



rex.
Regional Express

Annus Horribilis

ANNUAL REPORT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008
REGIONAL EXPRESS HOLDINGS LIMITED

REGIONAL EXPRESS VALUE STATEMENT

What does it profit a company if it gains the whole world and loses its soul

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.

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.

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 are committed to 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

"This is not a year on which I shall look back with undiluted pleasure. It has turned out to be an 'Annus Horribilis'. I suspect that I am not alone in thinking it so. Indeed, I suspect that there are very few people or institutions unaffected by these last months of worldwide turmoil and uncertainty".

Queen Elizabeth pre-empted in 1992 what every airline chief must be thinking today.

And yet FY 2008 started well with Rex and with most other airlines in very good shape and looking confidently towards the future. The second half ended catastrophically with two dozen airlines worldwide folding up. Closer to home all three major airlines in Australia announced draconian plans to cut services, cut staff and ground planes. One year is an eternity in aviation.

Rex as you know was hit earlier than the other main carriers with massive haemorrhaging of the pilot ranks right from the word 'GO' in July 2007 culminating in an annual attrition rate of 50% by end of the financial year. Furthermore we were totally unhedged and so completely exposed to the horrendous surges in fuel price.

Not even the most solid of airlines could survive this twin onslaught without massive damage. Yet survive we did. And more. After a hesitant start in the first half, Rex's second half operating profits improved by 15% over the previous year. What is even more pleasing is that in the fourth quarter when the oil prices reached the giddy heights of USD140 a barrel, we managed to improve our profits further by 32% over the prior period. I do not know of many airlines which improved on its profitability in those three months. In fact practically all airlines lost money in the quarter if we took away the oil hedging effect.

Overall for the full FY the net earnings was 3% above the previous year, not what we had originally forecasted but very pleasing nonetheless given the circumstances.

The future for aviation remains very bleak. However I am quietly confident that Rex's strong fundamentals, proven ability to perform well under the toughest conditions and its superb staff would enable Rex to continue to outperform the industry.

In Rex we believe that when the going gets tough, the tough get stronger.



*Lim Kim Hai
Executive Chairman
12 September 2008*

*Weathering
the storm*



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
James Davis
Russell Hodge
David Miller
Lee Thian Soo
Geoffrey Breust (resigned 5 December 2007)
Robert Winnel (resigned 22 April 2008)
Stephen Jermyn (resigned 6 June 2008)

COMPANY SECRETARIES

Irwin Tan
Benjamin Ng

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

PART I Directors' Report	4 - 20
Auditor's Independence Declaration	21
PART II Financial Report	22 - 73
Income Statement	24
Balance Sheet	25
Cash Flow Statement	26
Statement of Changes in Equity	27 - 28
Notes to the Financial Statements	29 - 72
Directors' Declaration	73
PART III Regulatory Reports	74 - 81
Independent Auditor's Report	76 - 77
Corporate Governance Statement	78 - 80
ASX Additional Information	81



DIRECTORS' REPORT

01. BOARD OF DIRECTORS

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 2008.

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 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 investments 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 a former 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 recently retired 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.



JAMES DAVIS

Managing Director

Appointed 27 May 2008

Mr. Davis is a qualified Aeronautical Engineer and worked for four years with the Civil Aviation Safety Authority before obtaining his Air Transport Pilot Licence. Since then he has flown professionally with airlines in Australia and overseas for some 25 years. Upon joining Hazelton Airlines in 1999, he was appointed Flight Operations and Standards Manager and 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 and was appointed Managing Director in May 2008. Mr. Davis is Chairman of the Australian Airline Pilot Academy Pty Ltd. He also sits on the Aviation Safety Forum, an advisory body to the CEO of the Civil Aviation Safety Authority.



RUSSELL HODGE
Independent Director

Appointed 31 March 2008

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, former CEO of Pel-Air Aviation Pty Limited, was an executive director of Pel-Air from November 1994 to March 2008. He is currently a non-executive 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.

GEOFFREY BREUST
Managing Director
Resigned 5 December 2007

ROBERT WINNEL
Independent Director
Resigned 22 April 2008

STEPHEN JERMYN
Independent Director
Resigned 6 June 2008



DAVID MILLER
Executive Director, Rex
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 Pty Limited 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 regular passenger transport 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.

02. SENIOR MANAGEMENT EXECUTIVES

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



JAMES DAVIS
Managing Director

Jim is a member of the Board of Directors and chairs the Rex Management Committee. A description of his qualifications, skill and experience is included on page 6.



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 analysis of both existing and new market opportunities. Warrick has more than 16 years of 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 of 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.



MAYOORAN THANABALASINGHAM

General Manager, Information Technology and Communications

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, Amend Booking Engine and Web Check-in. Mayooran is a member of the Rex Management Committee.



GARRY FILMER

General Manager, Engineering

Garry is a Licensed Aircraft Maintenance Engineer with 30 years experience and has been involved in Regional Airline and Maintenance Repair Organisation management over the last 15 years, holding positions such as Engineering Manager and General Manager Engineering. Garry joined Rex in 2007 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 became General Manager, Engineering in June 2008 and is 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 a Maintenance Controller for Rex and took up the position of Maintenance Control Manager in 2007.

03. DIRECTORSHIPS OF OTHER LISTED COMPANIES

During the year under review, no directors appointed as at 30 June 2008 served as a director with any other company listed on the ASX.

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	18,480,630	5,604,730	-
The Hon. John Sharp	300,000	100,000	-
James Davis	235,618	-	-
Russell Hodge	124,000	1,000,000	-
David Miller	55,000	-	-
Lee Thian Soo	7,722,181	3,727,181	-

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, four Board meetings, three Remuneration and Nomination Committee meetings, two Audit and Corporate Governance Committee meetings and two Safety and Risk Management Committee meetings were held. Note: the Managing Director chairs the Rex Safety Management Group which meets monthly and the Chairman of the Safety and Risk Management Committee attends those meetings.

Directors	Board	Remuneration & Nomination Committee	Audit & Corporate Governance Committee	Safety & Risk Management Committee
No. of meetings held:	4	3	2	2
Attendance:				
Lim Kim Hai	4 (Chair)	-	-	-
The Hon. John Sharp	4	3 (Chair)	2	-
Geoffrey Breust	1	-	-	-
James Davis	4	2	-	2
Russell Hodge	4	-	-	2 (Chair)
David Miller	3	-	-	-
Lee Thian Soo	4	-	-	-
Robert Winnel	3	-	2	-
Stephen Jermyn	3	1	2 (Chair)	-

06. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Information about the remuneration of directors and senior management is set out in the remuneration report of this directors' report, on pages 17 to 20.

07. SHARES UNDER OPTION OR ISSUED ON EXERCISE OF OPTIONS

No options were granted in FY 2008. All remaining options which were granted in FY 2007 were either exercised or expired in FY 2008. The number of options exercised by directors and senior management are detailed in the remuneration report.

08. 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.

09. COMPANY SECRETARIES

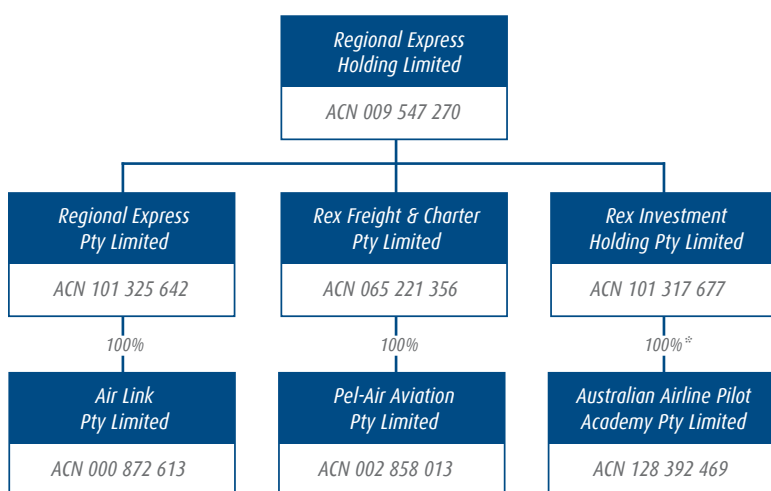
Mr Irwin Tan holds the position of company secretary of Rex. A description of his qualifications, skills and experience is included on page 9.

Mr Benjamin Ng, having completed his Bachelor of Science followed by an MBA in the UK, started his career with the German multi-national chemical company, Henkel in Malaysia. In his eight years with Henkel/Cognis, he held various positions ranging from sales, marketing, business analysis and cost controlling. In 2001, he was posted to headquarters in Germany for just over a year where he was cost controller for the Asia Pacific Region. Upon his return to Malaysia, he headed up the controlling department of Cognis for three years. Benjamin joined Rex in April 2006 and was appointed company secretary on 10 October 2007.

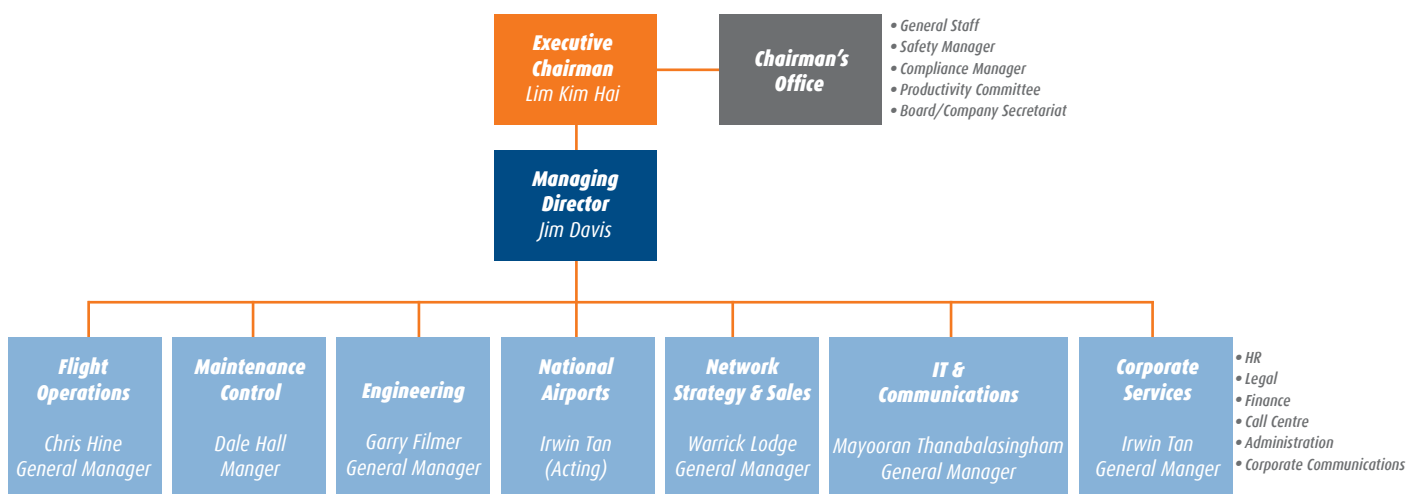
10. PRINCIPAL ACTIVITIES

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

11. ORGANISATION & GROUP STRUCTURES



*From 18th April 2008



12. REVIEW OF OPERATIONS

Record pilot attrition (50% for FY 2008) and record fuel prices shaped the operations in FY 2008. It was a year that required decisive actions on a number of fronts, but fortunately, the ground-work that was undertaken in prior years provided Rex with a solid platform to cope with drastic changes in the operating climate in FY 2008.

Throughout FY 2008 the high pilot attrition steered frequency reductions and some service suspensions. However, in the second half and particularly in the last quarter the record fuel prices also came into play. The per flight sector fuel surcharge increased from \$24 at the opening of FY 2008 to \$44 at the close of FY 2008, with all but \$3 of the increase occurring in the second half of FY 2008 which mirrored the movements in fuel price.

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 air services to those communities. In the year under review, new partnership agreements were forged with the District Council of Lower Eyre Peninsula (owner of Port Lincoln airport) and the District Council of Ceduna. Partnership agreements were renewed with the regional councils that own and operate the following regional airports: Albury, Broken Hill, Bathurst, Ballina, Burnie, Coober Pedy, Grafton, Griffith, Lismore, Moruya, Narrandera, Parkes, Taree and Wagga Wagga. A new partnership was concluded with the Dubbo City Council which will take effect in FY 2009.

ROUTE NETWORK DEVELOPMENTS

Overall FY 2008 saw continued growth in passengers and revenue in spite of the severe stresses that Rex faced in its operating environment. The partnerships with local councils who own and operate most regional airports were integral to the network decisions that impacted FY 2008.

Despite the frequency reductions and some service suspensions, Rex passenger growth for FY 2008 was 5.4% over the previous year and passenger growth on partnership routes was 12% for the same period. FY 2008 was the first full year of operating the Saab 340 aircraft as a single fleet type on regular passenger transport services, with the Company having completed the phasing out of the 19-seat Metro 23 in the first half of FY 2007. The Rex transition to a single fleet type has produced timely efficiency gains that have helped to protect Rex's unit costs and therefore partially shelter the impacts of rising fuel prices. The single fleet type has also been extremely valuable in coping with the record pilot attrition.

At the opening of FY 2008, Rex commenced a new service between Griffith and Melbourne. This was a new service to complement the existing Griffith to Sydney service and it provided a much needed linkage between the city of Griffith and Melbourne. In October 2007, Rex commenced services between Maryborough and Brisbane which saw affordable fares and a frequent and convenient flight schedule introduced to the city of Maryborough.

However the expansion plans were quickly unravelled by severe external shocks and Rex was the first in Australia to react by scaling back services. In quick succession the Cooma (Snowy Mountains) to Sydney service was suspended in November, followed by the suspension of the Brisbane to Maryborough service in the same month and finally the new Griffith to Melbourne service was suspended in February 2008. Coupled with frequency reductions on other routes, Rex reduced the overall network capacity by some 6% by the end of the financial year.

However there were also routes that saw significant increases in capacity due to the phasing out of the Metro 23 aircraft and a full year of Saab operations. Services that benefited were Adelaide to Broken Hill, Ceduna, Coober Pedy, Mount Gambier and Whyalla. In partnership with the Broken Hill City Council, we saw a full year of increased capacity between Broken Hill and Sydney that commenced in Q3 of the prior financial year and this delivered 45% passenger growth on the Broken Hill to Sydney route.

Capacity was also increased between Sydney and Dubbo on the back of the Group transitioning the Air Link 19-seat Beech 1900D services to the Rex 34-seat Saab 340 services at peak times of the day. This occurred in November 2007 and resulted in significant Rex passenger growth of 29% for Dubbo in FY 2008.

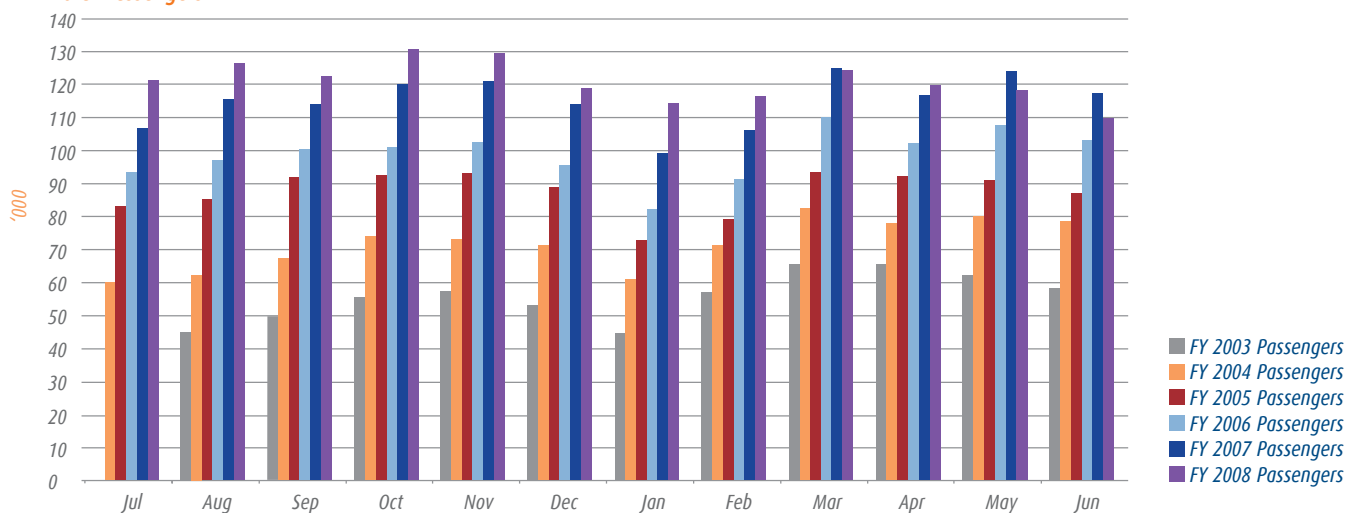
The Group rationalised services on the Sydney to Bathurst route during FY 2007 with operations transferred from the Rex Saab 340 to the Air Link Beech 1900D in January 2007. This was maintained throughout FY 2008 and the dedicated Beech 1900D frequency proved popular with solid passenger growth on the Bathurst route.

There were some significant changes to the competitive market position of the airline over the course of the year. O'Connor Airlines announced it was discontinuing services between Mount Gambier and Melbourne at the end of FY 2007. O'Connor Airlines then withdrew services from the Whyalla to Adelaide route in September 2007 and this was followed by the airline entering voluntary administration in November 2007, and ceasing operations in December 2007.

The tables below set out the growth in monthly passenger carriage and monthly passenger revenue over the last four financial years. One can clearly see the reduction of services in the last quarter on the passenger numbers.

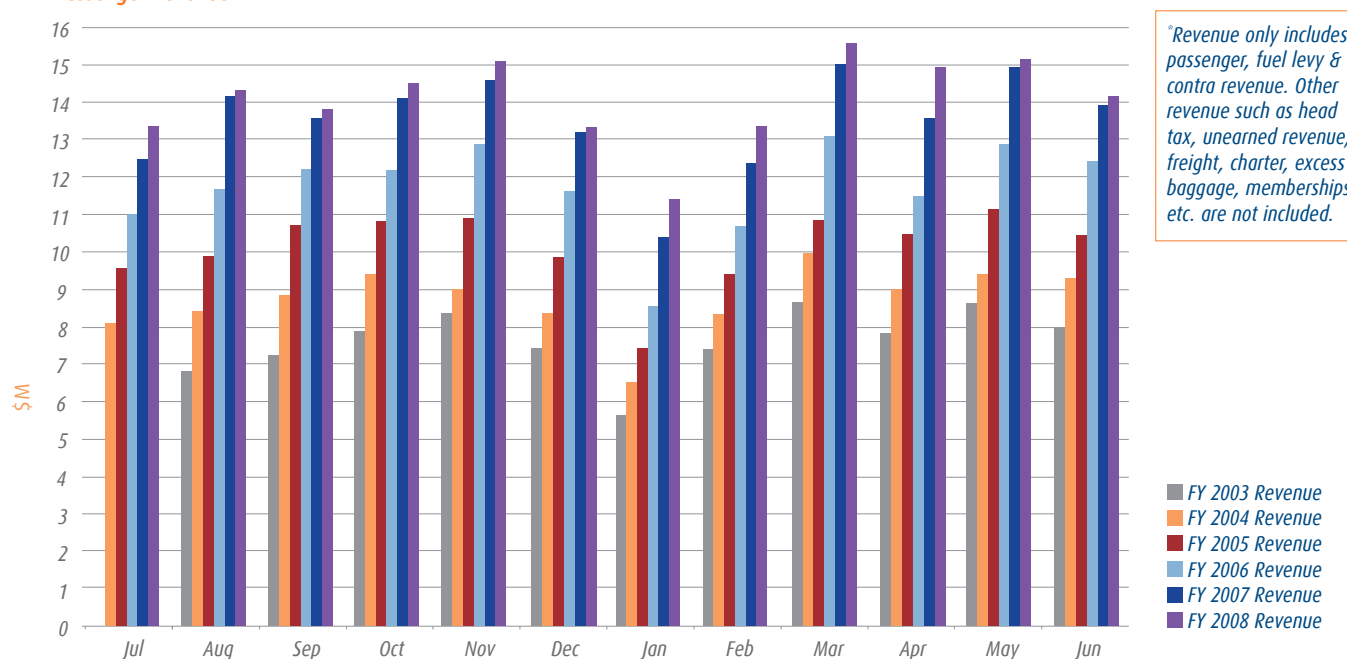
Monthly Passenger Chart

Total Passengers



Monthly Passenger Revenue

Passenger Revenue*



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

FLEET CHANGES

In November 2006, an agreement was reached with Saab Aircraft Leasing for Rex to lease 25 Saab 340B Plus aircraft for delivery over the subsequent three years. The first of the 340B Plus aircraft entered service in the last quarter of FY 2007 and during FY 2008 a further 10 entered service, which allowed for the release of two Saab 340A aircraft for freight conversion and the parting out of a Saab 340B for spares. One of the converted freighters was sold and the second one was designated for deployment within Pel-Air. Rex also purchased four additional Saab 340B aircraft that were coming to the end of their lease in the first quarter of FY 2008.

The purchase of these aircraft, as with all of Rex's capital expenditure, was funded by operating cash flows.

12. REVIEW OF OPERATIONS (CONTINUED)

There were no changes in the Pel-Air fleet except for the refurbishment of a Westwind aircraft for corporate charter, which was placed in service early in FY 2009.

There were no fleet changes for Air Link.

The Australian Airline Pilot Academy Pty Ltd (AAPA) acquired eight new aircraft in the financial year for its training requirements. The wholly owned subsidiary of the Rex Group has a fleet of one Piper Seminole and seven Piper Warrior aircraft.



The refurbished Westwind aircraft from the Pel-Air fleet.

IMPROVING PRODUCTIVITY


The Group's Productivity Committee continued its efforts throughout the year with the launching of its fourth consecutive productivity drive. The committee ended the year with a total realised savings of \$2.9M.

The Group's Cost per Available Seat Kilometre (ASK) increased 4.8% from 22.7 cents in FY 2007 to 23.8 cents in FY 2008. This increase is largely due to the continued increases in fuel costs to \$38.9M from \$32.6M in the previous financial year (an increase of 19.3%).

The realised productivity savings enabled the Group to continue its growth strategy of keeping air fares at a competitive, affordable level, particularly in the context of rising fuel prices and the associated increase in the fuel levy. As a result, the Group's average fare of \$141.30 (exclusive of GST) in FY 2008 was the same as that of the prior year. Indeed, excluding the fuel levy, the average fare in FY 2008 of \$116.30 would be approximately 1.9% lower than the average fare of \$118.50 in the previous year.

OPERATIONAL AND SERVICE STANDARDS

Over the year, Rex achieved the best On Time Departure record of all Australian airlines as measured by the Bureau of Infrastructure, Transport and Regional Economics. Cancellation rates shot up six fold due to the high pilot attrition however Rex still managed to have the third lowest rate in Australia.

Airline	On time departure			Cancellation rate (%)		
	FY 2008	FY 2007	FY 2006	FY 2008	FY 2007	FY 2006
 Rex Regional Express	1st	3rd	1st	1.2%	0.2%	0.2%
QantasLink	2nd	1st	5th	1.2%	0.6%	1.1%
Qantas	6th	4th	6th	2.3%	1.0%	1.1%
Jetstar	7th	4th	4th	0.9%	0.5%	0.5%
Virgin Blue	3rd	2nd	2nd	1.9%	0.9%	0.8%
Skywest	4th	6th	3rd	0.9%	3.1%	2.8%
MacAir	5th	5th	7th	5.2%	2.2%	2.2%

Source: BITRE stats based on financial years.



In October 2007, Rex was named “Regional Airline of the Year 2007” by the Centre for Asia Pacific Aviation (CAPA) based on the Company’s notable achievements in the aviation industry. This award recognises Aviation Excellence and was awarded to Rex as the regional airline that had the most significant impact, shown strategic leadership and demonstrated innovation in regional aviation.

ethicalinvestor



Rex was also awarded the title of “Sustainable Small Company of the Year 2007” on 30 November 2007 by Ethical Investor magazine at the 7th Australian Sustainability Awards. This award recognises Rex as a profitable, sustainable and reliable service provider, with the judges saying Rex had employed a community enterprise-based business model to re-open regional airline routes in partnership with local councils and communities. In addition, this award applauds the community support programs and levels of employee engagement evident at Rex, with a generous drought relief package and employee profit share scheme being deciding factors.

COMMUNITY INVOLVEMENT

Throughout the year Rex has contributed more than half a million dollars to sponsoring and participating in a myriad of community and charitable projects across the network. In all, Rex has supported over 250 events and charitable causes.

Separately, through a dedicated drought relief program, to which it set aside up to \$1M for FY 2008, Rex has provided concessional air travel to numerous individuals, groups and community-based organisations from affected rural communities for activities associated with providing relief or assistance from the impact of the drought. Aid provided under this scheme has allowed many rural residents to attend and take part in forums, conferences and events outside of their local area that may not have otherwise been possible. The NSW Department of Primary Industries was one such beneficiary of this program, receiving travel assistance for families to attend events that offer updated information on support initiatives for those rural families who continue to be affected by drought.

Rex has also been partnering the Sydney Symphony Orchestra since 2004, providing flights as part of a contra agreement, as well as discounted charter flights for fund-raising initiatives. As part of the Sydney Symphony Drought Relief concert, the Orchestra visited Bathurst in July 2008 to raise funds for drought relief programs of four charities.

Rex has shown a keen interest in the personal growth and development of children and young adults with special needs over the past year through a number of projects such as the Willans Hill School’s annual “Transport Day”, the Epilepsy Action Family Camp and South Australia’s Bedford’s involvement in the TAFE Graduation Day for People with a Disability at the Adelaide Convention Centre. Bedford is South Australia’s largest provider of employment and training services for people with a disability. Rex has also aided the plight of a number of families with seriously ill children in times of enormous stress by easing the burden of travel costs where it has been necessary for the child and family to make regular trips to capital cities for critical medical treatment.

Through sponsorship, Rex has been dedicated to fostering local cultural and social initiatives in the communities it serves, sponsoring such events as Whyalla Carols in the Park, Moruya Jazz Festival, the Dubbo Multicultural Festival and the Parkes Elvis Festival to assist in the further development of these communities, as well as supporting various rural Show Societies. This year Rex also took part in the famous Griffith Festival of Gardens for the first time, an event showcasing the best of the region’s gardens – from small cottage gardens to large farm gardens.

13. CHANGES IN STATE OF AFFAIRS

AUSTRALIAN AIRLINE PILOT ACADEMY PTY LIMITED

Rex started a joint venture pilot training academy with Mangalore Airport in December 2007 in response to the sharp rise in pilot attrition during the course of the year. Rex eventually acquired 100% of the academy, named the Australian Airline Pilot Academy (AAPA) in April 2008. As at 30 June 2008, 37 cadets were enrolled in the academy and the first batch of graduates is expected in October 2008. AAPA operates with seven Piper Warrior aircraft and one Piper Seminole aircraft all of which were purchased by AAPA in FY 2008.

CONVERSION AND SALE OF SAAB 340A FREIGHTER

In June 2008, Rex sold a Saab 340A freighter aircraft to Bridges Worldwide Express. The aircraft, originally a passenger aircraft which was phased out with the delivery of the Saab 340B Plus aircraft, was converted into a cargo freighter at Rex’s Engineering base in Wagga Wagga.

ESTABLISHMENT OF AIR AMBULANCE SERVICE IN PERTH

In June 2008, Pel-Air established a base in Perth from which medivac charters can be operated. These charters are operated in conjunction with Careflight Air Ambulance.

MOVING OF PEL-AIR TO THE REX HEAD OFFICE

Wholly-owned subsidiary Pel-Air Aviation Pty Limited moved its corporate head office to the Rex Building in February 2008.

SHARE BUY-BACK

Rex announced a share buy-back initiative on the 17th April 2008. For the remainder of the financial year Rex acquired and cancelled 4,121,973 shares under the buy-back initiative. Purchases were made in the month of May 2008.

14. SUBSEQUENT EVENTS

PURCHASE OF AIRCRAFT & SIMULATOR FOR AAPA

On 4 July 2008 an order was placed for a Piper Seminole aircraft and Piper Warrior aircraft for AAPA. The aircraft are expected to be delivered in November 2008 bringing the total number of aircraft at the academy to 10.

On 7 July 2008, a King Air B200 simulator was installed at the academy.

SHARE BUY-BACK

Between 16 and 18 July 2008, Rex made further share buy-backs acquiring and cancelling 266,386 shares.

15. FUTURE DEVELOPMENTS

The continued high fuel prices together with the pilot shortage will result in no significant expansion of Rex's network. Should there be an easing of the pilot situation in the latter part of the new financial year, Rex will envisage restoring some of the services that had been suspended. This will be helped by the batch of 37 cadet pilots who will all be flying in Rex in the new financial year.

On the freight end, Rex intends to introduce a small fleet of freighters into Pel-Air based on the Saab 340A models. In the process, the Brasilia freighter will be phased out together with the Metro III freighters.

16. ENVIRONMENTAL REGULATIONS

The Group has registered with the Commonwealth Government's Energy Efficiency Opportunities initiative in accordance with the Energy Efficiency Opportunities Act 2006. Under this regulation it has lodged and has had approved an Assessment and Reporting Schedule which outlines the way the Group will approach its carbon reduction programme.

17. DIVIDENDS

In respect of the financial year ended 30 June 2007, as detailed in the Directors' Report for that financial year, a final fully franked dividend of 6.6 cents per share was paid to the holders of fully paid ordinary shares on 29 October 2007.

In respect of the financial year ended 30 June 2008, 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 on 28 November 2008.

18. 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 secretaries (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.

19. REMUNERATION REPORT

REMUNERATION AND NOMINATION COMMITTEE

Rex's board of directors has established a Remuneration and Nomination 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 their 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.

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 \$2.7M (inclusive of superannuation) under this scheme in FY 2008 and has accrued \$1.7M (inclusive of superannuation) as profit share bonus for distribution to all eligible staff in FY 2009 for services rendered 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 Nomination 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.

DIRECTOR AND SENIOR MANAGEMENT DETAILS

The following persons acted as directors of the Company during or since the end of the financial year:

Lim Kim Hai (Chairman)
The Hon. John Sharp (Deputy Chairman)
James Davis
Russell Hodge
David Miller
Lee Thian Soo
Geoffrey Breust (resigned 5 December 2007)
Robert Winnel (resigned 22 April 2008)
Stephen Jermyn (resigned 6 June 2008)

The term 'senior management' is used in this remuneration report to refer to the following persons. Except as noted, the named persons held their current position for the whole of the financial year and since the end of the financial year:

James Davis (Managing Director) (appointed 27 May 2008)
Warrick Lodge (General Manager, Network Strategy and Sales)
Chris Hine (General Manager, Flight Operations and Chief Pilot)
Irwin Tan (General Manager, Corporate Services / Company Secretary)
Mayooran Thanabalasingham (General Manager, Information Technology and Communications) (appointed 7 July 2008)
Garry Filmer (General Manager, Engineering) (appointed 1 June 2008)
Dale Hall (Maintenance Control Manager)

19. REMUNERATION REPORT (CONTINUED)

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

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

Directors/Executives	FY	Short-term benefits			Post employment benefits	Long-term benefits	Share-based payment		Total \$	% Consisting of options
		Cash salary & fees \$	Cash profit sharing & other bonuses \$	Non-monetary \$	Pension & super-annuation \$	Annual leave & long service leave \$	Options & rights \$	Share gift \$		
EXECUTIVE DIRECTORS										
LIM KIM HAI										
Executive Chairman	2008	100,000	-	-	-	-	-	-	100,000	-
	2007	100,000	-	-	-	-	18,810	-	118,810	16%
GEOFFREY BREUST*										
Managing Director	2008	50,982	4,061	-	8,879	11,713	-	384	76,019	-
	2007	123,884	3,026	-	18,296	12,098	21,933	2,211	181,448	12%
JAMES DAVIS										
Managing Director	2008	129,884	33,672	-	13,157	19,819	-	47,500	244,032	-
	2007	132,230	3,193	-	12,532	15,365	29,067	2,613	195,000	15%
DAVID MILLER										
Executive Director, CEO of Air Link Pty Ltd	2008	103,962	12,888	-	13,614	97,193	-	45,833	273,490	-
	2007	105,770	-	-	12,691	92,422	6,897	-	217,780	3%
NON-EXECUTIVE DIRECTORS										
THE HON. JOHN SHARP										
Deputy Chairman	2008	90,000	-	-	8,100	-	-	-	98,100	-
	2007	90,000	-	-	8,100	-	18,810	-	116,910	16%
RUSSELL HODGE										
Executer Director, CEO of Pel-Air Pty Ltd	2008	25,000	-	-	2,250	-	-	-	27,250	-
	2007	25,000	-	-	2,250	-	12,540	-	39,790	32%
LEE THIAN SOO										
Non-Executive Director	2008	25,000	-	-	-	-	-	-	25,000	-
	2007	25,000	-	-	-	-	10,032	-	35,032	29%
ROBERT WINNEL**										
Independent Director	2008	20,961	-	-	1,887	-	-	-	22,848	-
	2007	25,000	-	-	2,250	-	10,032	-	37,282	27%
STEPHEN JERMYN***										
Independent Director	2008	24,038	-	-	2,164	-	-	-	26,202	-
	2007	8,173	-	-	736	-	-	-	8,909	-
SENIOR MANAGEMENT EXECUTIVES										
CHRIS HINE										
GM – Flight Operations & Chief Pilot	2008	133,705	37,177	-	12,898	8,122	-	47,747	239,649	-
	2007	117,740	3,193	-	12,043	17,433	23,701	2,693	176,803	13%
WARRICK LODGE										
GM – Network Strategy & Sales	2008	106,150	32,609	-	11,711	15,854	-	52,914	219,238	-
	2007	100,846	3,193	-	10,541	15,288	19,043	1,910	150,821	13%
IRWIN TAN										
GM – Corporate Services	2008	108,296	29,109	-	11,379	8,660	-	50,709	208,153	-
	2007	105,331	3,018	-	10,294	6,343	19,043	1,805	145,834	13%
DALE HALL										
Manager-Maintenance Control	2008	102,539	4,284	-	10,603	10,983	-	33,286	161,695	-
	2007	89,391	3,193	-	8,767	4,828	-	1,729	107,908	-
GARRY FILMER										
GM – Engineering	2008	88,048	1,119	-	9,151	12,511	-	7,621	118,450	-
	2007	23,750	-	-	2,138	-	-	-	25,888	-
MAYOORAN THANABALASINGHAM										
GM – ITC	2008	92,526	22,633	-	9,919	3,846	-	41,700	170,624	-
	2007	75,712	3,193	-	7,101	-	3,808	1,226	91,040	4%
NAOMAL GOONERATNE (i)										
GM – Engineering Control	2008	-	-	-	-	-	-	-	-	-
	2007	57,242	3,193	-	6,232	13,862	21,225	2,412	104,166	20%
LINDSAY TANNER (ii)										
GM – Engineering Services	2008	-	-	-	-	-	-	-	-	-
	2007	84,925	3,192	-	9,219	15,928	21,225	2,412	136,901	16%
BRETT DAVIDSON (iii)										
Manager - Maintenance Control	2008	74,802	4,284	-	7,118	56,421	-	33,486	176,111	-
	2007	83,877	3,193	-	8,697	9,567	4,520	1,747	111,601	4%
TOTAL										
	2008	1,275,893	181,836	-	122,830	245,122	-	361,180	2,186,861	-
	2007	1,373,871	31,587	-	131,887	203,134	240,686	20,758	2,001,923	12%

OPTIONS ISSUED TO DIRECTORS AND EXECUTIVES

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

Directors/Executives	Option series	No. granted	Exercised/expired in prior year	Exercised/expired in current year	Options unexercised at 30 June 2008
Lim Kim Hai	Issued FY 2007	150,000	150,000	-	-
The Hon. John Sharp	Issued FY 2007	150,000	150,000	-	-
Geoffrey Breust*	Issued FY 2007	155,000	155,000	-	-
James Davis	Issued FY 2007	205,417	-	205,417	-
Russell Hodge	Issued FY 2007	100,000	100,000	-	-
David Miller	Issued FY 2007	55,000	55,000	-	-
Lee Thian Soo	Issued FY 2007	80,000	80,000	-	-
Robert Winnel**	Issued FY 2007	80,000	80,000	-	-
Stephen Jermyn***	Issued FY 2007	-	-	-	-
Warrick Lodge	Issued FY 2007	134,583	134,000	583	-
Chris Hine	Issued FY 2007	167,500	167,500	-	-
Irwin Tan	Issued FY 2007	134,583	-	134,583	-
Dale Hall	Issued FY 2007	-	-	-	-
Garry Filmer	Issued FY 2007	-	-	-	-
Mayooran Thanabalasingham	Issued FY 2007	26,911	-	26,911	-
Naomal Gooneratne ⁽ⁱ⁾	Issued FY 2007	150,000	150,000	-	-
Lindsay Tanner ⁽ⁱⁱ⁾	Issued FY 2007	150,000	50,000	100,000	-
Brett Davidson ⁽ⁱⁱⁱ⁾	Issued FY 2007	31,944	-	31,944	-

* Geoff Breust ceased employment with Rex on 5 December 2007.

** Robert Winnel ceased being a Director of Rex on 22 April 2008.

*** Stephen Jermyn ceased being a Director of Rex on 6 June 2008.

⁽ⁱ⁾ Naomal Gooneratne ceased employment with Rex on 9 January 2007.

⁽ⁱⁱ⁾ Lindsay Tanner ceased employment with Rex on 27 April 2007.

⁽ⁱⁱⁱ⁾ Brett Davidson ceased employment on 22 February 2008.

These options were granted to directors and other key management personnel on 4 December 2006 for past services rendered allowing for the purchase of shares in the Company at \$1. These options also vested on the same date.

The options granted to the directors expired on 4 March 2007. The remainder of the options expired on 4 December 2007. These options were valued by management at \$0.13 and \$0.14 respectively.

RELATIONSHIP BETWEEN THE REMUNERATION POLICY AND COMPANY PERFORMANCE

The only proportion of remuneration that was dependent on the satisfaction of a performance condition was the Company's profit share bonus. Of the directors, only James Davis and David Miller were entitled to the Company's profit share bonus (as specified in Note 28 of the financial statement) paid in the FY 2008. All the senior management executives were entitled to the profit share bonus.

The tables below set out summary information about the Group's earnings and movements in shareholder wealth for the five years to June 2008:

	30 June 2008 \$'000	30 June 2007 \$'000	30 June 2006 \$'000	30 June 2005 \$'000	30 June 2004 \$'000
Revenue	260,513	225,193	174,259	144,658	112,381
Net profit before tax	32,478	33,072	21,984	9,171	1,000
Net profit after tax	24,343	23,627	15,724	6,527	1,000

	30 June 2008	30 June 2007	30 June 2006	30 June 2005	30 June 2004
Share price at start of year*	\$2.74	\$1.00	N/A	N/A	N/A
Share price at end of year*	\$1.06	\$2.75	\$0.995	N/A	N/A
Interim dividend	-	-	-	-	-
Final dividend ^{1,2}	6.6cps	6.6cps	5.0cps	-	-
Basic earnings per share	20.3cps	20.5cps	15.4cps	11.1cps	N/A
Diluted earnings per share	20.3cps	20.4cps	15.4cps	11.1cps	N/A

* The Company commenced trading on the Australian Securities Exchange on 9 November 2005.

¹ Franked to 9.43cps at 30% corporate income tax rate for 2008 and 2007; unfranked for 2006.

² Declared after the balance date and not reflected in the financial statements.

19. REMUNERATION REPORT (CONTINUED)

KEY TERMS OF EMPLOYMENT CONTRACTS

Employment contracts between the senior management executives and the Group do not have a specified duration. A notice of four weeks must be given for senior management executives to terminate their contract. There are no extraordinary termination payments set out in the contracts of the senior management executives of the Group.

20. 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.

21. 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 30.

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 30 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.

22. 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



James Davis
Managing Director
Sydney, 12 September 2008

23. AUDITOR'S INDEPENDENCE DECLARATION



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

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1220 Australia

DX 10307SSE
Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7001
www.deloitte.com.au

The Board of Directors
Regional Express Holdings Limited
81 – 83 Baxter Road
MASCOT NSW 2000

12 September 2008

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 2008, 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


CM Barling
Partner
Chartered Accountant



FINANCIAL REPORT

INCOME STATEMENT

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

	Note	Consolidated		Company	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Continuing operations					
Passenger revenue		211,306	200,081	202,412	190,963
Freight revenue		937	915	904	860
Charter revenue		40,444	19,528	975	766
Other passenger services and amenities		2,157	2,248	2,148	1,953
Finance income	3	1,221	1,131	1,047	1,157
Other income	3,4	4,448	1,290	3,226	854
Total revenue and other income		260,513	225,193	210,712	196,553
Flight and port operation costs (excluding fuel)		(49,567)	(49,000)	(45,236)	(46,165)
Fuel costs		(45,901)	(35,115)	(36,674)	(30,362)
Salaries and employee-related costs	3	(73,899)	(59,261)	(61,007)	(52,772)
Selling and marketing costs		(6,775)	(7,605)	(6,694)	(7,466)
Engineering and maintenance costs		(35,656)	(29,082)	(24,403)	(22,737)
Office and general administration costs	3	(6,531)	(5,414)	(4,759)	(4,547)
Finance costs	3	(330)	(356)	-	-
Depreciation and amortisation	3	(8,144)	(5,652)	(5,624)	(4,073)
Other expenses	3	(1,219)	(1,457)	(1,301)	(1,529)
Total costs and expenses		(228,022)	(192,942)	(185,698)	(169,651)
Share of profits/(losses) of associates and jointly controlled entities accounted for using the equity method		(13)	821	-	-
Profit before income tax		32,478	33,072	25,014	26,902
Income tax expense	5	(8,135)	(9,445)	(6,251)	(8,113)
Profit after tax from continuing operations		24,343	23,627	18,763	18,789
Profit attributable to:					
Members of the parent		24,343	23,075	18,763	18,789
Minority interest		-	552	-	-
		24,343	23,627	18,763	18,789
Earnings per share (cents per share)					
Basic (cents per share)	19	20.3	20.5	-	-
Diluted (cents per share)	19	20.3	20.4	-	-
Dividends per share (cents per share)	20	6.6	6.6	-	-

Notes to the financial statements are included on pages 29 to 72.

BALANCE SHEET

AS AT 30 JUNE 2008

	Note	Consolidated		Company	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Current assets					
Cash and cash equivalents	25	15,140	18,617	11,198	12,953
Trade and other receivables	6	16,459	12,402	13,166	9,667
Inventories	7	6,719	6,744	4,433	4,678
Total current assets		38,318	37,763	28,797	27,298
Non-current assets					
Other financial assets	8	11	11	-	-
Other receivables	6	-	-	41,581	42,256
Investment in subsidiaries	23	-	-	117	117
Deferred tax assets	5	3,285	4,188	2,676	2,793
Property, plant and equipment	9				
Aircraft		75,433	78,533	38,034	41,551
Other property, plant and equipment		39,973	32,172	33,179	26,008
Goodwill and intangible assets	10	7,363	7,386	168	200
Total non-current assets		126,065	122,290	115,755	112,925
Total assets		164,383	160,053	144,552	140,223
Current liabilities					
Trade and other payables	11	16,286	13,961	13,017	10,494
Unearned revenue		17,801	16,056	17,632	16,056
Borrowings	12	1,818	2,402	-	-
Income tax payable	5	3,803	8,799	3,803	7,427
Provisions	14	7,014	8,431	5,357	6,100
Other financial liabilities	13	672	526	672	526
Other liabilities	15	288	244	288	244
Total current liabilities		47,682	50,419	40,769	40,847
Non-current liabilities					
Other payables	11	-	-	-	1,576
Borrowings	12	1,657	3,193	-	-
Provisions	14	375	1,158	166	1,158
Deferred tax liabilities	5	2,016	2,580	1,417	1,276
Other liabilities	15	-	235	-	235
Total non-current liabilities		4,048	7,166	1,583	4,245
Total liabilities		51,730	57,585	42,352	45,092
Net assets		112,653	102,468	102,200	95,131
Equity					
Issued capital	16	78,608	82,446	78,608	82,446
Reserved shares	17	(3,427)	(963)	-	-
Retained earnings	18	35,807	19,450	23,201	12,424
Share-based payments reserve	17	545	471	545	471
Other reserves	17	1,120	946	(154)	(328)
Equity-settled employee benefits reserve	17	-	118	-	118
Total equity		112,653	102,468	102,200	95,131

Notes to the financial statements are included on pages 29 to 72.

CASH FLOW STATEMENT

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

	Note	Consolidated		Company	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Cash flows from operating activities					
Receipts from customers		282,311	249,055	227,945	201,589
Payments to suppliers and employees		(243,541)	(207,785)	(198,499)	(181,715)
Interest paid		(330)	(356)	-	-
Income taxes paid		(12,590)	(1,947)	(11,039)	342
Net cash provided by/(used in) operating activities	25 (C)	25,850	38,967	18,407	20,216
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		4,331	20	4,329	25
Interest received		1,221	1,131	1,047	1,157
Purchase of aircraft		(5,698)	(23,466)	(3,051)	(23,140)
Purchase of other property, plant and equipment		(11,148)	(10,050)	(9,887)	(13,340)
Acquisition of subsidiary, net of cash acquired	25 (B)	-	(4,994)	-	-
Purchase of intangibles		(127)	(153)	(118)	(193)
Dividends received		-	1,226	-	-
Net cash provided by/(used in) investing activities		(11,421)	(36,286)	(7,680)	(35,491)
Cash flows from financing activities					
Proceeds from issues of equity securities		-	-	-	12,900
Payments for share buy-back to equity holders		(4,332)	-	(4,332)	-
Repayment of borrowings		(2,450)	(1,109)	-	-
Payment for purchase of reserved shares		(2,974)	-	-	-
Dividends paid		(7,986)	(5,750)	(7,986)	(5,750)
Dividends paid to minority shareholders		-	(821)	-	-
Proceeds from employee share option plan		-	1,378	-	-
Net cash provided by/(used in) financing activities		(17,742)	(6,302)	(12,318)	7,150
Net increase in cash and cash equivalents		(3,313)	(3,621)	(1,591)	(8,125)
Effect of exchange rate on the balance of cash held in foreign currencies		(164)	(1,345)	(164)	(1,345)
Cash and cash equivalents at the beginning of the financial year		18,617	23,583	12,953	22,423
Cash and cash equivalents at the end of the financial year	25 (A)	15,140	18,617	11,198	12,953

Notes to the financial statements are included on pages 29 to 72.

STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

Attributable to equity holders of the company

	Issued capital	Reserved shares	Retained earnings	Share-based payments reserve	Other reserves	Equity-settled employee benefits reserve	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
CONSOLIDATED							
At 1 July 2007	82,446	(963)	19,450	471	946	118	102,468
Dividends paid	-	-	(7,986)	-	-	-	(7,986)
Profit for the year	-	-	24,343	-	-	-	24,343
Share buy-back	(4,332)	-	-	-	-	-	(4,332)
Share purchased as reserve shares	-	(3,948)	-	-	-	-	(3,948)
Issue of shares	494	-	-	-	-	-	494
Gains/(losses) on cash flow hedges	-	-	-	-	(146)	-	(146)
Deferred tax effect on cash flow hedges	-	-	-	-	202	-	202
Share gift exercised/issued	-	394	-	(476)	-	-	(82)
Share gift provision	-	-	-	550	-	-	550
Recognition of share-based payments	-	283	-	-	-	-	283
Share options exercised	-	807	-	-	-	-	807
Transfer from equity settled employee benefits reserve	-	-	-	-	118	(118)	-
At 30 June 2008	78,608	(3,427)	35,807	545	1,120	-	112,653
COMPANY							
At 1 July 2007	82,446	-	12,424	471	(328)	118	95,131
Dividends paid	-	-	(7,986)	-	-	-	(7,986)
Profit for the year	-	-	18,763	-	-	-	18,763
Share buy-back	(4,332)	-	-	-	-	-	(4,332)
Issue of shares	494	-	-	-	-	-	494
Gains/(losses) on cash flow hedges	-	-	-	-	(146)	-	(146)
Deferred tax effect on cash flow hedges	-	-	-	-	202	-	202
Share gift exercised/issued	-	-	-	(476)	-	-	(476)
Share gift provision	-	-	-	550	-	-	550
Transfer from equity settled employee benefits reserve	-	-	-	-	118	(118)	-
At 30 June 2008	78,608	-	23,201	545	(154)	-	102,200

Notes to the financial statements are included on pages 29 to 72.

STATEMENT OF CHANGES IN EQUITY (CONTINUED)

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

	Attributable to equity holders of the company						
	Issued capital	Reserved shares	Retained earnings	Share-based payments reserve	Other reserves	Equity-settled employee benefits reserve	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
CONSOLIDATED							
At 1 July 2006	69,546	(2,810)	1,573	487	-	-	68,796
Dividends 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/issued	-	487	-	(487)	-	-	-
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
Dividends 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)
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 29 to 72.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

Note	Content
1	General information
2	Significant accounting policies
3	Revenues and expenses
4	Profit for the year
5	Income taxes
6	Trade and other receivables
7	Inventories
8	Other financial assets
9	Property, plant and equipment
10	Goodwill and other intangible assets
11	Trade and other payables
12	Borrowings
13	Other financial liabilities
14	Provisions
15	Other liabilities
16	Issued capital
17	Reserves and other reserves
18	Retained earnings
19	Earnings per share
20	Dividends
21	Commitments for expenditure
22	Contingent liabilities and contingent assets
23	Subsidiaries
24	Acquisition of businesses
25	Notes to the cash flow statement
26	Financial instruments
27	Share-based payments
28	Key management personnel compensation
29	Related party transactions
30	Remuneration of auditors
31	Subsequent events
32	Segment Information

01. GENERAL INFORMATION

Regional Express Holdings Limited (the Company) is listed on the Australian Securities Exchange (Trading under symbol 'REX'), incorporated and operating in Australia. The Company's registered office and its principal place of business is at 81 – 83 Baxter Road, Mascot, NSW 2020, Australia.

02. 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 12 September 2008.

BASIS OF PREPARATION

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain 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.

CRITICAL ACCOUNTING JUDGEMENTS & SOURCES OF UNCERTAINTY

Critical judgements in applying the entity's accounting policies

The following are the critical judgements (apart from those involving estimations, which are dealt with below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Employee entitlements

Management judgement is applied in determining the following key assumptions used in the calculation of long service leave at balance sheet date:

- future increases in wages and salaries;
- future on cost rates; and
- experience of employee departures and period of service.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

The carrying amount of goodwill at the balance sheet date was \$7,190 thousand (2007: \$7,186 thousand) with no impairment loss recognised during the current financial year.

Fair value of derivatives and other financial instruments

As described in Note 26, management uses their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument.

ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

Standards and Interpretations issued not yet effective

At the date of authorisation of the financial report, a number of standards and Interpretations were in issue but not yet effective.

Initial application of the following Standards will not affect any of the amounts recognised in the financial report, but will change the disclosures presently made in relation to the Group and the Company's financial report:

Standard	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 101 'Presentation of Financial Statements' (revised September 2007), AASB 2007-8 'Amendments to Australian Accounting Standards arising from AASB 101'	1 January 2009	30 June 2010
AASB 8 'Operating Segments', AASB 2007-3 'Amendments to Australian Accounting Standards arising from AASB 8'	1 January 2009	30 June 2010

Initial application of the following Standards is not expected to have any material impact on the financial report of the Group and the Company:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 123 'Borrowing Costs' (revised), AASB 2007-6 'Amendments to Australian Accounting Standards arising from AASB 123'	1 January 2009	30 June 2010
AASB 3 'Business Combinations' (2008), AASB 127 'Consolidated and Separate Financial Statements' and AASB 2008-3 'Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127'	AASB 3 (business combinations occurring after the beginning of annual reporting periods beginning 1 July 2009), AASB 127 and AASB 2008-3 (1 July 2009)	30 June 2010
AASB 2008-1 'Amendments to Australian Accounting Standard - Share-based Payments: Vesting Conditions and Cancellations'	1 January 2009	30 June 2010
AASB 2008-2 'Amendments to Australian Accounting Standards - Puttable Financial Instruments and Obligations arising on Liquidation'	1 January 2009	30 June 2010
AASB Interpretation 12 'Service Concession Arrangements', AASB Interpretation 4 'Determining whether an Arrangement contains a Lease' (revised), AASB Interpretation 129 'Service Concession Arrangements: Disclosure' (revised), AASB 2007-2 'Amendments to Australian Accounting Standards arising from AASB Interpretation 12'	1 January 2008	30 June 2009
AASB Interpretation 14 'AASB 119 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'	1 January 2008	30 June 2009
Improvements to IFRSs (2008)	1 January 2009	30 June 2010
Amendments to IFRS 1 'First-time Adoption of International Financial Reporting Standards' and IAS 27 'Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate'	1 January 2009	30 June 2010
AASB Interpretation 15 'Agreements for the Construction of Real Estate'	1 January 2009	30 June 2010
AASB Interpretation 16 'Hedges of a Net Investment in a Foreign Operation'	1 October 2008	30 June 2010

The effect of adopting the following Standard is yet to be determined:

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB Interpretation 13 'Customer Loyalty Programmes'	1 July 2008	30 June 2009

02. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 in 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.

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.

(B) INVESTMENTS IN ASSOCIATES

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with AASB 5 'Non-current Assets Held for Sale and Discontinued Operations'. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments.

Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of the acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of the acquisition, after reassessment, is recognised immediately in profit or loss.

Where a Group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

(C) 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.

(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) FOREIGN CURRENCY

The individual financial statements of each Group entity are presented in its functional currency being the currency of the primary economic environment in which the entity operates. For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Australian dollars, which is the functional currency of the Group and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for exchange differences on transactions entered into in order to hedge certain foreign currency risks (refer Note 26).

(F) DERIVATIVE FINANCIAL INSTRUMENTS

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 26 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 are 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.

02. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 26 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 17.

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.

(G) 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.

(H) 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:

- (i) has been acquired principally for the purpose of selling in the near future;
- (ii) 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
- (iii) 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 26.

Held-to-maturity investments

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates where 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 26. 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 financial assets including uncollectible trade receivables is reduced by the impairment loss through the use of an 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.

02. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(I) 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. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

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 26.

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.

(J) 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 at the date of acquisition. 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.

(K) 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.

(L) 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.

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.

(M) 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 5 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.

02. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(N) INTANGIBLE ASSETS

Intangible assets acquired separately

Intangible assets acquired separately are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period, with any changes in these accounting estimates being accounted for on a prospective basis.

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period as incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

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

(O) 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.

(P) 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 2(C). 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.

(Q) PROPERTY, PLANT AND EQUIPMENT

Land and buildings, plant and equipment, leasehold improvements and equipment under finance leases 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 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
Building	20 Years
Leasehold Improvements	40 Years
Rotable Assets	1.5 to 5.5 Years
Plant & Equipment	8 Years
Furniture & Fittings	8 Years
Computer Equipment	4 Years
Motor Vehicles	7 Years

(R) 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.

02. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(S) 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.

(T) 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. Further details on how the fair value of equity-settled share-based transactions has been determined can be found in Note 27.

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.

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.

(U) GOODS AND SERVICES TAX

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

- (i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- (ii) or receivables and payables which are recognised inclusive of GST.

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

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

03. REVENUES AND EXPENSES

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2008

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Finance income				
Interest	1,221	1,131	1,047	1,157
	1,221	1,131	1,047	1,157
Other income				
Net gain on disposal of property, plant & equipment	520	-	520	-
Grant – Department of Transport and Regional Services	192	244	192	244
Other income	3,736	1,046	2,514	610
	4,448	1,290	3,226	854
Salaries & employee-related costs				
Wages and salaries (excluding bonus – profit share scheme)	(64,287)	(51,342)	(52,984)	(45,518)
Bonus – profit share scheme	(1,951)	(2,716)	(1,715)	(2,712)
Workers' compensation costs	(1,241)	(663)	(1,228)	(653)
Superannuation costs	(4,943)	(3,834)	(3,603)	(3,183)
Expense of employee options	(856)	(237)	(856)	(237)
Expense of share-based payments	(621)	(469)	(621)	(469)
	(73,899)	(59,261)	(61,007)	(52,772)
Finance costs				
Interest expense	(330)	(356)	-	-
	(330)	(356)	-	-
Depreciation & amortisation				
Depreciation and amortisation	(7,994)	(5,486)	(5,474)	(3,907)
Amortisation of development costs and software	(150)	(166)	(150)	(166)
	(8,144)	(5,652)	(5,624)	(4,073)
Lease payments included in income statement				
Included in flight and port operations costs				
Minimum lease payments – operating lease	(7,700)	(7,017)	(7,429)	(7,017)
	(7,700)	(7,017)	(7,429)	(7,017)
Office & general administration costs				
Bad debts provided	(209)	-	(209)	-
Negative goodwill on acquisition of subsidiary	(13)	-	-	-
Other expenses				
Net loss on disposal of property, plant & equipment	(340)	(47)	-	(47)
Provision for non-recoverability of Hazelton loan	(67)	(177)	(67)	(177)
Other expenses	-	12	-	4
Net foreign currency loss	(812)	(1,245)	(1,234)	(1,309)
	(1,219)	(1,457)	(1,301)	(1,529)

Notes to the financial statements are included on pages 29 to 72.

04. 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	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Net gain/(loss) on disposal of property, plant and equipment	180	(47)	520	(47)
Net foreign exchange gain/(loss)	(812)	(1,245)	(1,234)	(1,309)

(B) OTHER EXPENSES

Profit/(loss) for the year includes the following expenses:

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Depreciation				
Aircraft	5,626	3,694	3,234	2,273
Other property, plant and equipment	2,368	1,792	2,241	1,634
Amortisation				
Development costs and software	150	166	150	166
Operating lease rental expenses				
Minimum lease payments	7,700	7,017	7,429	7,017
Employee related expenses				
Employee options	856	237	856	237
Share-based payments	621	469	621	469

05. INCOME TAX

INCOME TAX RECOGNISED IN PROFIT OR LOSS

CONSOLIDATED	2008 \$'000	2007 \$'000
Tax expense/(income) comprises:		
Current tax expense/(income)	8,402	9,092
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	541	891
(Over)/under provision of income tax in previous year	(808)	(538)
Total tax expense/(income)	8,135	9,445
Attributable to:		
Continuing operations	8,135	9,445
	8,135	9,445
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	32,478	33,072
Profit/(loss) from operations	32,478	33,072
Income tax expense calculated at 30%	9,743	9,921
Non-deductible expenses	279	224
Effect of revenue that is tax exempt from taxation	(10)	-
Equity share of associates' (profits)/losses	4	(246)
Effect of unused tax losses and tax offsets not recognised as deferred tax assets	(919)	(1,048)
Other	(154)	(558)
(Over)/under provision of income tax in previous year	(808)	1,152
	8,135	9,445

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.

05. INCOME TAX (CONTINUED)

INCOME TAX RECOGNISED DIRECTLY IN EQUITY

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

CONSOLIDATED	2008 \$'000	2007 \$'000
Deferred tax		
Loans	-	-
Hedges	-	-
Other	(202)	-
	(202)	-
Current tax assets and liabilities		
Current tax assets	-	-
	-	-
Current tax payables		
Income tax attributable:		
Parent entity	2,179	7,427
Entities in the tax consolidated group	1,624	1,372
	3,803	8,799
Deferred tax balances		
Deferred tax assets comprise:		
Temporary differences	3,285	4,188
Tax losses	-	-
	3,285	4,188
Deferred tax liabilities comprise:		
Temporary differences	2,016	2,580
Net deferred tax asset / liability	1,269	1,608

Taxable and deductible temporary differences arise from the following:

CONSOLIDATED 30 June 2008	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
Gross deferred tax liabilities							
Investment in associates	-	-	-	-	-	-	-
Property, plant & equipment	-	-	-	-	-	-	-
Financial assets - non receivables	-	-	-	-	-	-	-
Inventories	(2,580)	564	-	-	-	-	(2,016)
Other items	-	-	-	-	-	-	-
	(2,580)	564	-	-	-	-	(2,016)
Gross deferred tax assets							
Losses available for offset against future taxable income	-	-	-	-	-	-	-
Employee-related provisions	2,844	(446)	-	-	-	-	2,398
Deferred government grant	144	(58)	-	-	-	-	86
Provision for doubtful debts	118	(108)	-	-	-	-	10
Listing costs deductible over five years	522	(174)	-	-	-	-	348
Other items	560	(319)	202	-	-	-	443
	4,188	(1,105)	202	-	-	-	3,285
Unused tax losses							
Tax losses – revenue	-	-	-	-	-	-	-
Tax Losses – capital	-	-	-	-	-	-	-
Temporary differences	-	-	-	-	-	-	-
Other items	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	1,608	(541)	202	-	-	-	1,269

05. INCOME TAX (CONTINUED)

CONSOLIDATED 30 June 2007	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
Gross deferred tax liabilities							
Investment in associates	-	-	-	-	-	-	-
Property, plant & equipment	-	-	-	-	-	-	-
Financial assets - non receivables	-	-	-	-	-	-	-
Inventories	-	(1,401)	-	(1,179)	-	-	(2,580)
Other items	-	-	-	-	-	-	-
	-	(1,401)	-	(1,179)	-	-	(2,580)
Gross deferred tax assets							
Losses available for offset against future taxable income	-	-	-	-	-	-	-
Employee-related provisions	1,594	887	-	363	-	-	2,844
Deferred government grant	217	(73)	-	-	-	-	144
Provision for doubtful debts	65	53	-	-	-	-	118
Listing costs deductible over five years	696	(174)	-	-	-	-	522
Other items	743	(183)	-	-	-	-	560
	3,315	510	-	363	-	-	4,188
Unused tax losses							
Tax losses – revenue	-	-	-	-	-	-	-
Tax Losses – capital	-	-	-	-	-	-	-
Temporary differences	-	-	-	-	-	-	-
Other items	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	3,315	(891)	-	(816)	-	-	1,608

Deferred tax assets from tax losses of \$3,751 thousand (2007: \$4,669 thousand) have not been brought to account as assets.

INCOME TAX RECOGNISED IN PROFIT OR LOSS

COMPANY	2008 \$'000	2007 \$'000
Tax expense/(income) comprises:		
Current tax expense/(income)	6,189	7,427
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	-	(992)
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	460	1,678
(Over)/other provision of income tax in previous year	(398)	-
Total tax expense/(income)	6,251	8,113
Attributable to:		
Continuing operations	6,251	8,113
	6,251	8,113
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	25,014	26,902
Profit/(loss) from operations	25,014	26,902
Income tax expense calculated at 30%	7,504	8,071
Non-deductible expenses	125	224
Equity share of associates' (profits)/losses	4	-
Effect of unused tax losses and tax offsets not recognised as deferred tax assets	(697)	(822)
Other	(287)	-
(Over)/under provision of income tax in previous year	(398)	640
	6,251	8,113

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.

05. INCOME TAX (CONTINUED)

INCOME TAX RECOGNISED DIRECTLY IN EQUITY

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

COMPANY	2008 \$'000	2007 \$'000
Deferred tax		
Loans	-	-
Hedges	-	-
Other	(202)	-
	(202)	-
Current tax assets and liabilities		
Current tax assets	-	-
	-	-
Current tax payables		
Income tax attributable:		
Parent entity	3,803	7,427
Franking deficit tax recoverable	-	-
Other	-	-
	3,803	7,427
Deferred tax balances		
Deferred tax assets comprise:		
Temporary differences	2,676	2,793
Tax losses	-	-
	2,676	2,793
Deferred tax liabilities comprise:		
Temporary differences	1,417	1,276
Net deferred tax asset/ liability	1,259	1,517

Taxable and deductible temporary differences arise from the following:

COMPANY 30 June 2008	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
Gross deferred tax liabilities							
Investment in associates	-	-	-	-	-	-	-
Property, plant & equipment	-	-	-	-	-	-	-
Financial assets - non receivables	-	-	-	-	-	-	-
Inventories	(1,265)	(65)	-	-	-	-	(1,330)
Other items	(11)	(76)	-	-	-	-	(87)
	(1,276)	(141)	-	-	-	-	(1,417)
Gross deferred tax assets							
Losses available for offset against future taxable income	-	-	-	-	-	-	-
Employee related provisions	1,648	190	-	-	-	-	1,838
Deferred government grant	144	(58)	-	-	-	-	86
Provision for doubtful debts	4	6	-	-	-	-	10
Listing costs deductible over five years	522	(174)	-	-	-	-	348
Other items	475	(283)	202	-	-	-	394
	2,793	(319)	202	-	-	-	2,676
Unused tax losses							
Tax losses – revenue	-	-	-	-	-	-	-
Tax losses – capital	-	-	-	-	-	-	-
Temporary differences	-	-	-	-	-	-	-
Other items	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	1,517	(460)	202	-	-	-	1,259

05. INCOME TAX (CONTINUED)

COMPANY 30 June 2007	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
Gross deferred tax liabilities							
Investment in associates	-	-	-	-	-	-	-
Property, plant & equipment	-	-	-	-	-	-	-
Financial assets - non receivables	-	-	-	-	-	-	-
Inventories	-	(1,265)	-	-	-	-	(1,265)
Other items	-	(11)	-	-	-	-	(11)
	-	(1,276)	-	-	-	-	(1,276)
Gross deferred tax assets							
Losses available for offset against future taxable income	-	-	-	-	-	-	-
Employee related provisions	1,464	184	-	-	-	-	1,648
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 items	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	3,195	(1,678)	-	-	-	-	1,517

06. TRADE AND OTHER RECEIVABLES

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Current				
Trade receivables	12,373	10,214	9,268	6,743
Provision for doubtful debts	(34)	(13)	(34)	(13)
	12,339	10,201	9,234	6,730
Sundry debtors and other debtors	1,097	17	1,142	757
	1,097	17	1,142	757
Prepayments	1,969	924	1,759	924
Deposits and other assets	1,054	1,260	1,031	1,256
	16,459	12,402	13,166	9,667

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. The Group has provided fully for all receivables deemed irrecoverable based on historical experience.

Before accepting new customers, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed regularly.

Majority of the Group's revenue is derived from sales made through credit cards where counterparties are either banks or the credit card companies.

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Ageing of past due but not impaired				
60 - 90 days	37	320	29	313
90 - 120 days	371	657	232	637
Total	408	977	261	950
Movement in the provision for doubtful debts				
Balance at the beginning of the year	(13)	(13)	(13)	(13)
Impairment losses recognised on receivables	209	-	209	-
Amounts written off as uncollectible	(230)	-	(230)	-
Balance at the end of the year	(34)	(13)	(34)	(13)
Ageing of impaired trade receivables				
60 - 90 days	-	-	-	-
90 - 120 days	-	-	-	-
120+ days	(34)	(13)	(34)	(13)
Total	(34)	(13)	(34)	(13)

06. TRADE AND OTHER RECEIVABLES (CONTINUED)

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Non-current				
Wholly-owned group - controlled entities	-	-	41,581	42,256

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

07. INVENTORIES

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Current				
Consumable spares at lower of cost and net realisable value	6,719	6,744	4,433	4,678

08. OTHER FINANCIAL ASSETS

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Non-current				
Investments carried at cost	11	11	-	-

09. PROPERTY, PLANT AND EQUIPMENT

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Aircraft				
At cost	99,779	89,069	45,425	37,361
Accumulated depreciation and impairment	(24,346)	(19,975)	(7,391)	(5,249)
	75,433	69,094	38,034	32,112
Aircraft prepayment	-	9,439	-	9,439
Net carrying value	75,433	78,533	38,034	41,551
Rotable assets				
At cost	26,565	22,319	23,146	19,221
Accumulated depreciation and impairment	(3,102)	(2,928)	(3,102)	(2,927)
Net carrying value	23,463	19,391	20,044	16,294
Leasehold improvements				
At cost	1,032	885	1,009	860
Accumulated depreciation and impairment	(244)	(152)	(242)	(153)
	788	733	767	707
Construction in progress	1,519	-	1,519	-
Net carrying value	2,307	733	2,286	707
Motor vehicles				
At cost	671	589	359	349
Accumulated depreciation and impairment	(364)	(335)	(176)	(160)
Net carrying value	307	254	183	189
Furniture and fittings				
At cost	827	1,447	668	681
Accumulated depreciation and impairment	(324)	(529)	(233)	(242)
Net carrying value	503	918	435	439
Computer equipment				
At cost	1,669	1,238	1,235	1,238
Accumulated depreciation and impairment	(791)	(691)	(531)	(690)
Net carrying value	878	547	704	548
Plant and equipment – ground service equipment				
At Cost	4,820	4,392	4,660	4,049
Accumulated depreciation and impairment	(2,445)	(2,081)	(2,313)	(1,800)
Net carrying value	2,375	2,311	2,347	2,249
Land and buildings				
At cost	6,837	4,958	6,837	4,958
Accumulated depreciation and impairment	(302)	(112)	(302)	(112)
Net carrying value	6,535	4,846	6,535	4,846
Engines				
At cost	4,524	3,834	915	915
Accumulated depreciation and impairment	(919)	(662)	(270)	(179)
Net carrying value	3,605	3,172	645	736
Total property, plant and equipment				
At cost	148,243	138,169	85,773	79,072
Accumulated depreciation and impairment	(32,837)	(27,464)	(14,560)	(11,513)
Net carrying value	115,406	110,705	71,213	67,559

09. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

RECONCILIATIONS	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Aircraft				
Net carrying amount at beginning of the period	78,533	28,516	41,551	20,684
Additions	5,698	23,655	3,051	23,156
Disposals	(3,333)	(16)	(3,333)	(16)
Acquisition of subsidiary	-	30,072	-	-
Depreciation charge for the year	(5,465)	(3,694)	(3,235)	(2,273)
Net carrying value	75,433	78,533	38,034	41,551
Rotable assets				
Net carrying amount at beginning of the period	19,391	13,113	16,294	10,319
Additions	5,245	9,366	4,923	6,554
Disposals	(354)	(2,526)	(354)	(30)
Acquisition of subsidiary	-	-	-	-
Depreciation charge for the year	(819)	(562)	(819)	(549)
Net carrying value	23,463	19,391	20,044	16,294
Leasehold improvements				
Net carrying amount at beginning of the period	733	713	707	687
Additions	1,694	71	1,697	71
Disposals	(15)	-	(15)	-
Acquisition of subsidiary	-	-	-	-
Depreciation charge for the year	(105)	(51)	(103)	(51)
Net carrying value	2,307	733	2,286	707
Motor vehicles				
Net carrying amount at beginning of the period	254	300	189	170
Additions	143	13	68	107
Disposals	(23)	(47)	(23)	(35)
Acquisition of subsidiary	-	47	-	-
Depreciation charge for the year	(67)	(59)	(51)	(53)
Net carrying value	307	254	183	189
Furniture and fittings				
Net carrying amount at beginning of the period	918	277	439	207
Additions	141	252	143	302
Disposals	(384)	(68)	(43)	-
Acquisition of subsidiary	-	533	-	-
Depreciation charge for the year	(172)	(76)	(104)	(70)
Net carrying value	503	918	435	439
Computer equipment				
Net carrying amount at beginning of the period	547	490	548	336
Additions	649	279	444	429
Disposals	(10)	-	(10)	-
Acquisition of subsidiary	-	-	-	-
Depreciation charge for the year	(308)	(222)	(278)	(217)
Net carrying value	878	547	704	548

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Plant and equipment – ground service equipment				
Net carrying amount at beginning of the period	2,311	2,199	2,249	1,678
Additions	708	570	733	1,068
Disposals	(32)	(7)	(32)	(7)
Reclassification	-	-	-	-
Acquisition of subsidiary	-	22	-	-
Depreciation charge for the year	(612)	(473)	(603)	(490)
Net carrying value	2,375	2,311	2,347	2,249
Land and buildings				
Net carrying amount at beginning of the period	4,846	-	4,846	-
Additions	1,879	4,958	1,879	4,958
Disposals	-	-	-	-
Acquisition of subsidiary	-	-	-	-
Depreciation charge for the year	(190)	(112)	(190)	(112)
Net carrying value	6,535	4,846	6,535	4,846
Engines				
Net carrying amount at beginning of the period	3,172	828	736	828
Additions	689	-	-	-
Disposals	-	-	-	-
Acquisition of subsidiary	-	2,581	-	-
Depreciation charge for the year	(256)	(237)	(91)	(92)
Net carrying value	3,605	3,172	645	736
Total property, plant and equipment				
Net carrying amount at beginning of the period	110,705	46,436	67,559	34,909
Additions	16,846	39,164	12,938	36,645
Disposals	(4,151)	(2,664)	(3,810)	(88)
Acquisition of subsidiary	-	33,255	-	-
Depreciation and amortisation charge for the year	(7,994)	(5,486)	(5,474)	(3,907)
Net carrying value	115,406	110,705	71,213	67,559

Leased assets and assets under hire purchase contracts with a net carrying value of \$14,501 thousand (2007: \$15,336 thousand) 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 2008 (2007: nil).

10. GOODWILL AND OTHER INTANGIBLE ASSETS

	Consolidated		Company	
	Goodwill \$'000	Software and development costs \$'000	Goodwill \$'000	Software and development costs \$'000
At 30 June 2007				
Cost	7,186	805	-	805
Accumulated amortisation and impairment	-	(605)	-	(605)
Net carrying amount	7,186	200	-	200
Total goodwill and intangible assets		7,386		200
Reconciliation				
At 1 July 2006, net of accumulated amortisation	576	217	-	170
Acquisition of a subsidiary	6,610	-	-	-
Additions	-	149	-	192
Disposal	-	-	-	-
Amortisation at 30 June 2007	-	(166)	-	(162)
	7,186	200	-	200
Total goodwill and intangible assets		7,386		200
At 30 June 2008				
Cost	7,190	595	-	589
Accumulated amortisation and impairment	-	(422)	-	(421)
Net carrying amount	7,190	173	-	168
Total goodwill and intangible assets		7,363		168
Reconciliation				
At 1 July 2007, net of accumulated amortisation	7,186	200	-	200
Acquisition of a subsidiary	-	-	-	-
Additions	4	123	-	118
Disposal	-	-	-	-
Amortisation at 30 June 2008	-	(150)	-	(150)
	7,190	173	-	168
Total goodwill and intangible assets		7,363		168

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)	6,614
Total (\$'000)	7,190

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 by the Group in the financial periods 2006 (50%) and 2007 (50%). 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 believes 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.

AIR LINK

Air Link is a regional passenger airline that was acquired by the Group in the 2006 financial year. The recoverable amount of the Air Link 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. Cash flows beyond that five year period will be extrapolated using a steady 5% p.a. growth rate. Management believes 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.

11. TRADE AND OTHER PAYABLES

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Current				
Trade payables	9,696	8,827	8,537	6,186
Other payables	6,590	5,134	4,480	4,308
Total	16,286	13,961	13,017	10,494

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.

Non-current

Wholly owned group – controlled entities

	-	-	-	1,576
Total	-	-	-	1,576

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

12. BORROWINGS

	Effective interest rate %	Consolidated		Company	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Current					
Hire purchase liability	7.50	1,818	2,402	-	-
Non-Current					
Hire purchase liability	7.50	1,657	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.

	Minimum future lease payments				Present value of minimum future lease payments			
	Consolidated		Company		Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
No later than one year	2,008	2,455	-	-	1,818	2,402	-	-
Later than one year and not later than five years	1,717	3,725	-	-	1,657	3,193	-	-
Later than five years	-	-	-	-	-	-	-	-
Minimum future lease payments*	3,725	6,180	-	-	3,475	5,595	-	-
Less future finance charges	(250)	(585)	-	-	-	-	-	-
Present value of minimum lease payments	3,475	5,595	-	-	3,475	5,595	-	-
Included in the financial statements as:								
Current borrowings	-	-	-	-	1,818	2,402	-	-
Non-current borrowings	-	-	-	-	1,657	3,193	-	-

* Minimum hire purchase payments include the aggregate of all payments and any guaranteed residual.

13. OTHER FINANCIAL LIABILITIES

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Current				
Foreign exchange liability	672	526	672	526

This foreign exchange liability is due to the revaluation of USD forward contract, refer to Note 26.

14. PROVISIONS

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Current				
Provision for dividend	-	634	-	-
Profit share	1,763	2,713	1,637	2,713
Annual leave and long service leave	5,251	5,084	3,720	3,387
	7,014	8,431	5,357	6,100
Non-current				
Long service leave	375	1,158	166	1,158
Total employee benefits provisions	7,389	9,589	5,523	7,258

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Annual leave and long service leave				
At 1 July	6,242	5,318	4,545	4,881
Acquisition of subsidiary	-	1,210	-	-
Arising during the year	4,030	4,625	3,099	3,742
Utilised	(4,646)	(4,911)	(3,758)	(4,078)
At 30 June	5,626	6,242	3,886	4,545

15. OTHER LIABILITIES

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Current				
Government grant	288	244	288	244
Non-current				
Government grant	-	235	-	235

16. ISSUED CAPITAL

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Fully paid ordinary shares	78,608	82,446	78,608	82,446

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 2007	121,000	82,446	121,000	82,446
Issue of shares during the year	255	494	255	494
Purchases during the year	(4,122)	(4,332)	(4,122)	(4,332)
Balance at 30 June 2008	117,133	78,608	117,133	78,608

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

On 2 January 2008, a total of 254,902 shares were issued to key managers at the fair value of \$1.94 per share.

During the year, the Group executed a publicly announced share buy-back programme. All the shares purchased were cancelled. There were nine purchases made during the year under the share buy-back programme during May 2008 and 4,121,973 shares were bought back in these transactions.

17. RESERVES AND OTHER RESERVES

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Cash flow hedge reserve	(470)	(526)	(470)	(526)
Reserved shares	(3,427)	(963)	-	-
Equity-settled employee benefits reserve	-	118	-	118
Share-based payments reserve	545	471	545	471
General reserves	1,590	1,472	316	198
	(1,762)	572	391	261
Reserved shares				
Balance at 1 July	(963)	(2,810)	-	-
Purchases during the year	(3,948)	-	-	-
Shares granted to directors and employees	1,484	1,847	-	-
Balance at 30 June	(3,427)	(963)	-	-

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.

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Equity-settled employee benefits reserve				
Balance at 1 July	118	-	118	-
Transfer to other reserves	(118)	118	(118)	118
Balance at 30 June	-	118	-	118

The equity-settled employee benefits reserve arose 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 27 to the financial statements

Share-based payments reserve				
Balance at 1 July	471	487	471	487
Share gift provision	550	471	550	471
Share gift exercised	(476)	(487)	(476)	(487)
Balance at 30 June	545	471	545	471

The share-based payments reserve arises on the grant of shares to executives and employees under the employee share gift plan. Amounts are transferred out of the reserve when the shares are issued. Further information about share-based payments to employees is made in Note 27 to the financial statements.

Other reserves				
Cash flow hedge reserve				
Balance at 1 July	(526)	-	(526)	-
Gain/loss on cash flow foreign exchange hedges	56	(526)	56	(526)
Balance at 30 June	(470)	(526)	(470)	(526)
General reserve				
Balance at 1 July	1,472	-	198	-
Acquisition of subsidiary	-	1,274	-	-
Transfer from equity-settled employee benefits reserve	118	-	118	-
Recognition of share-based payments	-	198	-	198
Balance at 30 June	1,590	1,472	316	198
Total other reserves	1,120	946	(154)	(328)

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

The cash flow hedge 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.

18. RETAINED EARNINGS

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Balance at 1 July	19,450	1,573	12,424	(615)
Dividends provided for or paid (Note 20)	(7,986)	(5,750)	(7,986)	(5,750)
Net profit for the year	24,343	23,627	18,763	18,789
Balance at 30 June	35,807	19,450	23,201	12,424

19. EARNINGS PER SHARE

	Consolidated	
	2008 Cents per share	2007 Cents per share
Basic earnings per share		
From continuing operations	20.3	20.5
Total basic earnings per share	20.3	20.5
Diluted earnings per share		
From continuing operations	20.3	20.4
Total diluted earnings per share	20.3	20.4

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:

	2008 \$'000	2007 \$'000
Net profit	24,343	23,627
Earnings used in the calculation of basic EPS	24,343	23,627
Earnings used in the calculation of basic EPS from continuing operations	24,343	23,627
	2008 No.'000	2007 No.'000
Weighted average number of ordinary shares for the purpose of basic EPS	119,769	115,340

Diluted earnings per share

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

	2008 \$'000	2007 \$'000
Net profit	24,343	23,627
Earnings used in the calculation of diluted EPS	24,343	23,627
Earnings used in the calculation of diluted EPS from continuing operations	24,343	23,627
	2008 No.'000	2007 No.'000
Weighted average number of ordinary shares used for the purpose of diluted EPS	119,859	115,936
	2008 No.'000	2007 No.'000
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

20. DIVIDENDS

	Cents per share	Total \$'000
Unrecognised amounts		
Dividends on fully paid ordinary shares proposed for approval at AGM: Fully franked dividend for FY 2008	6.6	7,713
Recognised amounts		
Dividends on fully paid ordinary shares paid out: Fully franked final dividend for FY 2007	6.6	7,986

On 29 October 2007, a fully franked final dividend of 6.6 cents per share was paid to the holders of fully paid ordinary shares in respect of the financial year ended 30 June 2007. In respect of the financial year ended 30 June 2008, 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 \$7,713 thousand.

	Company	
	2008 \$'000	2007 \$'000
Adjusted franking account balance	31,291	15,565
Franking credit recognised that will arise from payment of income tax payable as at the end of financial year	3,803	9,445
Impact on franking account balance of dividends not recognised	3,306	3,423

21. COMMITMENTS FOR EXPENDITURE

As at 30 June 2008, the Group has commitments of \$1.1M relating to the construction of a hangar in Adelaide, Australia. During the year, progress payments of \$1.5M have been made. Additionally, the Group has committed to purchase four Saab aircrafts for a total of \$7.9M. These aircrafts are currently leased and will come off lease in October 2008. The purchase will be concluded in October 2008.

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
(A) CAPITAL EXPENDITURE COMMITMENTS				
Plant and equipment				
Not longer than one year	9,033	11,287	9,033	11,287
Longer than one year and not longer than five years	-	-	-	-
Longer than five years	-	-	-	-
	9,033	11,287	9,033	11,287

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
(B) NON-CANCELLABLE OPERATING LEASE COMMITMENTS				
Not longer than one year	5,080	5,113	5,080	5,113
Longer than one year and not longer than five years	30,639	27,870	30,639	27,870
Longer than five years	9,550	17,399	9,550	17,399
	45,269	50,382	45,269	50,382

22. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

As at 30 June 2008, no contingent liabilities or contingent assets existed.

23. SUBSIDIARIES

Name of entity	Country of incorporation	Ownership interest	
		2008 %	2007 %
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	100
Australian Airline Pilot Academy Pty Ltd	Australia	100	-

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

24. ACQUISITION OF BUSINESSES

Name of business acquired	Principal activity	Date of acquisition	Proportion of shares acquired (%)	Cost of acquisition \$'000
Australian Airline Pilot Academy Pty Ltd	Training pilots	* 9 November 2007	50%	-
		18 April 2008	50%	-

* Date of incorporation.

Net assets acquired	Australian Airline Pilot Academy Pty Ltd		
	Book value as at 18 April 2008 \$'000	Fair value adjustment \$'000	Fair value on acquisition \$'000
Current assets			
Cash & cash equivalents	85	-	85
Trade & other receivables	1,897	-	1,897
Inventories	6	-	6
Non-current assets			
Plant & equipment	46	-	46
Current liabilities			
Trade & other payables	(2,060)	-	(2,060)
Non-current liabilities			
	-	-	-
	(26)	-	(26)

The subsidiary was incorporated as a 50:50 joint venture, and the balance 50% was subsequently acquired during the financial year. Up to acquisition date, it was accounted for as an associate with \$13 thousand recognised as share of losses from associate. The consideration for the 50% share was \$4, resulting in negative goodwill of \$13 thousand which was recognised as an expense on acquisition date.

Not included in the above is prior year's acquisition of the remaining 50% in Pel-Air Aviation Pty Ltd for total consideration of \$18,994 thousand, bringing the total acquisition cost of this 100% owned subsidiary to \$32,888 thousand.

25. 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	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Cash and cash equivalents	15,140	18,617	11,198	12,953
Bank overdraft	-	-	-	-

(B) BUSINESS ACQUIRED

During the financial year, the Group acquired one business. The net cash outflow on acquisition was \$8. Refer to Note 24 for further details of this acquisition.

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

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Profit for the year	24,343	23,627	18,763	18,789
(Gain)/loss on sale or disposal of non-current assets	(180)	47	(520)	48
Share of associates' (profits)/losses	13	(821)	-	-
Goodwill on acquisition of subsidiary	13	-	-	-
Depreciation and amortisation	8,144	5,652	5,624	4,073
Unrealised foreign exchange (gain)/loss	164	1,345	164	1,345
Equity-settled share-based payments	1,551	690	1,551	690
Interest income received and receivable	(1,221)	(1,131)	(1,047)	(1,157)
Bad debts provided	209	-	209	-
Increase/(decrease) in current tax liability	(4,950)	6,710	(5,248)	6,288
Increase/(decrease) in deferred tax balances	326	787	258	952
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:				
(Increase)/decrease in assets:				
Trade and other receivables	(4,266)	(1,606)	(2,190)	(15,909)
Inventories	25	(2,548)	245	(1,758)
Increase/(decrease) in liabilities:				
Trade and other payables	4,070	2,188	2,524	4,723
Provisions	(2,200)	4,271	(1,735)	2,377
Other liabilities	(191)	(244)	(191)	(245)
Net cash from operating activities	25,850	38,967	18,407	20,216

26. FINANCIAL INSTRUMENTS

(A) CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the entities in the Group will be able to continue as going concerns while maximizing the return to stakeholders. The Group's overall strategy is one of conservativeness with no interest bearing debt where possible and in any case all new debt has been avoided since the IPO.

The Group's overall strategy remains unchanged from 2007.

The capital structure of the Group consists of debt as disclosed in Note 12. Equity attributable to equity holders of the parent comprising issued capital, reserves and retained earnings as disclosed in Notes 16, 17 and 18 respectively.

Operating cash flows are used to acquire assets required for the Group's operation, tax, dividends, share buy-backs and repayment of maturing debt.

The Group currently has minimal interest bearing debt. The current interest bearing debt originates from Pel-Air which was transferred to the Group when Pel-Air was acquired in FY 2007. Going forward the Group's policy is to borrow centrally only if required.

Gearing ratio

The Group's Board reviews the capital structure on a semi-annual basis. As a part of this review the committee considers the cost of capital and the risks associated with each class of capital. The Group currently has no gearing as its cash and cash equivalents exceed its level of debt and it is currently not expected that this will change significantly in the next financial year. The Board will balance its overall capital structure through the payment of dividends, new share issue and share buy-backs as well as the issue of new debt or the redemption of existing debt.

The net cash position at year end was as follows:

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Financial assets				
Debt ⁽ⁱ⁾	(3,475)	(5,595)	-	-
Cash and cash equivalents	15,140	18,617	11,198	12,953
Excess of cash and cash equivalents over debt	11,665	13,022	11,198	12,953

⁽ⁱ⁾ Debt is defined as long- and short-term borrowings, as detailed in Note 12.

(B) CATEGORIES OF FINANCIAL INSTRUMENTS

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Financial assets				
Loans and receivables	14,490	11,478	52,988	50,999
Cash and cash equivalents	15,140	18,617	11,198	12,953
Available-for-sale financial assets	11	11	-	-
Financial liabilities				
Derivative instruments in designated hedge accounting relationships	672	526	672	526
Amortised cost	19,761	19,556	13,017	10,494

(C) FINANCIAL RISK MANAGEMENT OBJECTIVES

The Group's financial risk is essentially in USD exposure and hence its main objective is to minimise the impact of violent USD fluctuation on its operations through plain vanilla hedges of the USD currency. The use of these financial instruments is governed by the Group's Hedge policy approved by the Board of Directors, which provides written principles on foreign exchange risk. Compliance with policies and exposure limits is reviewed by the Audit and Corporate Governance Committee and the Board on an ongoing basis. The Group does not enter into trade or financial instruments, including derivative financial instruments, for speculative purposes. The Treasury function, which co-ordinates the hedging of foreign currency risks, is managed by the Group's Finance Department and reports regularly to the Board and Audit and Corporate Governance Committee.

(D) FOREIGN CURRENCY RISK MANAGEMENT

The Group undertakes certain transactions denominated in USD, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed using forward foreign exchange contracts.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

Liabilities		Assets	
2008 USD'000	2007 USD'000	2008 USD'000	2007 USD'000
1,102	1,069	3,184	1,244

Foreign currency sensitivity analysis

The Group is mainly exposed to USD for the following main purchases:

- Operating leases, approximately USD 6.4 million per annum
- Engine care and maintenance programme, approximately USD 9.7 million per annum
- Insurance, approximately USD 0.4 million per annum
- Engineering purchases, approximately USD 4.6 million

The Group is also exposed to fuel which is nominally denominated in USD. The Group does not consider that this is a foreign currency risk as the final cost of fuel in AUD forms the basis for the determination of the fuel levy which is charged to the passenger.

The following table details the Group's sensitivity to a 10% increase and 10% decrease in the AUD against the USD. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number indicates an increase in profit or loss and other equity where the AUD strengthens against the respective currency. For a weakening of the AUD against the respective currency there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

	Consolidated		Company	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Profit or loss	240	20	240	20

The Group's sensitivity to foreign currency has increased during the current period mainly due to an increase in USD receivables from the sale of an aircraft to an external party.

Forward foreign exchange contracts

The Group enters into forward foreign exchange contracts to manage the risk associated with anticipated sales and purchase transactions out to 12 months within 80% to 90% of the exposure generated. Basis adjustments are made to the carrying amounts of non-financial hedged items when the anticipated sale or purchase transaction takes place.

The following table details the forward foreign currency contracts outstanding as at reporting date:

Outstanding Contracts	Average exchange rate		Foreign currency		Contract value		Fair Value	
	2008	2007	2008 USD'000	2007 USD'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Consolidated								
Buy USD								
Less than 12 months	0.9084	0.8228	11,000	17,000	12,108	20,662	(672)	(526)
Company								
Buy USD								
Less than 12 months	0.9084	0.8228	11,000	17,000	12,108	20,662	(672)	(526)

26. FINANCIAL INSTRUMENTS (CONTINUED)

The Group has significant USD requirements relating to its operational activities. These relate to aircraft lease payments, an engine care and 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 \$672 thousand (2007: \$526 thousand). It is anticipated that these transactions will take place over a period of 12 months.

(E) INTEREST RATE RISK MANAGEMENT

The Group has insignificant exposure to interest rate risk as its borrowings are minimal as detailed in Note 12 and they are at a fixed interest rate. As such the Group does not hedge its interest rate exposure. The Company and the Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

(F) CREDIT RISK MANAGEMENT

The Company has insignificant exposure to credit risk as majority of its revenue is derived from sales made through credit cards where counterparties are either banks or the credit card companies. The disputes to the credit card charges amount to less than \$10,000 a year.

The Company 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.

The Group's freight and charter subsidiary Pel-Air primarily has some exposure to major freight forwarders i.e. DHL, TNT, AaE, and Toll. The payment terms for these customers are 7 days. At any one time the credit risk exposure for them is approximately \$0.4 million.

(G) 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's activities generate positive cash flow every month of the year and the Group tries to maintain a \$10 million cash balance at all times. It should also be noted that the Company receives cash up front for the provision of its services for sales made through credit cards.

Liquidity and interest risk tables

The following tables detail the Company's and the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate %	Less than 1 month \$'000	1-3 months \$'000	3 months to a year \$'000	1-5 years \$'000	5+ years \$'000
CONSOLIDATED						
2008						
Non-interest bearing	-	16,286	-	-	-	-
Finance lease liability	7.5%	181	362	1,465	1,717	-
		16,467	362	1,465	1,717	-
2007						
Non-interest bearing	-	13,961	-	-	-	-
Finance lease liability	7.5%	229	458	1,768	3,725	-
		14,190	458	1,768	3,725	-
COMPANY						
2008						
Non-interest bearing	-	13,017	-	-	-	-
2007						
Non-interest bearing	-	10,494	-	-	-	-

The following table details the Company's and the Group's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Company/Group anticipates that the cash flow will occur in a different period.

	Weighted average effective interest rate %	Less than 1 month \$'000	1-3 months \$'000	3 months to a year \$'000	1-5 years \$'000	5+ years \$'000
CONSOLIDATED						
2008						
Non-interest bearing	-	12,993	-	96	1352	286
		12,993	-	96	1352	286
2007						
Non-interest bearing	-	10,493	-	-	985	-
		10,493	-	-	985	-
	Weighted average effective interest rate %	Less than 1 month \$'000	1-3 months \$'000	3 months to a year \$'000	1-5 years \$'000	5+ years \$'000
COMPANY						
2008						
Non-interest bearing	-	9,910	-	96	1,352	41,867
		9,910	-	96	1,352	41,867
2007						
Non-interest bearing	-	7,758	-	-	985	42,256
		7,758	-	-	985	42,256

The following table details the Company's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted net cash inflows/(outflows) on the derivative instrument that settle on a net basis and the undiscounted gross inflows/(outflows) on those derivatives that require gross settlement.

Apart from what is tabled below which are the Company's financial instruments the Group does not hold any other derivative financial instruments.

	Less than 1 month \$'000	1-3 months \$'000	3 months to a year \$'000
2008			
Gross settled:			
Forward exchange contracts	2,796	2,808	6,504
2007			
Gross settled:			
Forward exchange contracts	-	8,722	11,940

(H) FAIR VALUE OF FINANCIAL INSTRUMENTS

The directors consider that the carrying amounts of the financial assets and financial liabilities recorded at the amortised cost in the financial statements approximates their fair values.

27. SHARE-BASED PAYMENTS

EMPLOYEE SHARE OPTION PLAN

The Group had 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 were granted options to purchase parcels of ordinary shares at an exercise price of \$1.00 per ordinary share. These were granted in FY 2007. There was no vesting period. Directors were given three months to exercise their options and senior management executives were given 12 months. All of these options either expired or were exercised by the end of FY 2008. Details of these are set out in the remuneration report.

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

	2008		2007	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance at beginning of the financial year	677,830	95,913	-	-
Granted during the financial year	-	-	2,317,238	315,959
Exercised during the financial year	665,698	94,196	1,484,408	198,194
Expired during the financial year	12,132	1,717	155,000	21,852
Balance at end of the financial year	-	-	677,830	95,913

28. 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	
	2008 \$	2007 \$	2008 \$	2007 \$
Short-term employee benefits	1,457,729	1,405,458	1,457,729	1,405,458
Post-employment benefits	122,830	131,887	122,830	131,887
Other long-term benefits	245,122	203,134	245,122	203,134
Share-based payment	361,180	261,444	361,180	261,444
	2,186,861	2,001,923	2,186,861	2,001,923

29. RELATED PARTY TRANSACTIONS

(A) EQUITY INTERESTS IN SUBSIDIARIES

Details of interests in subsidiaries are disclosed in Note 23 to the financial statements.

(B) TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

(i) Key management personnel compensation

Details of key management personnel compensation are disclosed in Note 28 to the financial statements.

(ii) Loans to key management personnel

There have been no loans made to key management personnel.

(iii) 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 at 1 July 2007	Movement	Balance at 30 June 2008
Directors:			
Lim Kim Hai	13,526,092	10,559,268	24,085,360
The Hon. John Sharp	400,000	-	400,000
Geoffrey Breust (ceased as director on 5 December 2007)	207,000	(205,000)	2,000
James Davis	75,000	160,618	235,618
Russell Hodge	1,100,000	24,000	1,124,000
David Miller	55,000	-	55,000
Lee Thian Soo	11,449,362	-	11,449,362
Robert Winnel (ceased as director on 22 April 2008)	1,643,758	(80,000)	1,563,758
Stephen Jermyn (ceased as director on 6 June 2008)	850,000	-	850,000
Key management personnel:			
Warrick Lodge	134,000	33,902	167,902
Chris Hine	172,500	30,201	202,701
Irwin Tan	7,000	160,072	167,072
Dale Hall	-	16,127	16,127
Garry Filmer	-	3,621	3,621
Mayooran Thanabalasingham	-	53,757	53,757
Brett Davidson (ceased employment on 22 February 2008)	-	16,127	16,127

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

	Balance at 1 July 2007	Granted	Exercised	Expired	Balance at 30 June 2008
Directors:					
Lim Kim Hai	-	-	-	-	-
The Hon. John Sharp	-	-	-	-	-
Geoffrey Breust (ceased as director on 5 December 2007)	-	-	-	-	-
James Davis	205,417	-	205,417	-	-
Russell Hodge	-	-	-	-	-
David Miller	-	-	-	-	-
Lee Thian Soo	-	-	-	-	-
Robert Winnel (ceased as director on 22 April 2008)	-	-	-	-	-
Stephen Jermyn (ceased as director on 6 June 2008)	-	-	-	-	-
Key management personnel:					
Warrick Lodge	583	-	583	-	-
Chris Hine	-	-	-	-	-
Irwin Tan	134,583	-	134,583	-	-
Dale Hall	-	-	-	-	-
Garry Filmer	-	-	-	-	-
Mayooran Thanabalasingham	26,911	-	26,911	-	-
Lindsay Tanner (ceased employment on 27 April 2007)	100,000	-	100,000	-	-
Brett Davidson (ceased employment on 22 February 2008)	31,944	-	31,944	-	-

29. RELATED PARTY TRANSACTIONS (CONTINUED)

(iii) Key management personnel equity holdings (Continued)

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, 665,698 options (2007: 1,221,500) were exercised by key management personnel at an exercise price of \$1 per option for 665,698 ordinary Rex shares (2007: 1,221,500). 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 2008 and 2007 financial years are contained in Note 27 to the financial statements.

(C) TRANSACTIONS WITH OTHER RELATED PARTIES

During the financial year, the following transactions occurred between the Company and its other related parties:

The Company recognised revenue, or expenses from Air Link Pty Ltd for

- lease of aircraft, revenue of \$416 thousand (2007: \$98 thousand)
- interest on loan, revenue of \$70 thousand (2007: \$143 thousand)
- contract ground handling services, expense of \$253 thousand (2007: nil)

The Company recognised revenue from Pel-Air Aviation Pty Ltd for

- lease of aircraft, \$368 thousand (2007: \$64 thousand)
- rental of premises, \$39 thousand (2007: nil)

The Company recognised revenue from Australian Airline Pilot Academy Pty Ltd for

- secondment of staff, \$139 thousand (2007: nil)
- provision of accounting and administration services, \$30 thousand (2007: nil)

The Company recognised expenses from Regional Express Pty Ltd for

- lease of aircraft, expense of \$293 thousand (2007: nil)

30. REMUNERATION OF AUDITORS

	Consolidated		Company	
	2008 \$	2007 \$	2008 \$	2007 \$
Auditor of the parent entity				
Audit and review of the financial report	224	165	168	118
Preparation of the tax return	-	-	-	-
Other non-audit services	57	44	54	44
	281	209	222	162

The auditor of the Company is Deloitte Touche Tohmatsu.

31. SUBSEQUENT EVENTS

On 4 July 2008, an order was placed for a Piper Seminole aircraft and Piper Warrior aircraft for Australian Airline Pilot Academy Pty Ltd. The aircraft are expected to be delivered in November 2008 bringing the total number of aircraft at the academy to 10.

On 7 July 2008, a King Air B200 simulator was installed at the academy.

Between 16 and 18 July 2008, the Company made further share buy-backs acquiring and cancelling 266,386 shares. A total of \$274,504 was paid for these shares.

32. 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:

- (a) 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;
- (b) 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
- (c) 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



James Davis
Managing Director
Sydney, 12 September 2008



REGULATORY REPORTS



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

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1220 Australia

DX 10307SSE
Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7001
www.deloitte.com.au

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

Report on the Financial Report

We have audited the accompanying financial report of Regional Express Holdings Limited, which comprises the balance sheet as at 30 June 2008, 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 24 to 73.

Directors' Responsibility for the Financial 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. In Note 2, 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 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial 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 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.

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

Auditor's Independence Declaration

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

Auditor's Opinion

In our opinion:

- (a) the financial report of Regional Express Holdings 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 30 June 2008 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 2.

Report on the Remuneration Report

We have audited the Remuneration Report included in Note 19 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Regional Express Holdings Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.



DELOITTE TOUCHE TOHMATSU



CM Barling

Partner

Chartered Accountants

Sydney, 12 September 2008

CORPORATE GOVERNANCE STATEMENT

This statement outlines the Company's main corporate governance practices and its compliance with the ASX Corporate Governance Council Recommendations ("ASX Recommendations").

Corporate governance policies are available on the Company's website.

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.

The Company's policy is that directors and employees maintain the highest ethical standards of conduct. A summary of the Company's **Code of Conduct** is available on the Company's website.

The Board acknowledges the ASX Recommendation that a majority of the Board should be independent directors. Although the Board has only two directors out of six that qualify as independent non-executive directors, one other director is non-executive and is only considered non-independent by virtue of his share ownership. Another is only involved in management of a very small part of the business. The Board believes that every director on the current Board will make decisions in the best interests of all shareholders and in accordance with their duties as directors.

The Board also acknowledges that it is desirable that the Chairman be an independent director, however, the Board views as an advantage the Chairman's history of leadership of the Company both at the management level and at the Board level that has resulted in performance that matches that of the best airlines in the world.

The Company complies with the continuous disclosure obligations of the ASX Listing Rules and, in doing so, immediately notifies the market of any material price sensitive information. The Company has adopted and implemented a **Continuous Disclosure Policy** which sets out the procedure for the identification of material price sensitive information and reporting of such information to the company secretaries for review. A summary of the **Continuous Disclosure Policy** is available on the Company's website.

The Company has adopted **Share Trading Policies** for Group Directors and Executives and Staff and summaries of these policies are available on the Company's website.

It is the Company's policy that the principal communication with shareholders apart from the Company website, is the provision of the Annual Report, including the Financial Statements, quarterly investor briefings and the Annual General Meeting (and any extraordinary meetings held by the Company). Shareholders are encouraged to participate in quarterly investor briefings either by attendance or by dialing in through the Company's teleconferencing facilities and are invited to put questions to the Chairman of the Board in that forum. The Company's website provides additional information and greater detail about the Company, including ASX and media releases and access to statements regarding corporate governance related matters.

The directors have ensured that the Company's external auditor attends all Annual General Meetings and is available to answer shareholders' questions about the conduct of the audit and the preparation and content of the Auditor's report thereon.

The Managing Director and the GM Corporate Services who oversees the Finance department confirm in writing to the Board, who subsequently state in writing to the external auditors, that the financial records of the Company have been properly maintained, the financial statements are prepared in accordance with relevant accounting standards, present a true and fair view, and that the integrity of the financial reports is founded on a sound system of risk management and internal compliance and control systems which, in all material respects, implement the policies prescribed by the Board. The ASX Recommendation requires that the Chief Executive Officer or equivalent provides this statement to the Board. The Board believes that it is appropriate for the Managing Director and GM Corporate Services to provide the statement.

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 and 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 Corporate 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 Corporate 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 Corporate 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

The Company recognises that the management of business and economic risk is an integral part of its operations and has for many years integrated risk management processes into its operations to ensure continuity of the business and to minimise any impact on its performance. The Board has established a sound system of risk oversight and management and internal control which involves the Safety and Risk Management Committee and the Audit and Corporate Governance Committee.

- 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 Safety and Risk Management Committee, monitoring compliance with the Group's risk.

The Charters of both committees are available on the Company's website.

(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.

The Board Charter and the charters adopted by the Board for the Committees 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 Committees are:

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.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

This Committee is chaired by Lee Thian Soo and has one other member, The Hon. John Sharp. Descriptions of the members' qualifications, skills and experience are included in the Directors' Report on pages 6 to 7.

The **Audit and Corporate Governance Committee** has a formal Charter, a summary of which is available on the Company's website.

REMUNERATION AND NOMINATION COMMITTEE

The **Remuneration and 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 one other member, James Davis. Descriptions of the members' qualifications, skills and experience are included in the Directors' Report on pages 6 to 7.

The **Remuneration and Nomination Committee** has a formal Charter, a summary of which is available on the Company's website.

SAFETY AND RISK MANAGEMENT COMMITTEE

The **Safety and Risk Management 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; and
- implementing and supervising the Group's operational risk assessment framework.

This Committee is chaired by Russell Hodge and has one other member, David Miller. Descriptions of the members' qualifications, skills and experience are included in the Directors' Report on pages 6 to 7.

The **Safety and Risk Management Committee** has a formal Charter, a summary of which is available on the Company's website.

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

ASX ADDITIONAL INFORMATION AS AT 29 AUGUST 2008

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

116,866,543 fully paid ordinary shares are held by 2,690 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	513	341,618	0.29
1,001 – 5,000	1,429	4,068,466	3.48
5,001 – 10,000	361	3,018,581	2.59
10,001 – 100,000	332	9,679,225	8.28
100,001 and over	55	99,758,653	85.36
Total	2,690	116,866,543	100.00

SUBSTANTIAL SHAREHOLDERS

Ordinary shareholders	Fully paid	
	Number	Percentage
Kim Hai Lim	18,480,630	15.81%
Joe Tiau Tjoa	13,969,094	11.95%
Thian Soo Lee	7,722,181	6.61%
Ming Yew See Toh & Hui Ing Tjoa	7,454,362	6.38%
Joo Chye Chua	7,454,362	6.38%

TWENTY LARGEST HOLDERS OF QUOTED EQUITY SECURITIES

Ordinary shareholders	Fully paid	
	Number	Percentage
Kim Hai Lim	18,480,630	15.81%
Joe Tiau Tjoa	13,969,094	11.95%
Thian Soo Lee	7,722,181	6.61%
Ming Yew See Toh & Hui Ing Tjoa	7,454,362	6.38%
Joo Chye Chua	7,454,362	6.38%
Hui Ling Tjoa	5,604,730	4.80%
National Nominees Limited	4,544,645	3.89%
Lay Khim Ng	3,727,181	3.19%
Cogent Nominees Pty Limited	3,487,606	2.98%
Rex Investment Holdings Pty Limited	2,958,371	2.53%
Citicorp Nominees Pty Limited	2,702,951	2.31%
Mirrabooka Investments Limited	2,000,000	1.71%
Equity Investments (ACT) Pty Limited	1,811,075	1.55%
J P Morgan Nominees Australia Limited	1,529,875	1.31%
Mr Kok Leong Lee	1,378,734	1.18%
Mr Thian Song Tjoa	1,267,046	1.08%
ANZ Nominees Limited	1,057,474	0.90%
Jowong Pty Limited	1,050,000	0.90%
Mastar Pty Limited	900,000	0.77%
SCJ Pty Limited	850,000	0.73%





This page has been intentionally left blank.



REX GROUP OF COMPANIES:

