AIRCRAFT

In July 2007, Rex purchased four Saab 340B aircraft that were previously operating in Rex's fleet on a lease arrangement. With the expiry of the lease term Rex purchased the aircraft for $9.2m funded from cash reserves.

COMMENCEMENT OF NEW SERVICES IN QUEENSLAND

Rex announced that it would commence services from Brisbane Airport on 7 October 2007 with a new service to Maryborough.

13. FUTURE DEVELOPMENTS

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

14. ENVIRONMENTAL REGULATIONS

The Group is committed to a high standard of environmental performance and places particular focus on the environmental aspects of its operations. There are adequate systems in place for the management of the Group's environmental exposures and environmental performance.

There have been no known breaches of environmental regulations.

15. DIVIDENDS

In respect of the financial year ended 30 June 2006, as detailed in the directors' report for that financial year, a final unfranked dividend of 5 cents per share was paid to the holders of fully paid ordinary shares on 4 October 2006.

In respect of the financial year ended 30 June 2007, the directors recommend the payment of a final dividend of 6.6 cents per share fully franked to the holders of fully paid ordinary shares.

16. INDEMNIFICATION OF OFFICERS AND AUDITORS

During the financial year, the company paid a premium in respect of a contract insuring the directors of the company (as named above), the company secretary (as named above), and all executive officers of the company and of any related body corporate against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The company has not otherwise, during or since the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the company or of any related body corporate against a liability incurred as such an officer or auditor.

17. REMUNERATION REPORT

REMUNERATION AND NOMINATIONS COMMITTEE

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

REMUNERATION POLICY

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

REMUNERATION STRUCTURE

In accordance with best practice corporate governance, a distinction has been drawn between the remuneration structure of Rex's non-executive directors and that of its senior management executives. This enables Rex to maintain the independence of non-executive directors and reward senior management executives for their performance of duties and dedication.

Rex has set in place a remuneration model for all its staff which calls for staff accepting a lower fixed annual salary increase in exchange for a profit share and a share plan as well as a share option plan.

Profit Share Incentive Plan

Rex has established a profit share incentive scheme which will run for three financial years, the first being FY 2007. Under this scheme, eligible employees will be awarded a share of Rex's profit before tax (PBT) (excluding contributions from subsidiaries and associates) for the financial year immediately preceding the award. The profit share is allocated on an equal share basis. Permanent part time employees will receive an amount proportional to their employment hours. The Group has paid out $1.8M (inclusive of superannuation) under this scheme in FY 2007 and has accrued $2.7M (inclusive of superannuation) as profit share bonus for distribution to all eligible staff in FY 2008.

Share Plan

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

Eligible employees who accept an offer of shares under the share plan will be entitled to receive the equivalent of 2% of their base salary in shares each financial year for three financial years, starting from FY 2007. Such shares will be issued to eligible employees on the relevant award dates. The flight attendants have voted on an additional 0.45% increase of fixed salary in lieu of the 2% share plan. The first distribution of this plan took place on 4 December 2006.

Share Option Plan

Rex has established a share option plan to provide directors, senior management executives and key managers, consultants and contractors with an incentive to remain with Rex and to improve the long term performance of the group and its return to shareholders. The exercise price in FY 2007 was fixed by the remuneration committee as the listing price.

17. REMUNERATION REPORT (CONTINUED)

DIRECTOR AND EXECUTIVE REMUNERATION

The directors and the senior management executives received the following amounts as compensation for their services as directors and executives of the company and/or the Group during the year:

		Short-Term Benefits			Post Employment Benefits	Long-Term Benefits	Share-based Payment			
Directors / Executives		**Cash Salary & Fees $**	**Cash Profit Sharing & Other Bonuses $**	**Non-monetary $**	**Pension & Super-Annuation $**	**Annual Leave & Long Service Leave $**	**Options & Rights $**	**Share Gift $**	**Total $**	**% Consisting of Options %**
Lim Kim Hai	200	100,000	-	-	-	-	18,810	-	118,810	16%
Executive Chairman	2006	75,000	-	-	-	-	-	-	75,000	-
The Hon. John Sharp	2007	90,000	-	-	8,100	-	18,810	-	116,910	16%
Deputy Chairman	2006	90,000	-	-	6,058	-	-	-	96,058	-
Geoffrey Breust	2007	123,884	3,026	-	18,296	12,098	21,933	2,211	181,448	12%
Managing Director	2006	125,000	-	-	16,500	-	-	2,200	143,700	-
James Davis	2007	132,230	3,193	-	12,532	15,365	29,067	2,613	195,000	15%
Director & Chief of Staff	2006	145,000	-	-	12,032	-	-	2,600	159,632	-
Russell Hodge	2007	25,000	-	-	2,250	-	12,540	-	39,790	32%
CEO of Pel-Air	2006	20,205	-	-	1,683	-	-	-	21,888	-
David Miller	2007	105,770	-	-	12,691	92,422	6,897	-	217,780	3%
CEO of Air Link Pty Ltd	2006	110,000	-	-	9,900	-	-	-	119,900	-
Lee Thian Soo	2007	25,000	-	-	-	-	10,032	-	35,032	29%
Non-Executive Director	2006	25,000	-	-	-	-	-	-	25,000	-
Robert Winnel	2007	25,000	-	-	2,250	-	10,032	-	37,282	27%
Independent Director	2006	25,000	-	-	3,376	-	-	-	28,376	-
Stephen Jermyn	2007	8,173	-	-	736	-	-	-	8,909	-
Independent Director	2006	-	-	-	-	-	-	-	-	-
Chris Hine	2007	117,740	3,193	-	12,043	17,433	23,701	2,693	176,803	13%
GM - Flight Operations & Chief Pilot	2006	134,000	-	-	11,877	-	-	2,680	148,557	-
Warrick Lodge	2007	100,846	3,193	-	10,541	15,288	19,043	1,910	150,821	13%
GM - Network Strategy & Sales	2006	95,000	-	-	8,550	-	-	1,900	105,450	-
Irwin Tan	2007	105,331	3,018	-	10,294	6,343	19,043	1,805	145,834	13%
GM - Corporate Services	2006	95,000	-	-	7,583	-	-	1,900	104,483	-
Dale Hall	2007	89,391	3,193	-	8,767	4,828	-	1,729	107,908	-
Manager - Maintenance Control	2006	70,611	1,670	-	7,873	13,217	-	-	93,371	-
Brett Davidson	2007	83,877	3,193	-	8,697	9,567	4,520	1,747	111,601	4%
Manager - Engineering Services	2006	79,677	1,687	-	7,954	7,853			97,171	
Garry Filmer*	2007	23,750	-	-	-	2,138	-	-	25,888	-
Engineering Advisor, Chairman's Office	2006	-	-	-	-	-	-	-	-	-
Mayooran Thanabalasingham	2007	75,712	3,193	-	7,101	-	3,808	1,226	91,040	4%
Information Technology & Communication Advisor, Chairman's Office	2006	54,626	1,000	-	5,365	3,988	-	-	64,979	-

Directors / Executives		Short-Term Benefits: Cash Salary & Fees $	Short-Term Benefits: Cash Profit Sharing & Other Bonuses $	Short-Term Benefits: Non-monetary $	Post Employment Benefits: Pension & Super-Annuation $	Long-Term Benefits: Annual Leave & Long Service Leave $	Share-based Payment: Options & Rights $	Share-based Payment: Share Gift $	Total $	% Consisting of Options %
Naomal Gonneratne**	2007	57,242	3,193	-	6,232	13,862	21,225	2,412	104,166	14%
GM - Engineering Control	2006	120,000	-	2,481	10,453	-	-	2,400	135,681	-
Lindsay Tanner***	2007	84,925	3,192	-	9,219	15,928	21,225	2,412	136,901	16%
GM - Engineering Services	2006	120,000	-	4,978	10,800	-	-	2,400	138,178	-

** Garry Filmer joined Rex on 26 March 2007.*
*** Naomal Gooneratne ceased employment with Rex on 9 January 2007.*
**** Lindsay Tanner ceased employment with Rex on 27 April 2007.*

Value of Options Issued to Directors and Executives

The following table summarises the value of options granted, exercised or lapsed during the annual reporting period to the identified directors and executives:

Directors/Executives	Value of Options Granted at Grant Date (i) $	Price Paid to Exercise Options at Exercise Date (ii) $	Total Exercise Price of Options Lapsed at the Date of Lapse $	Total $
Lim Kim Hai	18,810	150,000	0	168,810
The Hon. John Sharp	18,810	150,000	0	168,810
Geoffrey Breust	21,933	155,000	0	176,933
James Davis	29,067	0	0	29,067
Russell Hodge	12,540	100,000	0	112,540
David Miller	6,897	55,000	0	61,897
Lee Thian Soo	10,032	80,000	0	90,032
Robert Winnel	10,032	80,000	0	90,032
Stephen Jermyn	0	0	0	0
Warrick Lodge	19,043	134,000	0	153,043
Chris Hine	23,701	167,500	0	191,201
Irwin Tan	19,043	0	0	19,043
Dale Hall	0	0	0	0
Brett Davidson	4,520	0	0	4,520
Garry Filmer	0	0	0	0
Mayooran Thanabalasingham	3,808	0	0	3,808
Naomal Gooneratne*	21,225	0	150,000	171,225
Lindsay Tanner**	21,225	150,000	0	171,225

**The value of options granted during the period is recognised in compensation over the vesting period of the grant, in accordance with Australian accounting standards.*
***Both options granted in the current financial year and in previous financial years were exercised during the financial year.*

18. PROCEEDINGS ON BEHALF OF THE COMPANY

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

19. NON-AUDIT SERVICES

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 32 to the financial statements.

The directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 32 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit Committee, for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

20. AUDITORS' INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 27 of the annual report.

21. ROUNDING OFF OF AMOUNTS

The company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors' report and the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

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

On behalf of the Directors

Geoffrey Breust
Managing Director
Sydney, 14 September 2007

22. AUDITORS' INDEPENDENCE DECLARATION

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

ANZ Centre
Level 9
22 Elizabeth Street
Hobart TAS 7000
GPO Box 777
Hobart TAS 7001 Australia

DX 197
Tel: +61 (0) 3 6237 7000
Fax: +61 (0) 3 6237 7001
www.deloitte.com.au

The Board of Directors
Regional Express Holdings Limited
81 – 83 Baxter Road
MASCOT NSW 2020

14 September 2007

Dear Board Members

Regional Express Holdings Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Regional Express Holdings Limited.

As lead audit partner for the audit of the financial statements of Regional Express Holdings Limited for the financial year ended 30 June 2007, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

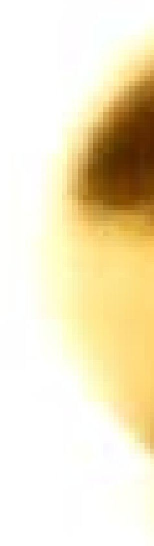
Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Craig Barling
Partner
Chartered Accountant

FINANCIAL REPORT



INCOME STATEMENT

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	Note	Consolidated 2007 $'000	Consolidated 2006 $'000	Company 2007 $'000	Company 2006 $'000
Continuing operations					
Passenger revenue		200,081	166,231	190,963	162,749
Freight revenue		915	876	860	831
Charter revenue		19,528	1,163	766	798
Other passenger services and amenities		2,248	1,440	1,953	1,319
Finance income	4	1,131	1,076	1,157	1,138
Other income	4,5	1,290	3,473	854	2,139
Total revenue and other income		225,193	174,259	196,553	168,974
Flight and port operation costs (excluding fuel)		(49,000)	(42,529)	(46,165)	(42,194)
Fuel costs		(35,115)	(27,455)	(30,362)	(26,586)
Salaries and employee related costs	4	(59,261)	(47,454)	(52,772)	(46,352)
Selling and marketing costs		(7,605)	(8,404)	(7,466)	(8,232)
Engineering and maintenance costs		(29,082)	(19,276)	(22,737)	(18,366)
Office and general administration costs		(5,414)	(4,774)	(4,547)	(4,563)
Finance costs	4	(356)	(149)	-	(230)
Depreciation and amortisation		(5,652)	(4,198)	(4,073)	(3,568)
Other expenses	4	(1,457)	(237)	(1,529)	(208)
Total costs and expenses		(192,942)	(154,476)	(169,651)	(150,299)
Share of profits of associates and jointly controlled entities accounted for using the equity method		821	2,201	-	-
Profit before income tax	5	33,072	21,984	26,902	18,675
Income tax expense	6	(9,445)	(6,260)	(8,113)	(6,220)
Profit after tax from continuing operations		23,627	15,724	18,789	12,455
Profit attributable to:					
Member of the parent		23,075	15,724	18,789	12,455
Minority interest		552	-	-	-
		23,627	15,724	18,789	12,455
Earnings per share (cents per share)					
Basic (cents per share)	21	20.5	15.4	-	-
Diluted (cents per share)	21	20.4	15.4	-	-
Dividends per share (cents per share)		6.6	5.00	-	-

Notes to the financial statements are included on pages 35 to 81.

BALANCE SHEET

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	Note	Consolidated		Company	
		2007 $'000	2006 $'000	2007 $'000	2006 $'000
Current assets					
Cash and cash equivalents	27	18,617	23,583	12,953	22,423
Trade and other receivables	7	12,402	8,550	9,667	8,053
Inventories	8	6,744	4,141	4,678	3,896
Total current assets		37,763	36,274	27,298	34,372
Non-current assets					
Other financial assets	9	11	-	-	-
Other receivables	7	-	-	42,256	28,350
Investment in associate	10	-	14,299	-	-
Investment in subsidiary	25	-	-	117	117
Deferred tax assets	6	1,608	3,326	1,517	3,195
Property, plant and equipment	11				
Aircraft		78,533	28,516	41,551	20,684
Other property, plant and equipment		32,172	17,092	26,008	13,397
Goodwill and intangible assets	12	7,386	793	200	170
Total non-current assets		119,710	64,026	111,559	65,913
Total assets		157,473	100,300	138,947	100,285
Current liabilities					
Trade and other payables	13	30,017	21,529	26,550	20,838
Borrowings	14	2,402	-	-	-
Income tax payable	6	8,799	1,942	7,427	1,859
Provisions	16	8,431	6,281	6,100	5,844
Other financial liabilities	15	526	-	526	-
Other liabilities	17	244	283	244	283
Total current liabilities		50,419	30,035	40,847	29,126
Non-current liabilities					
Other Payables	13	-	-	1,576	302
Borrowings	14	3,193	-	-	-
Provisions	16	1,158	1,028	1,158	1,028
Other liabilities	17	235	441	235	441
Total non-current liabilities		4,586	1,469	2,969	1,771
Total liabilities		55,005	31,504	43,816	30,867
Net assets		102,468	68,796	95,131	69,418
Equity					
Issued capital	18	82,446	69,546	82,446	69,546
Reserved shares	19	(963)	(2,810)	-	-
Retained earnings	20	19,450	1,573	12,424	(615)
Share based payments reserve	29	471	487	471	487
Other reserves	19	946	-	(328)	-
Equity settled employee benefits reserve	19	118	-	118	-
Total equity		102,468	68,796	95,131	69,418

Notes to the financial statements are included on pages 35 to 81.

CASH FLOW STATEMENT

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	Note	Consolidated		Company	
		2007 $'000	2006 $'000	2007 $'000	2006 $'000
Cash flows from operating activities					
Receipts from customers		249,055	190,887	201,589	184,347
Payments to suppliers and employees		(207,785)	(163,781)	(181,715)	(158,139)
Interest paid		(356)	(149)	-	(230)
Income taxes paid		(1,947)	-	342	-
Net cash provided by/(used in) operating activities	27	38,967	26,957	20,216	25,978
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		20	1,522	25	1,495
Interest received		1,131	1,076	1,157	1,138
Purchase of aircraft		(23,466)	(10,918)	(23,140)	(6,583)
Purchase of other property, plant and equipment		(10,050)	(7,260)	(13,340)	(3,396)
Acquisition of subsidiary, net of cash acquired	27	(4,994)	(2,333)	-	-
Acquisition of associate		-	(12,097)	-	-
Purchase of reserved shares		-	(2,810)	-	-
Purchase of intangibles		(153)	(153)	(193)	(100)
Dividends received		1,226	-	-	-
Funds utilised to finance operations of subsidiaries		-	-	-	(28,091)
Net cash (used in)/provided by investing activities		(36,286)	(32,973)	(35,491)	(35,537)
Cash flows from financing activities					
Proceeds from issues of equity securities		-	35,000	12,900	35,000
Payment of share issue costs		-	(2,903)	-	(2,903)
Repayment of borrowings		(1,109)	(7,025)	-	(4,642)
Repayment of hire purchase agreement principal		-	(16)	-	(16)
Dividends paid		(5,750)	-	(5,750)	-
Dividends paid to minority shareholders		(821)	-	-	-
Proceeds from employee share option plan		1,378	-	-	-
Net cash from/(used in) in financing activities		(6,302)	25,056	7,150	27,439
Net increase in cash and cash equivalents		(3,621)	19,040	(8,125)	17,880
Effect of exchange rate on the balance of cash held in foreign currencies		(1,345)	-	(1,345)	-
Cash and cash equivalents at the beginning of the financial year		23,583	4,543	22,423	4,543
Cash and cash equivalents at the end of the financial year	27	18,617	23,583	12,953	22,423

Notes to the financial statements are included on pages 35 to 81.

STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT						
	Issued Capital $'000	Reserved Shares $'000	Retained Earnings $'000	Share Based Payments Reserve $'000	Other reserves $'000	Equity settled employee benefit reserve $'000	Total Equity $'000
CONSOLIDATED							
At 1 July 2006	69,546	(2,810)	1,573	487	-	-	68,796
Dividend paid	-	-	(5,750)	-	-	-	(5,750)
Profit for the year	-	-	23,627	-	-	-	23,627
Issue of shares	12,900	-	-	-	-	-	12,900
Gains/(losses) on cash flow hedges	-	-	-	-	(526)	-	(526)
Share gift exercised	-	487	-	(487)	-	-	-
New share gift provision	-	-	-	471	-	-	471
Recognition of share-based payments	-	-	-	-	-	316	316
Minority interest of subsidiary acquisition	-	-	-	-	1,274	-	1,274
Transfer from equity settled employee benefits reserve	-	-	-	-	198	(198)	-
Share options exercised	-	1,360	-	-	-	-	1,360
At 30 June 2007	82,446	(963)	19,450	471	946	118	102,468
COMPANY							
At 1 July 2006	69,546	-	(615)	487	-	-	69,418
Dividend paid	-	-	(5,750)	-	-	-	(5,750)
Profit for the year	-	-	18,789	-	-	-	18,789
Issue of shares	12,900	-	-	-	-	-	12,900
Gains/(losses) on cash flow hedges	-	-	-	-	(526)	-	(526)
Share gift exercised	-	-	-	(487)	-	-	(487)
New share gift provision	-	-	-	471	-	-	471
Recognition of share-based payments	-	-	-	-	-	316	316
Transfer from equity settled employee benefits reserve	-	-	-	-	198	(198)	-
At 30 June 2007	82,446	-	12,424	471	(328)	118	95,131

Notes to the financial statements are included on pages 35 to 81.

STATEMENT OF CHANGES IN EQUITY (CONTINUED)

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT						
	Issued Capital $'000	Reserved Shares $'000	Retained Earnings $'000	Share Based Payments Reserve $'000	Other reserves $'000	Equity settled employee benefit reserve $'000	Total Equity $'000
CONSOLIDATED							
At 1 July 2005	36,577	-	(14,151)	-	-	-	22,426
Costs of share capital issued	(2,901)	-	-	-	-	-	(2,901)
Tax effect of share capital issued	870	-	-	-	-	-	870
Total income and expense for the year recognised directly in equity	(2,031)	-	-	-	-	-	(2,031)
Profit for the year	-	-	15,724	-	-	-	15,724
Total income / expense for the year	(2,031)	-	15,724	-	-	-	13,693
Purchase of reserved shares	-	(2,810)	-	-	-	-	(2,810)
Issues of share capital	35,000	-	-	-	-	-	35,000
Cost of share-based payments	-	-	-	487	-	-	487
At 30 June 2006	69,546	(2,810)	1,573	487	-	-	68,796
COMPANY							
At 1 July 2005	36,577	-	(13,070)	-	-	-	23,507
Costs of share capital issued	(2,901)	-	-	-	-	-	(2,901)
Tax effect of share capital issued	870	-	-	-	-	-	870
Total income and expense for the year recognised directly in equity	(2,031)	-	-	-	-	-	(2,031)
Profit for the year	-	-	12,455	-	-	-	12,455
Total income / expense for the year	(2,031)	-	12,455	-	-	-	10,425
Issues of share capital	35,000	-	-	-	-	-	35,000
Cost of share-based payments	-	-	-	487	-	-	487
At 30 June 2006	69,546	-	(615)	487	-	-	69,418

Notes to the financial statements are included on pages 35 to 81.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

01. GENERAL INFORMATION

Regional Express Holdings Limited (the Company) is a listed public company, incorporated in Australia. The Company's registered office and its principal place of business is at 81 – 83 Baxter Road, Mascot, NSW 2020, Australia.

02. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2006. The adoption of these new and revised Standards and Interpretations has resulted in changes to the Group's accounting policies in the following areas that may have affected the amounts reported for the current or prior years:

- investments as at fair value through profit or loss (AASB 2005-04 'Amendments to Australian Accounting Standards');
- financial guarantee contracts (AASB 2005-09 'Amendments to Australian Accounting Standards'); and
- rights to cash reimbursement for expenditure required to settle a provision (AASB 2005-5 'Amendments to Australian Accounting Standards).

The adoption of these new and revised Standards and Interpretations has also resulted in a change to the Group's accounting policies in relation to business combinations involving entities under common control.

To the extent there is an impact from these changes in accounting policies, these are discussed in detail below.

ACCOUNTING FOR FINANCIAL GUARANTEE CONTRACTS

The AASB released AASB 2005-9 'Amendments to Australian Accounting Standards' in September 2005. AASB 2005-9 amends AASB 139 'Financial Instruments: Recognition and Measurement' to require certain financial guarantee contracts to be recognised in accordance with AASB 139 and measured initially at their fair values, and subsequently measured at the higher of the amount recognised as a provision and the amount initially recognised less cumulative amortisation in accordance with the Group's revenue recognition policies.

The changes introduced by AASB 2005-9 are applied by the Group with effect from the beginning of the comparative reporting period presented in this financial report (i.e., with effect from 1 July 2005). There has been no impact on the Group as a result of the adoption of this amendment.

03. SIGNIFICANT ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law. The financial report includes the separate financial statements of the company and the consolidated financial statements of the Group.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with A-IFRS ensures that the financial statements and notes of the company and the Group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 14 September 2007.

BASIS OF PREPARATION

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries) (referred to as 'the Group' in these financial statements). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. In the separate financial statements of the Company, intra-group transactions ('common control transactions') are generally accounted for by reference to the existing (consolidated) book value of the items. Where the transaction value of common control transactions differ from their consolidated book value, the difference is recognised as a contribution by or distribution to equity participants by the transacting entities.

Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination.

Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

(b) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(c) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3 'Business Combinations' are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 'Non-current Assets Held for Sale and Discontinued Operations', which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

(d) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

(e) Financial instruments

Foreign Currency Contracts

The Group is only authorised by the Board to enter into forward contracts for the purchase of US dollars (USD) and is only authorised to purchase amounts not exceeding the annual USD requirements of the Group. The group does not engage in any derivative financial instruments speculatively.

The Group enters into forward contracts where it agrees to buy specified amounts of USD in the future at a predetermined exchange rate. The objective is to match the contract with anticipated future cash flows from sales and purchases in USD, to protect the consolidated entity against the possibility of loss from future exchange rate fluctuations. The forward exchange contracts are usually no longer than 12 months. Further details of these USD contracts are disclosed in note 28 to the financial statements.

The USD contracts are initially recognised at fair value at the date the contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the foreign currency contracts is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates these USD contracts as hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments.

The fair value of USD contracts are classified as a non-current asset or a non-current liability if the remaining maturity of the hedge relationship is more than 12 months and as a current asset or a current liability if the remaining maturity of the hedge relationship is less than 12 months.

USD contracts not designated into an effective hedge relationship are classified as a current asset or a current liability.

Hedge accounting

Hedges of foreign exchange risk on highly probable forecast transactions or firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship the entity documents the relationship between the USD contract and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the USD contract that is used in a hedging relationship is highly effective in offsetting changes in fair values.

Note 28 contains details of the fair values of the USD contracts used for hedging purposes. Movements in the hedging reserve in equity are also detailed in note 19.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss as part of other expenses or other income.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

(f) Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

Defined contribution plans

Contributions to defined contribution superannuation plans are expensed when incurred.

(g) Financial assets

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value.

Subsequent to initial recognition, investments in subsidiaries are measured at cost in the company financial statements. Subsequent to initial recognition, investments in associates are accounted for under the equity method in the consolidated financial statements and the cost method in the company financial statements.

Other financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity investments', 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets 'at fair value through profit or loss'.

Financial assets at fair value through profit or loss

Financial assets are classified as financial assets at fair value through profit or loss where the financial asset:

- has been acquired principally for the purpose of selling in the near future;
- is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- is a derivative that is not designated and effective as a hedging instrument.

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

Fair value is determined in the manner described in note 28.

Held-to-maturity investments

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates where that the group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis.

Available-for-sale financial assets

Certain shares and redeemable notes held by the Group are classified as being available-for-sale and are stated at fair value. Fair value is determined in the manner described in note 28. Gains and losses arising from changes in fair value are recognised directly in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

Dividends on available-for-sale equity instruments are recognised in profit and loss when the Group's right to receive payments is established.

The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at reporting date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

Loans and receivables
Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment.

Interest is recognised by applying the effective interest rate.

Impairment of financial assets
Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account.

Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss is recognised directly in equity.

(h) Financial instruments issued by the company

Debt and equity instruments
Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Financial liabilities
Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities.

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in note 28.

Other financial liabilities
Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

(i) Goodwill

Goodwill acquired in a business combination is initially measured at its cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. Goodwill is subsequently measured at its cost less any impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGUs), or groups of CGUs, expected to benefit from the synergies of the business combination. CGUs (or groups of CGUs) to which goodwill has been allocated are tested for impairment annually, or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

If the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or groups of CGUs), the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or groups of CGUs) and then to the other assets of the CGU (or groups of CGUs) pro-rata on the basis of the carrying amount of each asset in the CGU (or groups of CGUs). An impairment loss recognised for goodwill is recognised immediately in profit or loss and is not reversed in a subsequent period.

On disposal of an operation within a CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal of the operation.

(j) Government grants

Government grants are assistance by the government in the form of transfers of resources to the Group in return for past or future compliance with certain conditions relating to the operating activities of the entity. Government grants include government assistance where there are no conditions specifically relating to the operating activities of the Group other than the requirement to operate in certain regions or industry sectors.

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire long-term assets are recognised as deferred income in the balance sheet and recognised as income on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised as income of the period in which it becomes receivable.

(k) Impairment of other tangible and intangible assets

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease (refer note 3(t)).

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase (refer note 3(t)).

(l) Income tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the balance sheet liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, branches and associates, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

Tax consolidation

The company and all its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. Regional Express Holdings Limited is the head entity in the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax-consolidated group are recognised by the company (as head entity in the tax-consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement. Further information about the tax funding arrangement is detailed in note 6 to the financial statements. Where the tax contribution amount recognised by each member of the tax-consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period, the difference is recognised as a contribution from (or distribution to) equity participants.

(m) Intangible assets

Acquired both separately and from a business combination

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

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

Research and development costs

Research costs are expensed as incurred.

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

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

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

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

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

	Computer Software	**Development Costs**
Useful lives	Finite	Finite
Amortisation method used	5 years straight line	2.5 years - straight line
Internally generated / acquired	Acquired	Internally generated
Impairment test / recoverable amount testing	Annually and where an indicator of impairment exists	Amortisation method reviewed at each financial year-end; Reviewed annually for indicator of impairment

Gains and losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

(n) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale.

(0) Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases.

Group as lessor

Amounts due from lessees under finance leases are recorded as receivables. Finance lease receivables are initially recognised at amounts equal to the present value of the minimum lease payments receivable plus the present value of any unguaranteed residual value expected to accrue at the end of the lease term. Finance lease receipts are allocated between interest revenue and reduction of the lease receivable over the term of the lease in order to reflect a constant periodic rate of return on the net investment outstanding in respect of the lease.

Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease. However, contingent rentals arising under operating leases are recognised as income in a manner consistent with the basis on which they are determined.

Group as lessee

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Refer to note 3(b). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Finance leased assets are amortised on a straight line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Lease incentives

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(p) Property, plant and equipment

Land and buildings are measured at cost. Plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis.

The rates applied are as follows:

Aircraft	50,000-60,000 Hours
Engines	10 Years
Leasehold improvements	40 Years
Rotable assets	1.5-5.5 Years
Rotable spares not in use	N/A
Plant & equipment-ground service equipment	8 Years
Furniture & fittings	8 Years
Computer equipment	4 Years
Motor vehicles	7 Years

(q) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(r) Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for rebates and other similar allowances.

Rendering of services

Revenue from providing air passenger and freight services is recognised when the relevant flights are made.

Dividend and interest income

Dividend from investments is recognised when the shareholder's right to receive payment has been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

(s) Share-based payments

Equity-settled share-based payments with employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. Further details on how the fair value of equity-settled share-based transactions has been determined can be found in note 29.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

The above policy is applied to all equity-settled share-based payments that were granted after 7 November 2002 that vested after 1 January 2005. No amount has been recognised in the financial statements in respect of the other equity-settled shared-based payments.

Equity-settled share-based payment transactions with other parties are measured at the fair value of the goods and services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each reporting date.

(t) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

04. REVENUES AND EXPENSES

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Finance income				
Interest	1,131	1,076	1,157	1,138
	1,131	1,076	1,157	1,138
Other income				
Net gain on disposal of property, plant & equipment	-	359	-	359
Net foreign currency gains	-	1,126	-	1,126
Grant – Department of Transport and Regional Services	244	283	244	283
Gain on sale of subsidiary	-	1,081	-	-
Other income	1,046	624	610	371
	1,290	3,473	854	2,139
Salaries & employee related costs				
Wages and salaries (excluding bonus – profit share scheme)	(51,342)	(41,427)	(45,518)	40,410
Bonus – profit share scheme	(2,716)	(1,991)	(2,712)	1,991
Workers' compensation costs	(663)	(512)	(653)	501
Superannuation costs	(3,834)	(3,037)	(3,183)	(2,963)
Expense of employee options	(469)	-	(469)	-
Expense of share-based payments	(237)	(487)	(237)	(487)
	(59,261)	(47,454)	(52,772)	(46,352)
Finance costs				
Interest expense – director related entity	-	-	-	-
Interest expense – other	(356)	(145)	-	(226)
Finance lease	-	(4)	-	(4)
	(356)	(149)	-	(230)
Depreciation & amortisation				
Depreciation and amortisation	(5,486)	(4,092)	(3,907)	(3,467)
Amortisation of development costs and software	(166)	(106)	(166)	(101)
	(5,652)	(4,198)	(4,073)	(3,568)
Lease payments included in income statement				
Included in flight and port operations costs				
Minimum lease payments – operating lease	(7,017)	(7,712)	(7,017)	(8,035)
Other expenses				
Foreign exchange loss	-	-	-	-
Provision for non-recoverability of Hazelton	(177)	(203)	(177)	(203)
Other expenses	12	(34)	4	(5)
Net loss on disposal of property, plant & equipment	(47)	-	(47)	-
Net foreign currency loss	(1,245)	-	(1,309)	-
	(1,457)	(237)	(1,529)	(208)

05. PROFIT FOR THE YEAR

(A) GAINS AND LOSSES

Profit/(loss) for the year has been arrived at after crediting/(charging) the following gains and losses:

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Gain/(loss) on disposal of property, plant and equipment	(47)	359	(47)	359
Gain/(loss) on sale of subsidiary	-	1,081	-	-
Net foreign exchange gains/(losses)	(1,245)	1,126	(1,309)	1,126

(B) OTHER EXPENSES

Profit for the year includes the following expenses:

Depreciation				
Aircraft	3,694	2,165	2,273	1,787
Other property, plant and equipment	1,792	1,927	1,634	1,680
Amortisation				
Development costs and software	166	106	166	101
Operating lease rental expenses				
Minimum lease payments	7,017	7,712	7,017	8,035
Employee related expenses				
Employee options	469	-	469	-
Share-based payments	237	487	237	487

06. INCOME TAX

INCOME TAX RECOGNISED IN PROFIT OR LOSS

	2007 $'000	2006 $'000
CONSOLIDATED		
Tax expense/(income) comprises:		
Current tax expense/(income)	9,092	6,330
Adjustments recognised in the current year in relation to the current tax of prior years	-	21
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	911	(91)
Other	(558)	-
Total tax expense/(income)	9,445	6,260
Attributable to:		
Continuing operations	9,445	6,260
	9,445	6,260
The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:		
Profit/(loss) from continuing operations	33,072	21,984
Profit/(loss) from operations	33,072	21,984
Income tax expense calculated at 30%	9,921	6,595
Non-deductible expenses	224	520
Equity share of associates profit	(246)	-
Effect of unused tax losses and tax offsets not recognised as deferred tax assets	(1,048)	*
Other	(558)	(855)
(Over)/under provision of income tax in previous year	1,152	-
	9,445	6,260

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

INCOME TAX RECOGNISED DIRECTLY IN EQUITY

The following current and deferred tax amounts were charged directly in equity during the period:

	2007 $'000	2006 $'000
CONSOLIDATED		
Deferred tax		
Loans	-	-
Hedges	-	-
Other	-	-
	-	-
Current tax assets and liabilities		
Current tax assets	-	-
	-	-
Current tax payables		
Income tax attributable:		
Parent entity	7,427	-
Entities in the tax consolidated group	1,372	-
	8,799	-
Deferred tax balances		
Deferred tax assets comprise:		
Temporary differences	4,199	3,326
Tax losses	-	-
	4,199	3,326
Deferred tax liabilities comprise		
Temporary differences	2,591	-
Net Deferred Tax Asset / Liability	1,608	3,326

06. INCOME TAX (CONTINUED)

Taxable and deductible temporary differences arise from the following:

	Opening balance $'000	Charged to Income $'000	Charged to Equity $'000	Acquisitions / disposals $'000	Exchange differ-ences $'000	Changes in tax rate $'000	Closing balance $'000
CONSOLIDATED							
30 June 2007							
Gross deferred tax liabilities							
Investment in associates	-	-	-	-	-	-	-
Property, plant & equipment	-	-	-	-	-	-	-
Financial assets - non receivables	-	-	-	-	-	-	-
Inventory	-	(1,403)	-	(1,179)	-	-	(2,581)
Other	-	(10)	-	-	-	-	(10)
	-	(1,412)	-	(1,179)	-	-	(2,591)
Gross deferred tax assets							
Losses available for offset against future taxable income	-	-	-	-	-	-	-
Employee related provisions	1,595	887	-	363	-	-	2,845
Deferred government grant	217	(73)	-	-	-	-	144
Provision for doubtful debts	65	53	-	-	-	-	118
Listing costs deductible over five years	696	(174)	-	-	-	-	522
Other items	753	(183)	-	-	-	-	570
	3,326	510	-	363	-	-	4,199
Unused tax losses							
Tax losses – revenue	-	-	-	-	-	-	-
Tax Losses - capital	-	-	-	-	-	-	-
Temporary differences	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	3,326	(911)	-	(816)	-	-	1,598

	Opening balance $'000	Charged to Income $'000	Charged to Equity $'000	Acquisitions / disposals $'000	Exchange differ-ences $'000	Changes in tax rate $'000	Closing balance $'000
CONSOLIDATED							
30 June 2006							
Gross deferred tax liabilities							
Investment in associates	-	-	-	-	-	-	-
Property, plant & equipment	-	-	-	-	-	-	-
Financial assets - non receivables	-	-	-	-	-	-	-
Inventory	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
Gross deferred tax assets							
Losses available for offset against future taxable income	-	-	-	-	-	-	-
Employee related provisions	1,565	30	-	-	-	-	1,595
Deferred government grant	322	(105)	-	-	-	-	217
Provision for doubtful debts	4	61	-	-	-	-	65
Listing costs deductible over five years	-	(173)	869	-	-	-	696
Other items	475	278	-	-	-	-	753
	6,802	91	-	-	-	-	3,326
Unused tax losses							
Tax losses – revenue	-	-	-	-	-	-	-
Tax Losses - capital	-	-	-	-	-	-	-
Temporary differences	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	6,802	91	-	-	-	-	3,326

Deferred tax assets from tax losses of $13,606 thousand have not been brought to account as assets.

06. INCOME TAX (CONTINUED)

INCOME TAX RECOGNISED IN PROFIT OR LOSS

	2007 $'000	2006 $'000
COMPANY		
Tax expense/(income) comprises:		
Current tax expense/(income)	7,427	6,159
Adjustments recognised in the current year in relation to the current tax of prior years	-	21
Benefit arising from previously unrecognised tax losses, tax credits or temporary differences of a prior period that is used to reduce:		
- current tax expense	-	-
- deferred tax expense	(991)	-
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	1,677	40
Other	-	-
Total tax expense/(income)	8,113	6,220
Attributable to:		
Continuing operations	8,113	6,220
	8,113	6,220
The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:		
Profit/(loss) from continuing operations	26,902	18,675
Profit/(loss) from operations	26,902	18,675
Income tax expense calculated at 30%	8,071	5,603
Non-deductible expenses	224	520
Effect of unused tax losses and tax offsets not recognised as deferred tax assets	(822)	-
Other	-	97
(Over)/under provision of income tax in previous year	641	-
	8,113	6,220

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

INCOME TAX RECOGNISED DIRECTLY IN EQUITY

The following current and deferred tax amounts were charged directly in equity during the period:

	2007 $'000	2006 $'000
COMPANY		
Deferred tax		
Loans	-	-
Hedges	-	-
Other	-	-
	-	-
Current tax assets and liabilities		
Current tax assets	-	-
	-	-
Current tax payables		
Income tax attributable:		
Parent entity	7,427	-
Franking deficit tax recoverable	-	-
Other	-	-
	7,427	-
Deferred tax balances		
Deferred tax assets comprise:		
Temporary differences	2,793	3,195
Tax losses	-	-
	2,793	3,195
Deferred tax liabilities comprise		
Temporary differences	1,276	-
Net Deferred Tax Asset / Liability	1,517	3,195

06. INCOME TAX (CONTINUED)

Taxable and deductible temporary differences arise from the following:

	Opening balance $'000	Charged to Income $'000	Charged to Equity $'000	Acquisitions / disposals $'000	Exchange differences $'000	Changes in tax rate $'000	Closing balance $'000
COMPANY							
30 June 2007							
Gross deferred tax liabilities							
Investment in associates	-	-	-	-	-	-	-
Property, plant & equipment	-	-	-	-	-	-	-
Financial assets - non receivables	-	-	-	-	-	-	-
Inventory	-	(1,265)	-	-	-	-	(1,265)
Other	-	(11)	-	-	-	-	(11)
	-	(1,276)	-	-	-	-	(1,276)
Gross deferred tax assets							
Losses available for offset against future taxable income	-	-	-	-	-	-	-
Employee related provisions	1,464	184	-	-	-	-	1,649
Deferred government grant	217	(73)	-	-	-	-	144
Provision for doubtful debts	65	(61)	-	-	-	-	4
Listing costs deductible over five years	696	(174)	-	-	-	-	522
Other items	753	(278)	-	-	-	-	475
	3,195	(402)	-	-	-	-	2,793
Unused tax losses							
Tax losses – revenue	-	-	-	-	-	-	-
Tax Losses - capital	-	-	-	-	-	-	-
Temporary differences	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	3,195	(1,678)	-	-	-	-	1,517

	Opening balance $'000	Charged to Income $'000	Charged to Equity $'000	Acquisitions / disposals $'000	Exchange differences $'000	Changes in tax rate $'000	Closing balance $'000
COMPANY							
30 June 2006							
Gross deferred tax liabilities							
Investment in associates	-	-	-	-	-	-	-
Property, plant & equipment	-	-	-	-	-	-	-
Financial assets - non receivables	-	-	-	-	-	-	-
Inventory	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
Gross deferred tax assets							
Losses available for offset against future taxable income	-	-	-	-	-	-	-
Employee related provisions	1,565	(101)	-	-	-	-	1,464
Deferred government grant	322	(105)	-	-	-	-	217
Provision for doubtful debts	4	61	-	-	-	-	65
Listing costs deductible over five years	869	(173)	-	-	-	-	696
Other items	475	278	-	-	-	-	753
	3,235	(40)	-	-	-	-	3,195
Unused tax losses							
Tax losses – revenue	-	-	-	-	-	-	-
Tax Losses - capital	-	-	-	-	-	-	-
Temporary differences	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	3,235	(40)	-	-	-	-	3,195

07. TRADE AND OTHER RECEIVABLES

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Current				
Trade receivables	10,214	4,781	6,743	4,683
Provision for doubtful debts	(13)	(13)	(13)	(13)
	10,201	4,768	6,730	4,670
Sundry debtors and other debtors	17	936	757	537
Provision for loan	-	(203)	-	(203)
	17	733	757	334
Prepayments	924	1,410	924	1,410
Deposits and other assets	1,260	1,639	1,256	1,639
	12,402	8,550	9,667	8,053

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

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

	Consolidated		Company	
Non-Current				
Related party receivables:				
Wholly owned group - controlled entities	-	-	42,256	28,350
	-	-	42,256	28,350

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

08. INVENTORIES

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Current				
Consumable spares (at cost)	6,744	4,141	4,678	3,896
Total consumable spares at lower of cost and net realisable value	6,744	4,141	4,678	3,896

09. OTHER FINANCIAL ASSETS

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Investments carried at cost:				
Non - current				
Shares	11	-	-	-

10. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Investments in associates	-	14,299	-	-

			Ownership interest	
Name of entity	Principal activity	Country of incorporation	2007 %	2006 %
Associates				
Pel-Air Aviation Pty Ltd	Flight charters	Australia	-	50

10. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

	Consolidated	
	2007 $'000	2006 $'000
Summarised financial information in respect of the Group's associates is set out below:		
Financial position		
Total assets	-	43,014
Total liabilities	-	(20,468)
Net assets	-	22,546
Group's share of associates' net assets	-	11,273
Financial performance		
Total revenue	-	32,910
Total profit for the year	-	6,204
Group's share of associates' profit/(loss) before tax	-	3,102
Group's share of associates' income tax expense	-	(904)
Group's share of associate's profit/(loss)	-	2,201

DIVIDENDS RECEIVED FROM ASSOCIATES

During the year, the Group received dividends of $1,200 thousand (2006: nil) from its associates. During the year the remaining equity interest in the associate was acquired as disclosed in note 26.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

The Group's share of the contingent liabilities, capital commitments and other expenditure commitments of associates are disclosed in notes 23 and 24 respectively.

During the year, the remaining equity interest in the associate was acquired as disclosed in note 26.

11. PROPERTY, PLANT AND EQUIPMENT

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Aircraft				
At cost	89,069	34,172	37,361	23,756
Accumulated depreciation and impairment	(19,975)	(5,656)	(5,249)	(3,072)
	69,094	28,516	32,112	20,684
Aircraft prepayment	9,439	-	9,439	-
Total aircraft	78,533	28,516	41,551	20,684
Rotable assets				
At cost	22,319	15,775	19,221	12,792
Accumulated depreciation and impairment	(2,928)	(2,662)	(2,927)	(2,473)
	19,391	13,113	16,294	10,319
Leasehold Improvements				
At cost	885	813	860	787
Accumulated depreciation and impairment	(152)	(100)	(153)	(100)
	733	713	707	687
Motor vehicles				
At cost	589	487	349	309
Accumulated depreciation and impairment	(335)	(187)	(160)	(139)
	254	300	189	170
Furniture and fittings				
At cost	1,447	527	681	379
Accumulated depreciation and impairment	(529)	(250)	(242)	(172)
	918	277	439	207
Computer equipment				
At cost	1,238	976	1,238	809
Accumulated depreciation and impairment	(691)	(486)	(690)	(473)
	547	490	548	336
Plant and equipment – ground service equipment				
At cost	4,392	3,585	4,049	2,996
Accumulated depreciation and impairment	(2,081)	(1,386)	(1,800)	(1,318)
	2,311	2,199	2,249	1,678
Land and buildings				
At cost	4,958	-	4,958	-
Accumulated depreciation and impairment	(112)	-	(112)	-
	4,846	-	4,846	-
Engines				
At cost	3,834	-	915	-
Accumulated depreciation and impairment	(662)	-	(179)	-
	3,172	-	736	-
Total property plant and equipment				
At cost	138,169	56,335	79,072	41,828
Accumulated depreciation and impairment	(27,464)	(10,727)	(11,513)	(7,747)
	101,705	45,608	67,559	34,081

11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
RECONCILIATIONS				
Aircraft				
Net carrying amount at beginning of the period	28,516	16,947	20,684	16,947
Additions	14,216	10,918	13,717	6,583
Disposals	(16)	(1,059)	(16)	(1,059)
Acquisition of subsidiary	30,072	3,875	-	-
Depreciation charge for the year	(3,694)	(2,165)	(2,273)	(1,787)
	69,094	28,516	32,112	20,684
Rotable assets				
Net carrying amount at beginning of the period	13,113	8,354	10,319	8,354
Additions	9,366	5,912	6,554	2,929
Disposals	(2,526)	-	(30)	-
Acquisition of subsidiary	-	-	-	-
Amortisation charge for the year*	(562)	(1,153)	(549)	(964)
	19,391	13,113	16,294	10,319
Leasehold improvements				
Net carrying amount at beginning of the period	713	732	687	732
Additions	71	3	71	-
Disposals	-	-	-	-
Acquisition of subsidiary	-	23	-	-
Depreciation charge for the year	(51)	(45)	(51)	(45)
	733	713	707	687
Motor vehicles				
Net carrying amount at beginning of the period	300	228	170	228
Additions	13	109	107	-
Disposals	(47)	(10)	(35)	(10)
Acquisition of subsidiary	47	29	-	-
Depreciation charge for the year	(59)	(56)	(53)	(48)
	254	300	189	170
Furniture and fittings				
Net carrying amount at beginning of the period	277	209	207	209
Additions	252	106	302	45
Disposals	(68)	-	-	-
Acquisition of subsidiary	533	20	-	-
Depreciation charge for the year	(76)	(58)	(70)	(47)
	918	277	439	207

	Consolidated		Parent	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Computer equipment				
Net carrying amount at beginning of the period	490	335	336	335
Additions	279	362	429	194
Disposals	-	-	-	-
Acquisition of subsidiary	-	-	-	-
Depreciation charge for the year	(222)	(207)	(217)	(193)
	547	490	548	336
Plant and equipment - ground service equipment				
Net carrying amount at beginning of the period	2,199	1,966	1,678	1,793
Additions	570	768	1,068	228
Disposals	(7)	(239)	(7)	(65)
Reclassification	-	105	-	105
Acquisition of subsidiary	22	7	-	-
Depreciation charge for the year	(473)	(408)	(490)	(383)
	2,311	2,199	2,249	1,678
Land and buildings				
Net carrying amount at beginning of the period	-	-	-	-
Additions	4,958	-	4,958	-
Disposals	-	-	-	-
Acquisition of subsidiary	-	-	-	-
Depreciation charge for the year	(112)	-	(112)	-
	4,846	-	4,846	-
Engines				
Net carrying amount at beginning of the period	828	-	828	-
Additions	-	-	-	-
Disposals	-	-	-	-
Acquisition of subsidiary	2,581	-	-	-
Depreciation charge for the year	(237)	-	(92)	-
	3,172	-	736	-
Total property, plant and equipment				
Net carrying amount at beginning of the period	46,436	28,882	34,909	28,709
Additions	29,725	18,178	27,205	9,979
Disposals	(2,664)	(1,308)	(88)	(1,134)
Acquisition of subsidiary	33,255	3,954	-	-
Depreciation and amortisation charge for the year	(5,486)	(4,092)	3,907	(3,467)
	101,266	45,614	58,120	34,087

Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities. No impairment loss has been recognised over items of property, plant and equipment for the year ended 30 June 2007 (2006: Nil).

The total above excludes a progress payment made in June 2007 of $9,439 thousand for aircraft that were not received until July 2007.

12. GOODWILL AND OTHER INTANGIBLE ASSETS

	Consolidated		Company	
	Goodwill $'000	Software and Development Costs $'000	Goodwill $'000	Software and Development Costs $'000
At 30 June 2006				
Cost	576	665	-	612
Accumulated amortisation and impairment	-	(448)	-	(442)
Net carrying amount	576	217	-	170
Total goodwill and intangible assets		793		170
Reconciliation				
At 1 July 2005, net of accumulated amortisation	-	171	-	171
Acquisition of a subsidiary	576	-	-	100
Additions	-	153	-	-
Amortisation at 30 June 2006	-	(107)	-	(101)
	576	217	-	170
Total goodwill and intangible assets		793		170
At 30 June 2007				
Cost	7,185	805	-	805
Accumulated amortisation and impairment	-	(604)	-	(604)
Net carrying amount	7,185	201	-	201
Total goodwill and intangible assets		7,386		201
Reconciliation				
At 1 July 2006, net of accumulated amortisation	576	217	-	170
Acquisition of a subsidiary	6,609	-	-	-
Additions	-	149	-	192
Disposals	-	-	-	-
Amortisation at 30 June 2007	-	(165)	-	(162)
	7,185	201	-	200
Total goodwill and intangible assets		7,386		200

During the financial year, the Group assessed the recoverable amount of goodwill and determined that there was no impairment of goodwill.

Goodwill has been allocated for impairment testing purposes to the individual cash generating units as follows :

Air Link ($'000)	576
Pel Air ($'000)	6,609
Total ($'000)	7,185

These cash generating units represent two separate acquisitions by the Group. They represent separate parts of the business where goodwill is allocated and assessed for impairment.

PEL-AIR

Pel-Air was purchased in entirety by the Group in the 2007 financial period. As the fair value of assets and liabilities was assessed of this cash generating unit for the last acquisition on 29 June 2007, impairment testing has been based around the fair market value of the assets at year end. In future periods, the recoverable amount of the Pel-Air cash-generating unit will be determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 10%p.a. Cash flows beyond that five year period will be extrapolated using a steady 5%p.a. growth rate. Management believe that any reasonable value in use calculation performed at year end would not result in the cash-generating unit's carrying amount to exceed its recoverable amount.

Refer ro note 26 for further information in relation to the acquisition.

AIRLINK

Airlink is a regional passenger airline that was acquired by the group in the 2006 financial year. The recoverable amount of the Airlink cash-generating unit is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a five-year period and a discount rate of 10%p.a.

13. TRADE AND OTHER PAYABLES

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Current				
Trade payables	8,827	3,705	6,186	3,315
Other payables	5,134	6,083	4,308	5,782
Unearned revenue	16,056	11,741	16,056	11,741
Total	30,017	21,529	26,550	20,838

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

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Non-Current				
Related party payables	-	-	1,576	302
Wholly owned group – controlled entities	-	-	1,576	302

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

14. BORROWINGS

	Effective Interest rate %	Consolidated		Company	
		2007 $'000	2006 $'000	2007 $'000	2006 $'000
Current					
Hire purchase liability	7.50	2,402	-	-	-
Non-Current					
Hire purchase liability	7.50	3,193	-	-	-

HIRE PURCHASE LIABILITY

The hire purchase liabilities are provided to Pel-Air Aviation Pty Limited to fund a number of aircraft assets. The liabilities are secured over the assets being funded the value of which exceeds the outstanding liability.

15. OTHER FINANCIAL LIABILITIES

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Current				
Foreign exchange liability	526	-	526	-

This foreign exchange liability is due to the revaluation of USD forward contract.

16. PROVISIONS

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Current				
Provision for Dividend	634	-	-	-
Profit Share	2,713	1,991	2,713	1,991
Annual leave and long service leave	5,084	4,290	3,387	3,853
	8,431	6,281	6,100	5,844
Non-Current				
Long service leave	1,158	1,028	1,158	1,028
Total employee benefits provisions	6,242	5,318	4,545	4,881

	Annual leave and long service leave $'000
CONSOLIDATED	
At 1 July 2006	5,318
Acquisition of subsidiary	1,210
Arising during the year	4,625
Utilised	(4,911)
At 30 June 2007	6,242
COMPANY	
At 1 July 2006	4,881
Arising during the year	3,742
Utilised	(4,078)
At 30 June 2007	4,545

17. OTHER LIABILITIES

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Current				
Government Grant	244	283	244	283
Non-Current				
Government Grant	235	441	235	441

18. ISSUED CAPITAL

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
fully paid ordinary shares	82,446	69,546	82,446	69,546

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the company does not have a limited amount of authorised capital and issued shares do not have a par value.

	Consolidated		Company	
	No. '000	$'000	No. '000	$'000
Fully paid ordinary shares				
Balance at 1 July 2006	115,000	69,546	115,000	69,546
Issue of shares for the year	6,000	12,900	6,000	12,900
Balance at 30 June 2007	121,000	82,446	121,000	82,446

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

19. RESERVES AND OTHER RESERVES

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Cash flow hedge reserve	(526)	-	(526)	-
Reserved shares	(963)	(2,810)	-	-
Equity-settled employee benefits	118	-	118	-
Share based payment reserve	471	487	471	487
General Reserve	1,472	-	198	-
	572	(2,323)	261	487

Reserved shares

Balance at 1 July 2006	(2,810)	-	-	-
Purchase	-	(2,810)	-	-
Share option exercise	1,847	-	-	-
Balance at 30 June 2007	(963)	(2,810)	-	-

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

Equity-settled employee benefits

Balance at 1 July 2006	-	-	-	-
Share based payment	118	-	118	-
Balance at 30 June 2007	118	-	118	-

The equity-settled employee benefits reserve arises on the grant of share options to executives and senior employees under the employee share option plan. Amounts are transferred out of the reserve and into issued capital when the options are exercised. Further information about share-based payments to employees is made in note 29 to the financial statements.

19. RESERVES AND OTHER RESERVES (CONTINUED)

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Share based payment reserve				
Balance at 1 July 2006	487	-	487	-
Share gift issued	471	487	471	487
Share gift exercised	(487)	-	(487)	-
Balance at 30 June 2007	471	487	471	487

The share based payment reserve arises on the grant of shares to executives and senior employees under the employee share gift plan. Amounts are transferred out of the reserve and into issued capital when the options are exercised. Further information about share-based payments to employees is made in note 29 to the financial statements.

	Consolidated		Company	
Other reserves				
Cash flow hedge reserve				
Balance at 1 July 2006	-	-	-	-
Foreign exchange contract	(526)	-	(526)	-
Balance at 30 June 2007	(526)	-	(526)	-
General reserve				
Balance at 1 July 2006	-	-	-	-
Acquisition of subsidiary	1,274	-	198	-
Transfer from equity settled employee benefits	198	-	-	-
Balance at 30 June 2007	1,472	-	198	-
Total other reserves	946	-	(328)	-

The general reserve is used from time to time to transfer profits from retained profits. There is no policy of regular transfer.

The hedging reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

20. RETAINED EARNINGS

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Balance at 1 July 2006	1,573	(14,151)	(615)	(13,070)
Dividends provided for or paid (note 22)	(5,750)	-	(5,750)	-
Net profit attributable to members of the parent entity	23,627	15,724	18,789	12,455
Balance at 30 June 2007	19,450	1,573	12,424	(615)

21. EARNINGS PER SHARE

	Consolidated	
	2007 Cents per share	2006 Cents per share
Basic earnings per share		
From continuing operations	20.5	15.4
Total basic earnings per share	20.5	15.4
Diluted earnings per share		
From continuing operations	20.4	15.4
Total diluted earnings per share	20.4	15.4

Basic earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	2007 $'000	2006 $'000
Net profit	23,627	15,724
Earnings used in the calculation of basic EPS	23,627	15,724
Earnings used in the calculation of basic EPS from continuing operations	23,627	15,724

	2007 No.'000	2006 No.'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	115,340	102,438

Diluted earnings per share

The earnings used in the calculation of diluted earnings per share is as follows:

	2007 $'000	2006 $'000
Net profit	23,627	15,724
Earnings used in the calculation of diluted EPS	23,627	15,724
Earnings used in the calculations of diluted EPS from continuing operations	23,627	15,724

	2007 $'000	2006 $'000
Weighted average number of ordinary shares used in the calculation of diluted EPS	115,936	102,438
Weighted average number of converted, lapsed, or cancelled potential ordinary shares included in the calculation of diluted earnings per share:		
Options to purchase ordinary shares pursuant to the employee share option plan	596	-

22. DIVIDENDS

	Cents per share	Total $'000
Dividends on fully paid ordinary shares proposed for approval at AGM: Fully franked dividend for FY 2007	6.6	8,000
Dividends on fully paid ordinary shares paid out: Unfranked final dividend for FY 2006	5.0	5,750

On 4 October 2006, an unfranked final dividend of 5 cents per share was paid to the holders of fully paid ordinary shares in respect of the financial year ended 30 June 2006. In respect of the financial year ended 30 June 2007, the directors recommend the payment of a final dividend of 6.6 cents per share fully franked to the holders of fully paid ordinary shares. This dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. If approved, the dividend will be paid to all shareholders on the Register of Members. The total estimated dividend to be paid is $8 million.

	Company	
	2007 $'000	2006 $'000
Adjusted franking account balance	3,521	-
Franking credit recognized that will arise from payment of income tax payable as at the end of financial year	9,445	-
Impact on franking account balance of dividends not recognised	2,400	-

23. COMMITMENTS FOR EXPENDITURE

As at 30 June 2007, the group has commitments of $1.5m relating to the purchase of a corporate premise in Sydney, Australia. A 10% deposit has already been paid for this premise. Additionally the group has committed to purchase four Saab Aircraft for $9.4m. These aircraft are currently leased and are about to come off lease. The purchase will be concluded in July 2007. The group has already paid for the aircraft in full. The remaining $387 thousand was for other property , plant and equipment, predominantly in engineering and ground service equipment.

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
(A) CAPITAL EXPENDITURE COMMITMENTS				
Plant and equipment				
Not longer than 1 year	11,287	7,772	11,287	7,772
Longer than 1 year and not longer than 5 years	-	-	-	-
Longer than 5 years	-	-	-	-
	11,287	7,772	11,287	7,772

24. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Contingent liabilities				
Court proceedings	-	-	-	-

25. SUBSIDIARIES

Name of entity	Country of incorporation	Ownership interest 2007 %	Ownership interest 2006 %
Parent entity			
Regional Express Holdings Limited	Australia		
Subsidiaries			
Regional Express Pty Ltd	Australia	100	100
Air Link Pty Ltd	Australia	100	100
Rex Freight & Charter Pty Limited	Australia	100	100
Rex Investment Holdings Pty Ltd	Australia	100	100
Pel Air Aviation Pty Ltd	Australia	100	50

Regional Express Holdings Limited is the head entity within the tax-consolidated group.
These subsidiary companies are members of the tax-consolidated group.

26. ACQUISITION OF BUSINESSES

Names of businesses acquired	Principal activity	Date of acquisition	Proportion of shares acquired (%)	Cost of acquisition $'000
Pel Air Aviation Pty Ltd*	Airline	Nov 05	50%	13,894
		Jan 07	25%	6,097
		Jun 07	25%	12,897
				32,888

	Pel Air Aviation Pty Ltd			
Net assets acquired	**Book value as at 1 Jan 07 $'000**	**Fair value adjustment $'000**	**Fair value on acquisition $'000**	**Total fair value on acquisition $'000**
Current assets				
Cash & cash equivalents	1,100		1,100	1,100
Trade & other receivables	2,167		2,167	2,167
Inventories	3,930		3,930	3,930
Non-current assets				
Aircraft	30,072		30,072	30,072
Plant & equipment	3,183		3,183	3,183
Other non-current assets	11		11	11
Current liabilities				
Trade & other payables	(4,309)		(4,309)	(4,309)
Interest Bearing Loans	(6,683)		(6,683)	(6,683)
Current Tax Liability	(146)		(146)	(146)
Non-current liabilities				
Deferred tax liabilities	(8,021)	7,090	(931)	(931)
	21,304		28,394	28,394

* The subsidiary that was acquired in the financial year was subject to a step acquisition in accordance with AASB 3 Business Combinations. The subsidiary was an associate up to 1 January 2007 and was equity accounted up to that date. On 2 January 2007 a further 25% interest in the entity was purchased, resulting in the company obtaining control and consolidating the entity from that date. The remaining 25% was acquired on 30 June 2007 resulting in the company owning 100% of the subsidiary.

The cost of acquisition above is the cost of the subsidiary in accordance with AASB 3 Business Combinations, with the carrying value of the associate at 1 January 2007 being the cost of the first 50% of the subsidiary. The cost of the first 25% acquisition was the cash paid plus associated costs and the cost of the second 25% being the fair value of the equity instruments granted plus associated costs.

6 million shares were issued as part of the final 25% acquisition. A weighted average share price was used to determined the fair value of shares at grant date.

The fair value of the subsidiaries assets and liabilities at acquisition date represent the value of those assets and liabilities at 2 January 2007, the date the company obtained control of the subsidiary.

The goodwill recognised in relation to the subsidiary of $6.6M represents the excess of the purchase consideration of each step acquisition less the fair value of the net assets acquired at that time.

27. NOTES TO THE CASH FLOW STATEMENT

(A) RECONCILIATION OF CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Cash and cash equivalents	18,617	23,583	12,953	22,423
Bank overdraft	-	-	-	-

(B) BUSINESSES ACQUIRED

During the financial year, the Group acquired one business. The net cash outflow on acquisition was $4,994 thousand. Refer to note 26 for further details of these acquisitions.

(C) RECONCILIATION OF PROFIT FOR THE PERIOD TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Profit for the year	23,626	15,724	19,101	12,455
(Gain)/loss on sale or disposal of non-current assets	47	(359)	48	(359)
(Gain)/loss on disposal of business	-	(1,081)	-	-
Share of associates' profit	(821)	(2,201)	-	-
Depreciation and amortisation	5,652	4,204	4,070	3,573
Foreign exchange (gain)/loss	1,345	-	1,345	-
Equity-settled share-based payment	690	487	690	487
Interest income received and receivable	(1,131)	(1,076)	(1,157)	(1,138)
Increase/(decrease) in current tax liability	6,711	6,289	5,980	6,337
Increase/(decrease) in deferred tax balances	787	-	952	-
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:				
(Increase)/decrease in assets:	-	-	-	-
Trade and other receivables	(1,606)	3,673	(15,909)	3,468
Inventories	(2,548)	(426)	(1,758)	(793)
Other financial assets	-	-	-	(117)
Increase/(decrease) in liabilities:				
Trade and other payables	2,188	2,423	4,723	2,710
Provisions	4,271	(392)	2,377	(337)
Other liabilities	(244)	(348)	(245)	(348)
Derivatives	-	40	-	40
Net cash from operating activities	38,967	26,957	20,216	25,978

27. NOTES TO THE CASH FLOW STATEMENT (CONTINUED)

(D) NON-CASH INVESTING ACTIVITIES

During the year the entity purchased the remaining 25% of Pel Air Aviation Pty Ltd through the issue of 6,000 thousand shares.

28. FINANCIAL INSTRUMENTS

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in notes 2 and 3 to the financial statements.

FORWARD FOREIGN CURRENCY CONTRACTS

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

	Average exchange rate		Foreign Currency		Contract Value		Fair Value	
Outstanding Contracts	**2007**	**2006**	**2007 USD'000**	**2006 USD'000**	**2007 $'000**	**2006 $'000**	**2007 $'000**	**2006 $'000**
Consolidated								
Buy US Dollars								
Less than 12 Months	0.8228	-	17,000	-	20,662	-	(526)	-
Company								
Buy US Dollars								
less than 12 months	0.8228	-	17,000	-	20,662	-	(526)	-

The Group has significant USD requirements relating to its operational activities in the FY 2008. These relate to aircraft lease payments, an engine maintenance contract with General Electric Company (GE), insurance premiums and other engineering expenses. As at reporting date the aggregate amount of unrealized losses under forward foreign exchange contracts deferred in the hedging reserve relating to exposure on these anticipated future transactions is $526 thousand (FY 2006 : nil). It is anticipated that these transactions will take place over a period of 12 months.

The following table details the consolidated and company's exposure to interest rate risk as at 30 June 2007.

2007	Weighted average interest rate %	Fixed maturity dates Less than 1 year $'000	1-2 years $'000	2-3 years $'000	Non interest bearing $'000	Total $'000
CONSOLIDATED						
Financial assets						
Cash and cash equivalents	4.2%	18,617	-	-	-	18,617
Trade and other receivables	-	-	-	-	12,402	12,402
Other financial assets	-	-	-	-	11	11
Other assets	-	-	-	-	-	-
Financial liabilities						
Trade and other payables	-	-	-	-	30,017	30,017
Borrowings – lease liabilities	7.5%	2,402	1,536	1,657	-	5,595
Income tax payable	-	-	-	-	8,799	8,799
Provisions	-	-	-	-	9,589	9,589
COMPANY						
Financial assets						
Cash and cash equivalents	4.2%	12,953	-	-	-	12,953
Trade and other receivables	-	-	-	-	9,667	9,667
Other financial assets	-	-	-	-	-	-
Other assets	-	-	-	-	42,256	42,256
Financial liabilities						
Trade and other payables	-	-	-	-	26,550	26,550
Borrowings – lease liabilities	-	-	-	-	-	-
Income tax payable	-	-	-	-	7,427	7,427
Provisions	-	-	-	-	7,258	7,258

The following table details the consolidated and company's exposure to interest rate risk as at 30 June 2006.

2006						
CONSOLIDATED						
Financial assets						
Cash and cash equivalents	4.2%	23,583	-	-	-	23,583
Trade and other receivables	-	-	-	-	7,356	7,356
Other financial assets	-	-	-	-	-	-
Other assets	-	-	-	-	-	-
Financial liabilities						
Trade and other payables	-	-	-	-	23,520	23,520
Borrowings – lease liabilities	-	-	-	-	-	-
Income tax payable	-	-	-	-	1,942	1,942
Provisions	-	-	-	-	7,309	7,309

28. FINANCIAL INSTRUMENTS (CONTINUED)

2006	Weighted average interest rate %	Fixed maturity dates: Less than 1 year $'000	1-2 years $'000	2-3 years $'000	Non interest bearing $'000	Total$'000
COMPANY						
Financial assets						
Cash and cash equivalents	4.2%	12,953	-	-	-	12,953
Trade and other receivables	-	-	-	-	6,859	6,859
Other financial assets	-	-	-	-	-	-
Other assets	-	-	-	-	28,350	28,350
Financial liabilities						
Trade and other payables	-	-	-	-	23,101	23,101
Borrowings – lease liabilities	-	-	-	-	-	-
Income tax payable	6.0%	-	-	-	1,859	1,859
Provisions	-	-	-	-	6,872	6,872

INTEREST RATE RISK MANAGEMENT

The company and the Group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings, by the use of interest rate swap contracts and forward interest rate contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite; ensuring optimal hedging strategies are applied, by either positioning the balance sheet or protecting interest expense through different interest rate cycles.

CREDIT RISK MANAGEMENT

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit ratings of its counterparts are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and
- the fair value of derivative instruments are calculated using quoted prices. Where such prices are not available use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

LIQUIDITY RISK MANAGEMENT

Ultimate responsibility for liquidity risk management rests with the board of directors, who has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

29. SHARE-BASED PAYMENTS

EMPLOYEE SHARE OPTION PLAN

The Group has an ownership-based compensation scheme for directors, senior management executives, key managers, consultants and contractors of the Group. In accordance with the provisions of the plan, as approved by the board of directors at a board meeting, directors, senior management executives, key managers, consultants and contractors with more than 12 months service with the company may be granted options to purchase parcels of ordinary shares at an exercise price of $1.00 per ordinary share.

Each employee share option converts into one ordinary share of Rex on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The number of options granted is calculated in accordance with the performance based formula approved by the board of directors at a board meeting and is subject to approval by the Remuneration Committee.

The options granted expire within three months of their issue for directors, consultants and contractors, or three months of their resignation, whichever is the earlier. The options granted expire within twelve months of their issue for senior management executives, key managers, or three months of their resignation whichever is the earlier.

The following share-based payment arrangements were in existence during the current and comparative reporting periods:

Options series	Number	Grant date	Expiry date	Exercise price $	Fair value at grant date $
3-month employee share options issued in FY 2007	741,000	4 Dec 2006	4 Mar 2007	1.00	0.1254
12-month employee share options issued in FY 2007	1,576,238	4 Dec 2006	4 Dec 2007	1.00	0.1415

In accordance with the terms of the share-based arrangement, options issued during the financial year ended 30 June 2007 vest at the date of their issue.

The weighted average fair value of the share options granted during the FY 2007 is $315,959 There were no share options granted in FY 2006. Options were priced using a binomial option pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioural considerations.

		Option series issued in FY 2007	
Inputs into the model		3-month employee share options	12-month employee share options
Grant date share price	$	1.12	1.12
Exercise price	$	1.00	1.00
Expected volatility	%	7.00	7.00
Option life	months	3	12
Dividend yield	%	2.50	2.50
Risk-free interest rate	%	5.00	5.00

29. SHARE-BASED PAYMENTS (CONTINUED)

The following reconciles the outstanding share options granted under the employee share option plan at the beginning and end of the financial year:

	2007	
	Number of options	Weighted average exercise price $
Balance at beginning of the financial year	0	0
Granted during the financial year	2,317,238	315,959
Forfeited during the financial year	0	0
Exercised during the financial year	1,484,408	198,194
Expired during the financial year	155,000	21,852
Balance at end of the financial year	677,830	95,913
Exercisable at end of the financial year	677,830	95,913

30. KEY MANAGEMENT PERSONNEL COMPENSATION

The aggregate compensation made to directors and other members of key management personnel of the company and the Group is set out below:

	Consolidated		Company	
	2007 $	2006 $	2007 $	2006 $
Short-term employee benefits	1,405,458	1,196,801	1,405,458	1,155,298
Post-employment benefits	131,887	89,259	131,887	107,719
Other long-term benefits	203,134	-	203,134	179,705
Share-based payment	261,444	16,080	261,444	1,669,228
	2,001,923	1,302,140	2,001,923	3,111,950

DETAILS OF KEY MANAGEMENT PERSONNEL

The directors and other members of key management personnel of the Group during the year were:

Directors:
Lim Kim Hai
The Hon. John Sharp
Geoffrey Breust
James Davis
Russell Hodge
David Miller
Lee Thian Soo
Robert Winnel
Stephen Jermyn

Key management personnel:
Geoffrey Breust
James Davis
Warrick Lodge
Chris Hine
Irwin Tan
Dale Hall
Brett Davidson
Garry Filmer
Mayooran Thanabalasingham

Naomal Priyantha Gooneratne
(Ceased employment with Rex on 9 January 2007)

Lindsay Tanner
(Ceased employment with Rex on 27 April 2007)

KEY MANAGEMENT PERSONNEL COMPENSATION

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

31. RELATED PARTY TRANSACTIONS

(A) EQUITY INTERESTS IN RELATED PARTIES

Equity interests in associates and joint ventures

Details of interests in associates and joint ventures are disclosed in note 10 to the financial statements.

(B) TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Key management personnel compensation

Details of key management personnel compensation are disclosed in note 30 to the financial statements.

Loans to key management personnel

There have been no loans made to key management personnel.

Key management personnel equity holdings

The following table details shareholdings (total of direct and indirect shareholdings) of directors and key management personnel in the company:

	Balance 1 July 2006	Movement	Balance 30 June 2007
Directors:			
Lim Kim Hai	13,376,092	150,000	13,526,092
The Hon. John Sharp	150,000	250,000	400,000
Geoffrey Breust	52,000	155,000	207,000
James Davis	77,000	(2,000)	75,000
Russell Hodge	100,000	1,000,000	1,100,000
David Miller	0	55,000	55,000
Lee Thian Soo	7,454,362	3,995,000	11,449,362
Robert Winnel	1,563,758	80,000	1,643,758
Stephen Jermyn	850,000	-	850,000

** Stephen Jermyn joined Rex as a director on 26 February 2007*

31. RELATED PARTY TRANSACTIONS (CONTINUED)

	Balance 1 July 2006	Movement	Balance 30 June 2007
Key management personnel:			
Warrick Lodge	0	134,000	134,000
Chris Hine	5,000	167,500	172,500
Irwin Tan	57,000	(50,000)	7,000
Dale Hall	0	0	0
Brett Davidson	0	0	0
Garry Filmer	0	0	0
Mayooran Thanabalasingham	0	0	0
Naomal Priyantha Gooneratne (Ceased employment with Rex on 9 January 2007)	2,000	2,412	4,412
Lindsay Tanner (Ceased employment with Rex on 27 April 2007)	0	2,412	2,412

The following table details the options holdings of directors and key management personnel in the company:

	Balance at 1 July 2006 No.	Granted No.	Exercised No.	Expired No.	Balance at 30 June 2007 No.
Directors:					
Lim Kim Hai	0	150,000	150,000	0	0
The Hon. John Sharp	0	150,000	150,000	0	0
Geoffrey Breust	0	155,000	155,000	0	0
James Davis	0	205,417	0	0	205,417
Russell Hodge	0	100,000	100,000	0	0
David Miller	0	55,000	55,000	0	0
Lee Thian Soo	0	80,000	80,000	0	0
Robert Winnel	0	80,000	80,000	0	0
Stephen Jermyn	0	0	0	0	0
Key management personnel:					
Warrick Lodge	0	134,583	134,000	0	583
Chris Hine	0	167,500	167,500	0	0
Irwin Tan	0	134,583	0	0	134,583
Dale Hall	0	0	0	0	0
Brett Davidson	0	31,944	0	0	31,944
Garry Filmer	0	0	0	0	0
Mayooran Thanabalasingham	0	26,911	0	0	26,911
Naomal Priyantha Gooneratne (Ceased employment with Rex on 9 January 2007)	0	150,000	0	150,000	0
Lindsay Tanner (Ceased employment with Rex on 27 April 2007)	0	150,000	150,000	0	0

All share options issued to key management personnel were made in accordance with the provisions of the employee share option plan.

During the financial year, 1,221,500 options (2006: NA) were exercised by key management personnel at an exercise price of $1 per option for 1,221,500 ordinary Rex shares (2006: NA). No amounts remain unpaid on the options exercised during the financial year at year end.

Further details of the employee share option plan and of share options granted during the 2007 and 2006 financial years are contained in note 29 to the financial statements.

32. REMUNERATION OF AUDITORS

	Consolidated		Company	
	2007 $	**2006 $**	**2007 $**	**2006 $**
Auditor of the parent entity				
Audit or review of the financial report	165,000	158,000	118,000	150,000
Preparation of the tax return	-	-	-	-
Other non-audit services	44,000	-	44,000	-
	209,000	158,000	162,000	150,000

The auditor of the Company is Deloitte Touche Tohmatsu. The auditor of the Company in FY 2006 was Ernst & Young

33. SUBSEQUENT EVENTS

CESSATION OF SERVICES ON OLYMPIC DAM

As of 30 June 2007 Rex ceased operations between Adelaide and Olympic Dam following a review of the route by BHP Billiton the owner and operator of the Olympic Dam mining operation. Resources used in this operation were immediately re-directed to other services within South Australia, particularly Mount Gambier and Port Lincoln. The cessation of services on Olympic Dam will have an impact on the company's revenue and profit but not to an overall material extent.

PURCHASE OF FOUR SAAB 340 AIRCRAFT

In July 2007, Rex purchased four Saab 340B aircraft that were previously operating in Rex's fleet on a lease arrangement. With the expiry of the lease term Rex purchased the aircraft for $9.2m funded from cash reserves.

COMMENCEMENT OF NEW SERVICES IN QUEENSLAND

Rex announced that it would commence services from Brisbane Airport on 7 October 2007 with a new service to Maryborough.

34. SEGMENT INFORMATION

The consolidated entity continues to operate in one segment being the provision of air transport of passengers and freight for both public and private use and operates in only one geographical segment being Australia.

DIRECTORS' DECLARATION

The directors declare that:

- in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
- in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the company and the consolidated entity; and
- the directors have been given the declarations required by s.295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors

Geoffrey Breust
Managing Director
Sydney, 14 September 2007

Deloitte.

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

ANZ Centre
Level 9
22 Elizabeth Street
Hobart TAS 7000
GPO Box 777
Hobart TAS 7001 Australia

DX 197
Tel: +61 (0) 3 6237 7000
Fax: +61 (0) 3 6237 7001
www.deloitte.com.au

Independent Auditor's Report
to the Members of Regional Express Holdings Limited

Report on the Financial Report and AASB 124 Compensation Disclosures in the Directors' Report

We have audited the accompanying financial report of Regional Express Holdings Limited, which comprises the balance sheet as at 30 June 2007, and the income statement, cash flow statement and statement of changes in equity for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 28 to 82.

We have also audited the compensation disclosures contained in the directors' report. As permitted by the *Corporations Regulations 2001*, the company has disclosed information about the compensation of key management personnel ("compensation disclosures") as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 *Related Party Disclosures* ("AASB 124"), under the heading "remuneration report" on pages 22 to 25 of the directors' report, and not in the financial report.

Directors' Responsibility for the Financial Report and the AASB 124 Compensation Disclosures Contained in the Directors' Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The directors are also responsible for the compensation disclosures contained in the directors' report. In Note 3, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report and compensation disclosures contained in the directors' report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement and the compensation disclosures comply with AASB 124.

Member of
Deloitte Touche Tohmatsu

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

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

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's Opinion on the Financial Report

In our opinion:

(a) the financial report of Regional Express Holdings Limited is 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 Date and of their] performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 3

Auditor's Opinion on the AASB 124 Compensation Disclosures Contained in the Directors' Report

In our opinion, the compensation disclosures that are contained on pages 22 to 25 under the heading "remuneration report" of the directors' report comply with paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 *Related Party Disclosures*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Craig Barling
Partner
Chartered Accountants
Hobart, 14 September 2007

CORPORATE GOVERNANCE STATEMENT

The Board is accountable to shareholders for the performance of the Group. The Board must at all times act honestly, fairly and diligently in all respects in accordance with the law applicable to the Company and must act in the best interests of the shareholders of the Company and other stakeholders.

This Board Charter and the charters adopted by the Board for the Committees to be established by the Board have been prepared and adopted on the basis that corporate governance procedures can add to the performance of the Group and the creation of shareholder value, and endeavour to engender the confidence of the investment market.

The Board is responsible for the management of the affairs of the Group, including:

(A) STRATEGIC AND FINANCIAL PERFORMANCE

- Developing and approving the corporate strategy.
- Evaluating, approving and monitoring the strategic and financial plans and objectives of the Group.
- Evaluating, approving and monitoring the annual budgets and business plans.
- Determining the Company's dividend policy, the operation of the Company's dividend re-investment plan (if any), and the amount and timing of all dividends.
- Evaluating, approving and monitoring major capital expenditure, capital management and all major acquisitions, divestitures and other corporate transactions, including the issue of securities of the Company.
- Approving all accounting policies, financial reports and material reporting and external communications by the Group.
- Appointment of the Chairman of the Company.

(B) EXECUTIVE MANAGEMENT

- Appointing, monitoring, managing the performance of the Chief Executive Officer or Managing Director and other executive Directors.
- Managing succession planning for the executive Directors and such other key management positions which may be identified from time to time.
- Appointing the Company Secretary.
- With the advice and assistance of the Remuneration & Nomination Committee, reviewing and approving the performance and remuneration of the individual Board members and policies with respect to remuneration of any employees.

(C) AUDIT

- Upon the recommendation of the Audit and Governance Committee, appointing the external auditor and determining its remuneration and terms of appointment.
- Ensuring that effective audit and regulatory compliance programmes are in place to protect the Group's assets and shareholder value.
- Approving and monitoring the Group's audit framework. Approving and, with the assistance and advice of the Audit and Governance Committee, monitoring compliance with the Group's audit policies and protocol.
- Monitoring the Group's operations in relation to, and compliance with relevant regulatory and legal requirements.

(D) CORPORATE GOVERNANCE

At least once per year the Board will, with the assistance and advice of the Audit and Governance Committee, review the performance and effectiveness of the Company's corporate governance policies and procedures and, if appropriate, amend those policies and procedures as necessary.

The Board will review and approve all disclosures related to any departures from the ASX Principles of Good Corporate Governance.

- The Board will review and approve the public disclosure of any of the Group's policies and procedures.
- The Board will supervise the public disclosure of all matters that the law and ASX Listing Rules require to be publicly disclosed, consistent with the Continuous Disclosure Compliance Policy approved by the Board.
- The Board will approve the appointment of Directors to Committees established by the Board.
- The Board will approve and monitor delegations of authority.

(E) RISK MANAGEMENT

- Ensuring that effective risk management programmes are in place to protect the Group's assets and shareholder value.
- Approving and monitoring the Group's risk framework, including (but not limited to) systems of risk management and internal control. Approving and, with the assistance and advice of the Risk Management Committee, monitoring compliance with the Group's risk.

(F) STRATEGIC PLANNING

- The Board will be actively and regularly involved in strategic planning.
- Strategic planning will be based on the identification of opportunities and the full range of business risks that will determine which of those opportunities are most worth pursuing.
- The Board will, on an ongoing basis, review how the strategic environment is changing, what key business risks and opportunities are appearing, how they are being managed and what, if any, modifications in strategic direction should be adopted

(G) PERFORMANCE EVALUATION

- At least once per year the Board will, with the advice and assistance of the Remuneration and Nomination Committee, review and evaluate the performance of the Board, each Board Committee, and each individual Director against the relevant Charters, corporate governance policies, and agreed goals and objectives.
- Following each review and evaluation the Board will consider how to improve its performance.
- The Board will agree and set the goals and objectives for the Board and its Committees each year, and if necessary, amend the relevant Charters and policies.
- With the advice and assistance of the Remuneration and Nomination Committee, the Board will review and approve the remuneration of the Company's executive and non-executive Directors.

AUDIT AND CORPORATE GOVERNANCE COMMITTEE

The Audit and Corporate Governance Committee has been established by the Board of Regional Express Holdings Limited (the Company) and applies to the Company and its subsidiaries (the Group) to support and advise the Board in fulfilling its responsibilities to shareholders, employees and other stakeholders of the Company by:

- assisting the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control relating to all matters affecting the Group's financial performance, the audit process, and the Company's process for monitoring compliance with laws and regulations and the code of conduct;
- advising the Board on good governance standards and appropriate corporate governance policies for the Group; and
- critically reviewing the Group's performance against its corporate governance policies.

This committee is chaired by Stephen Jermyn and has two other members, Robert Winnel and the Hon. John Sharp. Descriptions of the members' qualifications, skills and experience are included in the directors' report on pages 7 to 9.

REMUNERATION AND NOMINATION COMMITTEE

The Remuneration & Nomination Committee has been established by the Board of Regional Express Holdings Limited (the Company) and applies to the Company and its subsidiaries (the Group) to support and advise the Board in fulfilling its responsibilities to shareholders, employees and other stakeholders of the Company by endeavouring to ensure that:

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

- review the performance of the Board, the chairman of the Board, the executive and non-executive Directors, and other individual members of the Board; and
- ensure that proper succession plans are in place for consideration by the Board.

This committee is chaired by the Hon. John Sharp and has two other members, Robert Winnel and James Davis. Descriptions of the members' qualifications, skills and experience are included in the directors' report on pages 7 to 9.

SAFETY COMMITTEE

The Safety Committee has been established by the Board of Regional Express Holdings Limited (the Company) and applies to the Company and its subsidiaries (the Group) to support and advise the Board in fulfilling its responsibilities to shareholders, employees and other stakeholders of the Company by:

- Assisting the Board in fulfilling its development, oversight and review responsibilities for the safety culture and safety management processes as defined by the separate safety policies published for each Air Operator Certificate holder within the Group; &
- Implementing and supervising the Group's operational risk assessment framework.

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

This committee is chaired by the Russell Hodge and has three other members, Geoffrey Breust, David Miller and James Davis. Descriptions of the members' qualifications, skills and experience are included in the directors' report on pages 7 to 9.

ASX ADDITIONAL INFORMATION AS AT 31 AUGUST 2007

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

NUMBER OF HOLDERS OF EQUITY SECURITIES

Ordinary share capital

121,000,000 fully paid ordinary shares are held by 2,774 individual shareholders.

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

DISTRIBUTION OF HOLDERS OF EQUITY SECURITIES

	Fully Paid Ordinary Shares		
	Investors	**Securities**	**Issued Capital (%)**
1 – 1,000	462	318,493	0.26
1,001 – 5,000	1,536	4,401,129	3.64
5,001 – 10,000	368	3,061,432	2.53
10,001 – 100,000	356	10,975,302	9.07
100,001 and over	52	102,243,644	84.50
Total	2,774	121,000,000	100.00

ASX ADDITIONAL INFORMATION AS AT 31 AUGUST 2007 (CONTINUED)

SUBSTANTIAL SHAREHOLDERS

	Fully Paid	
Ordinary Shareholders	**Number**	**Percentage**
Kim Hai Lim & Hui Ling Tjoa	13,609,092	11.25%
Kim Lark Lim	11,462,058	9.47%
Thian Soo Lee	7,722,181	6.38%
Joo Chye Chua	7,454,362	6.16%
Ming Yew See Toh & Hui Ing Tjoa	7,454,362	6.16%
Joe Tiau Tjoa	6,627,615	5.48%
Kerk Chuan Seah	6,328,018	5.23%

TWENTY LARGEST HOLDERS OF QUOTED EQUITY SECURITIES

	Fully Paid	
Ordinary Shareholders	**Number**	**Percentage**
Kim Lark Lim	11,462,058	9.47%
Kim Hai Lim	8,004,362	6.62%
Thian Soo Lee	7,722,181	6.38%
Joo Chye Chua	7,454,362	6.16%
Ming Yew See Toh & Hui Ing Tjoa	7,454,362	6.16%
Joe Tiau Tjoa	6,627,615	5.48%
Kerk Chuan Seah	6,328,018	5.23%
Hui Ling Tjoa	5,604,730	4.63%
National Nominees Limited	5,113,672	4.23%
J P Morgan Nominees Australia Limited	4,401,250	3.64%
Lay Khim Ng	3,727,181	3.08%
ANZ Nominees Limited	3,260,314	2.69%
Cogent Nominees Pty Limited	2,806,179	2.32%
HSBC Custody Nominees (Australia) Limited	2,315,563	1.91%
Kok Leong Lee	2,277,729	1.88%
Mirrabooka Investments Limited	2,000,000	1.65%
Equity Investments (ACT) Pty Limited	1,871,075	1.55%
Rex Investment Holdings Pty Limited	1,065,419	0.88%
Jowong Pty Limited	1,050,000	0.87%
Kaycraft Super Investments Pty Ltd	1,023,480	0.85%

Rex Group of Companies: