



Our heart is in the country

Lead Manager & Underwriter
TRICOM EQUITIES

rex.
PROSPECTUS

Regional Express Holdings Limited
ACN 099 547 270





TABLE OF CONTENTS

Important Notice	1
Letter From The Chairman	3
1. Key Dates & Offer Statistics	6
2. Investment Highlights	8
3. Summary Of The Offer	12
4. The Australian Aviation Industry	22
5. Business Overview	30
6. Investment In Pel-Air	56
7. Directors and Senior Management	68
8. Financial Information	80
9. Risk Factors	112
10. Investigating Accountants' Reports	118
11. Additional Information	128
Glossary	165

IMPORTANT NOTICE

THIS PROSPECTUS

The Offer contained in this Prospectus is an invitation to apply for Shares in Regional Express Holdings Limited ACN 099 547 270 (the Company or Rex).

This Prospectus is a replacement prospectus dated 29 September 2005 and was lodged with the Australian Securities & Investment Commission (ASIC) on that date. This Prospectus replaces the prospectus issued by the Company dated and lodged with ASIC on 23 September 2005. ASIC and Australian Stock Exchange Limited (ASX) take no responsibility for the contents of this Prospectus.

No person is authorised to provide any information or to make any representation in connection with the Offer described in this Prospectus which is not contained in this Prospectus. Any information or representation not in this Prospectus may not be relied on as having been authorised by the Company in connection with the Offer.

No Shares will be sold or issued on the basis of this Prospectus later than 13 months after the Prospectus Date.

The Company will apply to ASX for listing and quotation of the Shares on ASX within seven days after the Prospectus Date.

THIS IS NOT INVESTMENT ADVICE – YOU SHOULD SEEK YOUR OWN FINANCIAL ADVICE

The Offer does not take into account the investment objectives, financial situation and particular needs of any investor. Before deciding to invest in the Shares potential investors should read the entire Prospectus. In particular, in considering the prospects of the Company, it is important that you consider the risk factors that could affect the financial performance of the Group. You should carefully consider these risks in light of your particular investment objectives, financial circumstances and investment needs (including financial and taxation issues) and seek professional advice from your accountant, financial adviser, stockbroker, lawyer or other professional adviser before deciding whether to invest. Some of the risk factors that should be considered by prospective investors are set out in Section 9. You should consider the assumptions underlying the financial forecasts and the risk factors that could affect the financial performance of the Company. The price of Shares may rise or fall according to a number of factors.

EXPOSURE PERIOD

The Corporations Act prohibits the processing of Applications during the Exposure Period. The Exposure Period is to enable the

Prospectus to be examined by market participants prior to the raising of funds. Any Applications received during the Exposure Period will not be processed until after the expiry of that period. No preference will be conferred on any Applications received during the Exposure Period. This Prospectus will be made generally available during the Exposure Period on the Company's website, www.rex.com.au.

ELECTRONIC PROSPECTUS

This Prospectus is available in electronic form on the Company's website, www.rex.com.au. The Offer constituted by this Prospectus in electronic form is available only to residents in Australia. Persons who access the electronic version of this Prospectus should ensure that they download and read the entire Prospectus. A paper copy of this Prospectus is available to any person in Australia, free of charge, by calling the Investor Hotline on 1300 799 367 (within Australia) during the period of the Offer.

FOREIGN JURISDICTIONS

The distribution of this Prospectus (including an electronic copy) in jurisdictions outside Australia may be restricted by law. Persons who come into possession of it should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

This Prospectus does not constitute an Offer in any jurisdiction in which, or to any person to whom, it would not be lawful to make such an Offer.

No action has been taken to register or qualify this Prospectus or to otherwise permit a public offering of Shares outside Australia. In particular, this Prospectus has not been registered under the United States Securities Act of 1933 (Securities Act), and Shares may not be offered or sold in the United States or to, or for the account or benefit of, a U.S. person (as defined in Regulation S of the Securities Act). Shares may be offered in a jurisdiction outside Australia where such an Offer is made in accordance with the laws in that jurisdiction. If you are located in jurisdictions outside Australia you should refer to Section 3.13.

FINANCIAL INFORMATION

All financial amounts contained in this Prospectus are expressed in Australian currency unless otherwise stated. Any discrepancies between totals and sums of components in tables contained in this Prospectus are due to rounding.

PRIVACY

The Application Form accompanying this Prospectus requires you to provide information that may be personal information for the purposes of the Privacy Act 1988 (Cth) (as amended). The Company (and the Share Registry on its

behalf) will collect, hold and use that personal information in order to assess your Application, service your needs as an investor, provide the facilities and services that you request and carry out appropriate administration. Company and tax law also requires some of the information to be collected in connection with your Application. If you do not provide the information requested, your Application may not be able to be processed.

The Company and the Share Registry may disclose your personal information for purposes related to your investment to members of the Group and to their agents and service providers including those listed below or as otherwise authorised under the Privacy Act 1988 (Cth):

- the Underwriter in order to assess your Application;
- the Share Registry for ongoing administration of the register; and
- the printers and the mailing house for the purposes of preparation and distribution of holding statements and for handling of mail.

If you become a Shareholder, your information may also be used or disclosed from time to time to inform you about the Group's products or services that the Group thinks may be of interest to you. If you do not want your personal information to be used for this

purpose, you should contact the Investor Hotline on 1300 799 367. Under the Privacy Act 1988 (Cth), you may request access to your personal information held by (or on behalf of) the Group or the Share Registry. You can request access to your personal information by calling the Investor Hotline on 1300 799 367 or writing to the Company through the Share Registry as follows:

ASX Perpetual Registrars Limited GPO Box 1736 Melbourne VIC 3001

You can obtain a copy of the Company's privacy policy online at the Company's website, www.rex.com.au.

ENQUIRIES

For further information in relation to the Offer, please call the Rex Investor Hotline on 1300 799 367 in Australia. The Company's Investor Hotline will be open from 8.30am until 5.30pm AEST, Monday to Friday until the end of this Offer.

DEFINITIONS AND INTERPRETATION

A number of terms and abbreviations used in this Prospectus have defined meanings which appear in the Glossary.

All references to times in this Prospectus are to (Sydney) Australian Eastern Standard Time.



LETTER FROM THE CHAIRMAN

Dear Investor,

On behalf of all the Directors, it is with great pleasure that I invite you to be a shareholder of Rex.

Whilst Rex is only three years old, our roots, culture, practices and commitment go well back to the 1950s – the ‘dawn’ of regional air services in Australia. We are the result of a merger of Hazelton and Kendell – two successful regional airlines. We inherited from these great aviation pioneers, Max & Laurel Hazelton and Don & Eilish Kendell, the conviction that our ‘heart’ is in the country and that by providing reliable services, fairly priced tickets and most importantly warm country hospitality, a regional air service can and will grow and prosper.

Since August 2002, Rex has lived this philosophy and the bush has embraced the airline as its own, making Rex one of the fastest growing of Australia’s major airlines, with passenger numbers growing 75% since our first year of operations in FY 02/03. Rex now carries over a million passengers on some 50,000 flights annually, resulting in net profit after tax of \$11.3M on the back of \$137.1M in revenue.

This outcome represents one of the fastest and most dramatic transformations seen in Australian aviation. Today, Rex’s profit as

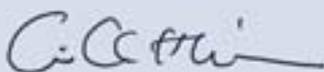
a percentage of revenue is comparable to the most profitable airlines worldwide.

But beyond just the financial figures, I am particularly gratified by Rex's ability to distinguish itself in both operations and customer satisfaction:

- Rex has the best On Time Departure record of all major Australian carriers operating out of the very congested Sydney airport where half of Rex's operations are based;
- Rex received the highest score for customer satisfaction out of four airlines surveyed (Rex, Jetstar, Qantas and Virgin Blue) in a survey published by Choice magazine in April this year; and
- Rex was awarded a 3-year extension to its Air Operator Certificate and Certificate of Approval by CASA in 2004.

These snapshots give a good preview of what Rex is capable of. I believe that Rex is now poised for take-off into the next exciting chapter. I hope I can welcome you on board to partake in our rich legacy and to join us in our critical mission of connecting regional Australia.

Ladies and Gentlemen, WELCOME TO REX. *No seat belts required.*



Lim, Kim Hai

Executive Chairman
29 September 2005



1 KEY DATES & OFFER STATISTICS

1.1 KEY DATES

Event	Date ¹
Prospectus Date	Thursday 29 September 2005
Offer opens (after Exposure Period)	Friday 30 September 2005
Offer closes	Friday 28 October 2005
Expected date of dispatch of transaction confirmation statements	Monday 7 November 2005 ²
Expected date of quotation of Shares on the ASX	Wednesday 9 November 2005 ²

Notes:

1. The Company, in consultation with the Underwriter, reserves the right to vary the dates and the times of the Offer, including to close the Offer early or to accept late Applications, either generally or in particular cases, without notifying any recipient of this Prospectus or any Applicants. Investors are encouraged to submit their Applications as soon as possible. All dates refer to Sydney time.
2. Subject to ASX granting approval to the listing.

1.2 OFFER STATISTICS

Offer Price	\$1.00
Number of new Shares being offered by this Prospectus	35,000,000
Number of Shares on issue following the Offer	115,000,000
Gross proceeds from the Offer	\$35.0M
Market capitalisation at the Offer Price	\$115.0M
Pro forma net profit before tax for FY 04/05 ¹	\$13.5M
Forecast profit after tax for FY 05/06 ⁵	\$15.1M
Forecast price to post tax earnings multiple for FY 05/06 ^{1,2,3}	7.6 times
Pro forma net assets per Share ^{3,4}	44 cents

Notes:

1. The Company has made a number of important assumptions in forecasting the earnings of the Company for the year ending 30 June 2006 (prepared on a pro forma basis – which may be significantly different from the results that will be reported in the FY 05/06 statutory financial statements). Investors are referred to Sections 8 for an outline of these assumptions.
2. Based on forecast net profit after tax.
3. Assumes the whole of the Offer has been taken up and the new Shares are in existence for the whole of FY 05/06.
4. Based on the Pro forma Balance Sheet (refer Sections 8).
5. Based on A-IFRS accounting standards.



2 INVESTMENT HIGHLIGHTS

Regional Express or Rex is a profitable airline providing air transport services to a significant part of regional Australia. Its success is characterised by strong management, committed staff and long experience in regional aviation. With the acquisition of a 50.0% interest in Pel-Air, an air freight operator, it is seeking further improvement in the quality of its earnings and in its growth opportunity.

The Company attributes its financial success and investment appeal to the following critical factors:

AN OUTSTANDING OPERATING PERFORMANCE

One of the best measures of the quality of an airline is its On Time Performance (OTP) and its customer satisfaction. In this respect Rex has clearly demonstrated that it is among the best of all major Australian carriers. In the results published by the Department of Transport for FY 04/05 Rex has the best On Time Departures (OTD) record of all major airlines

departing out of the congested Sydney airport where half of its operations are based. This exacting performance has not compromised its customer service levels. In a survey published by Choice magazine in April this year, Rex received the highest score for customer satisfaction out of four airlines surveyed (Rex, Qantas, Virgin and Jetstar).

AN UNCOMPROMISING APPROACH TO COST MANAGEMENT AND OPERATIONAL EFFICIENCY

During a period of escalating fuel costs, Rex has reduced its cost per Available Seat Kilometre (ASK), a common measure of airline operational efficiency, by some 2.8% in FY 04/05. Rex has a Productivity Committee which is chaired by its Executive Chairman which examines all avenues for efficiency gains and cost reductions. This Committee has realised tangible annualised improvements in profitability of over \$2.0M in the last financial year and will continue to actively seek to achieve efficiency gains and costs savings in the future.

A PROFITABLE AIRLINE WITH STRONG CASH FLOWS

Since commencing operations in 2002, Rex has successfully improved its financial performance and cash flows. In FY 04/05, passenger numbers increased to more than 1 million passengers, with revenue of over \$137.1M and net profit of over \$11.3M. For FY 05/06, Rex has forecast revenue of \$148.6M and profit before tax of \$21.5M.

While focusing on financial performance, it is also important to highlight that the Company has no long term debt and will have no borrowings at all after the ASX listing. This is not common for an airline. The strong cash flow of its activities has allowed it to progressively reduce debt and acquire, rather than lease, more than half of its 29 aircraft. This provides a strong balance sheet and positions the Company to take advantage of opportunities arising from industry consolidation or geographical expansion. The decision to acquire 50.0% of Pel-Air, a successful regional air freight and logistics provider, is a good example of this strategy.



PLAYING TO ITS STRENGTHS AND AVOIDING TURBULENCE

Rex has a fleet of twin-propeller Saabs that are suited to the service of regional Australia. This means that it can operate efficiently on airstrips unsuited to larger jet airliners. This results in the provision of services on routes where Rex is the only carrier or has few competitors. In fact, over 60% of its routes are Essential Regional Services (ERS), where Rex is the only carrier.

EXPERIENCED MANAGEMENT AND DEDICATED STAFF

Many of Rex's management team and staff have had extensive experience with Kendell and Hazelton and the Company has been able to draw on their experience and dedication in continually improving its service to regional Australia.

The Company also believes that its staff are dedicated and passionate. In its recent EBA negotiations, two of Rex's four employee groups governed by EBAs, representing 306 out of 512 staff employed under EBAs, have voted to accept a

lower fixed annual wage increase in exchange for a profit share and/or shares in the Company. The Company believes that this outcome demonstrates the strong commitment of the staff and their belief in the Company.

A CLOSE PARTNER TO THE BUSH

Rex's creed is "Our Heart is in the Country". It has an administration and engineering base in Wagga Wagga, recruits its staff heavily from regional Australia and makes its livelihood from meeting the evolving needs of people and businesses in regional areas. In the three years of its operations it



has grown the passenger numbers on many routes to levels existing before the Ansett collapse. In fact, on the routes where Rex is the sole operator, it has grown passenger numbers by over 70% since it started operations in FY 02/03.

Rex's partnership with the bush also goes to helping the communities that have made it a success. Every year numerous charities, organisations and individuals benefit from its assistance. In FY 05/06, Rex has set aside \$0.5M towards a special fund to support drought relief.

ALIGNMENT OF SHAREHOLDER INTERESTS FOR EXISTING AND PROSPECTIVE INVESTORS

The Directors and major Existing Shareholders of Rex have accepted a voluntary escrow of one year from the date of listing on their shareholdings (as set out in Section 11.7), representing approximately 62.4% of the issued Share Capital of the Company after the Offer. They are strongly motivated to have the Company continue to improve operational efficiency and to grow to achieve the forecast profit before

tax of \$21.5M in FY 05/06. Based on the Offer Price, the forecast price to earnings multiple for FY 05/06 is approximately 7.6x. It is the intention of the Board of Directors to provide a return to Shareholders, with a dividend of 30.0 - 40.0% of earnings in the first year after listing, giving investors a balanced exposure to capital growth and income. The FY 05/06 dividend yield is expected to be in a range of 5.0 - 6.0%.

ASX

Stock

PMP		
RAMSAY LTD		
RECORD		
REPCO		
REX		
RIDLEY		
WINKER		
WINTO		

1
1
5

3 SUMMARY OF THE OFFER

3.1 DESCRIPTION OF THE OFFER

This Prospectus offers for subscription a total of 35,000,000 ordinary Shares in the Company (Shares), at a price of \$1.00 per Share payable in full on Application. All Shares to be issued by the Company under the Offer will rank equally in all respects with each other and the existing issued Shares after completion of the Offer. See Section 11.4 for details of the rights attaching to the Shares.

After the close of the Offer, the issued capital of the Company will be 115,000,000 fully paid Shares, of which the current Shareholders in the Company (Existing Shareholders) will hold 80,000,000 Shares or approximately 69.6% of the total issued capital.

The Offer is fully underwritten by Tricom Equities Limited.

3.2 PURPOSE OF THE OFFER

Rex is making this Offer and seeking admission to the official list of ASX because:

- The Company has significant growth opportunities that it seeks funds to exploit. These include:
 - the purchase of more aircraft in order to increase the frequency on existing routes, to service new routes and to reduce aircraft leasing charges;
 - the purchase of additional spares, including engines, to maintain the Company's high level of operational readiness;
 - the purchase of aircraft for charter use;
 - making a strategic investment in Pel-Air, as discussed further in Section 6; and
 - strengthening its balance sheet so that it can take advantage of domestic investment opportunities and/or overseas investment opportunities if and when they arise.
- The Company believes there will also be non-financial benefits to the listing on ASX, including:
 - raising the profile of the Company with corporate travellers; and
 - allowing Rex's supporters to invest in and participate in Rex's future and success.
- Coupled with the Share Option Plan and Share Plan, a listing on ASX will provide present and future employees of the Group an opportunity to participate in and further benefit from the Company's growth and success. This should help Management motivate, attract, hire and retain quality staff.

3.3 USE OF PROCEEDS AND APPLICATION OF FUNDS

The intended Application of funds raised under the Offer is summarised in the table on page 13.

Upon the successful completion of the Offer, the Company anticipates raising about \$32.3M after expenses. The Company intends to apply the net proceeds in the following manner:

Investment in an Associate

The Company has agreed to acquire 50.0% of Pel-Air, an aircraft

freight and passenger charter company. The Directors believe that this acquisition could provide operational synergies as well as strategic advantages to Rex. Please see Section 6 "Investment in Pel-Air" for more details.

Purchase of Saab 340B aircraft, balance payment on purchase of two Saab 340A aircraft and repayment of debt for purchase of three Saab 340B aircraft

The Company originally leased all its aircraft by way of operating leases, but has since changed its policy and now seeks to purchase, rather than lease, aircraft. The Company has been acquiring aircraft because:

- the Company's improved cash flow has enhanced the Company's ability to own aircraft.
- the state of the Saab turbo-prop aircraft market is currently such that the cost of purchasing a Saab turbo-prop is far cheaper than leasing the aircraft under an operating lease.

For example, the cost of acquiring a Saab turbo-prop is currently equal to between two to four years of lease payments, depending on the age of the aircraft, with the corresponding economic life of the purchased aircraft being between 11-16 years. Hence, the purchase of the three Saabs 340B that were previously leased reduced the

Use of Proceeds

Investment in Pel-Air	\$12,000,000
Purchase of Saab 340B aircraft (contracted)	\$2,150,000
Proposed additional aircraft purchases	\$4,500,000
Repayment of debt for purchase of three Saab 340B aircraft	\$4,600,000
Balance payment on purchase of two Saab 340A aircraft	\$650,000
Purchase of additional engines and spares	\$3,500,000
General working capital	\$4,900,000
Expenses of this Offer	\$2,700,000
TOTAL	\$35,000,000

Company's expenses in respect of those aircraft by about 40% of the lease costs for those aircraft even after factoring in depreciation and interest.

- Strong passenger growth rates in excess of 20% per annum have resulted in the need to increase frequency of flights and upgrade to the bigger Saabs for the Metroliner routes.

Prior to April 2005, the Company purchased five aircraft, with an average useful life of 11 years. In anticipation of this Offer:

- in April and May of 2005, the Company purchased a further five Saab aircraft using short term financing facilities; and
- a Subsidiary committed itself to purchasing another aircraft that will be delivered in November 2005.

From the proceeds of the Offer, about \$7.4M will be used as follows:

- \$2.15M for an additional Saab 340B;
- \$0.65M balance payment on two Saab 340As; and
- \$4.6M in repayment of a facility used to purchase the Company's existing three Saab 340Bs.

Most of the aircraft purchased since November 2003 were purchased from existing lessors, so there was no increase in capacity. However, two of them will be additions to the fleet and are earmarked for expansion of the network (by way of an increase in frequency of flights) and for additional charter work.

Future Aircraft Purchases

The Company and CIT Group (Australia) Limited (CIT) have entered into a memorandum of understanding to acquire a Saab 340B for about USD1.6M (about \$2.1M). The aircraft to be acquired is currently leased to the Company by CIT. The parties intend to finalise an aircraft sale agreement by 31 October 2005.

The Company also intends to source and purchase one additional Saab 340B when it becomes available. This aircraft will be used to replace an existing Saab 340A which will then be parted out for spares.

Purchase of Additional Engines and Spares

The administrators of Kendell and Hazelton have a large stock of spares, including two aircraft engines, that did not form part of the sale of assets to Rex. These spares have been made available to Rex for purchase on a pay-as-use basis over the last three years.

The Company has reached agreement with the administrator of Hazelton to purchase their remaining stock of spares at a substantial discount to their list value, which allows the Company to hold a large stock of spares at a much reduced cost. The Company will also be negotiating with the

administrator of Kendell to finalise arrangements for the acquisition of parts at a discount to their list value.

Spares, in particular spare engines, are critical for operational readiness, as having engine spares readily available means that engine failure will not result in an aircraft being grounded longer than the time it takes to swap out the engine.

Working Capital

The Company intends to use part of the proceeds to enhance its working capital to fund the anticipated increase in activity in the course of the following 12 months. Following completion of

the Offer, the Directors believe that the Company will have sufficient working capital to carry out its stated business objectives.

3.4 FINANCIAL PERFORMANCE AND FORECASTS

The Company's pro forma results for each financial year ending on 30 June from FY 02/03 to FY 04/05 and its forecast performance for FY 05/06 are set out in the table below. The Directors provide no guarantees that the forecasts will be achieved as forecasts can be affected by numerous factors, many of which are outside the Directors' control.

Pro forma Results Financial year ending 30 June (\$M)

	FY 02/03 Historical AGAAP	FY 03/04 Historical AGAAP	FY 04/05 Historical AGAAP	FY 05/06 Forecast A-IFRS
Revenue	97.0	112.8	139.9	148.6
EBITDAR	(13.1)	14.3	25.2	34.0
PBT	(24.3)	4.5	13.5	21.5
Net Profit After Tax	(24.3)	4.5	15.4	15.1

Notes:

1. Where necessary, the financial information in FY 02/03 and FY 03/04 has been adjusted to ensure comparability of results (refer Sections 8 and 10 for details).
2. Further details of the forecasts are set out in Section 8, together with the underlying assumptions and qualifications. The forecasts have been reviewed by the Investigating Accountants, whose reports are included in Section 10.

A summary of the Company's Pro forma Balance Sheet is set out below, reflecting the audited balance sheet as at 30 June 2005, adjusted for the Offer, the proposed acquisitions of aircraft and the investment in Pel-Air to be undertaken following completion of the Offer as described elsewhere in this Prospectus. The assumptions underlying the summary Pro forma Balance Sheet below and the detailed Pro forma Balance Sheet contained in Section 8 are set out in Section 8.4 and in the Investigating Accountants' Review of the Directors' Pro forma Financial Forecast in Section 10.

Pro forma Balance Sheet	FY 04/05 (\$M)
Current Assets	24.2
Non-Current Assets	53.8
Total Assets	78.0
Current Liabilities	(25.9)
Non-Current Liabilities	(1.2)
Total Liabilities	(27.1)
Shareholders' Equity/Net Assets	50.9

3.5 ASSET BACKING

Based on the Pro forma Balance Sheet contained in Section 8, the Company's pro forma net asset backing per Share and pro forma net tangible asset backing per Share will be 44 cents.

3.6 DIVIDEND POLICY

Prior to this financial year, the Company did not have a fixed dividend policy. The Company paid no dividends in FY 02/03, FY 03/04 or FY 04/05.

The Company has since adopted the following dividend policy. Dividends that will be paid by the Company will be determined by the Directors with regards to:

- business conditions;
- the profitability, cash flow and financial health of the Company at the time of the proposed dividend payment; and
- the need for funds for capital expenditure, acquisitions or other business opportunities.

Based on this policy and subject to achievement of the Company's forecast for FY 05/06, the Directors intend that the amount of dividends to be paid in FY 06/07 will be between 30.0 - 40.0% of net profit after tax for FY 05/06. An interim dividend is expected to be announced in July 2006 if the Company is on track to meet its forecast net profit after tax at that time.

Assuming that the Company meets its forecast net profit after tax for FY 05/06, a 40.0% dividend payout ratio would result in an unfranked dividend yield of 5.2% based on the Offer Price of \$1.00 per Share.

In subsequent years, the Company's historic tax losses will no longer be available as a deduction from the Company's assessable income, and accordingly, such dividends will be paid on a franked basis.

3.7 BUSINESS AND INVESTMENT RISKS

The Company's financial forecasts for FY 05/06, discussed in further detail in Section 8, are based on various assumptions. Actual financial performance may be affected by a range of business factors and risks and may vary significantly from the forecast financial performance. Some of these risks apply to companies

and businesses generally, such as changes in interest rates, movements in exchange rates and general economic conditions.

A description of these and other potential business risks are set out in Section 9. Before deciding to invest in the Company, potential investors should read the entire Prospectus and, in particular, consider the assumptions underlying the forecast financial information and the risk factors that could affect the financial performance of the Company.

3.8 CAPITAL STRUCTURE

The Company's issued Share capital before and immediately following the completion of the Offer will be as follows:

	Before Offer		After Offer	
	Number	%	Number	%
Existing Shareholders	80,000,000	100.0	80,000,000	69.6
New Shareholders Under Offer	0	0.0	35,000,000	30.4

3.9 ESCROW ARRANGEMENTS

As a sign of confidence in the Company, Directors and all other major Existing Shareholders have given an undertaking not to sell their Shares (as set out in Section 11.7) for a period of one year from the date of first quotation of the Shares on the ASX. Further details regarding these voluntary escrow arrangements, including the Existing Shareholders that are subject to them, are set out in Section 11.7. The Shares subject to these voluntary escrow arrangements represent 89.7% of the Share capital of the Company prior to the Offer and approximately 62.4% of the Share capital of the Company following completion of the Offer.

3.10 HOW TO APPLY FOR SHARES

An Application for Shares under the Offer (Application) can be made only by completing an Application Form attached to, or accompanying, this Prospectus or a paper copy of an Application Form accompanying the

electronic version of this Prospectus available at www.rex.com.au and www.tricom.com.au (Application Form).

Detailed instructions on the correct method of completing an Application Form are set out in the Application Form. All:

- Priority Employees (see Section 3.11) must tick the box on the Application Form indicating that they are a Priority Employee; and
- participants in Rex's frequent flyer programme must tick the box on the Application Form indicating that they are a participant in Rex's frequent flyer programme,

in order to receive priority under the Offer, as discussed in Section 3.11 on the following page.

An Application Form must be accompanied by a cheque, in Australian Dollars, for the Application Monies. The minimum Application under this Offer is for 2,000 Shares (being Application Monies of \$2,000) and any additional Shares should be in multiples of 100. All cheques must be made payable to "Regional Express - Share Account" and crossed "Not Negotiable".



The completed Application Form must be returned no later than 5.00pm AEST on the Closing Date (presently expected to be 28 October 2005):

by mailing to:

Regional Express Holdings Limited
c/- ASX Perpetual Registrars Limited
GPO Box 2785
Melbourne VIC 3001

or by hand delivery to:

Regional Express Holdings Limited
c/- ASX Perpetual Registrars Limited
Level 4, 333 Collins Street
Melbourne VIC 3000

Application Forms and accompanying cheques will not be accepted by the Share Registry at any other address. Payments by

cheque will be deemed to be made when the cheque is honoured by the bank on which it is drawn. Applicants are advised to lodge their Applications as early as possible after the Offer opens.

The Company reserves the right to extend the Offer Period and delay the Closing Date.

3.11 ACCEPTANCE OF APPLICATIONS AND ALLOCATION POLICY

The Company, in consultation with the Underwriter, has the right to nominate the persons to whom Shares offered under the Offer will be allocated and may accept or reject any Application, or accept an Application in respect of a number of Shares less than the number for

which the Applicant applies. There is no assurance that Applicants will be allocated the amount of Shares they apply for or, indeed, any Shares.

The Company and the Underwriter currently intend to allocate Shares to be issued under the Offer to a mix of Retail Investors and Institutional Investors.

Of the amount which may be allocated to Retail Investors, Priority Employees, Regional Investors (both as defined on the following page) and participants in Rex's frequent flyer programme who lodge their Application Form prior to 5.00pm AEST on the Closing Date will be allocated Shares in priority to other Retail Investors as follows:



- Priority Employees, being employees and officers of the Group and employees and officers of the Pel-Air Group as at 29 September 2005 and who remain employed or engaged as at the Closing Date, will be entitled to an allocation in priority to other Retail Investors (including Regional Investors and participants in Rex's frequent flyer programme);
- Regional Investors, being those persons lodging Applications having a registered address with a postcode outside the metropolitan areas of Sydney, Melbourne, Brisbane and Adelaide, will be entitled to an allocation in priority to other Retail Investors (including participants in Rex's frequent flyer programme but excluding Priority Employees); and

- participants in Rex's frequent flyer programme will be entitled to an allocation in priority to other Retail Investors (excluding Priority Employees and Regional Investors).

The priority given to Priority Employees, Regional Investors and participants in Rex's frequent flyer programme outlined above is not an entitlement offer and these Retail Investors will not have a fixed entitlement to a minimum allocation of Shares. However, in determining allocations, regard will be had to whether an Applicant is a Priority Employee, Regional Investor or participant in Rex's frequent flyer programme.

Final allocations will remain subject to the absolute discretion of the Company.

Where an Application is rejected, the Application Monies will be refunded in full. If the number of Shares allotted to the Applicant is fewer than the number for which the Applicant applied, the surplus Application Monies will be refunded. Interest will not be paid to Applicants on the refunded Application Monies.

The Company will issue the Shares that are the subject of successful Applications as soon as possible after the Closing Date.

Pending the issue by the Company of the Shares offered by this Prospectus, the Company will deposit Application Monies in a separate bank account and keep them there for so long as those Applications, or any part of them,



are liable to be repaid in accordance with the Corporations Act and this Prospectus. Any interest earned on Application Monies pending allocation or payment of any refund will become an asset of the Company.

3.12 UNDERWRITING AGREEMENT

The Offer is fully underwritten by Tricom Equities.

The Underwriting Agreement entered into between the Company and Tricom Equities provides that the Underwriter may terminate the Underwriting Agreement in certain circumstances. Further details of the Underwriting Agreement, including the termination provisions, are set out in Section 11.5.

3.13 ASX LISTING

The Company will apply to the Australian Stock Exchange Limited (ASX) within seven days after the date of this Prospectus for admission to the official list of the ASX and quotation of the Shares on the ASX.

The fact that the ASX may admit the Company to its official list is not to be taken as an indication of the merits of the Company or the Shares. The ASX, its officers and employees take no responsibility for the contents of this Prospectus or the investment to which it relates.

If granted, quotation of the Shares will commence as soon as practicable after the issue of transaction confirmation statements to Shareholders.

If the Application is not made, or the Company is not admitted to the official list of the ASX within three months of the date of this Prospectus (or any longer period permitted by law), the Offer will be cancelled and all Application Monies will be refunded within the time prescribed by the Corporations Act. Interest will not be paid on any Application Monies refunded.

3.14 BROKERAGE, COMMISSION AND STAMP DUTY

No brokerage, commission or stamp duty is payable by Applicants for Shares under the Offer.

3.15 CHESS AND ISSUER SPONSORED HOLDINGS

The Company will apply to the ASX to participate in the securities Clearing House Electronic Subregister System (CHESS), in accordance with the ASX Listing Rules and the ASTC Settlement Rules. CHESS is an automated transfer and settlement system for transactions in securities quoted on the ASX under which transfers are effected in any electronic form.

When the Shares become CHESS approved securities, holdings will be registered in one of two sub-registers, an electronic CHESS sub-register or an issuer sponsored sub-register. A CHESS participant, or a person sponsored by a CHESS participant, will have their Shares registered on the CHESS sub-register.

Under CHESS, the Company will not be issuing certificates to Shareholders. Instead, following the allotment of Shares under the Offer, Shareholders will receive a transaction confirmation statement that sets out the number of Shares allotted to each of them. The transaction confirmation statement will also advise holders of their Holder Identification Number (HIN) or, where applicable, the Securityholder Reference Number (SRN) of issuer sponsored holders. Holding statements will be

provided to Shareholders showing any changes in their shareholding in the Company.

3.16 OVERSEAS INVESTORS

It is the responsibility of any investor who requires approvals to subscribe for Shares under this Offer to obtain all necessary approvals for the subscription for Shares under the Offer. This includes any approval which a foreign investor may require under the Foreign Acquisitions and Takeovers Act 1975 (Cth) (see Section 4.3).

3.17 TAXATION

The taxation consequences of an investment in Shares will depend on the investor's particular circumstances. It is the responsibility of potential investors to make their own inquiries concerning the taxation consequences of an investment in the Company. If you are in doubt as to the course you should follow, you should seek professional advice from your accountant, financial advisor, stockbroker, lawyer or other professional advisor.

3.18 INQUIRIES

All inquiries in relation to this Prospectus should be directed to the Investor Hotline on 1300 799 367. The Investor Hotline will be

open from 8.30am until 5.30pm Sydney time Monday to Friday until completion of the Offer.

If you are unclear in relation to any matter or are uncertain as to whether Rex is a suitable investment for you, you should seek professional advice from your accountant, financial advisor, stockbroker, lawyer or other professional advisor.

Inquiries may also be directed to the offices of the Lead Manager and Underwriter, Tricom Equities, as outlined below:

- **Sydney, Tricom Equities**
1300 732 200 - please ask for Jonathan Kallmeyer
- **Lismore, Tricom Equities**
02 6623 4500 - please ask for Tim Breen
- **Gold Coast, Tricom Equities**
1300 736 600 - please ask for Antony Ganzitti
- **Melbourne, Tricom Equities**
1300 733 300 - please ask for Glen Fozard
- **Adelaide, Tricom Equities**
1300 734 400 - please ask for David Falco
- **Hobart, Shadforths Limited**
1800 817 123 - please ask for Tony Shadforth.



4 THE AUSTRALIAN AVIATION INDUSTRY

4.1 OVERVIEW

The Australian aviation industry can be categorised into four segments, namely:

1. International Airline Services;
2. Domestic Airline Services;
3. Regional Airline Services; and
4. General Aviation Services.

International Airline Services

International airline services are services to and from Australia provided by a range of international carriers. Rex does not operate in this segment of the aviation industry.

Domestic Airline Services

Domestic airline services are services between major cities in Australia, operated by Australian based carriers generally operating aircraft with in excess of 100 seats. Such airlines include Qantas, Jetstar (wholly owned by Qantas) and Virgin Blue. While Rex operates to the capital city hubs of Sydney, Melbourne and Adelaide, it ceased offering dedicated domestic airline services between capital cities in December 2004 when it redeployed

aircraft serving the Canberra-Sydney route in favour of other regional services.

Regional Airline Services

Regional airline services are services within regional areas of Australia and between regional centres and the capital cities. The main regional airlines include:

- *Qantaslink* – a trading name under which a group of Qantas owned subsidiary regional airlines operate being Airlink, Eastern Australia Airlines and Sunstate Airlines;
- *Rex* – Australia’s largest independent regional airline, operating services to 27 regional destinations with hubs in Sydney, Melbourne and Adelaide;
- *Skywest Airlines* (Western Australia);
- *Airnorth* (Northern Territory – part of Regionallink);
- *Airlines of South Australia* (South Australia – part of Regionallink); and
- some 20 smaller regional airlines spread across Australia.

The two biggest regional turbo-prop carriers are Qantaslink and Rex. Both are full service carriers and between them operate to 55 regional and country centres. The two airlines compete directly on six routes.

General Aviation Services

General aviation services include air services provided by non-scheduled charter operators offering a variety of services and flying a variety of aircraft including business jets, large and small propeller aircraft, aircraft training operations, aerial work operations (including aerial agriculture), aerial spotting, cargo and courier operations and recreational flying. Rex operates ad hoc passenger charter services for a range of clients.

It is important to distinguish between the various air services as their cost structures, competitive pressures and comparative advantages needed for success and investment returns can differ significantly.

The relative size of various scheduled passenger segments are as follows:

Aviation Traffic Statistics for 2003-2004

	International ¹	Domestic ²	Regional ²
Passengers Carried (million)	18.131	31.08	3.98
Total Hours Flown	272,400	480,966	243,573
Aircraft Departures	100,326	249,531	239,654
Passenger Load Factor ³	Data Not Available	79.9	62.7

Source: Bureau of Transport and Regional Economics, Digest of Statistics 2003-04 (DGST 14/122), Commonwealth Department of Transport and Regional Services

Notes: (1) Sum of traffic carried into and out of Australia by all international airlines

(2) Sum of traffic arriving and departing from Australian airports.

(3) Number of passengers carried as a percentage of total number of seats available

International airline services are the largest segment of the Australian aviation industry in terms of dollar revenue. Domestic airline services are the largest segment of the Australian aviation industry in terms of number of people carried.

4.2 THE AUSTRALIAN REGIONAL AVIATION MARKET

Background

Australian regional airline services have long played a vital part in opening up and sustaining regional and outback Australia, as road and rail transport were often not readily available alternatives. Regional Australia's vast distances and sparse population, along with the vagaries of climate and geography, have made and still make ground transport to many regional cities difficult and very time consuming. The graph on the opposite page

shows the growth trends in terms of both capacity and passenger revenue for regional air services in Australia from 1980 to 2004.

The significant rise in capacity, measured in ASKs, and passenger revenue, measured in RPKs, for regional air services in 1999 and 2000 correlates with the introduction of regional jet services by Kendell Airlines and the reclassification of some of these services from domestic to regional.

The collapse of the Ansett Group and the termination of Kendell regional jet operations saw a return to previous levels and then further less dramatic growth.

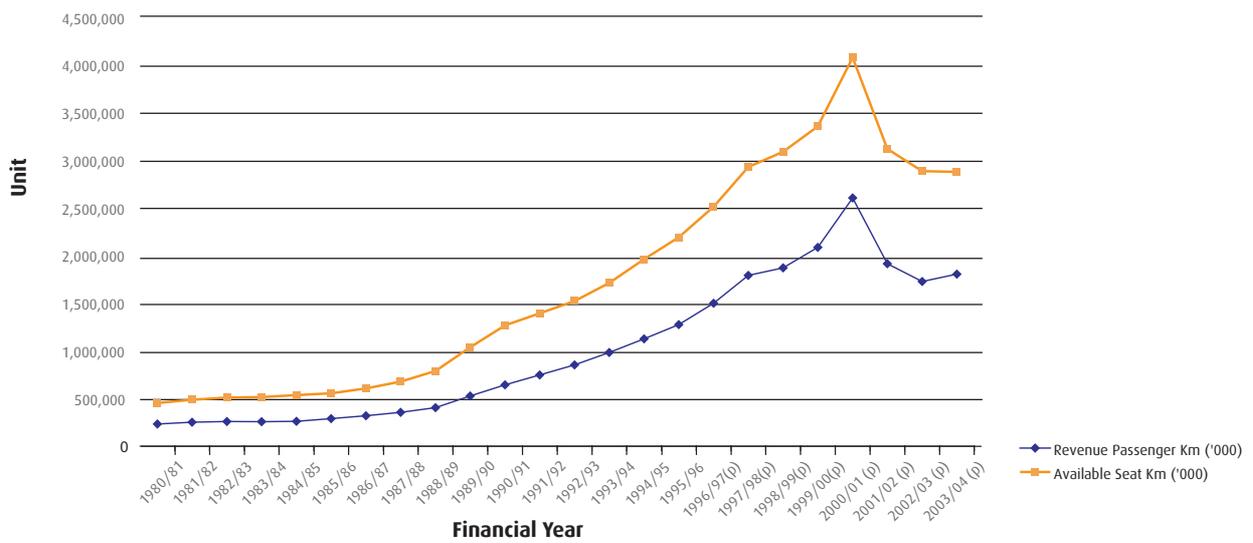
In 2002 Rex purchased Hazelton Airlines and the turbo-prop business of Kendell Airlines. It commenced operations in August that year as an alternative to Qantaslink and the

operator of a number of Essential Regional Service (ERS) routes across south-eastern Australia.

Since its commencement in 2002, passenger numbers on most current Rex routes have grown and now exceed levels attained before the collapse of the Ansett Group.

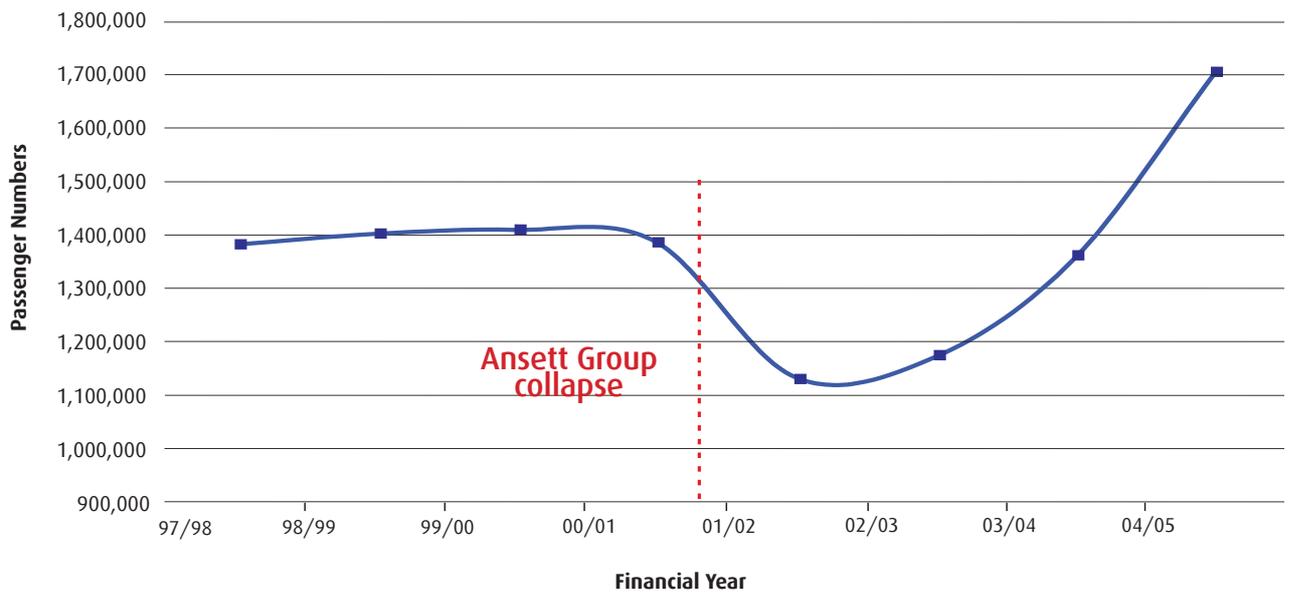
The graph on the opposite page, compiled from information sourced from the Bureau of Transport and Regional Economics AVSTATS section and advice from local council airport operators, shows the total passengers carried aggregated on all Rex routes for all operators for the period FY 97/98 to FY 04/05. This shows that annual passengers carried by all operators on the Rex network overall exceeds the levels existing prior to the Ansett Group collapse in September 2001 indicated by the red dotted line.

Annual Available Capacity Growth in the Regional Air Services Segment, 1980-2004



Source: Bureau of Transport and Regional Economics, Commonwealth Department of Transport and Regional Services

Rex Network Annual Market Size



Of the 33 routes in the Rex network, 21 are serviced by Rex alone. From the third quarter of FY 02/03 to the third quarter of FY 04/05, passenger numbers on those 21 increased by 74%. Passenger numbers on the remaining routes (for all operators overall) increased by 30%.

4.3 REGULATORY ISSUES

Like most countries, the airline industry in Australia is extensively regulated and carriers are subject to significant legislative provisions which cover the right of ownership, the right to operate, air safety, employee rights, competition, noise levels and other pollution and environmental concerns.

Right of Ownership and the Right to Operate

In 1990 the then Australian Government deregulated domestic interstate aviation bringing an end to its two airline policy and opening the market to new operators. Deregulation had important implications for the Australian aviation industry. There are no longer any specific regulatory controls over the ownership of an airline in Australia other than under the Foreign Acquisitions and Takeovers Act 1975 (Cth) (discussed below) and in relation to Australian international airlines under the Air Navigation Act 1920 (Cth) and Qantas, which is separately

regulated by the Qantas Sale Act 1992 (Cth).

There are general statutory restrictions which apply to the purchase of Australian companies and businesses, and not just those in the airline industry, such as:

- the takeovers provisions of the Corporations Act, which will apply to dealings in the Shares following listing on the ASX; and
- the foreign ownership restrictions under the Foreign Acquisitions and Takeover Act 1975 (Cth). This Act applies to a single foreign person and its associates acquiring 15.0% or more of the shares in a company (substantial interest) or two or more unassociated foreign persons and their Associates acquiring 40.0% or more of the shares in a company (aggregate substantial interest).

The Company's Constitution does not contain any foreign ownership restrictions.

Rex is considered to be substantially owned by foreign persons and will remain so after completion of the Offer. Carriers that are substantially owned or effectively controlled by foreign persons are not able to utilise Australian bilateral rights to fly on international routes for regular passenger service. This

is not a current concern for the Company as it has no current intention to fly on international routes.

Essential Regional Services

While the Commonwealth Government does not exercise direct economic controls such as pricing, capacity and market entry controls over interstate air services following deregulation, the states retain the power to impose economic and/or public interest regulatory controls on intrastate air services. All states have exercised such powers to a greater or lesser degree.

In New South Wales, air service operators on routes where annual passenger carriage does not exceed 50,000 per annum are licensed by the Minister for Transport in conjunction with the Air Transport Council. In these cases the Minister will issue only one licence for such routes. Larger routes are not regulated per se and are open to competition. At the date of this Prospectus, Rex is the only licensee of 11 out of the 16 routes it operates in New South Wales. All of Rex's New South Wales route licences expire on 29 March 2008. In South Australia routes are generally left to the market to determine in terms of entry and exit. The only exception is the Adelaide-Coober Pedy route for



which Rex¹ holds an exclusive air service licence. The licence expires on 11 August 2006.

All Tasmanian air services that operate within Tasmania are regulated by the Tasmanian Government. Rex does not currently operate services within Tasmania.

In addition, Rex operates a number of other routes around its network which are exclusively serviced by the airline but which are not exclusively licensed to Rex. Such routes include, for example, interstate routes Melbourne–King Island, Melbourne–Albury and Melbourne–Wagga Wagga, Melbourne–Portland in Victoria and Adelaide–Ceduna and Adelaide–Olympic Dam in South Australia.

Rights to Slots at Sydney Airport

Sydney airport is Australia's busiest airport. Due to noise pollution constraints, runway usage is restricted to 80 movements per hour. It is also subject to a curfew, between 11.00pm and 6.00am, with respect to jet operations. These limitations have placed pressure on the availability of aircraft landing and take-off slots.

Appropriate access to Sydney airport is vital for regional airlines operating services within New South Wales to the state capital. Effective access including scheduled operations at times demanded by regional travellers is indispensable for the viability of the service.

The Sydney Airport Demand Management Act 1997 (Cth) established a slot management scheme at Sydney airport which regulates the arrival and departure of aircraft at Sydney airport. A 'slot' is a specific aircraft movement (take-off or landing) at a specified time on a specified day.

Under the scheme a regional operator gains precedence to a slot (that is, an aircraft movement) for a scheduling season if that operator had, prior to commencement of the Act, operated an aircraft using that slot. The slot is deemed to become a permanent regional slot if a regional operator operated a service that used that slot for two consecutive equivalent scheduling

¹ One of eight routes flown by Rex in South Australia.



seasons. Once a slot becomes permanent it is “ring-fenced” as a regional slot and is not available for either domestic or international services, unless it is given up to an operator which is not a regional operator and has been used by that operator for two consecutive equivalent scheduling seasons.

When Sydney airport was privatised in 2002, there was a concern that regional aviation may be severely disadvantaged in favour of domestic and international air travel due to the much fewer passengers carried per landing or take off. However, the Federal Government reaffirmed its commitment to access to Sydney airport through the slot management system and “ring fencing” regime as well as subjecting landing charges imposed

by Sydney airport on regional operators to price notification to the ACCC.

When Rex commenced services in August 2002 it did so in an advantageous position with respect to Sydney airport slots. The slots allocated to both Kendell Airlines and Hazelton Airlines were made available to Rex.

Rex has in excess of 540 weekly slots of which approximately 45% are for the peak periods of 7.30am to 9.00am and 5.30pm to 7.00pm. Rex is the largest holder of New South Wales regional slots at Sydney airport and is the third largest holder overall of slots at Sydney airport. A member of the Rex Management Committee, by Ministerial appointment, sits on

the slots compliance committee established under the slot management scheme.

Slots can be lost or compromised in various circumstances, including through a failure to operate the slot in accordance with the basis of its grant or suspension of an operator’s AOC.

Slot arrangements do not apply at the other major airports to which Rex operates. Both Melbourne and Adelaide airports are well below their peak operational capability in terms of aircraft movements.

Air Safety

Matters with respect to air safety are regulated under the provisions of the Air Navigation Act 1920 (Cth), Civil Aviation Act 1988 (Cth),

Aviation Transport Security Act 2004 (Cth), the Civil Aviation Regulations, the Civil Aviation Safety Regulations and related legislation. Regional air service operators like Rex must satisfy the Civil Aviation Safety Authority (CASA) that they meet all regulatory requirements on the conduct of air services, and the training and proficiency of flight crews and on the maintenance and airworthiness of all the aircraft operated.

In order to operate, Rex is required to hold an Air Operator's Certificate (AOC) issued under the provisions of the Civil Aviation Act 1988 and Civil Aviation Regulations 1988 and orders made under them. The AOC specifies all routes flown and all aircraft operated on those services. In order to carry out maintenance on aircraft and aircraft components, Rex is required to hold a Certificate of Approval (COA) issued by CASA. The COA covers how maintenance is to be conducted and by whom and in what facilities.

All aircraft operated by Rex have been registered and have valid Certificates of Airworthiness issued by CASA for all the operations undertaken.

Rex currently holds a three-year AOC (expiring 31 May 2007) and a three-year COA (expiring 30

June 2007) for all operations – the maximum term of an AOC or COA currently given. Regular audits are conducted by CASA on all activities associated with the operation. In addition, Rex has its own internal audit and quality assurance system.

Competition

Apart from regulatory controls exercised by State Governments mentioned above, regional airlines, like most businesses, are subject to the provisions of the Trade Practices Act 1974 (Cth). This Act prohibits corporations from engaging in misleading or deceptive conduct or from behaving in a manner that is anti-competitive. Corporations or natural persons who allege that they have been affected by a breach of the Trade Practices Act may take action against corporations whom they allege have breached the Act.

The Australian Competition & Consumer Commission (ACCC) is responsible for administering and enforcing the Trade Practices Act and it may investigate complaints and take action against corporations for alleged breaches of the Trade Practices Act. The ACCC closely monitors the Australian aviation industry. Rex cooperates with the ACCC from time to time by providing the ACCC with information and any other assistance as required by the ACCC.

Noise Levels and Other Pollution and Environmental Concerns

The Australian aviation industry is largely governed by internationally agreed standards with respect to aircraft noise and engine emissions. These standards were set by international convention. Overlaid above these restrictions are other restrictions imposed by various states and/or the specific airport. For instance, Sydney and Adelaide airports have curfew restrictions covering times when aircraft can operate. Most of these restrictions apply to jet aircraft, rather than turbo-prop aircraft which form the entirety of Rex's fleet.

Rex's fleet currently meets all noise standards. There are also other general rules from a variety of legislation and regulations that are not specifically aimed at the aviation industry but which apply to the aviation industry. These include the handling and disposal of toxic waste, the disposal of oil and polluting wastes and the storage of volatile and polluting substances.



5 BUSINESS OVERVIEW

5.1 HISTORY OF THE REX GROUP

The Rex Group, as it is currently constituted, was formed in 2002 but is essentially the merger of the businesses of two well established, distinguished and successful air carriers in Australia, namely the passenger airline businesses of Hazelton and Kendell. Although part of the Ansett Group, these two passenger airlines had been operating largely as separate businesses right up to their merger under Rex.

Hazelton

Hazelton and its founder Max Hazelton were pioneers of 'bush aviation'. Hazelton started in 1953 when Max Hazelton acquired a single engine Auster Aglet aircraft and provided charter services to stock and station agents from his brother-in-law's property at Toogong, some 50 km west of Orange, NSW. Max then acquired more aircraft to undertake freight and newspaper carriage, aerial agriculture operations and the provision of essential services, such as emergency medical evacuations,

for rural NSW. In 1959 the enlarged company moved to its own airfield at Cudal, about 40 km from Orange. The 1960s and 1970s saw Hazelton become one of the largest aerial agricultural operators in Australia. In 1975 Hazelton began its first scheduled passenger flight from Orange to Canberra. Within three years, rapid growth of scheduled passenger services and continued success of other services made Hazelton the largest general aviation company in Australia.

Growth continued. In 1979 Hazelton started flying into Sydney. In the

early 1980s Hazelton introduced modern pressurised turbo-prop aircraft and in 1983 linked itself to Ansett's computerised reservations system. By 1993, when Hazelton became a publicly listed company on ASX, it carried some 250,000 passengers per year, had 15 aircraft and employed approximately 170 staff based in Cudal, Sydney, Dubbo and Lismore.

After its listing on ASX, Hazelton continued to grow and by 2000 was carrying over 400,000 passengers per year and earning revenue of around \$69M per year. In 2001,





Hazelton was at the centre of a very public takeover battle between Qantas and Ansett. Ownership of Hazelton eventually passed to the Ansett Group. However, on 12 September 2001 Ansett was placed into voluntary administration along with its subsidiaries including Hazelton. Hazelton recommenced operations a week later and its passenger airline business became part of the Rex Group on 1 August 2002.

Kendell

Kendell Airlines began as a small charter and flying school business in Wagga Wagga, NSW. Don and Eilish Kendell became partners of that business in 1965 and in 1967 incorporated the business as

Premiair Aviation Pty Limited. They expanded the business to include charter services, a flying school and aircraft maintenance services. Premiair prospered. On 18 October 1971 Premiair commenced its first regular service with a seven seater Piper Navajo on the Melbourne-Corryong-Wagga Wagga route when Ansett withdrew its DC3 services on the route. The agreement began a long and fruitful relationship between the two airline companies.

Premiair's success allowed it to take over routes from other smaller operators but also routes from Ansett where larger aircraft proved uneconomical. The mid to late 70s and 80s saw expansion of routes and aircraft. Riley Heron aircraft

were added in 1975 and 1977 and in late 1978 the first pressurised turbine Fairchild Metroliner was acquired. The network continued to expand and in 1983 and to further distinguish the company and capitalise on Don and Eilish Kendell's reputation, the name was changed to Kendell Airlines (Aust) Pty Limited.

In February 1985 Kendell took delivery of a Saab 340, the first in the southern hemisphere. In 1986 Kendell took over Ansett's South Australia network, an acquisition that virtually doubled its network. In 1990 Don and Eilish sold out of Kendell Airlines and it became part of the TNT/News Group of companies which were closely



associated with the Ansett Group. Kendell in association with Ansett continued to grow its network resulting in Kendell becoming one of the largest regional airlines in Australia. By the late 1990s, Kendell operated more than 1,000 flights a week and carried nearly 1 million passengers per year. Kendell was put into administration upon the collapse of Ansett on or about 12 September 2001. It resumed partial services from Thursday, 27 September following a cash injection of \$3.5M from the Federal Government and its passenger airline business became part of the Rex Group on 1 August 2002 by way of transfer of assets and certain liabilities pursuant to a deed dated 1 August 2002.

The Formation of Rex

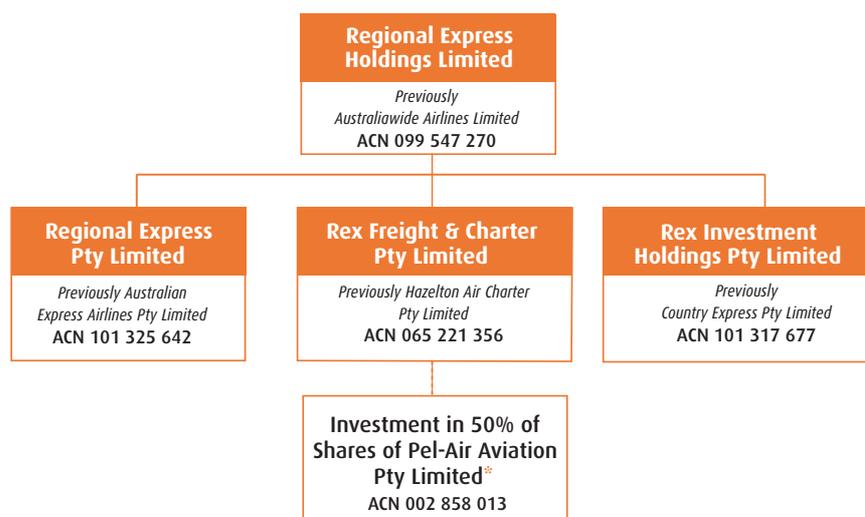
After Ansett collapsed, a group of businessmen saw an opportunity in reviving only the regional aviation part of the business. They believed there were sound business reasons for this initiative:

- both Hazelton and Kendell, before they were part of Ansett, were profitable entities and enjoyed excellent reputation and support;
- both airlines were still in operation under their own brands even during administration;
- the route networks of both operators were complementary;
- they operated the same aircraft types; and

- significant economies of scale could be obtained by streamlining the operations (flight and engineering), administration and management of the two companies.

A consortium of businessmen comprising a group of Singaporean investors and a collection of Australian private investors eventually reached an agreement with the two sets of administrators, the government, the unions and the staff to purchase the Hazelton and Kendell turbo-prop passenger airlines businesses, leading to the formation of Regional Express, more affectionately known as Rex.

5.2 STRUCTURE OF THE REX GROUP



*Upon completion of the Offer, the Company will acquire 50.0% of Pel-Air Aviation Pty Limited.

Rex has three wholly owned subsidiaries. As at the date of this Prospectus, the Group comprises:

1. Regional Express Holdings Limited (previously Australiawide Airlines Limited) was incorporated on 12 February 2002, and is the company which currently operates the Rex business and owns all the assets. It is the Shares of Rex that are the subject of this Offer and it is Rex that is seeking admission to ASX. It is the Group's intention to transfer the business and assets of Rex after the Offer to Regional Express Pty Limited (previously Australian Express Airlines Pty Limited), subject to appropriate approvals and

stamp duty exemptions having been obtained, so that Rex will become a holding company of the subsidiaries which will hold the businesses and assets of the group.

2. Regional Express Pty Limited (previously Australian Express Airlines Pty Limited) was incorporated on 11 July 2002, and is a dormant company. It is the Group's intention that Regional Express Pty Limited be the company that will, after the Offer and subject to appropriate approvals and stamp duty exemptions having been obtained, operate the Rex business and own the assets required to operate Rex.

3. Rex Freight & Charter Pty Limited (previously Hazelton Air Charter Pty Limited) was incorporated on 22 June 1994, and is currently dormant. The Company intends to use part of the proceeds of the Offer to make an investment in Pel-Air (further described at Section 6). Rex Freight & Charter Pty Limited will be the Company that will acquire the Shares in Pel-Air.

4. Rex Investment Holdings Pty Limited (previously Country Express Pty Limited) was incorporated on 10 July 2002, and is currently dormant. Regional Investment Holdings Pty Limited shall be the Company used to hold investment, including any overseas investment, that may or

may not take place. At the date of this Prospectus, the Group has no intention of making any particular overseas investment.

5.3 CRITICAL SUCCESS FACTORS

Rex has its roots firmly in the bush and in country Australia. Its tagline boldly affirms that 'Our Heart is in the Country'. Rex believes that the bush needs and deserves an air service of quality that provides good connectivity with capital cities at affordable prices. Rex seeks to fulfil these expectations.

Since its formation, Rex has steered a course balancing the needs of regional communities for extensive and affordable air services and the need for such operations to be economically viable and sustainable.

Rex's strategies are simple:

- **Partnering the Bush:** Rex, because of its heritage, has decades of experience of service to the bush and understands the needs of regional Australia. Often it co-invests with the local communities to develop ways to start or nurture marginal routes that would otherwise not have any air service.
- **Keeping the Fares Affordable:** Rex understands that regional Australia needs access to affordable air travel. Rex has vigorous in-house programs that seek out and eliminate wastages and inefficiencies in order to lower its cost base. These benefits allow the Company to shelter its fares from the full impact of external spikes in

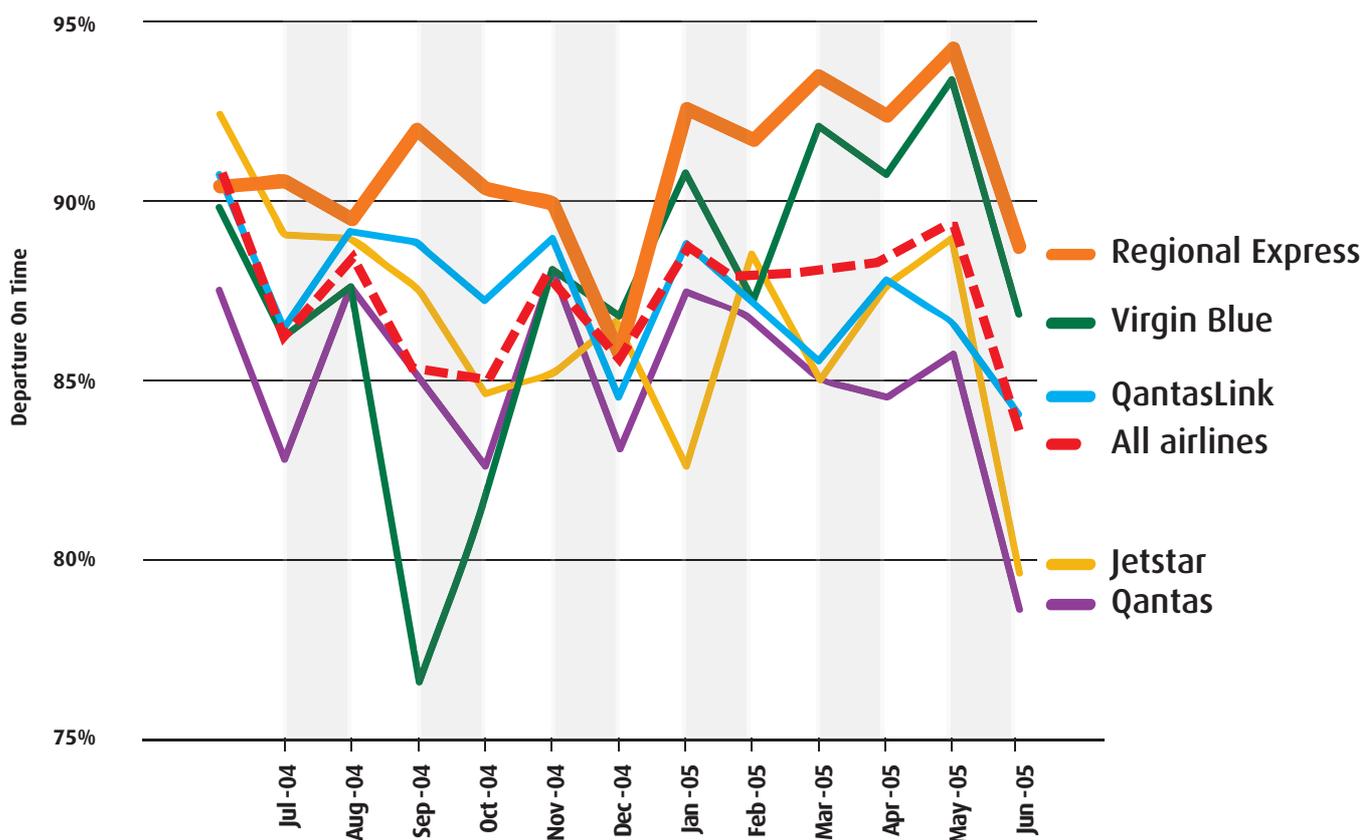
costs escalation. For example, even in a year of escalating fuel increases with three upward revisions in fuel levies, Rex's net average fare in FY 04/05 was 21% cheaper than when it started operations in 2002.

- **Being On Time:** Rex believes its customers view its services not merely as a seat on a plane but as a saving on precious time. Rex considers many passengers fly because they want to save the time they would have to otherwise spend driving or taking the train.

An airline's performance can be measured in different ways, but a key performance indicator is simply this: 'how often does an airline arrive and depart on time?' In this



On Time Departure of Major Australian Airlines



Major flooding and bad weather in June 05 was detrimental to the OTP figures of all airlines

Source: Bureau of Transport and Regional Economics – AVSTATS web site

Flight Cancellations

	Jetstar	Virgin Blue	Qantas	Qantaslink	Regional Express	Skywest
Total number of flights made from Jul 04 to Jun 05	75,873	198,248	229,388	136,604	69,968	12,652
Number of flights cancelled from Jul 04 to Jun 05	1,015	2,064	2,592	1,570	174	85
% of flights cancelled from Jul 04 to Jun 05	1.3	1.0	1.1	1.1	0.3	0.7

Source: Bureau of Transport and Regional Economics – AVSTATS website

respect, Rex believes that its record speaks for itself. The chart on page 35 shows Rex's On Time Departures performance for the period from July 2004 to June 2005 relative to other airlines operating in Australia.

As indicated on page 35, the official statistics of the Bureau of Transport and Regional Services Economics for the period July 2004 to June 2005 show that Rex has one of the best OTP levels of all major airlines that have to operate out of the congested Sydney airport.

In terms of cancellation of flights, which causes passengers the most inconvenience, Rex's policy is to never cancel a flight for commercial reasons on the day of departure, i.e. even if there are too few passengers. Again, Rex believes that its record in this regard (as shown in the table on page 35) speaks for itself.

- Serving with Our Heart:**
 Rex is often complimented on the warmth and hospitality of its front line staff. The Company considers this is because its staff are committed to and enjoy their work, feel part of a "family" culture and subscribe to the Company's values. Another important factor is that Rex maintains bases in regional communities where many of

its staff grew up and live. In other words, they serve the communities they know and can recognise and welcome many passengers as friends. As a result, Rex believes that although it is formally headquartered in Sydney, it is often viewed as being a part of many of the regional communities it serves.

It is therefore no surprise to the Company to learn that it was rated as the Australian airline giving the best customer satisfaction based on a survey of 500 subscribers conducted by "Choice Magazine" in April 2005. The results are set out in the table below.

Choice Magazine Survey

Airline	Survey respondents' overall rating (%) based on their experience over the previous 12 months
Regional Express	71
Virgin Blue	68
Qantas	67
Jetstar	47

5.4 REX'S MARKET

In FY 04/05, Rex carried in excess of 1 million passengers on some 50,000 scheduled flights on 35¹ routes from its three main hubs of Sydney, Melbourne and Adelaide. The Company's current route network can be seen in Section 5.5. Of the 33 routes that Rex flies, 21 are serviced by no other airline.

In FY 04/05, passenger revenues accounted for 91.7% of total revenues, with charter and freight revenues each accounting for 0.6%. Rex had capacity of about 610 million ASKs and an average load factor of about 65.4%.

Passenger Revenues

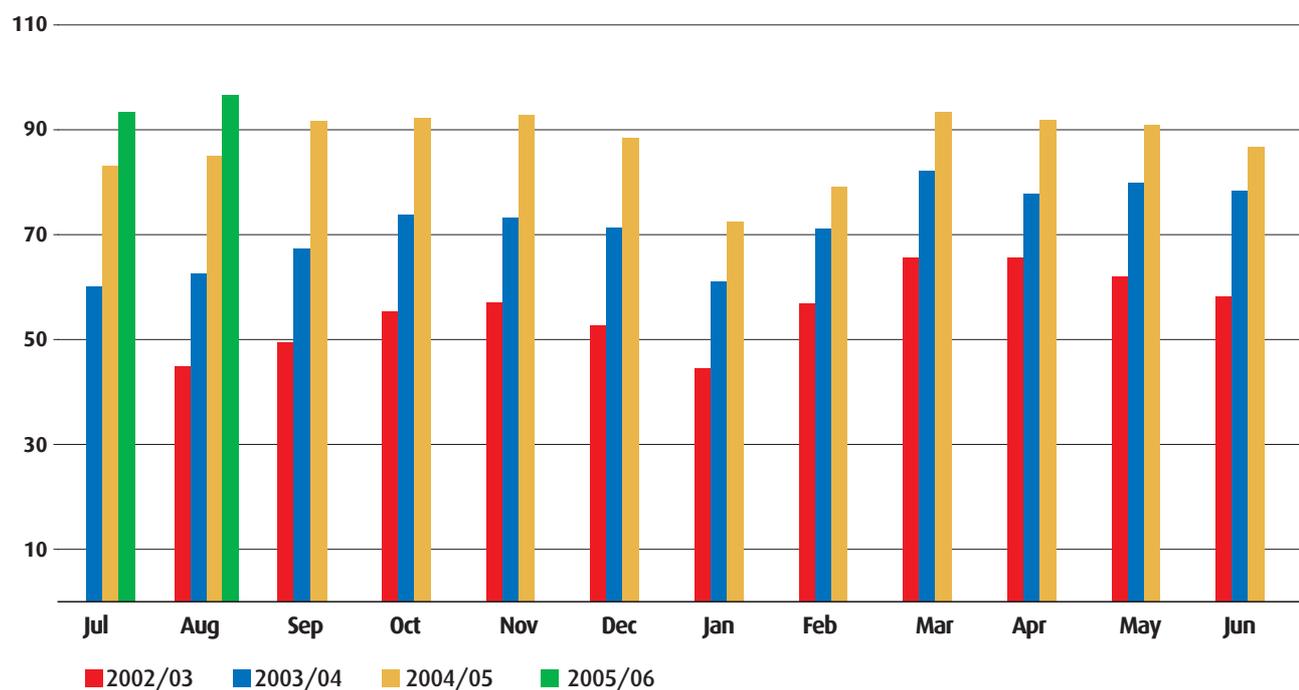
The primary business of Rex is the carriage of passengers to and from rural Australia and in particular, rural New South Wales, Victoria and South Australia.

¹Includes Sydney-Canberra, which is no longer operated by Rex

In the first year of operations in FY 02/03, Rex carried about 54,000 passengers a month. In FY 04/05 Rex carried approximately 86,500 passengers a month. The chart below illustrates the monthly passenger numbers over three financial years and the period from 1 July 2005.

The number of scheduled flights has also grown although, as can be seen from the table below, the major growth in passenger numbers has been through increased frequency of flights on routes and improved load factors rather than through the opening of new routes.

Passengers (in thousand)



	No. of Scheduled Departures	No. of Passengers Carried (% increase)	Operating Revenue in \$Million (% increase)	Average Load Factors (%)
FY 02/03 ¹	56,093	647,834	91.4	47.2
FY 03/04	51,807	845,493 (30.5)	110.5 (20.9)	62.7
FY 04/05	55,653	1,037,867 (22.7)	127.2 (15.1)	65.4
FY 05/06 (forecast)	57,271	1,135,332 (9.4)	144.7 (13.8)	65.7

¹ FY 02/03 figures are annualised. Rex commenced operations in August 2002

Charter Revenues

Rex does not allocate special resources to the charter market and only accepts charter work whenever its schedule allows for a spare aircraft resource. Rex's charter revenue was approximately \$750,000 in FY 04/05 or about 0.6% of annual turnover.

The potential for more charter revenue is significant, as Rex has had to turn away a large number of charter requests due to unavailability of aircraft. For this reason the Company intends to purchase an additional aircraft to be delivered in November 2005 which will be dedicated to charter work. Additionally this aircraft could be used as a backup to further enhance schedule reliability and OTP.

Freight Revenues

The Company's freight revenues are modest. In FY 04/05, freight revenues accounted for less than 0.6% of total revenues. The Company's Saab 340 aircraft are configured to carry passengers. Cargo space is sold only when there is excess capacity.

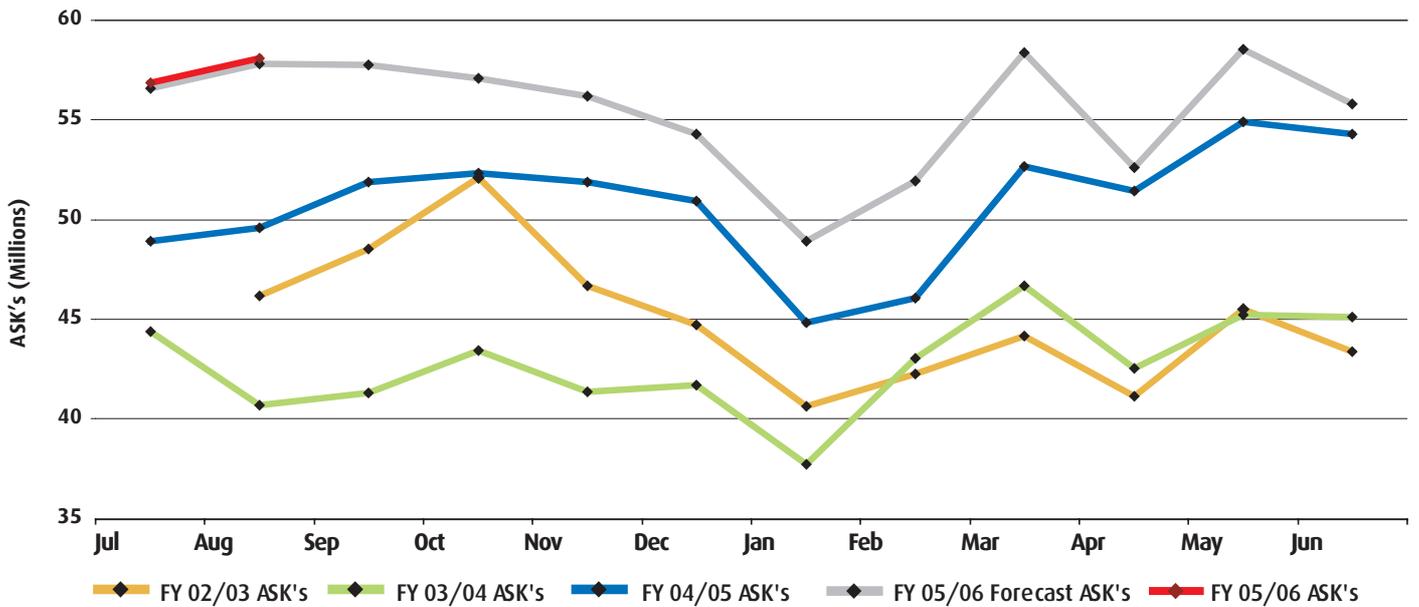
The Company has decided to take a strategic investment in a well-established regional air freight company, Pel-Air. This strategic investment allows the Company to position itself in this important sector of the regional aviation business and capitalise on potential operational, commercial and administrative synergies. Further details on Pel-Air are set out in Section 6.

Capacity and Utilisation

Available Seat Kilometres (ASKs) are the product of the distance flown multiplied by the number of seats on the aircraft. This is essentially a measurement of available capacity.

After experiencing excess capacity in its first six months of operations, Rex managed its ASKs carefully ensuring that capacity better matched demand. This can be seen in the graphs on the next page. From January 2003, the Company's ASKs have been allowed to rise only very gradually and only in response to seasonality and market forces. Increases in capacity came about in the form of increased frequency of flights, replacement of 19 seat Metroliner aircraft with 34 seat Saab aircraft, additional non-stop services and the opening of new routes. In the last financial year, the Company exited one route and started three new routes.

Fleet Deployment



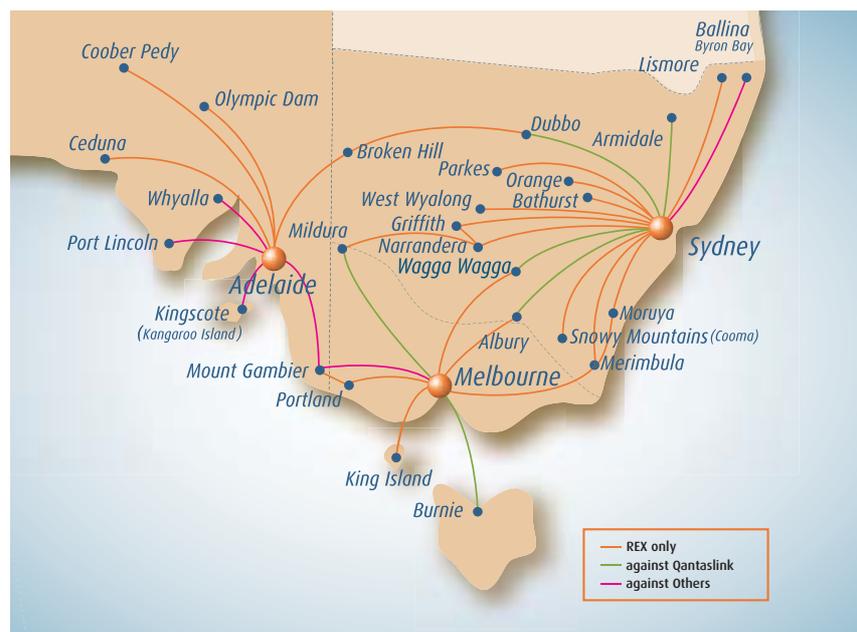
The careful management of ASKs has resulted in a striking improvement in load factors. The Company has improved its average load factor from 47.2% in FY 02/03 to an average of 65.4% in FY 04/05.

5.5 ROUTE NETWORK

As at the date of this Prospectus, Rex operates 33 routes, services 30 airports (27 regional ports and three hub ports) and operates over 1,100 scheduled flights a week. A map of Rex's routes and a table of its scheduled flights are set out on the next page.

The Company's route network is unusual in that of the 33 routes flown, 21 are serviced by Rex alone. These 21 routes accounted for 54.0% of FY 04/05 revenue.

Rex Network



Scheduled Flights Operated by Rex

	Date the service started	Number of round trips per week	Competitors
Adelaide to			
Broken Hill	1 August 2002	17	None
Ceduna	1 August 2002	12	None
Cooper Pedy	1 August 2002	6	None
Kangaroo Island	1 August 2002	14	Emu Airways
Mount Gambier	1 August 2002	19	O'Connor Airlines
Olympic Dam	1 August 2002	17	None
Port Lincoln	1 August 2002	37	Airlines of South Australia
Whyalla	1 August 2002	21	O'Connor Airlines
Melbourne to			
Albury	1 August 2002	23	None
Burnie	1 August 2002	18	Qantaslink
King Island	1 August 2002	7	None
Merimbula	1 August 2002	8	None
Mildura	1 August 2002	25	Qantaslink
Mount Gambier	1 August 2002	19	O'Connor Airlines
Portland	1 August 2002	12	None
Wagga Wagga	1 August 2002	14	None
Sydney to			
Albury	1 August 2002	26	Qantaslink
Armidale	2 September 2004	17	Qantaslink
Ballina	1 August 2002	24	Jetstar Virgin Blue
Bathurst	1 August 2002	18	None
Broken Hill	1 August 2002	7	None
Cooma	10 June 2005	6	None
Dubbo	1 August 2002	25	Qantaslink Airlink Airlines
Griffith	1 August 2002	25	None
Lismore	1 August 2002	26	None
Merimbula	1 August 2002	20	None
Mildura	1 August 2002	6	None
Moruya	1 August 2002	13	None
Narrandera	1 August 2002	18	None
Orange	1 August 2002	25	None
Parkes	1 August 2002	18	None
Wagga Wagga	1 August 2002	26	Qantaslink
West Wyalong	28 February 2005	3	None
TOTAL		554	



5.6 PRICING, SALES, DISTRIBUTION, MARKETING, ADVERTISING, AND REVENUE MANAGEMENT

Pricing and Yield Management

Like all airlines, Rex optimises revenue by carefully managing the yields of each flight so that the average fare of the flight reflects the prevailing demand for seats on the flight. A dedicated team using powerful yield management software constantly monitors the demand patterns and adjusts the availability of different fare levels accordingly.

Rex has a simple four-fare tariff structure:

- “Rex Flex” is a fully refundable fare with no restrictions on the

ticket. Rex Flex is the benchmark upon which the price of all other tickets is set. The “Rex Flex” has last seat availability, meaning that the person that holds this fare has access to the last remaining unsold seat of the flight;

- “Rex Biz” is a discounted “Rex Flex” fare that offers most of the flexibility features offered by Rex, without last seat availability;
- “Rex Saver” is a more heavily discounted ticket that is non-refundable and which incurs a surcharge if changes are made to the original booking. This is the cheapest fare that can be purchased by customers via travel agents or the Customer Contact Centre; and

- “Rex Net” is a deeply discounted ticket that is only available on the Rex website and is designed to stimulate demand, particularly at off-peak times.

Approximately 40% of Rex’s revenue is derived from “non-deep” discounted fares, being fares other than web fares or the lowest priced GDS fares.

Sales and Distribution

The Company sells its tickets via direct and indirect sales distribution channels. Direct distribution channels include the Rex website (www.rex.com.au) and Customer Contact Centre. Indirect distribution channels include Travel Agents and Corporate travel managers.

- **Internet:**

In FY 04/05, Internet bookings accounted for 47% of total bookings. Of this, 40% came from directly from the public and 7% from travel agents booking on behalf of their clients. As a distribution channel, the Internet has the lowest cost of sale. When Rex first started operations the percentage of Internet booking relative to total bookings was only 20%.

- **Travel Agents:**

In FY 04/05, bookings through travel agents via Global Distribution Systems accounted for 40% of the Company's bookings. Sales through travel agents incur a higher cost

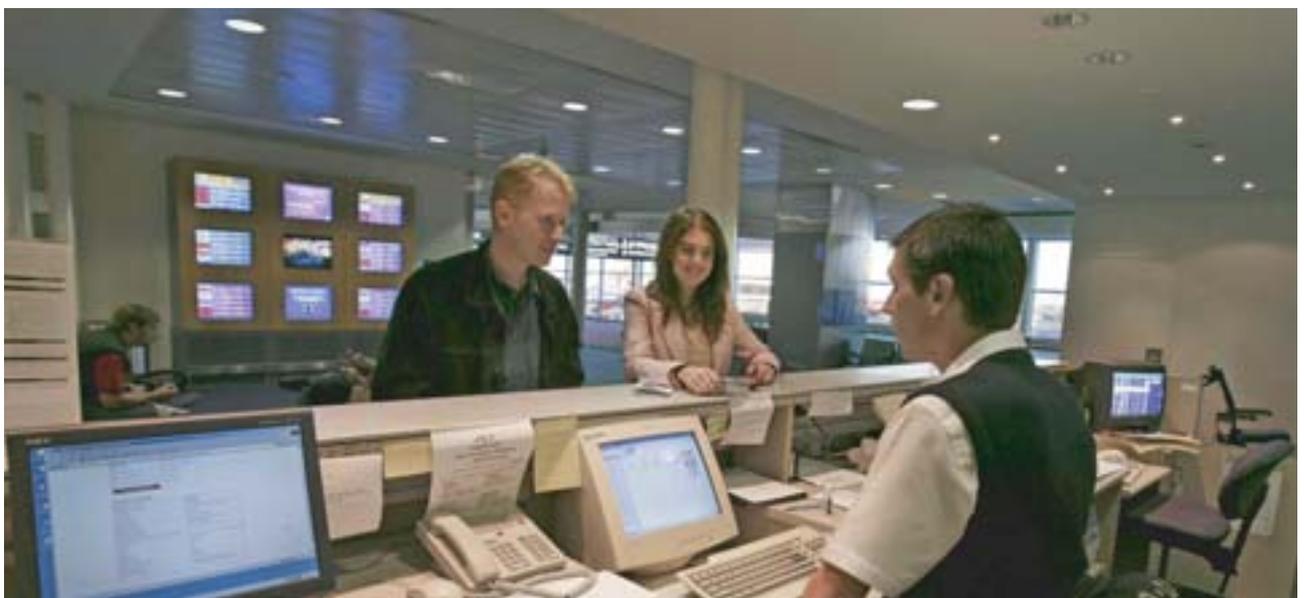
of sale as commissions are payable to the agents and fees are also payable to the third party reservations systems. Travel agents form a very important component of the Rex distribution network.

- **Customer Contact Centre:**

The Company operates a contact centre based in Orange, NSW. The contact centre has about 50 staff. The centre makes reservations and bookings but is primarily focused on providing information as well as pre-and-post sales support. The Company's nationwide contact centre number is 13 17 13. In FY 04/05, the Customer Contact Centre accounted for approximately 13% of the Company's bookings.

Rex has a sales team that covers New South Wales, Victoria, Tasmania and South Australia. The primary focus of the sales team is to build and strengthen relationships with all key stakeholders, such as travel agents, corporate accounts, local councils, tourism bodies and community organisations.

Rex has selected Sabre Airlines Solutions (Sabre) to provide the booking engine software infrastructure (known as GDS), that supports the Company's reservations platform and distribution. Sabre is a third party system widely used by many airlines. Reservations can be made on the system which can





then be accessed by other parts of the Company for ticketing, rebooking, reissuance, check-in, baggage tracking, passenger detailing, messaging, revenue and yield management and as a data feed into accounting and treasury systems. In addition, travel agents around the world using all major GDS such as Galileo, Amadeus and Sabre, can make bookings on Rex through a seamless messaging connection via Sabre.

Marketing Strategy

Rex operates in an environment that is characterised by:

- few or no competitors; and
- focus on servicing regional centres.

As a result, Rex products and services are generally well known

to the regional air travelling public. Additionally, Rex's presence on much of its route network extends back many years through the legacy of its predecessors Kendell and Hazelton.

Rex therefore focuses its marketing efforts primarily to communicating its special promotional packages or to building brand awareness in the case of a launch to a new destination.

5.7 SERVICE

Rex is a full-service carrier. It strives to provide passengers with an efficient booking and ticketing service, professional ground handling services, pre-assigned seatings and light refreshments during the flight. The average flight time is about 55 minutes.

Rex has its own corporate lounge facilities in Sydney airport. Its newly opened Rex Lounge is situated next to its check-in gate for maximum passenger convenience. This lounge features state-of-the-art wireless access as well as a full business centre and conference room. It also has massage chairs for de-stressing and a large plasma TV for entertainment. Rex will soon have similar facilities at Adelaide when the new terminal is completed at the end of 2005. At Melbourne, Rex lounge members have complimentary access to Virgin's lounge.

Rex has a frequent flyer programme, Rex Flyer, which is designed to be simple and easily redeemable. For every nine sectors flown, a tenth is given free on a



last seat availability basis. This approach means that there is no quota on the number of seats that can be redeemed on any flight which is not the case for most redemption programmes.

5.8 NETWORK MANAGEMENT

Rex has a “nerve centre” known as Network Operations that manages the flight operations on a minute by minute basis, including the management of departure and arrival slots at Sydney. Network Operations covers more than 1,100 flights each week and is responsible for aircraft allocation, flight crew rostering and shift management and disruption management. It is also responsible for flight crew compliance with CASA work rules and staff labour agreements.

5.9 FLEET PROFILE

Fleet Type

Rex operates two aircraft types - five 19-seater Fairchild Metro 23 airliners and 24 34-seater Saab 340 (seven A Model and 17 B Model variants). By essentially operating one significant aircraft type, the Company is able to maximise cost efficiency with respect to maintenance, repairs and safety.

The details on the next page outline the basic specifications for the aircraft.

The Saab 340 aircraft is no longer manufactured. However, a large fleet of over 440 Saab 340s exist around the world and engines and spare parts are readily available and are still being produced and

supported by the manufacturer which continues to manufacture other aircraft. The Saab 340 aircraft has proven to be very suitable for rural Australia combining take-off and landing robustness with easy care and maintenance, flight reliability, low operating cost including low fuel consumption and effective seat and loading configuration.

Whilst the Saab 340s owned by Rex are not new, the Company believes that its engineering and maintenance programmes should allow the fleet to be operational for many years. The Company estimates that its fleet has an economic life of between 11 - 16 years. Given the length of time remaining, the Company feels it is not productive to speculate on the

Model	SAAB 340	METRO 23
		
Cruising Speed	503km/h	520km/h
Cruising Altitude	7500m	6000m
Engines	Two General Electric CT7 turbo-props, each of 1,600-1,750 SHP	Two Garret TPE-331-12 turbo-props rated at 1,100hp and fitted with reverse thrust propellers, each of 1,100hp
Maximum Seating	36	19
Cabin	<ul style="list-style-type: none"> • fully pressurised; • in-flight catering; • lavatory; and • air-conditioning. 	<ul style="list-style-type: none"> • fully pressurised; and • air-conditioning.

type of aircraft that would replace its Saab 340 fleet.

Fleet Ownership

The table on the right illustrates the relative number and type of aircraft owned and leased by the Company.

Fleet Maintenance

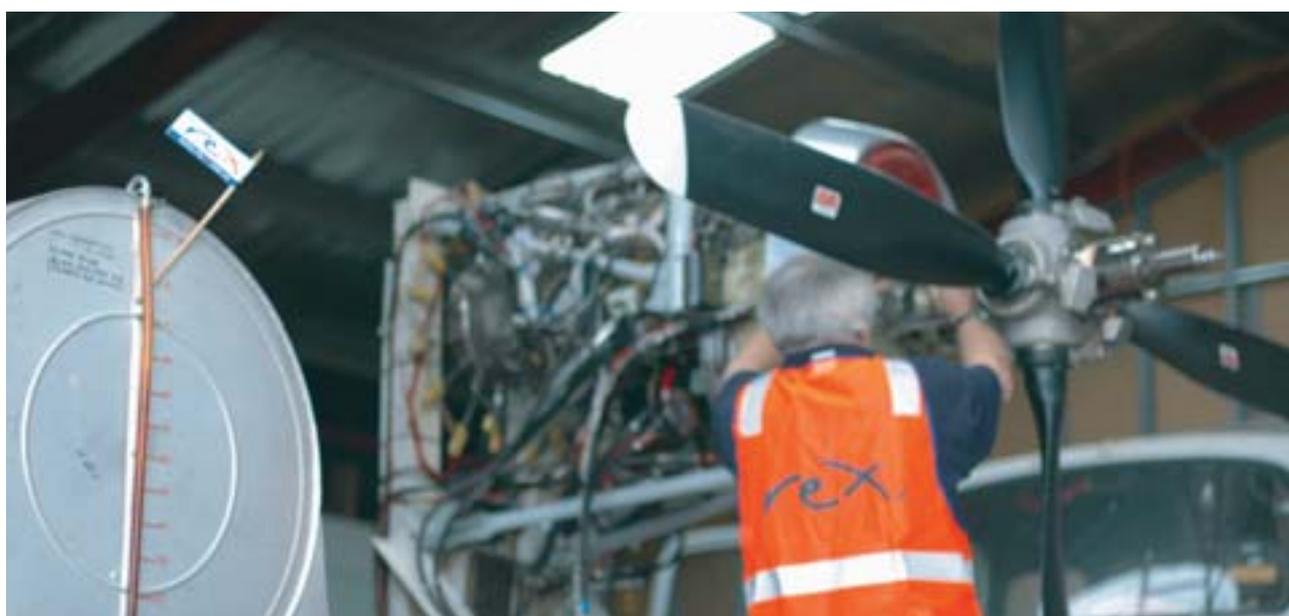
Having a large proportion of its fleet made up of a single type of aircraft enables Rex to maximise its maintenance expertise and minimise its maintenance costs.

Number of Aircraft Owned vs Leased (For years ending 30 June)

	2002	2003	2004	2005
OWNED				
Metroliners	7	7	6	5 ¹
Saab 340 (A & B)	-	-	4	10
Total Owned	7	7	10	15
LEASED				
Saab 340 (B)	16	16	19	14 ²
Total Owned & Leased	23	23	29	29

1. It is anticipated that one of these aircraft will be sold to Sunshine Express Airlines Limited after the listing of the Company. (Please refer to Section 11.5 for further details).

2. It is anticipated that the Saab 304B that is currently leased from CIT Group (Australia) Limited will be acquired from that company or one of its affiliates after the listing of the Company. (Please refer to Section 11.5 for further details).



Rex has two maintenance centres - Wagga Wagga where the Saab 340s are maintained and Adelaide where the Metro 23s are maintained. Wagga Wagga was the previous maintenance site for Kendell and continues to be a suitable site for Rex's operations.

Rex's expertise in the maintenance of the Saabs dates back to 1985 when Kendell purchased its first Saab. This maintenance expertise is one of the reasons why Rex has superior OTD and an exceptionally low percentage of cancelled flights as can be seen in the table in Section 5.3. Flights are rarely cancelled due to maintenance problems.

The Company has in-house capability to undertake its own:

- 30,000 cycle checks – these are extensive checks after an aircraft has landed 30,000 times;
- "C" checks – these are very extensive checks after an aircraft has flown 4,000 hours; and
- 4-year checks – these are major overhauls and must take place once every four years.

The Company has an Engine Care and Maintenance Plan (ECMP) agreement with General Electric for the Saab's CT7 turbo-prop power plant. This is a power-by-the-hour programme whereby a fee is paid for each hour that an engine is used and thereafter all prescribed repairs and overhaul are performed by General Electric. The ECMP is described in more detail in Section 11.5 of this Prospectus.

As for the Garrett TPE 331 engines for the Metro aircraft, Rex has a full overhaul capability at its hangar in Wagga Wagga.

Rex at present maintains sufficient spares in all its hubs for first line maintenance. However, in line with the plan to grow the fleet Rex intends to use a portion of the funds raised in the Offer to purchase additional spares and engines as stand-bys.

The Company also maintains engineers on the tarmac in Sydney, Melbourne and Adelaide to undertake line maintenance and to assist in turnarounds. This ensures that simple faults are dealt with promptly and downtime is minimised. The Company's excellent OTP is in part due to this practice.



The Company's engineering and maintenance standards are considered very high as evidenced by the fact that CASA has awarded Rex a 3-year Certificate of Approval for maintenance activity in 2004.

5.10 SAFETY AND SECURITY

Rex is committed to providing exceptional safety and security standards at all times.

Safety

Safety within Rex is overseen by the Safety Management Group comprising a number of senior key managers, being the Flight Safety Manager, Executive Director Operations, General Manager Flight Operations (Chief Pilot), General Manager Engineering Services, Engineering Quality Assurance Manager, Airport Operations

Security Manager, Sydney Airport Manager, Human Resources Manager, Compliance & Quality Assurance Manager, Ground Training Manager and the National Flight Attendant Manager. This Group is responsible for ensuring sufficient resources are available to guarantee safe operations and that processes continue to follow industry best practice.

Rex's operational staff undergo intensive safety training. Rex's aircrew, for example, undergo training twice a year in a CASA approved simulator training programme and once a year undergo dedicated emergency procedures training. Crew are assessed on their safety awareness as part of their overall assessment and also regularly attend training courses as part of safety awareness

training. In addition, air crew receive training in crew resource management once a year and dangerous goods every two years. Rex encourages staff to report safety concerns and has adopted a policy of compulsory reporting of safety concerns as part of its safety management system. Such a reporting system helps Rex to monitor the safety of the airline and initiate early action to ensure that safety concerns do not develop into safety issues.

The Rex Compliance and Quality Assurance Department is a segregated department reporting directly to the Executive Director Operations who is a Board member. It maintains an active internal safety auditing system which continuously monitors safety within the airline. This system also allows Rex to conduct trend analysis of safety concerns or incidents to ensure that effective measures can be introduced proactively.

Rex has recently undergone an internationally recognised Line Operations Safety Audit (LOSA) in partnership with the Australian Transport Safety Bureau and the University of Texas. Data from this audit will be used to plan safety strategy for the future.

Rex is committed to Occupational Health and Safety (OH&S) principles. Overall responsibility



for OH&S rests with an OH&S committee established by the Board. The Compliance and Quality Assurance Department maintains an active auditing program for the Company's OH&S system.

Security

Aviation security involves the prevention of unlawful interference with aviation. This includes:

- preventing intentional damage to our aircraft;
- protecting our passengers, staff and assets against threats, injury or damage;
- preventing the carriage of dangerous substances or items which may endanger the aircraft, passengers or crew; and
- preventing terrorist activities and hijacking.

Rex maintains a continuous liaison with the Department of Transport and Regional Services Office of Transport Security and law enforcement agencies to share intelligence and monitor industry best practices.

All Rex staff having access to the apron, aircraft and baggage undergo both a police and ASIO background check as required by applicable regulations.

Rex maintains a proactive security programme. This programme is designed to protect staff, property and information from interference, theft and unlawful access. Rex maintains a close relationship with law enforcement agencies regarding corporate security matters.

As with safety matters, Rex prescribes compulsory reporting of security concerns. Such a reporting system helps Rex to monitor the security health of the airline and initiate early action to prevent security concerns developing into security issues.

The Rex Compliance and Quality Assurance Department is also tasked with maintaining an active internal security auditing system. This system also allows Rex to conduct trend analysis of security concerns or incidents to ensure that effective measures can be introduced proactively.

Finally, Rex has in place a disruption management plan which sets out how the Company must respond to

various potential security breaches and emergency situations. This plan is tested regularly to assess the suitability and adequacy of the responses.



5.11 INTELLECTUAL PROPERTY

Both the word "Rex" and the stylised, coloured "Rex" mark are wholly-owned trademarks of the Company.

5.12 INSURANCE

Rex has both aviation and other insurance coverage with respect to its operations, assets and personnel. Rex is advised on insurance by, and obtains its insurance placements through, Marsh. Rex believes that its insurance coverage is adequate and consistent with those of other major airlines.

The insurance covers the following risks:

- Aviation Hull & Spares
- Aviation Liability
- Hull War Risks
- Excess War Risks
- Industrial Special Risks
- Public Liability

5.13 EMPLOYEES

Rex believes that the Company's employees represent its most important asset. It therefore places great emphasis on creating and promoting a work environment where staff would enjoy coming to work.

Rex makes it a point to:

- encourage all staff to take ownership of problems;
- provide all staff access to the most senior levels of management. For example, all staff can send emails directly to the Chairman or to the members of the Management Committee;
- ensure that all feedback by staff is given due consideration. All significant feedback be it from the public or from the staff is reported to the Management



Committee which will then give further directions as necessary; and

- ensure regular communication with staff on all matters that are of significance.

Number of Employees

Rex engages employees to perform a variety of roles. The numbers of employees in each role are identified in the table below.

Number of Employees as at 30 June

	2003	2004	2005
Flight & Cabin Crew	286	300	322
Engineering	117	108	109
Airport	74	70	69
Finance	20	18	20
Customer Contact Centre	31	50	43
Management & Support	63	59	61
Total	591	605	624

Note: Figures include full time, part time, casual, maternity leave and leave of absence employees. They do not include contractors.

Location of Employees

Many of Rex's employees are located in its hub capital cities of Sydney, Melbourne and Adelaide. However, reflecting Rex's commitment to regional Australia, Rex has a significant number of employees based in regional Australia. This includes a significant number of engineers in Wagga Wagga and a Customer Contact Centre in Orange. Rex also has a number of bases in regional centres for the flight crew such as in Lismore, Dubbo, Orange, Albury and Wagga Wagga. The split between Rex employees located in capital cities and regional areas is identified in the table below.

Location of Employees as at 30 June

	2003	2004	2005
Capital Cities	404	414	421
Regional/Rural Australia	187	191	203
Total	591	605	624

Note: Figures include full time, part time, casual, maternity leave and leave of absence employees. They do not include contractors.



Employment Conditions

Different types of employees are covered by different arrangements governing the terms and conditions of their employment. The Company has entered into four Enterprise Bargaining Agreements (EBAs) which cover the main employee groups. These were negotiated in 2002 and expired on 23 July 2005 (although Rex and the relevant employees continue to operate under their terms). New agreements are currently being negotiated. The number of employees covered by each EBA, as well as the number of non-EBA staff, is listed in the table below.

The four EBA groups are as follows:

EBA	Number of Staff
Airline Services	145
Engineering	61
Flight Attendants	99
Pilot	207
Others (Non-EBA)	112
Total	624



Pilots

Rex's pilots are represented by the Australian Federation of Air Pilots (AFAP). A new agreement has been negotiated with the AFAP and has been voted upon by its members. It provides for annual wage increases of 2.5% plus participation in the Company's Share Plan and Profit Share Incentive Scheme.

Flight Attendants

Rex's flight attendants are represented by the Flight Attendants Association of Australia (FAAA). A new EBA has been negotiated by the union and accepted by the membership by way of a secret ballot. It provides for annual wage increases of 2.95% plus participation in the Company's Profit Share Incentive Scheme.

Engineering

Engineering employees are represented by the Australian Licensed Aircraft Engineers Association (ALAEA). This group has decided not to participate in the Company's Profit Share Incentive Scheme and negotiations are currently underway to establish a suitable fixed wage increase. Until this process has been completed, the terms and conditions of the current EBA apply.

General Ground Staff

General ground staff include customer service and administration staff at the airports, Customer Contact Centre, operations centre and finance department. These employees are represented by

the Australian Services Union (ASU) which has decided not to participate in the Company's Profit Share Incentive Scheme. Negotiations are currently underway to establish a suitable fixed wage increase. Until this process has been completed, the terms and conditions of the current EBA apply.

Rex engages contractors for functions such as baggage handling, ground handling, catering and aircraft cleaning.

Non-EBA Staff

Non-EBA Staff are eligible for an annual wage increase of 2.5% plus participation in the Company's Share Plan and Profit Share Incentive Scheme subject to prescribed conditions.



Share Option Plan, Share Plan and Profit Share Incentive Scheme

Eligible employees are entitled to participate in the Company's Share Option Plan, Share Plan and Profit Share Incentive Scheme, which are described in Section 11.6.

5.14 FUTURE PLANS AND STRATEGIES

Organic Growth

The Company believes that passenger air travel in general will grow in tandem with the growth in GDP which is estimated to be in the region of 3% for FY 05/06. This growth has significant implications for profitability. The Company estimates that for a 1% increase in passenger numbers on its existing network configuration, the improvement in profitability would be approximately 5%.

Route Expansions

The Company intends to increase its capacity gradually by taking on new routes and by increasing frequency on selected existing routes. The previous financial year saw Rex commencing operations on three new routes and withdrawing from one. The Company has budgeted a 9.2% increase in capacity for the current financial year in the form of increased frequency of flights and upgrades to Saabs from Metro aircraft. The Company believes that it will be able to achieve a corresponding 9.4% increase in passenger numbers for the financial year.



Charter and Freight

Rex believes that there is a sizeable demand for aircraft passenger and freight charter services. These businesses are complementary to Rex's main business and will allow synergies in operations and management. Rex intends to purchase one aircraft for charter and, conditional on the success of this Offer, will make an investment in a regional air freight company (see Section 6 for further details).

Acquisition and Mergers

The Company believes that substantial operational, administrative and managerial synergies could be gained by acquiring or merging with other similar but smaller regional airlines.

Being the largest independent regional airline, Rex has been approached by several parties with respect to exploring ways of exploiting operational synergies. Such cooperation may include Rex taking an interest in such parties. Potential investors, however, should note that no firm agreements have been reached with any parties as at the date of this Prospectus other than with respect to the proposed investment in Pel-Air.



6 INVESTMENT IN PEL-AIR

6.1 INVESTMENT TERMS AND STRATEGY

Rex Freight & Charter Pty Limited (Rex FC) and the shareholders of Pel-Air Aviation Pty Limited ABN 47 002 858 013 (Pel-Air) have entered into a Share Sale Agreement whereby Rex will acquire 50.0% of the shares of Pel-Air for \$12.0M (at a valuation of \$24.0M for 100% of Pel-Air), subject to satisfaction of various conditions, including the listing of Rex on the ASX. This acquisition will be funded from the proceeds of the Offer. Rex and Pel-Air's shareholders have agreed that the acquisition will take effect on 1 July 2005 for the purposes of determining their rights and obligations in respect of their shareholdings in Pel-Air. As Rex initially will be acquiring 50.0% of the issued shares of Pel-Air and will not control Pel-Air, Rex's shareholding will be treated as an investment in an associate and Pel-Air will not be consolidated as part of the Group. However, Rex's income statement will incorporate a 50.0% share of Pel-Air's net profit after tax.

Rex FC and the shareholders of Pel-Air also have entered into a Put and Call Option Deed whereby the Rex FC has the right to acquire

the remaining 50.0% of shares in Pel-Air over a 24-month period after the completion of the Share Sale Agreement and the remaining shareholders of Pel-Air can sell their shares to Rex FC if Pel-Air's FY 05/06 net profit after tax meets pre-agreed targets, for cash and/or Shares in Rex. The consideration for the remaining 50.0% is a total of \$12.0M. To the extent that this could be paid in cash, Rex expects to be able to fund such payments from its operating cash flows.

Further details of these agreements are set out in Section 6.5.

Rex believes its investment in Pel-Air may be able to provide potential synergies. For example, Rex believes it may be able to increase the profitability of both Rex and Pel-Air through the sharing of aircraft, the sharing of maintenance and engineering facilities and through discounts from bulk buying.

6.2 HISTORY OF PEL-AIR

Pel-Air was incorporated in 1984 as an air charter company specialising in the transportation of freight in and around eastern Australia. The founder of and driving force behind Pel-Air is John Johnson who together with all other directors and

senior managers are committed to staying on with the company. Soon after its incorporation, Pel-Air started specialist passenger and freight services first to Narbarlek for Queensland Mines and later, in 1989, to Telfer for Newcrest Mines.

In 1994, Pel-Air made a major strategic acquisition with the purchase of the business of Newcastle Aviation. This acquisition created significant growth in capacity, doubling Pel-Air's fleet size from its existing six Westwinds, by the addition of Newcastle Aviation's six turbine powered aircraft.

In 1996, Pel-Air tendered for and won a contract with the Commonwealth Government. The contract is to provide the Australian Defence Forces (ADF) with jet aircraft services for ADF training support and involves the provision of target towing, low level attack simulation, radar controller training, Air Force pilot combat training and the carriage of military personnel. This military contract put Pel-Air in a good position to bid for and win the United Nations (UN) contract in 2000 for the provision of aircraft for the transportation of personnel and for Medi-vac (medical evacuations)



from East Timor. This contract ended in 2002 with Pel-Air being commended by the UN. Pel-Air continues to be involved in the provision of Medi-vac services throughout Australasia and the Pacific. Pel-Air undertakes this business in conjunction with Careflight International, an internationally known and recognised medical evacuation service organisation.

Structure

The Pel-Air Group comprises three companies, namely Pel-Air and its two wholly owned subsidiaries Pel-Air Express Pty Limited (ACN 068 614 693) and Doskite Pty Limited (ACN 009 630 380). The subsidiaries' predominant purpose is to hold the AOCs required to support Pel-Air's operations. Pel-Air Express Pty Limited holds the AOC

for turbo-prop aircraft whilst Doskite Pty Limited holds the AOC for jet engine aircraft.

6.3 PEL AIR'S BUSINESS

Business Niche

Pel-Air is in the business of chartering aircraft. Its three principal markets are:

1. The overnight air freight service;
2. Specialist services to the Australian Defence Forces (ADF); and
3. Specialist medical evacuation services throughout Australasia and the Pacific.

Pel-Air's main revenues and clients are set out in the table below.

Source of Revenue	Main Client Served	Type of Aircraft Chartered and Operated	Approximate Contribution to Revenues
East Coast Australia & other regional Australian routes	Australian air Express, TNT, Toll, Pacific Aviation	Metroliners Westwinds Brazilla	63.0%
Military	ADF	Westwinds Lear Jets	28.0%
Medical evacuation services		Westwinds	6.0%



Pel-Air's east coast Australia and other regional Australian routes encompass Townsville in north Queensland to Hobart in Tasmania and Darwin-Alice Springs-Melbourne. These are all freight charter routes. For cost reasons, turbo-props are used primarily for the east coast routes. Due to distance and time constraint reasons, jet aircraft are used for the Darwin-Alice Springs-Melbourne route.

Pel-Air's six major customers account for over 90.0% of its revenue. They include four major freight forwarders (Australian Air Express, TNT, Toll and Pacific

Aviation), the Commonwealth Government (for the Australian Defence Forces) and Careflight International.

Pel-Air has provided services to each of its major freight forwarding customers for long periods of time. The types of freight that Pel-Air carries include overnight express mail, newspapers, select perishables, components, spare parts and occasionally dangerous goods.

Pel-Air's military contract with the ADF has another four years to run until 2009. In addition, the Commonwealth has an option to

extend the contract for a further two years. Some of the aircraft that Pel-Air deploys for the Commonwealth have been heavily modified to meet the specific requirements of the ADF.

Pel-Air has confirmed to Rex that it believes its investment will assist in further strengthening its relationships with existing customers by providing them with greater resources to support their aviation requirements.



Fleet Profile

Pel-Air owns a fleet of 23 aircraft as described below:

Number	Type	Some comments	Ownership
8	Westwinds	Jet engine, 2-tonne payload/ Medi-vac and passenger charter	6 aircraft mortgaged
10	Metroliner 111's	Turbo-prop, 2-tonne payload	2 aircraft mortgaged
4	Lear Jets	Heavily modified to meet ADF requirements	All aircraft mortgaged
1	Brazilia	Turbo-prop, 3.7-tonne payloads	100% owned

Pel-Air has been operating Westwinds for over 20 years and is amongst the world's most experienced, and is one of the world's largest, operators of Westwinds.

The Metroliners are well known in Australia, and Rex itself maintains a significant fleet of passenger configured Metroliners. Pel-Air's Metroliners have been modified to carry freight only.



Pel-Air operates a Lear Jet fleet based in Nowra, NSW that is contracted to the ADF. The Lear Jets and some Westwinds have been heavily modified to meet the modern requirements of the ADF and associated scientific organisations. These include the carriage and in flight testing of special electronic warfare equipment such as generic threat simulators. Pel-Air has also modified a Westwind for Medi-vac work.

Pel-Air recently acquired an Embraer Brazilia in order to cater for the growing freight market.

Pel-Air owns all its aircraft some of which are mortgaged to secure loans taken out by Pel-Air. No aircraft are on operating or finance leases.

Maintenance

Pel-Air has two major maintenance facilities. Darwin services all non-military Westwinds and Nowra services all military aircraft. Pel-Air's facilities in Darwin and Nowra are approved to undertake a significant amount of maintenance including all major checks on the airframes and almost all work except specialist engine work. Pel-Air has a workshop in Sydney where its Garret 731 turbofan engines are maintained. General work such as aircraft wheels and brakes are also overhauled at this facility.

Given that the Metroliners service the eastern coastline of Australia, a very wide area, their maintenance is outsourced to various third party facilities based in Melbourne, Brisbane and Sydney. The servicing

of the Brazilia is also outsourced to a facility in Brisbane.

Fuel

Pel-Air's direct exposure to rising fuel prices is not significant. This is because it charters aircraft to clients on a fuel cost adjustment basis.

Employees

Pel-Air employs some 105 staff. They include 65 pilots, 19 engineers, 16 administration staff and five senior managers. The employees are based in several locations across Australia with larger numbers in Sydney, Brisbane, Darwin and Nowra.

Pel-Air's contingent of pilots comprises three groups. Specialist ex-air force fighter strike pilots required for Pel-Air's ADF contract, experienced and dedicated



charter pilots and young pilots seeking to gain flying experience.

6.4 PEL-AIR MANAGEMENT

The senior and key managers of Pel-Air will continue to operate Pel-Air on a day-to-day basis. The management of Pel-Air will be modified only to the extent that a management committee, similar to Rex's Management Committee, has been put in place. This management committee is expected to meet fortnightly and to oversee the whole of the business of Pel-Air. The management committee is also expected to promote initiatives such as new cost structures and to ensure that potential synergies are achieved. The Chairman of the management committee will be

Keith Johnson and Rex shall appoint two of its staff to this management committee. All key managers of Pel-Air have agreed to continue to manage the business.

The management committee will report to a six person Board of Directors that will be responsible for the whole of Pel-Air. Two of Rex's Directors shall be appointed to this Board. One of these nominees will become the Chairman of the Board of Directors of Pel-Air.

6.5 AGREEMENTS FOR INVESTMENT IN PEL-AIR

Rex and the shareholders of Pel-Air (Vendors) have entered into a series of documents relating to Rex's initial investment in Pel-Air. These agreements include a Share Sale Agreement, a Put and Call

Option Deed, a Letter Agreement and a number of real property leases. Summary of the material agreements that form part of the acquisition documents is set out below.

Share Sale Agreement

On 29 August 2005, Rex, Rex FC and the Vendors entered into a share sale agreement (Share Sale Agreement).

Under the Share Sale Agreement, subject to satisfaction of certain conditions, Rex FC agrees to acquire 50.0% of the share capital of Pel-Air from the Vendors for \$12.0M. If the acquisition proceeds, the effective date of the transfer is deemed by the parties to be 1 July 2005. The Share Sale Agreement is conditional on the satisfaction of



certain matters, including that:

- Rex is admitted to the official list of the ASX and its Shares are quoted and trading on that stock exchange;
- the Pel-Air Group's net tangible assets at completion are valued at more than \$20.0M;
- the business of Pel-Air is carried out in a manner satisfactory to Rex FC;
- certain guarantees granted by the Pel-Air Group that do not relate to the business of Pel-Air are released;
- Pel-Air divests itself of its interest in certain subsidiary companies and a residential property in Darwin, Northern Territory; and
- all material consents to the

proposed acquisition are obtained.

If the conditions in the Share Sale Agreement are not satisfied by 15 December 2005 any of the parties may terminate the Share Sale Agreement.

The Vendors have provided various warranties in respect of the business, assets and liabilities of the Pel-Air Group, including with regard to the ownership of the aircraft in Pel-Air's fleet, taxation matters and compliance with regulatory requirements, as well as the accuracy and completeness of the information provided by the Vendors as part of Rex's due diligence investigations. The Vendors also indemnify Rex FC and the Pel-Air Group against any losses

suffered by them in respect of a breach of any warranty given by, or obligation of, the Vendors under the Share Sale Agreement. The Vendors' liability in respect of the warranties and indemnity is limited in aggregate to \$6.0M.

Put and Call Option Deed

In conjunction with the Share Sale Agreement Rex, Rex FC and the Vendors entered into a Put and Call Option Deed.

Under the Put and Call Option Deed:

- Rex FC grants the Vendors an irrevocable option (First Put Option) to sell to Rex FC 25.0% of the current share capital of Pel-Air for \$6.0M. The First Put Option can only be exercised by the Vendors:



- if the net profit after tax in the audited accounts of Pel-Air for the year ending 30 June 2006 is equal to or greater than \$3.4M; and
 - during the month preceding the first anniversary of completion under the Share Sale Agreement;
 - the Vendors grant Rex FC an irrevocable option (First Call Option) to acquire up to 25.0% of the current share capital of Pel-Air for \$6.0M (or such lesser amount apportioned amongst that number of shares in Pel-Air that Rex FC elects to acquire). The First Call Option can only be exercised during the month after the first anniversary of completion under the Share Sale Agreement;
 - Rex FC grants the Vendors an irrevocable option (Second Put Option) to sell to Rex FC a further 25.0% of the current share capital of Pel-Air for that number of Shares in Rex that have a value equal to \$6.0M valued at the lower of the Offer Price and the weighted average share price of Rex's Shares during the 14-day period immediately before the date on which a relevant option exercise notice is received (Second Option Consideration). The Second Put Option can only be exercised by the Vendors:
 - if the First Put Option was exercised; and
 - during the month preceding the second anniversary of completion under the Share Sale Agreement; and
 - the Vendors grant Rex FC an irrevocable option (Second Call Option) to acquire 25.0% of the current share capital of Pel-Air for the Second Option Consideration or \$6.0M. The Second Call Option can only be exercised during the month after the second anniversary of completion under the Share Sale Agreement.
- Where applicable, the warranties provided under the Share Sale Agreement apply to any acquisition of shares by Rex under the Put and Call Option Deed. Further specific warranties are given with regard to the acquisition of shares under the Put and Call Option Deed, including that such shares shall be free of encumbrances immediately before completion of the relevant transfer. The Vendors' liability in respect of the warranties is limited in aggregate to \$12.0M, save that the Vendors' liability under both the



Put and Call Option Deed and the Share Sale Agreement is capped at \$12.0M.

Letter Agreement

A letter agreement was also signed by representatives of Rex, Rex FC and the Vendors on 29 August 2005. The letter agreement provides that:

- Rex FC is entitled to appoint two directors to the board of Pel-Air, one of whom will chair board meetings. If Rex FC holds a majority of shares in Pel-Air, the Vendors shall be entitled to appoint two directors to the board of Pel-Air;
- for so long as the Vendors appoint a majority of directors to the board, the Vendors may not do certain things without the consent of Rex FC, including:

- permit any change in the issued share capital of Pel-Air;
- sell any assets of Pel-Air except in the ordinary course of business;
- declare or issue any dividends; or
- undertake any activity that is not in the normal course of Pel-Air's business.

Similar restrictions apply to Rex FC if it gains control of Pel-Air's board:

- major decisions relating to Pel-Air will be taken by a management committee that shall be constituted by three nominees of the Vendors and two nominees of Rex FC. Other managers of Pel-Air may be appointed by mutual consent;
- the net profit after tax of Pel-Air will be fully distributed to its shareholders for the first

two years after completion of the Share Sale Agreement in proportion to the shares held by them during that period. The Vendors are entitled to an advance from Pel-Air of \$61,200 per month against such future dividends, which will be deducted from the dividends payable to the Vendors when distributed; and

- a company associated with the Vendors (Vendors' Company) shall enter into a consultancy agreement with Pel-Air under which the Vendors' Company will provide consulting services to Pel-Air in respect of an offer that has been submitted by Pel-Air to supply aerial surveillance for Raytheon Australia Pty Limited with respect to Raytheon's tender for Coastwatch services.



Remuneration payable to the Vendors' Company will be determined on a success fee basis only.

6.6 MATERIAL CONTRACTS OF THE ASSOCIATE

Agreement to Provide Specialised Air Services to the ADF (ADF Agreement)

Pel-Air renewed the ADF Agreement, first entered into with the Commonwealth of Australia in 1996, with effect from 1 July 2004. The initial term of the ADF Agreement is five years to 30 June 2009, although the ADF holds two 1-year options that can be exercised to extend the term. Under the ADF Agreement:

- Pel-Air must satisfy certain key

performance indicators in the provision of its services or be subject to a liquidated damages regime; and

- Pel-Air provides various warranties and indemnities to the ADF in respect of the performance of its services.

The ADF has various rights of termination, including for an unremedied breach and failure to reach key performance indicators for ten consecutive days, or ten days in any 60-day period. The ADF also has a right to terminate the contract for convenience.

In conjunction with the ADF Agreement, Capital Finance Australia Limited has entered into a Financial Security Deed under which Capital Finance Australia Limited provides

unconditional financial security payable to the ADF throughout the term of the ADF Agreement for performance of Pel-Air's obligations under the ADF Agreement. Pel-Air has in turn entered into a Contract Performance Guarantee with Capital Finance Australia Limited in support of its obligations under the Financial Security Deed.

The ADF has been made aware of Rex's proposed acquisition of an interest in Pel-Air and has not raised any issues with the transaction.

Finance Agreements

Pel-Air has entered into a number of finance and security agreements in respect of its aircraft and the ADF Agreement. Summaries of the



material arrangements are set out below.

Capital Corporate Finance Limited (CCFL) Finance Arrangements

On 11 November 2004 Pel-Air entered into a Loan Agreement under which CCFL agreed to lend USD4.8M repayable within five years after drawdown.

Capital Finance Australia Limited (CFAL) Finance Arrangements

Pel-Air is required to provide unconditional financial security to the ADF throughout the term of the ADF Agreement. On 30 June 2004, CFAL entered into a Financial Security Deed in favour of the ADF under which CFAL undertakes unconditionally to pay on demand to the ADF any sum which may be demanded by the ADF from time to time, up to a maximum of \$2.3M. The undertaking to pay continues

until the earlier of:

- CFAL receiving written notice from the ADF that the undertaking is no longer required;
- the ADF receiving from CFAL the whole of the sum or the balance after any part payment; or
- 30 June 2009.

In connection with the Financial Security Deed, CFAL and Pel-Air entered into a Contract Performance Guarantee on 12 March 2004. The CFAL guarantee consists of a 60 month, \$2.1M facility which has been cross-collateralised against existing facilities between CFAL and Pel-Air.

Pel-Air has also entered into a Chattel Mortgage with CFAL dated 8 January 2004 in respect of two of its aircraft as security for the

advance of \$1.2M to purchase the aircraft, which is repayable in instalments. The final instalment is due on 8 January 2009.

On 4 January 2004, CFAL and Pel-Air entered into a fit-out lease in respect of fit-out costs for premises owned by Pel-Air Investment Pty Limited, an entity formerly but no longer related to Pel-Air. The total amount payable under the CFAL fit-out lease is about \$695,065, which is repayable in instalments. The final repayment is due on 4 January 2010.

CBFC Limited (CBFC) Finance Arrangements

Pel-Air has entered into two separate loan agreements with CBFC, dated 11 March 2005 and 8 January 2003 respectively, to fund the acquisition of four aircraft. The total amount payable under the 11 March 2005 loan is \$2.5M which is repayable in instalments. The total amount payable under the 8 January 2003 loan is \$2.4M which is repayable in instalments.

GE Commercial Pty Limited (GE) Finance Arrangements

On 4 May 2005, Pel-Air entered into an Aircraft Loan Facility Agreement under which GE advanced \$821,000 to refinance the acquisition of one of Pel-Air's aircraft. This is repayable in instalments, the last of which is due on 4 May 2010.



7 DIRECTORS AND SENIOR MANAGEMENT

7.1 BOARD OF DIRECTORS

The Company's Board of Directors is entrusted with the responsibility for the overall management of the Company. Details of the Board members are as follows:



LIM, KIM HAI (48)

Executive Chairman

M. Engg (Ecole Nationale Superieur D'Ingenieurs, Caen, France), 1982
 MPA (Ecole Nationale d'Administration, France), 1990
 MBA (National University of Singapore), 1991

Mr. Lim, based in Singapore, has been awarded two scholarships by the Singapore Government. The first was to complete an undergraduate Masters degree in electronics engineering in the prestigious French 'Grande Ecole' schools of engineering. The second was awarded while he was serving with the Ministry of Defence of Singapore to complete a Masters in Public Administration course at the elite Ecole Nationale d'Administration of France.

After a period of 10 years as a Defence Specialist Engineer, Mr. Lim left the civil service to start his own businesses. Mr. Lim currently has an extensive portfolio of investment and has business interests in many countries. He is the Chairman of a biomedical company, Lynk Biotechnologies Private Limited, and is also Chairman of WooWorld Private Limited which is a supplier of online and mobile games to telecommunication companies in China, Japan and South East Asia. Mr. Lim is also a director of a military aircraft supply company as well as a director of a medical supply company specialising in supplying medical systems to hospitals.

Mr. Lim became Executive Chairman of Rex on 27 June 2003.



SHARP, JOHN (50)

Deputy Chairman & Independent Director

Associate Diploma in Farm Management
 Fellow of the Chartered Institute of Transport and Logistics

The Honourable John Sharp, originally from a farming and business background, is a keen aviator having been a licensed pilot of both fixed wing and rotary aircraft. Mr. Sharp was a member of the House of Representatives of the Commonwealth Parliament for 14 years

(1984 - 1998). Mr. Sharp retired from the House of Representatives in 1998 and established his own high level aviation and transport consulting company, Thenford Consulting. Mr. Sharp is currently Chairman of the Aviation Safety Foundation of Australia, a director of Australian Aerospace, a wholly owned subsidiary of European Aeronautics Defence and Space (EADS) representing Airbus (the aircraft manufacturer of ATR, CASA, Eurocopter and Astrium satellites) and a director of Skytraders, an air freight and aerial work operation providing services for Australia's Antarctic Division. He is also Chairman of Power and Data Corporation Pty Limited. Mr. Sharp is a trustee and board member of John McKeown House, Honorary Federal Treasurer, National Party of Australia, Member of the Partnership Committee National Trust of Australia NSW and Chairman of Winifred West Schools Foundation. He is a member of the University of Wollongong Vice Chancellor's Advisory Board.

Mr. Sharp's extensive experience of aviation, regional air services and as the former Minister for Transport and Regional Services in the Federal Government, adds significantly to the expertise and standing of the Board.

Mr. Sharp was appointed to the board of Rex on 14 April 2005.



BREUST, GEOFFREY (55)

Managing Director

B.A. Admin & Econ (CCAEC-Canberra University)

Board Member Regional Aviation Association of Australia
and Fellow of the Chartered Institute of Transport and Logistics

Mr. Breust has extensive experience in the Australian aviation industry and extensive knowledge of regional air services. Mr. Breust began his career in the Commonwealth public service in Canberra, working there for 20 years in a range of economic, regulatory and aviation policy roles before joining Kendell Airlines in 1988. He was soon appointed General Manager and later became CEO of Kendell and remained at Kendell until 2000. Mr. Breust then started a business consultancy and did extensive work for Airlink, another regional air services company. The Company was able and fortunate to persuade Mr. Breust to return as the Company's CEO in January 2004.

Mr. Breust was appointed to the board of Rex on 26 August 2004.



DAVIS, JAMES ('JIM') (53)

Executive Director Operations

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

Mr. Davis obtained his pilot's licence at 24 years of age, and has since flown professionally in Australia, Ireland, the Netherlands, Germany and throughout northern Europe for over 25 years. Upon joining Hazelton Airlines in 1999, he was appointed as Flight Operations and Standards Manager, which involved supervision of all check and training staff and performing the duties of deputy chief pilot for the airline. In 2001, Mr. Davis was promoted to Chief Pilot of Hazelton, and held that position when Hazelton was merged into and began trading as part of Rex in 2002. Mr. Davis became Executive General Manager of Operations in 2003, and oversees all aspects of the operations of the Company comprising flight operations, airport operations and engineering.

Mr. Davis was appointed to the board of Rex on 26 August 2004.



LEE, THIAN SOO (50)

Non-Executive Director

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.

Mr. Lee was appointed to the board of Rex on 27 June 2003.



WINNEL, ROBERT (57)
Independent Director

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

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

Mr. Winnel was appointed to the board of Rex on 2 September 2003.



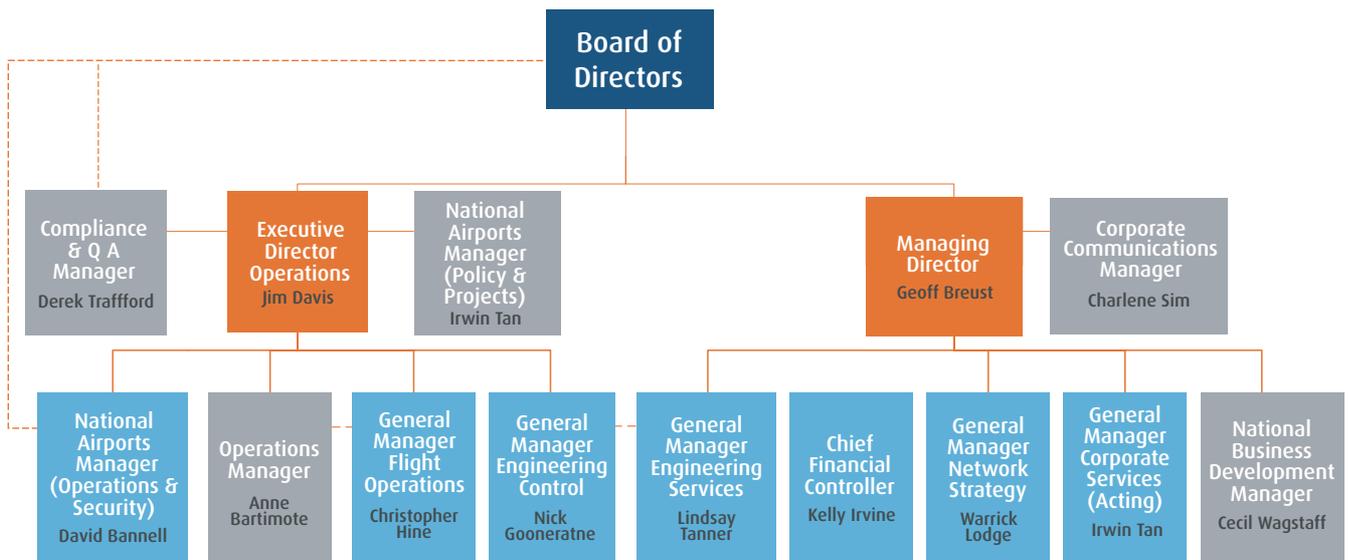
HODGE, RUSSELL (59)
Non-Executive Director, Pel-Air Operations

B.Ec (Sydney University)
LLB (Australian National University)

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

Mr. Hodge was appointed to the board of Rex on 9 September 2005.

MANAGEMENT STRUCTURE



7.2 KEY MANAGEMENT EXECUTIVES

In addition to the two Board members, Geoff Breust and Jim Davis, the other senior key executives in the Company are:



GOONERATNE, NAOMAL ('NICK') PRIYANTHA (48) General Manager, Engineering Control

Australian Civil Aviation Safety Authority Airframe and Engine Licence, USA Aviation Licence (Florida Academy of Aerospace Technology), UK Civil Aviation Licence (Southall College of Technology) and licensed to maintain many types of aircraft and engines (B-747 Series, Airbus 300-600, B-737-200, Lockheed L-1011 Series and the Saab 340) in Australia, Saudi Arabia, Sri Lanka, UK and USA.

Nick has extensive experience in line and heavy engineering maintenance. His duties include ensuring the Company's aircraft are functional and meeting all civil aviation regulations and manufacturer's requirements. As such, Nick holds the position of Primary Maintenance Controller responsible to CASA. Nick's experience is both deep and broad. He was

trained in the USA and the UK and then joined Air Lanka in 1979 as a licensed aircraft maintenance mechanic and engineer. He joined Saudi Arabian Airlines in 1984 in a similar position. In 1992 Nick joined Hazelton and soon became a technical support engineer, then supervisor and then manager. Nick has been with the Company since its inception in 2002.



LODGE, WARRICK (34)
General Manager, Network Strategy

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

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



IRVINE, KELLY EVA (36)
Chief Financial Controller

B.Comm. (Australian National University), Member of CPA Australia

Kelly joined Rex as Financial Controller in 2004. She is responsible for all aspects of the Company's accounting and finance. Kelly has extensive corporate and accounting experience in both the public and private sectors with a background in finance, taxation and accounting. She has previously held roles with Johnson & Wedell, a stockbrokerage firm, Barclays Australia Custodian Services, Deloitte Touche Tohmastu and the Commonwealth Department of Finance.



HINE, CHRISTOPHER PETER (37)
General Manager, Flight Operations/Chief Pilot
Grade 2 Check Captain

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

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



TANNER, LINDSAY (41)
General Manager, Engineering Services

Bachelor of Vocational Education & Training (Charles Stuart University), Associate Diploma in Airframe Engineering (RAAF), Trade Certificate in Aircraft Maintenance & Engineering (RAAF), and licensed to maintain many types of aircraft and engines in Australia

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

**TAN, IRWIN (31)****General Manager, Corporate Services (Acting)**

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

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 South West Pacific in 2003. Irwin joined the Company in July 2005.

**BANNELL, DAVID CHRISTOPHER (51)****National Airports Manager, Operations and Security**

David recently joined Rex following careers in the customs and forwarding industry and aviation. David is a licensed customs agent with the Australian Customs Service and has held various management positions in this industry including at General Electric Co (USA) managing the procurement, importation and distribution of capital equipment for the mining and manufacturing industries. David joined Ansett Australia in 1986 until 2001 holding various management positions in ramp services, operations, facilities and terminal management at Sydney, Canberra and regional ports. Prior to joining Rex, David was contracted to Sydney Airport Corporation working on projects at the Sydney Domestic Terminal T2. David is based at the Regional Express corporate office in Sydney and is responsible for terminal operations, ground support equipment, the Company's security program and airport services policy, contracts and procedures.

7.3 CORPORATE GOVERNANCE

The underlying objective of the Board of Directors of Regional Express is to establish a practicable and consistent framework of control for the Group, so as to ensure sustainable growth, maximum profitability, stable and rewarding careers for employees, value to the community and the protection and enhancement of the interests of its Shareholders. The Board always retains ultimate authority over management of the Company and its controlled entities.

The Board endorses the ASX Principles of Good Corporate Governance and Best Practice Recommendations, and has adopted corporate governance charters and policies reflecting those recommendations to the extent appropriate having regard to the size and circumstances of the Company. Rex is committed to ensuring that its corporate governance systems comply with statutory requirements and to maintaining the Company's focus on transparency, responsibility and accountability.

The Board of Regional Express is made up of an executive Chairman, two executive Directors, two non-executive Directors and two independent non-executive Directors. As a team, the Board brings together a broad range of qualifications and a diversity of experience to provide strategic guidance and effective oversight of management.

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

The Board's responsibilities include:

- formulating the strategic direction and performance/financial objectives for the Group;
- establishing corporate governance, legal compliance, safety and risk management, accounting and reporting systems and policies;
- monitoring the implementation of the policies, strategies and objectives of the Company;
- ensuring that adequate systems of internal control are in place and appropriately monitored for compliance with regulatory requirements and ethical standards;

- monitoring financial performance and approving the Group's financial statements and annual budget;
- approving major capital expenditure and capital management, any major investment, acquisitions or divesture and any changes to organisational structure;
- selection, appointment and review of the performance of the Group's senior managers;
- ensuring significant business risks are identified and appropriately managed;
- conducting regular reviews of the Board's own performance and the procedures followed;
- establishing special purpose sub-committees to deal with specific issues as and when they arise; and
- reporting to Shareholders on the Company's performance.

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

The committees which have been established are:

- the Audit and Risk Management Committee;
- the Nomination and Governance Committee; and
- the Remuneration Committee.

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

Audit and Risk Management Committee

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

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

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

- assist the Board to fulfil its oversight responsibilities in respect of the financial reporting process, the system of internal controls relating to all matters affecting the Group's financial performance, the audit

process, and monitoring compliance with laws and regulations and the Company's code of conduct; and

- implement and supervise the Group's risk management framework.

Nomination and Governance Committee

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

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

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

Remuneration Committee

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

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

- the Directors and senior management of the Group are remunerated fairly and appropriately;
- the Group's remuneration policies and outcomes strike an appropriate balance between the interests of the 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; and
- 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.



8 FINANCIAL INFORMATION

A summary of the financial information for Rex is contained in this section. It comprises:

- Pro forma Consolidated Income Statements. This sets out the pro forma historical performance for the years ended 30 June 2003, 2004 and 2005 and pro forma forecast financial performance for the year ending 2006;
- Pro forma Consolidated Cash Flow Statement for the year ended 30 June 2005 and forecast for the year ending 30 June 2006;
- Historical Consolidated Balance Sheet as at 30 June 2005, prepared in accordance with Australian Generally Accepted Accounting Principles (AGAAP) and Pro forma Consolidated Balance Sheet as at 30 June 2005 taking into account the transactions that will arise pursuant to this offer;
- Accompanying notes and discussion thereto; and
- A summary of the potential impact of adopting Australian equivalents to International Financial Reporting Standards (A-IFRS) on the Consolidated Balance Sheet as at 30 June 2005 and the Pro forma Income Statements for the year ended

30 June 2005 and the forecast for the year ending 30 June 2006.

BASIS OF PREPARATION OF FINANCIAL INFORMATION

The Pro forma Historical Financial Information comprises:

- The Pro forma Consolidated Income Statements for the years ended 30 June 2003, 2004 and 2005;
- The Pro forma Consolidated Balance Sheet as at 30 June 2005; and
- The Pro forma Consolidated Cash Flow Statement for the year ended 30 June 2005.

The Pro forma Historical Financial Information has been prepared to provide comparability between the historical financial information and the forecast financial information. The Pro forma Historical Information has been extracted from the audited historical financial statements of the Company and prepared under AGAAP applicable at the time, as if the Company and its subsidiaries had been structured as they will be after the Offer, including elimination of the

effect of one-off or non-recurring expenses that occurred during these financial periods. The Pro forma Historical Information does not include any costs associated with Rex operating as a listed public company.

Upon completion of the Offer, Rex will be acquiring a 50.0% shareholding in Pel-Air. Since Rex will not control Pel-Air and Pel-Air will not be a subsidiary of Rex, the results of Pel-Air are not consolidated as part of the Rex Group but only shown as an investment in an Associate. The Pro forma Historical Financial Information and forecast only include a share of net income from the Associate, which reflects Rex's share of the net income of Pel-Air as if Rex had owned a 50.0% shareholding in Pel-Air during the relevant periods.

The Pro forma Forecast Financial Information comprises:

- The Pro forma Consolidated Forecast Income Statement for the year ending 30 June 2006 prepared in accordance with AGAAP;
- The Pro forma Consolidated Forecast Income Statement for



the year ending 30 June 2006 prepared in accordance with A-IFRS; and

- The Pro forma Consolidated Cash Flow Statement for the year ending 30 June 2006.

The Pro forma Historical Financial Information and Pro forma Forecast Financial Information have been prepared under existing AGAAP and the impact of adopting A-IFRS for the year ended 30 June 2005 and year ending 30 June 2006 has been disclosed in Section 8.2. A-IFRS will apply to Rex from 1 July 2005.

A reconciliation of the audited Consolidated Income Statements of Rex to the Pro forma Consolidated Income Statements for the years ended 30 June 2003, 2004 and 2005 is set out in Section 8.2.

The Pro forma Consolidated Income Statements for the years ended 30 June 2003, 2004 and 2005 do not purport to represent what the actual results from operations would have been had the post Offer capital and corporate structure been in place from 1 July 2002. However, for the purposes of comparing past and future performance, the Directors of Rex believe that the pro forma historical financial information provides a more meaningful presentation of the underlying financial performance of Rex, reflecting the intended structure and operations of Rex from Listing.

Investors should be aware that the future cannot be predicted with certainty and as a result, deviations from the Pro forma Forecast Consolidated Income Statements are to be expected. The financial information presented in Section 8

should be read in conjunction with the management discussion for the years ended 30 June 2003, 2004 and 2005 in Section 8.3, the basis of preparation of the Forecast Income Statement in Section 8.4, the sensitivity analysis in Section 8.5, the accounting policies detailed in Section 8.8 and the risks outlined in Section 9.

The Directors can give no assurance that the financial forecasts will be achieved or that the Company will be able to pay the dividends forecast for the forecast period. This is because the Company's actual financial results and dividends will be affected by many factors that are beyond the Directors' control. A number of these factors are outlined in Section 9.

Deloitte Touche Tohmatsu has prepared an Investigating Accountants' Report in respect of the Pro forma Historical Financial Information, including the pro forma adjustments. A copy of this report is included in Section 10. Investors should note the scope and limitations of the Investigating Accountants' Report.

The Pro forma Forecast Financial Information and Forecast Consolidated Cash Flow Statement for the year ending 30 June 2006 has been reviewed by Deloitte Corporate Finance Pty Limited. A copy of their report on the Review of Directors' Forecasts is contained in Section 10.

8.1 PRO FORMA CONSOLIDATED INCOME STATEMENTS

The table below sets out historical and forecast financial information.

Pro forma Consolidated Income Statements (\$ Million) For the financial years ending 30 June

	2003	2004	2005	2006	2006
	Historical AGAAP	Historical AGAAP	Historical AGAAP	Forecast AGAAP	Forecast A-IFRS ⁴
Accounting Standards Adopted					
Revenue					
Operating	83.8	110.5	127.2	144.7	144.7
Non-Operating ¹	10.5	0.7	9.9	1.9	2.1
Share of Net Income from Associate	2.7	1.6	1.8	1.8	1.8
	97.0	112.8	138.9	148.4	148.6
Expenses					
Aircraft Fuel	(12.1)	(12.7)	(19.7)	(24.0)	(24.0)
Engineering, Maintenance & Port ²	(37.4)	(30.8)	(35.0)	(34.6)	(34.6)
Manpower	(36.9)	(35.6)	(38.2)	(41.1)	(41.1)
Marketing & Selling	(14.7)	(12.8)	(12.2)	(10.5)	(10.5)
Administration	(3.8)	(3.4)	(2.4)	(2.4)	(2.4)
Other ¹	(5.2)	(3.2)	(6.2)	(2.0)	(2.0)
	(110.1)	(98.5)	(113.7)	(114.6)	(114.6)
EBITDAR³	(13.1)	14.3	25.2	33.8	34.0
Aircraft Leasing	(8.4)	(7.0)	(7.2)	(8.2)	(8.2)
Depreciation	(2.4)	(2.4)	(3.8)	(4.2)	(4.2)
	(10.8)	(9.4)	(11.0)	(12.4)	(12.4)
EBIT	(23.9)	4.9	14.2	21.4	21.6
Financing Charges	(0.4)	(0.4)	(0.7)	(0.1)	(0.1)
Profit Before Tax	(24.3)	4.5	13.5	21.3	21.5
Tax expense				(1.6)	(6.4)
Net Profit After Tax				19.7	15.1

Notes:

1. Non-operating Revenues and Other expenses include the proceeds from the sale of assets and the associated write-off of the assets written down value on disposal;
2. Engineering, maintenance and port expenses include aircraft repair and maintenance and airport expenses including landing charges;
3. EBITDAR is earnings before interest, taxes, depreciation amortisation and aircraft operating lease payments (rentals) and is shown to provide comparability with other airline companies; and
4. The financial impact of accounting differences between AGAAP and A-IFRS identified to date as having an effect on the Pro forma Forecast Income Statement have been included in the 2006 A-IFRS forecast.

The Pro forma Consolidated Income Statements assume that the investment in Pel-Air had been made on 1 July 2002 and that it had been accounted for using the equity method of accounting since that date.

The pro forma adjustments made to the Audited Historical Consolidated Income Statements to calculate the Pro forma Historical Consolidated Income Statements are outlined in Section 8.2.

The basis of preparation for the Pro forma Consolidated Income Statement for FY 05/06 is detailed in Section 8.4.

The actual results that Rex will report in its financial report for the year ending 30 June 2006 will differ from the Pro forma Forecast Consolidated Income Statement for the year ending 30 June 2006 as set out in the table on the previous page. The Pro forma Consolidated Income Statement for the year ending 30 June 2006 has been prepared on the assumption that the corporate and capital structure expected to prevail following the completion of the Offer will apply for the entire financial year. Rex's actual net profit after tax for the year ending 30 June 2006 is expected to be \$0.6M lower than is assumed in Pro forma Forecast Income Statement as the investment in Pel-Air will only be recognised and accounted for under the equity method from the actual date of acquisition, which is assumed to be 9 November 2005, rather than from 1 July 2005.

8.2 ADJUSTMENTS TO CONSOLIDATED INCOME STATEMENTS

The Pro forma adjustments made to the historical profit before tax for the years ended 30 June 2003, 2004 and 2005 to provide comparability were:

Pro forma Adjustments (\$ Million) For the financial years ending 30 June

	2003	2004	2005
Historical Profit Before Tax	(30.3)	1.0	9.4
Pro forma adjustments			
1. Purchase of 3 Saab B models previously leased			
- Reduction in aircraft leasing expenses	1.6	1.7	1.3
- Increase in depreciation	(0.4)	(0.4)	(0.3)
- Increase in interest payable	(0.4)	(0.4)	(0.4)
2. Conversion of convertible note to equity (reduction in interest paid)	0.7	1.0	0.5
3. Business restructure costs			
- Termination payments	0.0	1.2	0.3
4. Sale of subsidiary	0.6	0.0	0.9
5. Investment in Associate	2.7	1.6	1.8
6. Timing difference of accounting for unearned revenue	1.2	(1.2)	0.0
Total Pro forma changes	6.0	3.5	4.1
Pro forma Profit Before Tax	(24.3)	4.5	13.5

The historical financial information has been adjusted to reflect:

1. The post Offer aircraft financing structure. The levels of historical aircraft leasing expenses have been adjusted downwards and the historical depreciation and interest payable have been adjusted upwards to reflect the expenditure that would have occurred if all previously leased aircraft that will be owned post Offer were owned from 1 July 2002;
2. The current equity position based on the conversion of convertible notes to equity as if this had occurred from 1 July 2002 and the corresponding pro forma adjustment to interest paid;
3. The removal of one-off termination costs as a result of business restructuring;
4. The write down of Hazelton Air Services Pty Limited, a subsidiary of Regional Express Holdings Limited, in 2005 and also an adjustment for the one-off write off of goodwill that occurred in 2003 after the initial acquisition of Hazelton Air Services Pty Limited. Hazelton Air Services Pty Limited was sold to third parties on 22 August 2005; and
5. The investment return from Associate Pel-Air, determined in accordance with equity accounting principles, is shown net of the cost of provisions or write-backs or other adjustments that should have taken place in a year other than the one in which it took place. This adjustment presumes the 50% shareholding in the Associate was acquired from 1 July 2002 through an equity issue with no related debt. The Company's accounting policies have been applied to the historical results of the Associate in order to establish the share of profit applicable to the Company.

In performing the reconciliation of key items from AGAAP to A-IFRS, the following assumptions have been made for the FY 04/05 and FY 05/06 forecast:

\$ Million	FY 04/05 Pro forma Historical	FY 05/06 Pro forma Forecast
Net Profit before Tax Under AGAAP	13.5	21.3
(Reduction)/Increase of government grant booked as income in FY 04/05 now recognised over the life of the corresponding asset	(1.2)	0.2
Net Profit Before Tax Under A-IFRS	12.3*	21.5*

Grants for the acquisition of an asset are recognised under AGAAP as revenue in the period the grant is made available. Under AASB120 "Government Grants" the grant must initially be recognised as deferred income on the balance sheet, and recognised as revenue over the useful life of the asset. Due to the receipt of a government grant during FY 04/05, a significant adjustment is expected on transition to A-IFRS resulting in a reduction in retained earnings and a corresponding increase in unearned revenue on the balance sheet of \$1.2M. This is reflected as a pro forma adjustment to the Income Statement for the year ended 30 June 2005. Capital expenditure required by the grant was made during FY 04/05.

*The adjustment to tax expense under A-IFRS is not included as the tax expense has not been disclosed in the Income Statement in Section 8.1 for FY 04/05. The application of A-IFRS will change the criteria for the recognition of carried forward losses as a future income tax benefit from requiring losses to be virtually certain of utilisation to utilisation being likely on the balance of probabilities. It is assumed that the Company will book carried forward losses of \$4.8M as part of the restatement of the accounts to A-IFRS at 1 July 2004 to retained profit. As the \$4.8M in tax losses will be recognised as a future income tax benefit prior to the utilisation of the tax losses, the utilisation of the tax losses will not give rise to a \$4.8M reduction in the tax expense for accounting purposes in the forecast period, as it would under AGAAP. The tax payable will remain at \$1.6M under both AGAAP and A-IFRS.

8.3 MANAGEMENT DISCUSSION FOR THE YEARS ENDED 30 JUNE 2003, 2004, 2005 AND 2006

FY 03/04 compared with FY 02/03 (11 months)

Regional Express commenced scheduled flight services in August 2002. Accordingly the discussion below compares the pro forma results of operations for the FY 02/03 (11 months) with the pro forma results in FY 03/04 (a full 12 months).

Revenues

Total Revenue increased by \$15.8M to \$112.8M in FY 03/04 or 16.3% compared to FY 02/03. Passenger Revenue increased \$27.3M to \$109.4M, an increase of 33.3% on FY 02/03's Passenger Revenue of \$82.1M. This increase was due to significantly higher passenger numbers. Total passenger numbers grew from 594,000 to 845,000. Whilst Rex is not a discount airline this was a deliberate strategy whereby deeper discount fares were introduced to maximise revenue per departure. The increase in

passenger numbers was assisted by an increase in capacity (ASKs) of 4.0% and an improvement in the passenger load factor from 47.2% to 62.7%.

Non Passenger Revenue decreased from \$14.9M to \$3.4M. A \$5.0M Government Grant received in FY 02/03 to assist with start up costs did not carry into FY 03/04. Charter revenue decreased as aircraft were moved to passenger services and there were no aircraft sales.

EBITDAR

EBITDAR increased by \$27.4M to \$14.3M representing an EBITDAR margin of 12.7% compared with a 13.5% loss margin for the prior period.

Expenses

Total Expenditure decreased from \$121.3M to \$108.3M, or by 10.7%. Fleet strength averaged 18 Saabs and seven Metro aircraft. Key components of this expenditure were:

- Port costs increased from \$12.4M to \$14.1M due to an increase in passenger related costs such as head tax and security screening along with an increase in contract ground handling charges due to increased flights;
- Selling costs decreased from \$14.7M to \$12.8M due to a reduction in start up advertising and shift in focus from press advertising to more targeted options, such as internet sales which remain the most cost effective distribution point for ticket sales;
- Flight costs decreased from \$25.0M to \$16.7M due to a significant reduction in engineering costs, assisted by a reduction in the per head cost of catering;
- Lease payments reduced from \$8.4M to \$7.0M due to the purchase of aircraft and the cessation of two aircraft leases during 2004;
- Fuel costs increased from \$12.1M to \$12.7M during the period as a result of increased flying hours; and
- Other expenses include the written down value of disposed assets. As there were no asset sales during this period this decreased from \$5.2M to \$3.2M.

Profit Before Tax

Profit Before Tax improved by \$28.8M from a loss of \$24.3M to a profit of \$4.5M. Aggressive measures undertaken during 2004 put the Company in a good position to capitalise on these improvements in 2005. These measures included strong demand for seats, management restructuring, manpower reductions, the identification of cost inefficiencies, the consolidation of two Air Operators Certificates (AOCs) into a single AOC, aircraft replacement programme of nine leased SAAB 340B ex Business Express aircraft with a common configuration and the raising of \$5.0M in equity.

FY 04/05 compared with FY 03/04***Revenues***

Total Revenue increased to \$138.9M in FY 04/05, an increase of 23.1% on FY 03/04. Passenger Revenue increased to \$125.7M in FY 04/05, an increase of 14.9% on FY 03/04's Passenger Revenue of \$109.4M. This increase was due to higher passenger volumes of 22.8% assisted by a 18.4% increase in capacity (ASKs) from 515M to 610M and an increase in the passenger load factor from 62.7% to 65.4%. The improvement was in part due to and was offset by a decline in yields. Whilst Rex is not a discount airline it does adopt an active policy of maximising revenue per departure through Yield management of its fares on a seat-by-seat basis using Yield management software.

Non Passenger Revenue increased from \$3.4M to \$13.2M due to sale of aircraft, increased charter revenue, a government grant to cover the costs of installation of mandated strengthened cockpit doors and the implementation of a ticket reissue fee.

EBITDAR

EBITDAR increased by \$10.9M from \$14.3M to \$25.2M representing an EBITDAR margin of 18.1% compared with 12.7% for the prior period.

Expenses

Expenditure increased to \$125.4M in FY 04/05, an increase of 15.7% on FY 03/04. Fleet strength averaged 22 Saabs and six Metros during the year. Key components of the increases in costs were:

- Port costs increased \$0.2M as a result of increased landing, security and air navigation charges. This increase was mitigated by the withdrawal from the Canberra-Sydney route. The net result was a reduction in costs of \$0.5M;

- Selling costs decreased slightly from \$12.8M to \$12.2M. TV advertising decreased due to the existence of brand awareness and the move to more cost effective mediums of advertising;
- Flight costs increased from \$16.7M to \$21.4M due to a \$2.1M increase in the cost of the Engine Care and Maintenance Programme and an exceptionally heavy engineering workload during the year. There were eleven major 'C' checks scheduled and the installation of Terrain Avoidance Warning Systems (TAWS) to the Saab Fleet (24 aircraft) prior to the mandatory completion date of 30 June 2005. Also during this period Hardened Cockpit Doors were required to be installed on all Saab aircraft. Again this was a mandated change. The Company introduced five additional Saab 340B aircraft into the fleet and prepared two Metros for sale;
- Pro forma aircraft operating lease payments increased from \$7.0M to \$7.2M due to additional leases;
- Fuel costs increased from \$12.7M to \$19.7M during the period as a result of an increase of 8.0% in flying hours and a dramatic increase in the barrel price of fuel during the year of 69.4%. Fuel costs comprised 17.3% of operating costs in 2005 compared to 12.9% in 2004;
- Depreciation increased from \$2.4M to \$3.8M, due to increased purchases of rotables and aircraft; and
- Other expenses include the written down value of disposed assets. As there were asset sales during this period these costs increased from \$3.2M to \$6.2M.

Profit Before Tax

Profit Before Tax increased three-fold to \$13.5M from a profit of \$4.5M in the prior year. The Company has made considerable progress in the year due to the crystallisation of many of the initiatives put in place in the prior financial year. The areas of focus for the year were to increase passenger growth (22.8% achieved); improve productivity (Pro forma cost per ASK decrease from 21.0c/ASK to 20.4c/ASK achieved) and improve operational and service standards (OTP improved to 90% and Rex achieved the highest score out of four Australian airlines for customer satisfaction in a survey published by Choice Magazine in April 2005). The continued focus on these areas, plus the continuation of the Productivity Committee to identify areas of inefficiencies is assumed to flow into the result for FY 05/06.

Income Tax Benefit

The Company was able to book a tax benefit of \$1.9M during 2005 as a result of passing the virtual certainty test in relation to losses in the FY 02/03.

FY 05/06 (A-IFRS) compared with FY 04/05 (AGAAP)***Revenues***

Total Revenue is forecast to increase to \$148.6M in FY 05/06, an increase of 7.0% on FY 04/05. Passenger Revenue is forecast to increase to \$142.4M in FY 05/06, an increase of 13.3% on FY 04/05 Passenger Revenue of \$125.7M. This increase is due to forecast higher passenger volumes of 9.4% assisted by a forecast 9.2% increase in capacity (ASKs) from 610M to 666M and an increase in the passenger load factor from 65.4% to 65.7%. Yield improvement was achieved in the last months of FY 04/05 and this is expected to flow into FY 05/06 with an improvement of 3.6% assumed. Other revenue is forecast to decrease from \$13.2M to \$6.2M as no asset sales are planned for FY 05/06. Other revenue includes a contribution from investment in Associate of \$1.8M due to the planned investment in Pel-Air Aviation Pty Limited.

EBITDAR

The forecast increase in EBITDAR of \$8.8M to \$34.0M represents a 22.9% EBITDAR margin compared with 18.1% for the last financial year. The incremental nature of passenger revenue means that a 1.0% increase in revenue results in a proportionately greater increase in the EBITDAR margin.

Expenses

Total Expenditure excluding tax is forecast to increase by \$1.7M to \$127.1M on the FY 04/05 figure of \$125.4M. Fleet strength will average 25 Saabs and four Metros during the year. Key issues to note about expenditure in FY 05/06 are:

- Port costs are assumed to decrease from \$13.5M to \$12.5M as a result of increased recovery from Passengers for insurance and security screening costs;
- Selling costs will proportionally show the largest efficiencies in FY 05/06 with cost savings forecast of \$1.7M reducing selling costs to \$10.5M. This is a 13.9% reduction from the prior year cost of \$12.2M. These cost savings are assumed to arise as a result of an initiative

- introduced on 1 July 2005 to move standard agent commission from 7.0% to 1.0% and the imposition of a credit card surcharge for passengers booking on the internet;
- Flight costs are assumed to increase from \$21.4M to \$22.6M due to an increase in the fleet size and the rate the Company pays for its Engine Care and Maintenance Programme (ECMP);
 - Pro forma aircraft operating lease commitments are assumed to increase from \$7.2M to \$8.2M due to the full year effect of aircraft leases that were entered into during FY 04/05;
 - Fuel costs have been assumed to increase from \$19.7M to \$24.0M as a result of an assumed increase in the barrel price of crude oil combined with increased flight activity measured by an increase in flight hours. Average budgeted fuel cost is based on a barrel price of USD79.84; and
 - Other expenses include the written down value of disposed assets. As there are no forecast asset sales during FY 05/06. Other Expenses are assumed to decrease from \$6.2M to \$2.0M.

Profit Before Tax

Profit Before Tax has been assumed to increase from \$13.5M to \$21.5M. This is due to a \$9.7M increase in revenue less \$1.7M in increased expenditure for the reasons discussed above.

Income Tax Expense

The A-IFRS forecast for FY 05/06 assumes income tax expense of \$6.4M at the forecast company tax rate of 30.0%. The Company has a future income tax benefit of \$4.8M relating to tax losses which it will book against this amount in FY 05/06 resulting in a net tax payable of \$1.6M.

8.4 BASIS OF PREPARATION OF THE PRO FORMA FORECAST FINANCIAL INFORMATION

Assumptions Underlying the Directors' Forecast

The Directors have prepared the Pro forma Forecast Financial Information based on the economic conditions existing as at the date of the Prospectus, including a number of best estimate assumptions regarding future events. These events may not eventuate. While the Directors believe that they have prepared the Pro forma Forecast Financial Information with due care

and attention no guarantee or assurance is given that it will be achieved. The forecasts must be read in conjunction with the balance of the material in this Prospectus, particularly this Section, Section 9 Risk Factors and Section 10 the Investigating Accountants' Report and the Independent Review of Directors' Forecast.

The material assumptions made by the Directors in preparing the Pro forma Forecast Financial Information financial forecasts are as follows:

General Assumptions:

- The Offer is fully subscribed and the proceeds have been received by 7 November 2005;
- There are no further significant issues of Shares during the years ending 30 June 2006;
- There will be no significant changes in the competitive environment in which the Company operates or in the conduct of any major competitor during the forecast period;
- There are no significant acquisitions or disposals of businesses or assets during the forecast period, other than those contemplated in this Prospectus;
- There are no significant beneficial or adverse effects from changed economic conditions in the markets in which the Company operates;
- There are no significant industrial, contractual or political disturbances or disruptions impacting Rex or the markets in which it operates;
- There will be no significant changes in statutory, legal or regulatory requirements that would have a material effect on the Company's results;
- There will be no changes in applicable Accounting Standards that will have a material effect on the Company's results. The potential impact of the adoption of A-IFRS is set out in the forecast Income Statement in Section 8.1;
- Within the Australian and major global economies, prevailing levels of growth, interest and inflation rates, and consumer confidence continue throughout the forecast period;
- There will be no significant changes in the tax regimes in Australia in particular, current corporate and withholding tax rates;
- GST will apply to the provision of the Company's products and services in Australia, as provided for in the legislation existing at the date of this Prospectus;

- There will be no significant turnover of key executives and staff during the forecast period;
- The Company is not and will not be a party to any significant litigation; and
- There are no synergies from the investment in the Associate included in the forecast.

Specific Assumptions:

Revenue

- The scheduled revenue forecast is based on estimates of the number of seats in service, the average passenger load factor of 65.7% and the average air fare of \$125 on a per passenger basis. Operating revenues are forecast to grow as a result of expected growth in the overall market as well as increased market share, and increased capacity, based upon management's assessment of likely sales;
- Natural market growth has been assumed on the majority of routes at approximately 3.0 - 4.0%;
- Pricing of Australian regional airline passenger travel is assumed to increase only marginally over currently prevailing levels through FY 05/06;
- Levels of sales discounts are to remain consistent with those presently experienced; and
- Interest income at the rate of 5.0% per annum will be earned on any cash on deposit;

The table below sets out the key operating statistics underlying the assumptions listed above:

Key Operating Statistics	2004	2005	2006
	Actual	Actual	Forecast
Passengers carried ('000s)	845	1,038	1,135
RPK (M)	323	399	438
ASK (M)	515	610	666
Aircraft in fleet (average)	25	28	29
Average passenger revenue per passenger (\$) *	129	121	125
Load factor (%)	62.7	65.4	65.7
Fuel cost % revenue (%)	11.3	14.2	16.2

*Includes Unearned Revenue writeback.

Expenditure

- An average unhedged AUD/USD exchange rate of \$0.755;
- An average unhedged aircraft fuel price of USD79.84 per barrel;
- Insurance renewal based on indicative quotations provided by the broker; and
- No significant new regulatory requirements concerning safety and security.

Financing and Cash Flow

- The Company will be debt free after listing therefore no interest rate has been assumed for borrowings;
- Australian income tax expense has been forecast at an effective rate of 30.0% for FY 05/06. Tax rates in other jurisdictions do not impact the Company on a material level;
- Capital expenditure of \$10.8M from proceeds received from the Offering will be incurred in FY 05/06; and
- An investment of \$12.0M to acquire 50.0% of Pel-Air using proceeds received from the Offering.

Taxation

- A forecast effective tax rate of 30.0% is assumed.

Dividends

- Future dividends will be paid in accordance with the payout policy described in this Prospectus in Section 11; and
- It is assumed that Rex will not pay a dividend with respect to the six months ending 31 December 2005.

The Directors of Rex have given all due care and attention to the forecasts before their adoption, but forecasts are, by their nature, subject to uncertainty and unexpected events, many of which are beyond the control of the Directors. Accordingly, the Directors' assessment of the forecasts may vary materially from the actual results and there can be no guarantee or assurance that the forecasts will be achieved.

8.5 SENSITIVITY ANALYSIS

The Pro forma Forecast Consolidated Income Statements for the year ending 30 June 2006 are sensitive to movements in certain assumptions used in their preparation. A summary of how variations in some of the key operating statistics may be expected to affect the Pro forma forecast results for the year ending 30 June 2006 are shown below:

Parameter	Forecast Assumption	Change in Assumption	Impact on FY 05/06 forecast EBITDAR
Passenger Load Factor	65.7%	+/-1%	\$2.0M
Average Fare	\$121.39	+/--\$1	\$1.1M
Crude Oil Price	USD79.84*	+/-USD5	\$1.2M
AUD/USD Exchange Rate	USD0.755	+/-USD0.01	\$0.7M
Interest Rate	5.0%	+/-25 basis points	\$0.02M

* An average unhedged aircraft fuel prices of USD79.84 per barrel. This is based on an average of forward rates released by two of the major fuel suppliers.

8.6 HISTORICAL AND PRO FORMA CONSOLIDATED BALANCE SHEETS

The table below sets out the historical balance sheets with adjustment to reflect the impact of equity raising and associated costs.

Historical and Pro forma Consolidated Balance Sheets (\$ Million) For the financial years ended 30 June

	Notes	2005 Audited	2005 Use of Proceeds	2005 Adjusted Balance Sheet Including Use of Proceeds
Accounting Standards Adopted		AGAAP	AGAAP	AGAAP
Current Assets				
Cash		4.5	4.9	9.4
Receivables		7.3	0.0	7.3
Consumable Spares		3.0	0.0	3.0
Other		4.5	0.0	4.5
Total Current Assets		19.3	4.9	24.2
Non-Current Assets				
Property, Plant & Equipment	1	24.5	7.3	31.8
Consumable Spares	2	4.6	3.5	8.1
Investment & Others	3	1.9	12.0	13.9
Total Non-Current Assets		31.0	22.8	53.8
Total Assets		50.3	27.7	78.0
Current Liabilities				
Payables		(12.4)	0.0	(12.4)
Unearned Revenue		(9.5)	0.0	(9.5)
Interest-bearing Liabilities		(0.5)	0.5	0.0
Provisions		(4.0)	0.0	(4.0)
Total Current Liabilities		(26.4)	0.5	(25.9)
Non-Current Liabilities				
Interest-bearing Liabilities		(4.1)	4.1	0.0
Provisions		(1.2)	0.0	(1.2)
Total Non-Current Liabilities		(5.3)	4.1	(1.2)
Total Liabilities	4	(31.7)	4.6	(27.1)
Net Assets		18.6	32.3	50.9
Equity				
Contributed Equity	5	36.6	32.3	68.9
Accumulated Losses		(18.0)	0.0	(18.0)
Total Shareholder's Funds		18.6	32.3	50.9

Notes

1. Property, Plant and Equipment. The Company has stated its intention to use \$7.3M of the funds raised for the purchase of aircraft.
2. Consumable Spares. The Company has stated its intention to acquire \$3.5M worth of spares with the Offer proceeds.
3. Investment and Other Assets. The Company's investment in Pel-Air will comprise the largest component of Investment and Other Assets. The Company will invest \$12.0M to acquire 50.0% of Pel-Air.
4. At the 30 June 2005, the Company had total debt of \$4.6M that it intends to repay with the funds raised by the Offer.
5. In the FY 04/05 Pro forma accounts, the underwritten amount of \$35.0M from this Offer has been included as an increase to equity, net of the costs of the capital raising. The amounts applied are detailed in the Use of Proceeds in Section 3.3.

Reconciliation of Pro forma Consolidated Balance Sheet as at 30 June 2005 under AGAAP and A-IFRS (\$ Million).

	2005
AGAAP Net Assets	50.9
Adjusted for:	
Change in the treatment for accounting for Government Grants as per AASB120	(1.2)
Change in the test to bring to account carried forward losses as per AASB112	4.8
A-IFRS Net Assets	54.5
Comprising:	
Issued capital	68.9
Retained profit	(14.4)
	54.5

The adjustments in the table above have been described in more detail in Section 8.9.

8.7 HISTORICAL AND PRO FORMA CONSOLIDATED CASH FLOW STATEMENTS

The table below sets out historical cash flow with adjustments to reflect the impact of equity raising and associated costs. Also shown below is the forecast cash flow which includes the impact of equity raising and associated costs.

Consolidated Cash Flow Statements (\$ Million) For the financial years ended 30 June

	Notes	2005 Audited	2005 Pro forma Adjustment	2005 Pro forma Actual	2006 Forecast
Cash Flow from Operating Activities					
Receipts from Customers		138.6	0.0	138.6	165.6
Payments to Employees & Suppliers	1	(136.1)	1.2	(134.9)	(141.1)
Government Grant received		1.2	0.0	1.2	0.0
Net interest expenses	2	(0.6)	0.5	(0.1)	0.6
Net Cash Flow from Operating Activities		3.1	1.7	4.8	25.1
Cash Flow from Investing Activities					
Proceeds from disposals		6.4	0.0	6.4	0.0
Purchase of fixed assets		(15.1)	0.0	(15.1)	(21.2)
Purchase of associate		0.0	0.0	0.0	(12.0)
Dividend received from associate	3	0.0	1.6	1.6	0.0
Net Cash Flow from Investing Activities		(8.7)	1.6	(7.1)	(33.2)
Cash Flow from Financing Activities					
Issue of new shares and CBs		4.2	0.0	4.2	32.3
Proceeds from borrowings		4.6	0.0	4.6	(4.6)
Net Cash Flow from Financing Activities		8.8	0.0	8.8	27.7
Net Cash Flow		3.2	3.3	6.5	19.6
Cash Held					
Cash at the beginning of the period		1.3	0.0	1.3	4.5
Net increase/(decline) during the period		3.2	3.3	6.5	19.6
Cash at the end of the period		4.5	3.3	7.8	24.1

Notes in relation to Pro forma Adjustments

1. Outflows to employees and suppliers has been adjusted for the pro forma transactions set out in the income statement including an adjustment for operating leases of \$0.3M out of the \$1.2M total adjustment.
2. Net interest expenses have reduced by \$0.5M reflecting a reduction in interest payable from the conversion of the convertible note to equity.
3. Dividends received from Associate have increased by \$1.6M representing the distribution of prior year profit from the investment in Associate. This assumes that the investment in the Associate was held for the entire period.

8.8 RELEVANT ACCOUNTING POLICIES

Basis of Accounting

The Pro forma Historical Financial Information and Pro forma Forecast Financial Information have been prepared on a going concern basis adopting the accruals and historical cost basis of accounting and in accordance with the requirements of the Company's Constitution, the Corporations Act 2001 including applicable Accounting Standards and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) that applied to the reporting periods as outlined below:

The following financial statements have been prepared in accordance with AGAAP, being the Australian Generally Accepted Accounting Principles that were in place prior to the introduction of the Australian equivalents to International Financial Reporting Standards (A-IFRS), which apply to financial periods commencing on or after 1 January 2005:

- Pro forma Consolidated Income Statements for the year ended 30 June 2003, 2004 and 2005;
- Pro forma Consolidated Income Statements for the year ending 30 June 2006 (AGAAP version);
- Consolidated Balance Sheet as at 30 June 2005;
- Pro forma Consolidated Balance Sheet as at 30 June 2005; and
- Pro forma Consolidated Cash Flow Statements the year ended 30 June 2005 and the year ending 30 June 2006.

The Pro forma Consolidated Income Statement for the year ending 30 June 2006 (A-IFRS version) has been prepared in A-IFRS. A reconciliation of audited AGAAP net assets has been provided in Section 8.6.

The accounting policies applied to the financial statements prepared in accordance with AGAAP are set out below:

Principles of Consolidation

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

Information from the financial statements of subsidiaries is included from the date the parent company obtains control until such time as control ceases. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the parent company has control. Subsidiary acquisitions are accounted for using the purchase method of accounting.

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

All intercompany balances and transactions, including unrealised profit arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Equity Method of Accounting

The Directors have determined that Pel-Air is an Associate of the Company as the company does not control Pel-Air but does exert significant influence over the financial and operating policies of Pel-Air. Consequently the Company has adopted the equity method of accounting for its investment in Pel-Air. Under this method the consolidated entity's share of the net profit/loss after tax of the associate is recognised as income in the Company's income statement.

Foreign Currencies

Translation of Foreign Currency Transactions

Transactions in foreign currencies of entities within the consolidated entity are converted to local currency at the rate of exchange ruling at the date of the transaction.

Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of the financial year.

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

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

Cash and Cash Equivalents

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

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

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

Receivables

Trade receivables are recognised and carried at original invoice amount. Bad debts are written off as incurred.

Consumable Spares

Inventories are valued at the lower of cost and recoverable amount.

Recoverable Amount

Non-current assets measured using the cost basis are not carried at an amount above their recoverable amount, and where a carrying value exceeds this recoverable amount, the asset is written down.

Property, Plant and Equipment

Cost

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

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment. The following table gives the depreciation policy with regards to the effective life.

Major depreciation periods are:	2005
Aircraft*	50,000 - 60,000 flight hours
Leasehold improvements	40 years
Cyclic assets	1.5 - 5.5 years
Plant and equipment – ground service equipment	8 years
Furniture and fittings	8 years
Computer equipment	4 years
Motor vehicles	7 years
Computer software	2 years

* Current average usage of aircraft is approximately 2,000 hours per year

The Property, Plant & Equipment assets on the balance sheet comprise the following major categories:

	Aircraft	Cyclic Assets	Ground Equipment	Aircraft Add-ons	Other P&E	Total
2005 Audited Cost	16.0	5.2	3.0	2.4	2.5	29.1
Accumulated Depreciation	(1.2)	(1.5)	(1.0)	(0.2)	(0.7)	(4.6)
2005 Audited Total	14.8	3.7	2.0	2.2	1.8	24.5
Pro forma adjustments for the capital raising	7.3	0.0	0.0	0.0	0.0	7.3
Adjusted Balance Sheet Total	22.1	3.7	2.0	2.2	1.8	31.8

Details of the type of aircraft currently owned by the Company are disclosed in Section 5.9 of the Prospectus.

Leases

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

Operating Leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis.

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

Finance Leases

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

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

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

Intangibles

Goodwill

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

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

Goodwill calculated on the acquisition of Hazelton Air Services Pty Limited and fully amortised in the audited accounts has been written back as a pro forma adjustment due to the divestment of this subsidiary subsequent to 30 June 2005.

Payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

Payables to related parties are carried at the principal amount. No interest is charged on these amounts.

Interest-bearing Liabilities

All loans are measured at the principal amount. Interest is recognised as an expense as it accrues.

Finance lease liability is determined in accordance with the requirements of AASB1008 "Leases".

Convertible notes are carried at their principal amounts.

Provisions

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

Contributed Equity

Issued and paid up capital is recognised at the fair value of the consideration received by the company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Passenger, Charter and Freight Revenue

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

Interest

Interest revenue is recognised provided Rex has control of the right to receive the interest payment.

Taxes

Income Taxes

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

Goods and Services Tax (GST)

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

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Balance Sheet.

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

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

Employee Benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits

include wages and salaries, annual leave, sick leave and long service leave. Liabilities arising in respect of wages and salaries, annual leave, sick leave and any other employee benefits expected to be settled within 12 months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

Employee benefit expenses and revenues arising in respect of the following categories:

- wages and salaries, non-monetary benefits, annual leave, long service leave, sick leave and other leave benefits; and
- other types of employee benefits,

are recognised against profits on a net basis in their respective categories.

Derivative Financial Instruments

Forward Exchange Contracts

The consolidated entity enters into forward exchange contracts where it agrees to buy or sell specified amounts of foreign currencies in the future at a predetermined exchange rate. The objective is to match the contract with anticipated future cash flows from sales and purchases in foreign currencies, to protect the consolidated entity against the possibility of loss from future exchange rate fluctuations. The forward exchange contracts do not exceed 12 months maturity.

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

Earnings Per Share

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

Comparatives

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

8.9 INTERNATIONAL FINANCIAL REPORTING STANDARDS

General

The changes in accounting policies arising from the adoption of A-IFRS that are expected to have a significant impact on the Company and the information contained in this Prospectus are outlined in this Section. Other differences will result from the first time adoption of a A-IFRS for the Company in the year ending 30 June 2006 and the restatement of comparatives for the ended 30 June 2005.

Comparatives for the first year of adoption of A-IFRS will need to be restated for all A-IFRS impacts, including those below and so an adjustment to Retained Profit will be required upon the Company's transition to A-IFRS.

Section 8.2 provides a reconciliation of the Pro forma forecast for FY 04/05 and forecast for FY 05/06, between AGAAP and A-IFRS. Section 8.6 provides a reconciliation of the Pro forma net assets as at 30 June 2005 between AGAAP and A-IFRS.

The following areas have significant potential impact for the Company:

Government Grants

Grants for the acquisition of an asset are recognised under AGAAP as revenue in the period the grant is made available. Under A-IFRS AASB120 the grant must initially be recognised as deferred income on the balance sheet, and recognised as revenue over the useful life of the asset. Due to the receipt of a government grant during FY 04/05, a significant adjustment is expected on transition to A-IFRS resulting in a reduction in equity and a corresponding

increase in unearned revenue on the balance sheet of \$1.2M. This is reflected as a Pro forma Adjustment to the Income Statement for the year ended 30 June 2005.

Share Based Payments

Under AASB2 Share Based Payments would be recognised as an expense on a pro-rata basis over the vesting period in the Income Statement with a corresponding adjustment to equity. Currently share based payment costs are not recognised under AGAAP.

The Company's Share Option Plan and Share Plans are disclosed in Section 11.6 of the Prospectus. There will be no financial impact in the FY 05/06. The future financial impact of the Company's Share Option Plan and Share Plans on the Company's profit following its adoption of A-IFRS is dependent on various factors, including the issue price of the Company shares, the current market price of the Company Shares, and the likelihood of the shares/options vesting. The Share Option Plan and Share Plans will create an expense in the Company's income statement that is not currently recorded under AGAAP, A-IFRS requires an expense to be recognised at the time of vesting. Options under the Share Option Plan do not commence vesting before FY 06/07. Thus, there is no financial impact on the Company's pre-tax profit restatement for FY 04/05.

The Company's proposed Employee Share Plan is disclosed in Section 11.6 of the Prospectus. The adoption of A-IFRS will create an expense in the Company's income statement for FY 06/07 associated with the Company's new issue of Shares pursuant to the Employee Share Offer that is not currently recorded under AGAAP. There is no financial impact on the restatement of FY 04/05 result.

Business Combinations

AASB3, except as specifically described, requires business combinations to be accounted for by applying the purchase method. Goodwill acquired in a business combination is to be recognised as an asset from the acquisition date. Goodwill amortisation is now prohibited and instead goodwill is to be tested for impairment. As the Company has already included the divestment of a subsidiary in the Pro forma Adjustment there will be no financial impact on the restatement of the financial statements to A-IFRS.

Income Taxes

The Company will be required under AASB112 to use a balance sheet liability method rather than the income statement method for measuring tax assets and liabilities. This method calculates temporary differences based on the carrying amount of the Company's assets and liabilities in the statement of financial position and their associated tax bases. The application of A-IFRS will produce additional deferred tax assets and liabilities. As the criteria for the recognition of carried forward losses as future income tax balances has changed from requiring that the losses be virtually certain of utilisation to utilisation being likely on the balance of probabilities it is assumed that the Company will book carried forward losses of \$4.8M as part of the restatement of the accounts. This would be taken up as an adjustment to retained earnings as at 1 July 2004.

Financial Instruments

AASB139 requires that all derivative financial instruments must be recognised in the Balance Sheet and measured at fair value. The Company does not utilise effective hedging and therefore the profit and loss will be directly impacted by changes in the fair value of hedging instruments. This will continue to result in volatility in the Income Statement. Management has decided to apply the exemption provided in AASB1 which permits entities not to apply the requirements of AASB139 for FY 04/05. The standard will be applicable from FY 05/06 and has been reflected in the forecast.

Impairment of Assets

Under A-IFRS the recoverable amount of an asset is determined as the higher of net selling price (fair value less costs to sell) and its value in use. This will result in a change in the Company's accounting policy which determines the recoverable amount of an asset. Aircraft are the highest value asset owned by the Company. They do not generate cash flows directly as revenue is derived from the sale of seats on a flight rather than seats on a specific aircraft. Aircraft will need to be aggregated into a group to determine aircraft cash flows. There is expected to be no impact on transition as no impairment of these assets has been identified up to 30 June 2005, but the impact of impairment losses cannot be determined into the future.



9 RISK FACTORS

The future performance of the Company and its Shares may be influenced by a range of risk factors. While some risks can be mitigated by Rex's actions, many are outside the control of the Company and its Directors.

The discussion below attempts to highlight the more significant and material risks, however the list may not be exhaustive. Other less significant or less probable factors may also impact the financial performance, the financial position or the cashflow of the Company. Should any or all of these risk factors materialise, the value of the Shares of the Company may be adversely affected. There can be no guarantee that Rex will achieve its stated objectives or that any forward-looking statements or forecasts will eventuate, nor can Rex give an assurance that past performance will be repeated.

Consequently, investors should read this Prospectus in its entirety and consider the following risk factors and, if necessary, consult their accountant, financial advisor, stockbroker, lawyer or other professional advisor prior to making an investment in the Company.

9.1 RISKS ASSOCIATED WITH REX'S BUSINESS

Aircraft and Engine Support and Maintenance Programmes

Rex believes it has an efficient aircraft maintenance program and a well-stocked airframe and engine parts inventory. However, the Company's fleet of Saab 340 and Metro 23 aircraft are now in the middle of their economic life and are no longer in production, although the airframe and engine manufacturers have stated that they are still actively committed to supporting and producing all parts and ensuring the continued airworthiness integrity of their aircraft and engines. However, there is a risk that the Company may have difficulty procuring certain or select parts or procuring them when needed. As a consequence, there exists a risk that some aircraft may be temporarily grounded due to the unavailability of required spare parts. If a number of aircraft were unavailable for any reason, such as for maintenance or upgrading, any resulting interruption in operations could adversely affect Rex's financial position and performance.

The average age of Rex's aircraft is 14.5 years.

Maintenance issues will, in future, increasingly impact maintenance turnaround times and aircraft utilisation, and may result in an increase in business costs.

Failure to Meet Regulatory Standards

Rex's operations could be materially adversely affected if:

- it is unable to obtain or maintain any licence or approval which it is required to obtain or maintain in order to conduct its operations;
- it breaches any applicable legislative or regulatory requirement;
- it is required to comply with new or additional legislative or regulatory requirements; or
- the costs of complying with applicable legislation and regulations increase.

For example, a decision by CASA to ground any or all of Rex's fleet, to revoke its AOC or maintenance COA certification in respect of one or more aircraft, or to take any other regulatory

action concerning Rex's aircraft or operations, could have a material adverse effect on the business, financial condition and financial performance of the Company. the business, financial condition and financial performance of the Company.

Aircraft Type

While Rex is an efficient operator of its Saab and Metro aircraft, both types are now in the middle of their economic life and will need to be replaced in the longer term. As Saab 340s are no longer produced, a new aircraft type will have to be acquired in the future. Changing an aircraft type can be a risky endeavour as an unsuitable aircraft could result in high operating and maintenance costs and have a material adverse effect on the business of the Company.

Rex's fleet predominantly comprises Saab 340 aircraft. Rex's dependence on Saab 340 aircraft makes it vulnerable to any problems that might be associated with those aircraft or the manufacturer or supplier of those aircraft generally. For example, in the event that there are any widespread concerns with respect to the airworthiness, structural integrity, or safety of Saab 340 aircraft generally, there could be significant migration of Rex passengers to competitors which do not fly Saabs, or to alternative means of transport other than air on sole operation routes.

Key Staff and Industrial Relations

Rex has many key managers who have decades of experience in their area of expertise. The loss of the services of any key manager without adequate replacement or the inability to attract new qualified

personnel could have a material adverse effect on the business of the Company.

As with all companies, it is also essential for growth that good employee relations are maintained. Rex believes that it currently maintains good industrial relations with its employees. However, Rex cannot provide any assurance that industrial disputes will not arise in the future. There is also a risk that Rex may fail to attract and/or retain staff if, among other things, Rex's unique 'relaxed, regional' culture is not maintained.

The Company's EBAs with its main employee groups (administration and services, engineering, flight attendants and pilots) expired on 23 July 2005 (although the Company and the relevant employees are continuing to operate under the terms of those EBAs). New EBAs for flight attendants and pilots have been voted on and approved by the flight attendants and pilots, however the EBAs have yet to be certified. New EBAs for administration and services and engineering staff are currently being negotiated, but have not yet been agreed.

Loss of Exclusive Licence Rights

Rex has been granted exclusive route licences for 11 of its 16 NSW routes which expire in 2008. If these licences are not renewed





by the NSW Government or not renewed on an exclusive basis, Rex's passenger numbers and earnings on these routes may be affected.

Reliance on Third Parties

Rex has entered into agreements with third parties to provide certain facilities and services required for its operations, including its Engine Care and Maintenance Plan for its Saab engines. The termination or expiry of these contracts and any inability to renew or extend the contracts or find suitable alternate providers at comparable rates could adversely affect Rex's financial position and performance.

Foreign Currency Risks

The Company derives its revenues in Australian dollars, however it purchases aircraft and aircraft components in United States

dollars. The fact that the Company has significant costs in a currency other than the currency in which it derives its revenues can result in gains and/or losses arising from foreign currency fluctuations. In addition, whilst the Company pays for its fuel in Australian dollars, the Australian dollar price of fuel is also affected closely by the value of the United States dollar.

9.2 RISKS ASSOCIATED WITH THE AVIATION INDUSTRY

Fuel Costs

The impact of fuel costs on the aviation industry is well known. If fuel costs continue to increase, any consequent fuel surcharges could have a dampening effect on air travel and result in lower profitability or even losses for the Company.

High Fixed Costs and Low Margins

The aviation industry is generally characterised by low profit margins and high overheads. The most profitable airlines in the world achieve modest net profit as a percentage of revenues, typically below 10.0%. Most other airlines achieve significantly lower margins of 5.0% and below. Such low margins do not provide significant buffers against unexpected or external shocks. The high overheads of the industry exacerbates this as a small fluctuation in passenger numbers and/or revenue can result in large increases or declines in net profit.

Compliance Costs

The Australian airline industry is subject to extensive regulation under applicable State and Federal legislation, such as stringent

CASA certification, licensing and surveillance. In addition, safety, security, environmental, noise, competition, labour and similar regulations give rise to significant requirements and compliance costs. An overview of the applicable regulatory environment is contained in Section 4.

The Commonwealth Government recently enacted the Aviation Transport Security Act 2004, to establish a regulatory framework to safeguard against unlawful interference with aviation. The Act establishes minimum security requirements for civil aviation in Australia by imposing additional security obligations on industry participants. In particular, industry participants are required to develop, and comply with, aviation security programs. The additional regulation imposed by this and other legislation may lead to increased compliance costs for the Company.

For example, in the last financial year Rex was required to spend an additional USD1M to add a new Terrain Avoidance Warning System onto each of its aircraft as a result of regulatory changes. Also in the last financial year the Commonwealth Department of Transport mandated that all aircraft with greater than 30 seat capacity must have the cockpit doors reinforced.

Airport Facilities

All the major hub airports in Australia are privately owned. Regional airports are either privately owned and/or owned and operated by local government organisations. As a result, Rex has little influence over costs and charges imposed by the various airports authorities. Any significant increase in these costs and charges could adversely affect Rex's business and financial performance.

Increase in Competition

On routes that are open to competition, there could be new scheduled passenger flights from existing competitors or from new start-ups. New start-ups pose a particular risk as their promoters may not be fully aware of the economics of the venture and could cause severe price disruptions at the start of such operations and again at the end of their existence. This had been a feature of the domestic and regional industry in Australia prior to the collapse of Ansett.

The routes which are not currently open to competition may become competitive in the future (for example, if Rex's exclusive licences to operate certain routes in New South Wales are revoked, not renewed or not renewed on an exclusive basis). Increased competition may result in reduced

prices and/or passenger numbers for flights operated by Rex and may have a material adverse effect on its financial position and performance.

External Shocks

Airlines are vulnerable to external shocks like the SARS outbreak or to terrorism fears. Regional aviation in Australia has been relatively sheltered from most of the global shocks, such as the September 11, 2001 attack in the United States, the war in Iraq and SARS, that have affected the international aviation industry over the last four years. However, Rex like all regional airlines, is exposed to other shocks like the rapid rise in oil prices, the volatility of the Australian dollar (as a portion of Rex's costs are denominated in US dollars) and even the persistence of the drought.

IT Systems

Reservations System

Sabre Airlines Solutions ("Sabre") is Rex's host reservations system. Sabre is the world's largest provider of airline software products and passenger solutions, with the reservations system being relied on by more than 100 airlines worldwide. The Sabre reservations and departure control system board more than 800 million passengers annually globally. While a computer or related failure at Sabre is not likely to be prolonged, there exists a risk that Rex's Sabre reservations

system could be brought down by hardware malfunction, an overloading of the system or by a deliberate and unauthorised attack. In such an event, Rex's operations could face disruption.

Other IT & Communications Systems

As with most businesses, there is a heavy reliance on the smooth functioning of the computer and communications network within the Company. There is always a risk that failure of any of these systems could affect business operations. This risk is partially mitigated by the computer and communication backup systems that Rex has put in place.

Development of Alternative Modes of Transport

Regional airlines also compete against rail and road transport. As regional centres become better serviced by railways or highways, a portion of the actual or potential customer base of the regional airlines may switch to these alternate modes of transport.

Insurance

In recent years the cost of insurance coverage for airlines has increased substantially. At present, Rex considers that its insurance coverage is appropriate

for a company in its circumstances. However, Rex may be adversely affected by any change in the cost or availability of insurance coverage in the future.

9.3 GENERAL RISKS OF INVESTING

Share Market Risks

Potential investors should recognise that the prices of shares fall as well as rise. Accordingly, the price of Rex's Shares may trade above or below the Offer Price. Many factors affect the price of shares including local and international stock markets, movements in interest rates, economic and political conditions and investor and consumer sentiment.

Monetary and Fiscal Risks

Company and industry profitability can be affected by changes in interest rates, changes in tax policies, the imposition of new taxes, and changes in interpretation and application of government policy.

Macro-economic, Political and other Factors

There are a wide range of other macro-economic and political factors beyond the control of the Company which may affect the Company's operations. These include but are not limited to the

consequences of terrorist and other activities, which are likely to impact adversely on the global economy and share market conditions and share prices generally.

Australia's political environment is stable and considered low risk with respect to the ongoing performance of the Company. However, international instability could have an impact on the availability and price of fuel, aircraft and aircraft parts and the number of international visitors to Australia who would then travel regionally.

Factors such as changes in levels of consumer confidence affect consumption patterns and consequently demand for a wide range of goods and services, including air travel. Labour relations also depend on the existing legislative framework.



10 INVESTIGATING ACCOUNTANTS' REPORTS

Deloitte.

Financial Services Guide

Note: This report consists of both a Financial Services Guide and Independent Review of Directors' Pro forma Financial Forecasts

Deloitte Corporate Finance Pty Limited
A.B.N. 19 003 833 127
AFSL 241457
Grosvener Place
225 George Street
Sydney NSW 2000
Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7019
www.deloitte.com.au

Part 1 - Financial Services Guide

23 September 2005

What is a Financial Services Guide?

This Financial Services Guide ("FSG") is an important document whose purpose is to assist you in deciding whether to use any of the general financial product advice provided by Deloitte Corporate Finance Pty Limited (ABN 19 003 833 127). The use of "we", "us" or "our" is a reference to Deloitte Corporate Finance Pty Limited as the holder of Australian Financial Services Licence ("AFSL") No. 241457. The contents of this FSG include:

- who we are and how we can be contacted
- what services we are authorised to provide under our AFSL
- how we (and any other relevant parties) are remunerated in relation to any general financial product advice we may provide
- details of any potential conflicts of interest
- details of our internal and external dispute resolution systems and how you can access them.

Information about us

We have been engaged by the Directors of Regional Express Holdings Limited to give general financial product advice in the form of a report to be provided to you in connection with the acquisition of shares in Regional Express Holdings Limited. You are not the party or parties who engaged us to prepare this report. We are not acting for any person other than the party or parties who engaged us. We are required to give you an FSG by law because our report is being provided to you. You may contact us using the details located above.

Deloitte Corporate Finance Pty Limited is ultimately owned by the Australian partnership of Deloitte Touche Tohmatsu. The Australian partnership of Deloitte Touche Tohmatsu and its related entities provide services primarily in the areas of audit, tax, consulting, and financial advisory services. Our directors may be partners in the Australian partnership of Deloitte Touche Tohmatsu.

The Australian partnership of Deloitte Touche Tohmatsu is a member firm of the Deloitte Touche Tohmatsu Verein. As the Deloitte Touche Tohmatsu Verein is a Swiss Verein (association), neither it nor any of its member firms has any liability for each other's acts or omissions. Each of the member firms is a separate and independent legal entity operating under the names "Deloitte," "Deloitte & Touche," "Deloitte Touche Tohmatsu," or other related names.

Liability limited by the Accountants' Scheme,
approved under the Professional Standards Act 1994 (NSW).

The financial product advice in our report is provided by Deloitte Corporate Finance Pty Limited and not by the Australian partnership of Deloitte Touche Tohmatsu, its related entities, or the Deloitte Touche Tohmatsu Verein.

We do not have any formal associations or relationships with any entities that are issuers of financial products. However, you should note that we and the Australian partnership of Deloitte Touche Tohmatsu (and its related bodies corporate) may from time to time provide professional services to financial product issuers in the ordinary course of business.

What financial services are we licensed to provide?

The AFSL we hold authorises us to provide the following financial services to both retail and wholesale clients:

- to provide general financial product advice in respect of:
 - debentures, stocks or bonds to be issued or proposed to be issued by a government
 - interests in managed investment schemes including investor directed portfolio services
 - securities.
- to deal in a financial product by arranging for another person to apply for, acquire, vary or dispose of financial products in respect of:
 - debentures, stocks or bonds issued or to be issued by a government
 - interests in managed investment schemes including investor directed portfolio services
 - securities.

Information about the general financial product advice we provide

The financial product advice provided in our report is known as "general advice" because it does not take into account your personal objectives, financial situation or needs. You should consider whether the general advice contained in our report is appropriate for you, having regard to your own personal objectives, financial situation or needs.

If our advice is being provided to you in connection with the acquisition or potential acquisition of a financial product issued another party, we recommend you obtain and read carefully the relevant offer document provided by the issuer of the financial product. The purpose of the offer document is to help you make an informed decision about the acquisition of a financial product. The contents of the offer document will include details such as the risks, benefits and costs of acquiring the particular financial product.



How are we and our employees remunerated?

Our fees are usually determined on an hourly basis; however they may be a fixed amount or derived using another basis. We may also seek reimbursement of any out-of-pocket expenses incurred in providing the services.

Fee arrangements are agreed with the party or parties who actually engage us, and we confirm our remuneration in a written letter of engagement to the party or parties who actually engage us.

Neither Deloitte Corporate Finance Pty Limited nor its directors and officers, nor any related bodies corporate or associates and their directors and officers, receives any commissions or other benefits, except for the fees for services rendered to the party or parties who actually engage us. Our fee is \$135,000 which is disclosed in Section 11 of this Prospectus prepared by the issuer of the financial product.

All of our employees receive a salary. Our employees are eligible for annual salary increases and bonuses based on overall performance but do not receive any commissions or other benefits arising directly from services provided to you. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits in connection with our advice.

We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

Responsibility

The liability of Deloitte Corporate Finance Pty Limited is limited to the contents of this FSG and our report referred to in this FSG.

What should you do if you have a complaint?

If you have any concerns regarding our report, you may wish to advise us. Our internal complaint handling process is designed to respond to your concerns promptly and equitably. Please address your complaint in writing to:

The Complaints Officer
Practice Protection Group
PO Box N250
Grosvenor Place
Sydney NSW 1220

If you are not satisfied with the steps we have taken to resolve your complaint, you may contact the Financial Industry Complaints Service ("FICS"). FICS provides free advice and assistance to consumers to help them resolve complaints relating to members of the financial services industry. Complaints may be submitted to FICS at:

Financial Industry Complaints Service
PO Box 579
Collins Street West
Melbourne VIC 3007
Telephone: 1300 780 808
Fax: +61 3 9621 2291

Internet: <http://www.fics.asn.au>

If your complaint relates to the professional conduct of a person who is a Chartered Accountant, you may wish to lodge a complaint in writing with the Institute of Chartered Accountants in Australia ("ICAA"). The ICAA is the professional body responsible for setting and upholding the professional, ethical and technical standards of Chartered Accountants and can be contacted at:

The Institute of Chartered Accountants
GPO Box 3921
Sydney NSW 2001
Telephone: +61 2 9290 1344
Fax: +61 2 9262 1512

Specific contact details for lodging a complaint with the ICAA can be obtained from their website at <http://www.icaa.org.au/about/index.cfm>.

The Australian Securities and Investments Commission ("ASIC") regulates Australian companies, financial markets, financial services organisations and professionals who deal and advise in investments, superannuation, insurance, deposit taking and credit. Their website contains information on lodging complaints about companies and individual persons and sets out the types of complaints handled by ASIC. You may contact ASIC as follows:

Info line: 1 300 300 630

Email: infoline@asic.gov.au

Internet: <http://www.asic.gov.au/asic/asic.nsf>

Deloitte.

The Directors
Regional Express Holdings Limited
Level 1, 2B Lord Street
Botany NSW 2019

23 September 2005

Dear Sirs

INDEPENDENT REVIEW OF THE DIRECTORS' PRO FORMA FINANCIAL FORECASTS

1 Introduction

This report has been prepared at the request of the directors of Regional Express Holdings Limited ("the Company"), for inclusion in a Prospectus to be issued by the Company in respect of the offer of approximately 35,000,000 Shares in the Company.

Deloitte Corporate Finance Pty Limited is wholly owned by Deloitte Touche Tohmatsu and holds the appropriate Australian Financial Services licence for the issue of this report.

References to the Company and other terminology used in this report have the same meaning as defined in the Glossary of the Prospectus.

2 Financial Information

The directors of the Company are responsible for the preparation and presentation of the Pro forma Forecast Financial Information for the year ending 30 June 2006 as set out in Section 8 of the Prospectus and the information contained therein, including the assumptions on which they are based.

The Pro forma Forecast Financial Information for the year ending 30 June 2006 has been prepared using Australian equivalents to IFRS accounting standards. A forecast for the year ending 30 June 2006 has also been prepared in accordance with AGAAP, being the accounting standards that were applied to Rex for the historical periods that are disclosed and to facilitate comparison of the forecast to the historical financial information.

The Pro forma Forecast Financial Information is presented in an abbreviated form in so far as it does not include all of the disclosures required by Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act 2001.

The Pro forma Forecast Financial Information has been prepared and adopted by the directors of the Company in order to provide prospective investors with a guide to the potential financial performance of the Company for the year ending 30 June 2006. There is a considerable degree of subjective judgement involved in preparing forecasts. The underlying assumptions are also subject to uncertainties and contingencies which are often outside the control of the Company. The Pro forma Forecast Financial Information has been prepared using assumptions summarised in Section 8.4 of the Prospectus, which are based on best-estimate assumptions relating to future events that management expect to occur and actions that management expect to take.

The sensitivity analysis set out in Section 8.5 of the Prospectus demonstrates the impacts on the forecast financial performance of changes in key assumptions. The prospective financial information is therefore only indicative of the financial performance which may be achievable.

The liability of Deloitte Touche Tohmatsu, is limited by, and to the extent of, the Accountants' Scheme under the Professional Standards Act 1994 (NSW).

Deloitte Corporate Finance Pty Limited
A.B.N. 19 003 833 127
AFSL 241457

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

DX 1000755E
Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7019
www.deloitte.com.au

Deloitte.

Page 2

Applicants should be aware of the material risks and uncertainties relating to an investment in the Company, which are detailed in Section 9 of the Prospectus and the inherent uncertainty relating to the prospective financial information.

3 Scope of Report

This report has been prepared having regard to the guidance set out in AGS 1062 "Reporting in Connection with Proposed Fundraisings", PS 170 "Prospective Financial Information" and AUS 804 "The Audit of Prospective Financial Information".

Our review of the Pro forma Forecast Financial Information has been conducted in accordance with AUS 902 "Review of Financial Reports" applicable to review engagements. Our review consisted primarily of enquiry, comparison, and analytical review procedures including discussions with management and directors of the Company of the factors considered in determining their assumptions. Our procedures included examination, on a test basis, of evidence supporting the assumptions, amounts and other disclosures in the Pro forma Forecast Financial Information and the evaluation of accounting policies used.

These procedures are substantially less in scope than an audit examination conducted in accordance with Australian Auditing Standards and provide less assurance than an audit. In addition, prospective financial information, such as the Pro forma Forecast Financial Information, relate to events and actions that have not yet occurred and may not occur. While evidence may be available to support the assumptions on which the Pro forma Forecast Financial Information is based, those assumptions are generally future-orientated and therefore speculative in nature. Accordingly, actual financial performance may vary from the prospective financial information presented in the Prospectus and such variations may be material.

3.1 Pro forma Financial Forecasts

We have reviewed the Pro forma Forecast Financial Information, together with the assumptions on which the Pro forma Forecast Financial Information is based, as set out in Section 8.4 of the Prospectus in order to give a statement thereon to the directors of the Company.

These procedures have been undertaken in order to state whether anything has come to our attention, which causes us to believe that:

- i) the directors' best-estimate assumptions do not provide reasonable grounds for the preparation of the Pro forma Forecast Financial Information
- ii) in all material respects, the Pro forma Forecast Financial Information is not properly compiled on the basis of the directors' best-estimate assumptions, consistent with the accounting policies adopted and used by the Company and in accordance with applicable Australian Accounting Standards under the Australian equivalent of the International Financial Reporting Standards and mandatory professional reporting requirements
- iii) the directors' Pro forma Forecast Financial Information is not based on reasonable grounds.

Deloitte.

Page 3

4 Statements

4.1 Pro forma Financial Forecasts

Based on our review of the Pro forma Forecast Financial Information, set out in Sections 8.1, 8.4 and 8.7 nothing has come to our attention which causes us to believe that:

- i) the directors' best-estimate assumptions, as set out in Section 8.4 the Prospectus, do not provide reasonable grounds for the preparation of the Pro forma Forecast Financial Information
- ii) the Pro forma Forecast Financial Information is not properly compiled on the basis of the directors' best-estimate assumptions, consistent with the accounting policies adopted and used by the Company and in accordance with applicable Australian Accounting Standards under the Australian equivalent of the International Financial Reporting Standards and mandatory professional reporting requirements
- iii) the directors' Pro forma Forecast Financial Information is not based on reasonable grounds.

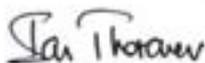
Actual financial performance is likely to be different from the Pro forma Forecast Financial Information since anticipated events frequently do not occur as expected and the variations may be material. In addition the actual financial performance may include any gains or losses arising from movements in the market values of derivatives entered into. Accordingly, we express no opinion as to whether the Pro forma Financial Forecasts will be achieved.

We disclaim any responsibility for any reliance on this statement or on the Pro forma Forecast Financial Information to which it relates for any other purpose than that for which it was prepared.

Deloitte Corporate Finance Pty Limited is liable for the content of the Financial Services Guide and this report.

Yours faithfully

DELOITTE CORPORATE FINANCE PTY LIMITED



Ian Thatcher
Director



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

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

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

The Directors
Regional Express Holdings Limited
Level 1
2B Lord Street
Botany NSW 2019

23 September 2005

Dear Sirs

Re: Investigating Accountants' Report on Pro forma Historical Financial Information

Introduction

We have prepared this Investigating Accountants' Report for inclusion in a Prospectus to be dated on or about 23 September 2005 regarding the initial public offering ("Offer") of approximately 35 million shares in Regional Express Holdings Limited ("the Company"), a company which will be listed on the Australian Stock Exchange. The net proceeds raised pursuant to the Offer will be used for a number of purposes, including retirement of existing financing facilities, acquisitions and working capital.

References to the Company and other terminology used in this report have the same meaning as defined in the Glossary of the Prospectus in which this report appears.

Background

The Company was incorporated in Australia on 12 February 2002 as Australiawide Airlines Limited. The company operates airline services to regional Australia.

Our report relates to certain financial information disclosed in the Prospectus, as follows:

- Section 8.1 of the Prospectus sets out the Pro forma Historical Consolidated Income Statements for the Company for the years ended 30 June 2003, 2004 and 2005. This section of the Prospectus also includes certain forecast financial information ("Excluded Information") that does not form part of our report and, accordingly, we express no opinion or statement on the Excluded Information in this report.
- Section 8.2 of the Prospectus sets out certain pro forma adjustments which have been applied to the Historical Consolidated Income Statements of the Company for the years ended 30 June 2003, 2004 and 2005 to determine the Pro forma Historical Consolidated Income Statements of the Company. These pro forma adjustments have been made to present the historical financial information on a basis consistent with the ongoing business to be conducted by the Company.
- Section 8.6 of the Prospectus sets out the Consolidated Balance Sheet of the Company as at 30 June 2005 together with pro forma transactions reflected to present a Pro forma



Consolidated Balance Sheet of the Company as at 30 June 2005 assuming completion of all the proposed transactions included in this Prospectus as at that date.

- Section 8.7 of the Prospectus sets out the audited Pro forma Cash Flow Statement of the Company for the year ended 30 June 2005. This section of the Prospectus also includes certain forecast financial information ("Excluded Information") that does not form part of our report and, accordingly, we express no opinion or statement on the Excluded Information in this report. Included in the cash flow information in section 8.7 are pro forma adjustments to present the historical financial information on a basis consistent with the ongoing business to be conducted by the Company that affect the cash flows.
- Section 8.8 of the Prospectus sets out the Relevant Accounting Policies used in the preparation of all of the financial information disclosed in the Prospectus including but not limited to the financial information which is the subject of this report.
- Section 8.9 of the Prospectus sets out an analysis of the impact of transitioning to Australian Equivalents to International Financial Reporting Standards ("A-IFRS") on the Company on the statement of financial position at 30 June 2005 and the impact on the financial performance of the Company for the year ended 30 June 2005 and the year ending 30 June 2006. Included in this section is discussion and financial analysis of the areas where there is likely to be material financial impact for the Company.

Scope

You have requested that Deloitte Touche Tohmatsu prepare an Investigating Accountants' Report reviewing the following financial information prepared in accordance with the relevant accounting policies set out in Section 8.8 of the Prospectus:

- (a) The Pro forma Historical Consolidated Income Statements of the Company for the three years ended 30 June 2005 as set out in Section 8.1 of the Prospectus after adjustment for the one-off and non recurring items disclosed in Section 8.2 of the Prospectus, including the disclosures in relation to the Company transitioning to A-IFRS for financial years ending 30 June 2005 and 2006 as set out in Section 8.9 of the Prospectus;
- (b) The Pro forma Consolidated Balance Sheet of the Company as at 30 June 2005 as set out in Section 8.6 of the Prospectus which assumes completion of the proposed Pro Forma transactions as at that date, including the disclosures in relation to the Company transitioning to A-IFRS as at 30 June 2005 as set out in Section 8.9 of the Prospectus; and
- (c) The Pro forma Consolidated Cash Flow Statement of the Company for the year ended 30 June 2005 as set out in section 8.7 of the Prospectus after adjustment for the one-off and non-recurring items.

Together we refer to the above hereafter as the "Pro forma Historical Financial Information".

Ernst & Young is the auditor of the Company. The Pro forma Historical Consolidated Income Statements of the Company for the years ended 30 June 2003, 2004 and 2005 as set out in Section 8.1 of the Prospectus, the Pro forma Historical Consolidated Balance Sheet of the Company as at 30 June 2005 set out in Section 8.6 of the Prospectus and the Pro forma Cash Flow Statement of the Company for the year ended 30 June 2005 set out in Section 8.7 of the Prospectus have been extracted from the audited financial statements of the Company for the years ended 30 June 2003, 2004 and 2005, which were audited by Ernst & Young. The audit



reports on the Company's financial statements for the years ended 30 June 2003, 2004 and 2005 were unqualified.

The Directors of the Company are responsible for the preparation of the Pro forma Historical Financial Information, which has been prepared in accordance with the recognition and measurement principles in Accounting Standards, other mandatory professional reporting requirements in Australia and the accounting policies set out in Section 8.8 of the Prospectus.

The Directors of the Company have also determined the impact of transitioning to A-IFRS. The disclosures set out in Section 8.9 of the Prospectus reflect the elections the Directors have made in considering first time adoption of A-IFRS. The Directors may, at any time until completion of the Company's first A-IFRS compliant financial report, elect to revisit, and where considered necessary, revise the accounting policies to be applied arising from the voluntary exemptions contained in AASB 1. Accordingly, the Company's first A-IFRS compliant financial report may differ from the disclosures set out in Section 8.9 of the Prospectus.

In our role as Investigating Accountants, we have reviewed the Pro forma Historical Financial Information in order to state whether, on the basis of the procedures described, anything has come to our attention which would indicate that the Pro forma Historical Financial Information is not presented fairly in accordance with the recognition and measurement principles in Accounting Standards, other mandatory professional reporting requirements in Australia and the accounting policies set out in Section 8.8 of the Prospectus.

Our review of the Pro forma Historical Financial Information has been conducted in accordance with Australian Auditing Standard AUS 902 "Review of Financial Reports". We made such enquiries and performed such procedures as we, in our professional judgement, considered reasonable in the circumstances including:

- Analytical procedures applied to the consolidated income statements of the Company for the relevant historical period;
- Review of work papers, accounting records and other documents;
- Review of the workpapers and discussions with the auditors of the Company;
- A review of the proforma transactions reflected in the proforma consolidated balance sheet of the Company set out in Section 8.6 of the Prospectus;
- A review of the proforma adjustments reflected in the proforma consolidated income statements of the Company set out in Section 8.2 of the Prospectus;
- A comparison of consistency in the application of the recognition and measurement principles in Accounting Standards, other mandatory professional reporting requirements and the accounting policies adopted by the Company and set out in Section 8.8 of the Prospectus; and
- Interviews with and enquiries of the management and the Directors of the Company and its advisors.

These procedures do not provide all of the evidence that would be required in an audit and thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.



Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that:

- the Pro forma Historical Consolidated Income Statements as set out in Section 8.1 of the Prospectus after adjustment for the one-off and non recurring items disclosed in Section 8.2 of the Prospectus, including the disclosures in relation to the Company transitioning to A-IFRS for financial years ended 30 June 2005 and 2006 as set out in Section 8.9 of the Prospectus does not present fairly the pro forma historical financial performance of the Company for the three years ended 30 June 2003, 2004 and 2005;
- the Pro forma Consolidated Balance Sheet as set out in Section 8.6, including the disclosures in relation to the Company transitioning to A-IFRS as at 30 June 2005 as set out in Section 8.9 of the Prospectus does not present fairly the pro forma financial position of the Company as at 30 June 2005 assuming completion of the proposed pro forma transactions as at that date; and
- The Pro forma Cash Flow Statement of the Company for the year ended 30 June 2005 as set out in section 8.7 of the Prospectus adjustment for the one-off non recurring items does not present fairly the pro forma cash flows of the Company

in accordance with the recognition and measurement principles prescribed in Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by the Company described in Section 8.8 of the Prospectus.

Subsequent Events

Apart from the matters dealt with in this Report, and having regard to the scope of our Report, to the best of our knowledge and belief no material transactions or events outside of the ordinary course of business of the Company have come to our attention that would require comment on, or adjustment to, the information in our Report or that would cause such information to be misleading or deceptive.

Yours faithfully

Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu

Craig Barling
Partner
Hobart



11 ADDITIONAL INFORMATION

11.1 INCORPORATION

Regional Express Holdings Limited was incorporated in New South Wales on 12 February 2002 as Australiawide Airlines Limited. The Company's name was changed to Regional Express Holdings Limited on 29 August 2005.

11.2 SHARE CAPITAL

The Company has one class of Shares on issue, being fully paid ordinary Shares. As at the Prospectus Date, the Company has 80,000,000 Shares on issue. Upon completion of the Offer, the Company will have 115,000,000 Shares on issue. Details of the rights attaching to Shares are set out in Section 11.4.

The Company has also adopted a Share Plan, Exempt Share Plan and Share Option Plan, details of which are set out in Section 11.6.

11.3 COMPANY BALANCE DATE

The annual balance date of the Company will be 30 June.

11.4 CONSTITUTION AND RIGHTS ATTACHING TO SHARES

The Shares issued under the Offer will be fully paid Shares and will rank equally in all respects with the Company's fully paid Shares that are currently on issue. The rights attaching to the Shares are set out in the Constitution and, in certain circumstances, are regulated by the Corporations Act, the Listing Rules, the ASTC Settlement Rules and general law.

A summary of the Constitution is set out below. It is not intended to be an exhaustive summary or constitute a definitive statement of the rights and obligations of the Company's shareholders. Investors are accordingly encouraged to inspect the Constitution and may do so free of charge at the Company's registered office during normal business hours.

General Meetings and Notices

Each shareholder is entitled to receive notice of, and to attend and vote at, general meetings of the Company and to receive all notices, accounts and other documents required to be sent to shareholders under the Constitution, the Corporations Act or the Listing Rules.

Voting

Subject to the Corporations Act, the ASX Listing Rules and any rights or restrictions for the time being attached to any class of shares, at general meetings of shareholders or classes of shareholders:

- every shareholder entitled to vote may vote in person or by proxy, attorney or representative;
- on a show of hands, every person present who is a shareholder or a proxy, attorney or representative of a shareholder has one vote (unless a shareholder has appointed two proxies in which case neither proxy may vote); and
- on a poll, every person present who is a shareholder or a proxy, attorney or representative has one vote for every fully paid share and a fraction of a vote for every partly paid share equivalent to the proportion which the amount paid (not credited) is of the total amounts paid and payable (excluding amounts credited) for that share, ignoring any amounts paid in advance of a call.

Voting at any shareholder meeting is by a show of hands unless a poll is demanded by the chairperson of the meeting, five shareholders who are present, or shareholders holding at least 5.0% of the votes that may be cast on the resolution on a poll.

Dividends

The Directors may from time to time declare and pay dividends out of the profit of the Company and may fix the amount and timing for payment and the method of payment of any such dividend. Subject to the Constitution, the Corporations Act, the ASX Listing Rules and any preferential, special or qualified rights attached to any class of shares, dividends are payable to all shareholders in proportion to the amounts paid up (not credited) on the shares held by them. Any amount paid on a share in advance of a call will be ignored when calculating the relevant proportion. Except as otherwise provided by law, all dividends unclaimed for one year after having been declared may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed.

In addition, the Directors may implement and in their discretion maintain, on such terms and conditions from time to time as they think fit, a dividend reinvestment plan.

Issue of Further Shares

Subject to the Corporations Act and the ASX Listing Rules, the Directors may allot, issue or otherwise dispose of shares to any persons, on any terms and conditions, at that issue price and at those times as the Directors think fit. Directors have power to give any person an option over any shares during any time and for any consideration as they think fit and may issue shares with any preferential, deferred or special rights, privileges or conditions or with any restrictions (whether in regard to dividend, voting, return of share capital or otherwise) as they determine.

Winding Up

Subject to the Constitution, the Corporations Act, the ASX Listing Rules and the rights attaching to shares issued on special terms and conditions, on a winding up of the Company any assets available for distribution to shareholders will be distributed to them to return capital paid up on their shares and to distribute any surplus in proportion to the amount paid up (not credited) on shares held by them.

The liquidator may, with the sanction of a special resolution of the Company, divide amongst the shareholders in specie or in kind any part of the Company's assets. The division may be carried out as the liquidator sees fit.

Transfer of Shares

Shareholders may transfer shares by a written transfer document in the usual or common form, any form approved by the Directors, or by a proper transfer effected in accordance with the ASTC Settlement Rules and ASX requirements. All transfers must comply with the Constitution, the Corporations Act, the ASX Listing Rules and the ASTC Settlement Rules. The Directors may, in limited circumstances as described in the Constitution, apply a holding lock to prevent a transfer of shares or refuse to register a paper-based transfer of shares, including in circumstances where the transfer is not in registrable form or the refusal to register the transfer is permitted by the Listing Rules of ASX. The Directors must refuse to register a transfer of shares where required to do so by the Listing Rules.

Proportional Takeover Provisions

The Constitution prohibits the registration of a transfer giving effect to an offer made under a proportional takeover bid (i.e. an offer for a specified proportion of securities in the bid class) unless an ordinary resolution which approves the bid has been passed. The provision regulating proportional takeover bids must be renewed in a general meeting every three years to remain effective.

Share Buy Back

The Company may, in accordance with the Corporations Act and the Listing Rules, buy back its own shares on any terms and conditions determined by the Directors from time to time. The consideration paid for a buy back of shares may include specific assets, including securities of the Company or of any other corporation, trust or entity.

Unmarketable Parcel

If a shareholder holds a number of shares which is less than a marketable parcel (as defined in the Listing Rules – currently having an aggregate value of less than \$500) the Company may sell the shares held by each unmarketable parcel holder on any terms and in that manner and at those times which the Directors determine, provided that the procedures set out in the Constitution are followed.

Variation or Cancellation of Rights

Subject to the Corporations Act and the Listing Rules, all or any of the rights attached to any class of shares (unless otherwise provided by the terms of issue of the shares of that class) may be varied or cancelled with the consent in writing of the holders of at least 75.0% of the issued shares in the particular class or the sanction of a special resolution passed at a meeting of holders of shares in that class.

Alteration of Constitution

The Constitution can only be amended by a special resolution passed by at least 75.0% of votes cast by shareholders present and voting at a general meeting of the Company.

The Constitution also contains a number of provisions relevant to the appointment, remuneration and rights of Directors, including:

Number of Directors and Appointment

The number of Directors must not be less than three and the maximum is to be determined by the Directors from time to time, but until otherwise determined, may not be more than 10.

Subject to the Corporations Act, the Listing Rules and the Constitution, Directors must retire from office or seek re-election by no later than the third annual general meeting following their appointment or election or three years, whichever is longer.

The Directors may also appoint a Director to fill a casual vacancy on the Board or in addition to the existing Directors, who will then hold office until the next annual general meeting of the Company, at which time they will also be eligible for re-election.

Remuneration of Directors

Subject to the Listing Rules, the Company in a general meeting of shareholders has the ability to determine the maximum cash fees to be paid to Directors for services rendered as Directors (excluding any remuneration payable to any Director under an executive service contract with the Company or a related body corporate). Until a different amount is determined, the sum fixed in the Constitution as the maximum aggregate cash remuneration to be paid to the Directors for services rendered as Directors is \$750,000, which may be distributed among the Directors as they determine. The Constitution also makes provision for the Company to pay all reasonable expenses of Directors in attending meetings and carrying out their duties.

Indemnification and Insurance of Directors

The Company, to the extent permitted by law:

- indemnifies each person who is or has been a Director or Secretary of the Company, such other officers or former officers of the Company as the Directors in each case determine, and each person who is or has been a Director or Secretary of the Company who is or was serving as an officer of another company at the request of the Company (each an Officer), against any liability (other than legal costs) incurred in the discharge of their duties as an officer of the Company or another company except where the liability is a liability owed to the Company or a related body corporate or the liability arises out of conduct involving a lack of good faith on the part of the Officer or conduct attracting the civil penalty provisions of the Corporations Act;

- indemnifies Officers for costs (including legal costs) and expenses incurred in defending an action for a liability incurred in acting as an officer of the Company or another company, subject to certain exceptions set out in the Constitution; and
- may pay insurance premiums on behalf of each person who is or has been a Director, Secretary or other officer of the Company or of a subsidiary of the Company, other than in relation to a liability arising out of conduct involving wilful breach of duty in relation to the Company or a contravention of civil obligations under the Corporations Act prohibiting improper use of position or information gained in that position.

11.5 MATERIAL CONTRACTS

The Directors believe that the contracts summarised below may be material to the continuing operations of the Company or may otherwise be potentially relevant to investors when making a decision whether to purchase Shares under the Offer.

The following is a brief summary of the more important provisions of each of these material contracts.

Aircraft Acquisition Agreement

Regional Express Pty Limited entered into an Aircraft Purchase Agreement with Salenia Transport AB (Salenia) on 8 September 2005 under which Rex will acquire a SAAB 340B for USD1,535,000, net of taxes, duties and withholdings. Rex must pay an initial USD100,000 deposit to secure the aircraft. The balance of the purchase price is payable on delivery. Delivery is scheduled to occur on 18 November 2005 (or such other date as agreed by the parties), but is subject to the rectification of certain items by Salenia and Rex's approval of the condition of the aircraft.

Acquisition of Parts

On 22 June 2005, Rex entered into an agreement with the liquidators (Liquidators) of HZL Limited (in liquidation) (HZL) as trustee for the creditors of HZL, Hazelton Services and Hazelton Charter (HZL Agreement). The HZL Agreement provides, amongst other things, that Rex will acquire specified spares and rotables owned by HZL but held by Rex for \$585,000. Title will pass on payment of the purchase price which is due to be made on 31 October 2005.

Acquisition of Engines

Under the HZL Agreement, Rex and the Liquidators agreed to negotiate in good faith to determine a price payable for the purchase of two CT 7-9B engines owned by HZL. On 23 August 2005, Rex accepted an offer from the Liquidators to purchase the two engines for the sum of USD575,000, payable on or before 31 October 2005. Title to the engines passes to Rex on payment of the purchase price.

Sale of Aircraft

Rex intends to sell one of the Metroliner aircraft in its fleet for USD925,000 (plus GST) to Sunshine Express Airlines Limited pursuant to a memorandum of understanding dated 22 September 2005. The parties will endeavour to settle and execute an aircraft sale agreement by 31 October 2005.

Aircraft Leases

Fairbrook Aircraft Leases

Rex subleases nine SAAB 340B aircraft from Fairbrook Leasing, Inc. (Fairbrook). The Fairbrook subleases expire at dates which range from 15 June 2007 to 15 October 2008. All of the subleases are otherwise on substantially the same terms. In addition to rent, Rex must pay prescribed amounts per month for nine months commencing 1 November 2005 and ending 1 July 2006 as security reserves. A portion of the aggregate security reserve will be repaid to Rex on return of the aircraft to Fairbrook. Rex must ensure:

- the aircraft is properly insured throughout the term of the sublease; and
- that the aircraft meets prescribed return conditions at the end of the sublease.

The leases also contain standard events of default that, on occurrence, give rise to rights of termination, including non-payment of rent, insolvency and failure to maintain relevant government licences and insurance.

A series of ownership and financing documents sit above the Fairbrook subleases. While it is not party to these arrangements, Rex has indemnified a number of financing parties and intermediaries (Upstream Entities) in respect of loss or damage (and certain taxes) suffered or incurred by the Upstream Entities in connection with the aircraft during the term of the sub-lease.

Rex has also acknowledged to the Upstream Entities that, at any time while an event of default continues under a head lease to which Fairbrook is party, an Upstream Entity may terminate the relevant sublease, amend the CASA register with regard to Rex's interest in the aircraft and take possession of the aircraft, even though Rex is not in default under that sublease.

SAH Aircraft Leases

Rex leases four SAAB 340B aircraft from Swedish Aircraft Holdings AB (SAH). The SAH leases expire on dates ranging from 1 August 2007 to 20 December 2007. All of the leases are otherwise on substantially the same terms. In addition to rent, Rex must pay prescribed amounts per month for four months commencing 1 July 2005 and ending 1 October 2005 as security reserves. A portion of the aggregate security reserve will be repaid to Rex on return of the aircraft to SAH. Rex must ensure:

- the aircraft is properly insured throughout the term of the lease; and
- that the aircraft meets prescribed return conditions at the end of the lease.

The leases also contain standard events of default that, on occurrence, give rise to rights of termination, including non-payment of rent, insolvency and failure to maintain relevant government licences and insurance.

Rex has indemnified SAH and a number of financing parties and intermediaries in respect of loss or damage (and certain taxes) suffered or incurred by these entities in connection with the aircraft during the term of the lease. Rex also indemnifies SAH in respect of any breach of its maintenance obligations under the leases.

CIT Aircraft Lease

Rex leases one SAAB 340B from CIT Group (Australia) Limited (CIT) under a lease which expires on 1 August 2007. Rex must ensure:

- the aircraft is properly insured throughout the term of the lease; and
- that the aircraft meets prescribed return conditions at the end of the sublease.

The lease also contains standard events of default that, on occurrence, give rise to rights of termination, including non-payment of rent, insolvency and failure to maintain insurance.

Rex has indemnified CIT and any financing parties and intermediaries in respect of loss or damage (and certain taxes) suffered or incurred by these entities in connection with the aircraft during the term of the lease.

Rex intends to buy the aircraft that is subject to the lease with CIT for USD1,550,000 pursuant to a memorandum of understanding dated 22 September 2005. The parties will endeavour to settle and execute an aircraft sale agreement by 31 October 2005. It is anticipated that title to the aircraft will pass, and the lease will terminate, on 30 November 2005.

Maintenance Contracts

Engine Care Maintenance Plan (ECMP) with GE

Rex has entered into a 'power-by-the-hour' agreement with GE Aircraft Engines — a division of the General Electric Company (GE) — under which Rex pays a prescribed rate per engine hour of use to GE in consideration for GE performing certain maintenance and repair on enrolled model CT7-5A2 engines used on the SAAB 340A and CT7-9B engines used on the Saab 340B aircraft operated by Rex.

The base hourly rate payable to GE is determined with reference to a sliding scale that varies according to actual flight time flown by enrolled engines on routes operated by Rex. The ECMP expires on 31 July 2007 and the rates payable to GE are subject to review on 1 August each year.

In order to qualify for the cover provided by the ECMP, Rex must perform certain maintenance on the enrolled engines and must operate those engines in specific ways, including in accordance with the procedures and rules stated in the relevant engine and aircraft manuals.

Either party may terminate the ECMP if the other commits a material breach of the agreement or is subject to an event of insolvency. GE may terminate the ECMP if Rex is in default under any lease of the aircraft or engines that are subject to the ECMP.

Sabre Agreements

Rex has entered into an Information Technology Services Agreement with Sabre, Inc. (Sabre), effective 1 August 2002 (Sabre Agreement), pursuant to which Sabre agrees to licence software and provide services relevant to Rex's airline booking platform, including database maintenance. Each item of software or service is provided pursuant to work orders that are agreed by the parties from time to time. The Sabre Agreement has a term of five years, but is subject to automatic renewal for consecutive one year periods until either party notifies the other, at least six months prior to termination, of its intention to terminate the arrangement.

Rex has also entered into a Participation Agreement with Sabre, effective 30 October 2003, whereby Sabre provides passenger itinerary, travel information and destination content to Rex. The Participation Agreement has a 3-year term and is renewed automatically for consecutive one year periods, unless terminated by either party on 90 days prior written notice. Rex is not required to pay any fees during the initial term but thereafter, Sabre may charge a monthly or annual fee by giving Rex 90 days prior written notice.

Finance Facilities

Capital Finance Australia Limited (Capital Finance) has provided Rex with a loan of USD3.6M to finance the purchase of specific aircraft. The term of the loan is 60 months from the date of the loan agreement.

Interest on the loan is payable monthly in arrears at the variable rate of Capital Finance's cost of funds, being the cost to Capital Finance, determined in its reasonable discretion, of funds required to make loans of similar amount and term.

As set out in Section 3.3, proceeds raised from the Offer will be used to repay the Capital Finance loan in full. Provided the interest payable under the facility is determined by a variable rate, there is no penalty for early termination of the facility.

Underwriting Agreement

The Company has entered into an Underwriting Agreement with Tricom Equities Limited (the Underwriter) under which the Underwriter agrees to manage the Offer and underwrite the offer of 35,000,000 Shares (Underwritten Shares).

If valid applications are not received for all Underwritten Shares by the close of the Offer and the Underwriting Agreement has not been terminated, the Underwriter must lodge or cause to be lodged valid applications for the shortfall number of Shares within two business days following receipt of a notice from the Company specifying the amount of the shortfall.

Fees

The Underwriter is entitled to receive an underwriting fee of 2.0%, a management fee of 2.0% and a corporate advisory fee of 1.0% of the total amount raised by the Offer. The Company also has agreed to reimburse the Underwriter for certain costs and expenses incurred by the Underwriter in relation to the Offer.

Termination

The Underwriter may terminate its obligations under the Underwriting Agreement after the happening of any one of the following events:

- **(Zero Shortfall)** the Company gives a notice to the Underwriter stating the shortfall on valid subscriptions to Shares under the Offer is zero; or
- **(ASX Indices Fall)** either the All Ordinaries Index or the S&P/ASX 200 Index of ASX falls by an amount that is 10.0% or more of the level at the close of trading on the date of this agreement and remains at or below that level for not less than three consecutive business days; or
- **(Quotation)** for reasons unrelated to the acts or omissions of the Underwriter (including any breach of the Underwriter's obligations under this agreement), ASX makes any official statement to any person, or indicates to the Company or the Underwriter on or before the Prospectus Closing Date that:
 - ASX approval is refused or ASX approval is not granted, other than subject to customary conditions to quotation on or before the Closing Date;
 - if ASX approval is granted, the ASX approval is subsequently withdrawn, qualified or withheld; or
- **(Certificate)** the Company does not provide a certificate in the time required under the Underwriting Agreement or any notice or certificate given under the Underwriting Agreement is false, misleading, deceptive or inaccurate; or
- **(Capital Structure)** the Company or a related body corporate alters its capital structure without the prior written consent of the Underwriter other than as contemplated by the Prospectus or as disclosed to the Underwriter prior to the date of the agreement; or
- **(Buy Back)** the Company or a related body corporate of the Company undertakes or takes any step to undertake a proposal contemplated under section 257A of the Corporations Act without the prior written consent of the Underwriter; or
- **(Release of Uncalled Capital):** the Company or a related body corporate of the Company passes or takes any step to pass a resolution under section 254N of the Corporations Act without the prior written consent of the Underwriter; or

- **(Constitution Altered)** the constitution or any other constituent document of the Company or a related body corporate is amended without the prior written consent of the Underwriter, which consent must not be unreasonably withheld; or
- **(Financial Assistance)** the Company or a related body corporate seeks the approval of Shareholders under section 260B of the Corporations Act, without the prior written consent of the Underwriter; or
- **(Withdrawal)** the Company withdraws the Prospectus or the Offer or fails to proceed with the Offer; or
- **(Corporations Act)** either:
 - ASIC gives notice of intention to hold a hearing in relation to the Prospectus under section 739(2) of the Corporations Act or makes an order under section 739(1) of the Corporations Act which is not withdrawn or satisfied by the Closing Date;
 - ASIC makes an interim order under section 739(3) of the Corporations Act and any such order is not revoked by the Closing Date; or
 - an application is made by ASIC for an order under Part 9.5 in relation to the Prospectus or ASIC commences any investigation or hearing under Part 3 of the Australian Securities and Investment Commission Act 1989 (Cth) in relation to the Prospectus which is not withdrawn or satisfied by the Closing Date; or
 - any person (other than the Underwriter) gives a notice under section 733(3) of the Corporations Act or any person (other than the Underwriter) who has previously consented to the inclusion of its name in the Prospectus (or any supplementary prospectus) or to be named in the Prospectus withdraws that consent; or
 - any person (other than the Underwriter) gives a notice under section 730 of the Corporations Act in relation to the Prospectus; or
- **(Withdrawal Rights)** on or after the Prospectus Lodgment Date the Company becomes, or ASIC advises the Company that it is, required to deal with applications for Underwritten Shares in accordance with subsection 724(2) of the Corporations Act; or
- **(Supplementary Prospectus)** the Underwriter reasonably forms the view

that a supplementary or replacement document must be lodged with ASIC under section 719 of the Corporations Act and the Company does not lodge a supplementary or replacement document in the form, with the content and within the time reasonably required by the Underwriter; or

- **(Insolvency Event)** an event of insolvency, such as winding up order being made, occurs with respect to the Company or a related body corporate; or
- **(Charge)** the Company or a related body corporate charges or agrees to charge, the whole, or a substantial part of its business or property other than as contemplated by the Prospectus or as disclosed to the Underwriter prior to the date of the agreement.

In the case of those events set out below, the Underwriter may only terminate the Underwriting Agreement if it is reasonably determined that the event has or will have a material adverse effect on the Offer or is likely to create a material liability for the Underwriter under the Corporations Act :

- **(Disclosure)**
 - there is a material omission from the Prospectus or the Application Form; or
 - there is a material statement in:
 - the due diligence report provided in respect of the Prospectus or the Offer; or
 - any of the Prospectus or the Application Form; or
 - any other information supplied by or on behalf of the Company to the Underwriter in relation to the Company, or the Offer;
 - that is or becomes materially false or misleading and, in the case where such document or information becomes false or misleading, the Company does not rectify the false or misleading nature of that document or documents; or
 - the issue of the Prospectus and the Application Form constitutes conduct that is misleading or deceptive or likely to mislead or deceive; or
 - a Court concludes that the Prospectus and the Application Form do not contain all information that investors and their professional

advisers would reasonably require for the purpose of making an informed assessment of:

- the assets and liabilities, financial position and performance, profit and losses and prospects of the Company; and
 - the rights and liabilities attaching to Shares; or
- **(Material Adverse Change)** any material adverse change or prospective materially adverse change occurs in the assets, liabilities, financial position or performance, profit, losses or prospects of the Company or its related bodies corporate including any material adverse change in the assets, liabilities, financial position or performance, profit, losses or prospects of the Company from those respectively disclosed in the Prospectus or the Application Form or the other information made available to the public; or
 - **(Judgment)** a judgment in an amount exceeding \$100,000 is obtained against the Company and is not set aside or satisfied within seven days; or
 - **(Process)** any distress, attachment, execution or other process of a Governmental Agency in an amount exceeding \$100,000 is issued against, levied or enforced on any of the assets of the Company and is not set aside or satisfied within seven days; or
 - **(Disruption in Financial Markets)** either of the following occurs:
 - a general moratorium on commercial banking activities in Australia is declared by the Reserve Bank of Australia, or there is a material disruption in commercial banking or security settlement or clearance services in Australia; or
 - trading in all securities quoted or listed on ASX is suspended or limited in a material respect for more than one day on which that exchange is open for trading,
 in either case the effect of which is such as to make it, in the reasonable judgment of the Underwriter, impracticable to market the Offer or to enforce contracts to sell the Underwritten Shares; or
 - **(Breach of Significant Contracts)** a significant or material contract referred to in the Prospectus is, without the prior written consent of the Underwriter (which must not be unreasonably withheld):
 - breached by the Company or a related body corporate in a material respect; or
 - terminated (whether by breach or otherwise); or
 - altered or amended in any way in a material respect; or
 - found to be void or voidable; or

- **(Industrial Dispute)** there is an industrial dispute involving the Company and any of its employees resulting in the cancellation or postponement of any of the Company's services for more than two days; or
- **(Default)** the Company is in default of any of the terms and conditions of this agreement or breaches any warranty or covenant given or made by it under this agreement and that default or breach is either incapable of remedy or is not remedied within five business days after it occurs; or
- **(Timetable)** any one or more events specified in the Offer timetable is delayed by more than five business days in aggregate without the consent of the Underwriter; or
- **(Fails to Comply)** the Company or any related body corporate fails to comply with any of the following in a material respect:
 - a clause of its constitution;
 - a statute; or
 - the ASX Listing Rules; or
 - any policy or guideline of ASIC or any other requirement, order or request made by or on behalf of ASIC or any governmental agency; or
 - any agreement entered into by it; or
- **(Business)** the Company or a related body corporate:
 - disposes, or agrees to dispose, of the whole, or a substantial part, of its business or property, other than as contemplated by the Prospectus or as disclosed to the Underwriter prior to the date of the agreement; or
 - ceases or threatens to cease to carry on business,in either case without the prior written consent of the Underwriter (which must not be unreasonably withheld); or
- **(Hostilities)** there is a significant outbreak of hostilities (whether or not war has been declared) not presently existing, or a major escalation in existing hostilities occurs, involving any one or more of the following: the Commonwealth of Australia; the United Kingdom; the United States of America; any member of the European Union; the Peoples Republic of China; Russia; Japan; Israel; Turkey; or any member country of the Organisation of Petrol Exporting Countries; or
- **(Offer Document to Comply)** the Prospectus or the Application Form (read together) or any aspect of the Offer does not comply with the Corporations Act, the ASX Listing Rules or any other applicable law or regulation; or

- **(Prospectus)** without limiting any other paragraph of this schedule:
 - there is a material omission from the Prospectus which matter is not adequately addressed in any other Offer document; or
 - the Prospectus contains a false or misleading statement; or
 - a statement in the Prospectus becomes false or misleading; or
 - a forecast in the Prospectus becomes incapable of being met or unlikely to be met in the projected time; or
 - the Prospectus does not comply with section 710(1) of the Corporations Acts; or
 - a matter referred to in section 719 of the Corporations Act occurs in respect of the Prospectus; or
- **(Forward Looking Statements)** any statement by the Company in the Prospectus which relates to future matters is or becomes, in the reasonable opinion of the Underwriter, incapable of being met; or
- **(Public Statement)** information is made available by or on behalf of the Company to the public without the prior approval of the Underwriter; or
- **(Change in Law)** there is introduced or there is a public announcement of a proposal to introduce, into the Parliament of Australia or any State of Australia a new law, or the Reserve Bank of Australia, or any Federal or State authority of Australia, adopts or announces a proposal to adopt a new policy (other than a law or policy which has been announced before the date of this agreement), any of which does or is likely to prohibit or regulate the Offer, capital issues or stock markets or materially adversely affect the taxation treatment of the Underwritten Shares; or
- **(Change in Directorship)** a change in the board of Directors (including any executive Directors) of the Company occurs without the prior written consent of the Underwriter; or
- **(Indictable Offence)** a Director (or, if he is not a Director, the Chief Executive Officer, the Chief Financial Officer or the Chief Operating Officer) of the Company or a related body corporate is charged with an indictable offence relating to a financial or corporate matter.

The Company may terminate its obligations under the Underwriting Agreement if there has been a delay in the timetable of more than five business days solely as a result of the actions of the Underwriter and the delay has or would have had a material adverse effect on the Offer.

Representations and Warranties

The Company has provided certain representations and warranties to the Underwriter in relation to this Prospectus, the Company and the Offer.

Indemnity

The Company has also agreed to indemnify the Underwriter against any claim, judgment, damage, loss, expense or liability incurred in relation to this Prospectus contravening the Corporations Act or any other applicable law, other than arising out of fraud, negligence, wilful misconduct or default by any indemnified party.

11.6 SHARE OPTION PLAN, SHARE PLAN, EXEMPT SHARE PLAN AND PROFIT SHARE INCENTIVE SCHEME

Share Option Plan

The Company has established a Share Option Plan to provide eligible employees (including Directors), consultants and contractors with an incentive to remain with the Company and to improve the long term performance of the Company and its return to Shareholders.

General Terms of the Share Option Plan

Eligibility

The Company may at any time make an offer of Options to any employee, director, consultant or contractors of or to the Company or any of its subsidiaries (Employee). However Options will not be offered where to do so would contravene the Corporations Act, the Constitution, the ASX Listing Rules or any other applicable law. The Board may in its absolute discretion determine criteria to apply to any Employee for participation in the Share Option Plan, such as a minimum period of service.

Exercise Period

Subject to the satisfaction of any applicable vesting and exercise conditions, the Options will be exercisable during the Option exercise period specified by the Board at the time of making an offer of Options.

Exercise Price

The exercise price per Share for an Option will be determined by the Board and stated in the offer of Options.

Vesting and Exercise of Options

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

New Issues of Securities

The holder of an Option will not be entitled to participate in new issues of Shares or other securities made by the Company to holders of its Shares unless the Options are exercised before the record date for determining entitlements to the issue.

Bonus Issues

If the Company makes a bonus issue of Shares to its Shareholders prior to the Options being exercised, and an Option is not exercised prior to the record date for the issue, the Option will, when exercised, entitle the holder to one Share plus the number of bonus Shares which would have been issued to the holder if the Option had been exercised prior to the relevant record date.

Reorganisation

The Share Option Plan contains provisions to adjust the number of Options and exercise price of the Options to take into account the effect of any reorganisation of the Company's share capital in accordance with the ASX Listing Rules.

Acceleration of Exercise

If a takeover bid is made to acquire all or any part of the Shares of the Company, and the bid is accepted by holders of at least 50.0% of the Shares on issue, Option holders may exercise all or any part of their Options, notwithstanding the applicable exercise period has not commenced or that any of the vesting and/or exercise conditions have not been satisfied.

Restrictions on Disposal

Options are not transferable or assignable, except with the prior written consent of the Board. The terms of offer of Options may also impose restrictions on the disposal of shares for a specified period following exercise of any Options.

Lapse of Options

If the holder of an Option ceases to be an Employee, then in respect of those Options that are otherwise exercisable, the Option holder will have a period of three months (or longer period as determined by the Board) in which to exercise those Options. Any unexercised Options will then lapse.

Suspension, Termination and Amendment of Share Option Plan

The Share Option Plan may be suspended, terminated or amended at any time by the Board.

Restriction on Total Number of Options

The total number of Options issued under the Share Option Plan, together with any shares issued upon exercise of such Options or under any other employee Share plan of the Company in the previous five years, must not exceed 5.0% of the issued Shares of the Company.

Proposed Issue of Options

The Board has delegated responsibility for the operation of the Share Option Plan to its Remuneration Committee.

Currently there are 28 Management Committee members, key managers and Directors eligible to participate in the Share Option Plan. The proposed key terms for their participation in the Share Option Plan are as follows:

Management Committee Members***Eligibility***

Existing Management Committee members will be entitled to be granted Options to take up Shares, with such Options having an aggregate exercise price up to the equivalent of 12 to 18 months of their base salary on the award dates, subject to them continuing to be members of the Management Committee on those award dates.

Award Dates

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

Exercise Price

The exercise price will be fixed at the Offer Price for awards made in FY 06/07, FY 07/08 and FY 08/09.

Exercise Period

Subject to the satisfaction of any applicable vesting conditions and/or exercise conditions, the exercise period will be the period of one year from the award date.

Award of Options

The number of Options awarded will be determined by the Remuneration Committee, having regard to the following:

- an award will be subject to satisfactory review of the Management Committee Member's performance, and the number of Options awarded may be reduced to an amount having an aggregate face value equivalent to less than 12 months of base salary on an adverse review;
- an award may be halved if the Company does not meet its budgeted profit target; and
- an award may be withdrawn totally at the complete discretion of the Remuneration Committee if the Company's performance has not been satisfactory.

Vesting and Exercise Conditions

Options will be subject to various conditions that must be satisfied before they vest and can be exercised. Conditions relate to the period of time they have been held, performance hurdles and other conditions (if any) determined by the Remuneration Committee.

Restriction on Options

The maximum number of Options that may be issued under the Share Option Plan for Management Committee members in a financial year must not exceed that number of Options having an aggregate exercise price equivalent to \$1.3M.

Key Managers***Eligibility***

Existing key managers will be entitled to be granted Options to take up Shares, with such Options having an aggregate exercise price up to the

equivalent of three to six months of their base salary on the award dates subject to those key managers continuing to be employed by the Company on those award dates. The Remuneration Committee will decide on the list of key managers and amount to be awarded prior to the award dates upon written recommendation from the Management Committee.

Award Dates

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

Exercise Price

The exercise price will be fixed at the Offer Price for awards made in FY 06/07, FY 07/08 and FY 08/09.

Exercise Period

Subject to the satisfaction of any applicable vesting conditions and/or exercise conditions, the exercise period will be the period of one year from the award date.

Award of Options

The number of Options awarded will be determined by the Remuneration Committee, having regard to the following:

- an award will be subject to satisfactory review of the key manager's performance, and the number of Options awarded may be reduced to an amount having an aggregate face value equivalent to less than three months of base salary on an adverse review;
- an award may be halved if the Company does not meet its budgeted profit target; and
- an award may be withdrawn totally at the complete discretion of the Remuneration Committee if the Company's performance has not been satisfactory.

Vesting and Exercise Conditions

Options are subject to various conditions that must be satisfied before they vest and can be exercised. Conditions relate to the period of time they have been held, performance hurdles and other conditions (if any) determined by the Remuneration Committee.

Restriction on Options

The maximum number of options that may be issued under the Share Option Plan for key managers in a financial year must not exceed such number of Options having an aggregate exercise price equivalent to \$500,000.

Directors***Exercise Date***

Each Board member who is not a member of the Management Committee and has served a minimum of 12 months on the Board prior to the award dates will be entitled to be granted Options to take up Shares, with such Options having an aggregate exercise price of up to the equivalent of \$100,000 per Director, except for the Chairman and the Co-Chairman who will each be entitled to be granted Options with an aggregate exercise price of up to \$150,000.

Award Dates

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

Exercise Price

The exercise price will be fixed at the Offer Price for awards made in FY 06/07, FY 07/08 and FY 08/09.

Exercise Period

Subject to the satisfaction of any applicable vesting conditions and/or exercise conditions, the exercise period will be the period of three months from the award date.

Award of Options

The number of Options awarded will be determined by the Remuneration Committee, having regard to the following:

- an award may be halved if the Company does not meet its budgeted profit target; and
- an award may be withdrawn totally at the complete discretion of the Remuneration Committee if the Company's performance has not been satisfactory.

Vesting and Exercise Conditions

Options will be subject to various conditions that must be satisfied before they vest and can be exercised. Conditions relate to the period of time they have been held, performance hurdles and other conditions (if any) determined by the Remuneration Committee.

Restriction on Options

The maximum number of Options that may be issued under the Share Option Plan for Directors in a financial year must not exceed that number of Options having an aggregate exercise price equivalent to \$700,000. If this maximum amount is less than the aggregate amount for which Directors are eligible, then the Options awarded will be reduced pro-rata amongst the qualifying Directors.

Key Consultants***Eligibility***

Each key consultant who has served a minimum of 12 months prior to the award dates may be entitled to be granted Options to take up Shares, with such Options having an aggregate exercise price equivalent to \$50,000 per consultant. The Remuneration Committee will review the eligibility criteria for key consultants from time to time upon the recommendation of the Management Committee or the Chairman.

Award Dates

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

Exercise Price

The exercise price will be fixed at the Offer Price for awards made in FY 06/07, FY 07/08 and FY 08/09.

Exercise Period

Subject to the satisfaction of any applicable vesting conditions and/or exercise conditions, the exercise period will be the period of three months from the award date.

Award of Options

The number of Options awarded will be determined by the Remuneration Committee, having regard to the following:

- an award may be halved if the Company does not meet its budgeted profit target; and
- an award may be withdrawn totally at the complete discretion of the Remuneration Committee if the Company's performance has not been satisfactory.

Vesting and Exercise Conditions

Options will be subject to various conditions that must be satisfied before they vest and can be exercised. Conditions relate to the period of time they have been held, performance hurdles and other conditions (if any) determined by the Remuneration Committee.

Restriction on Options

The maximum number of Options that may be issued under the Share Option Plan for key consultants in a financial year must not exceed that number of Options having an aggregate exercise price equivalent to \$200,000.

Key Port Agents/Contractors

Eligibility

Each key port agent/contractor who has a minimum period of 12 months involvement with the Company prior to the award dates may be entitled to be granted Options to take up Shares, with such Options having an aggregate exercise price of between \$5,000 to \$20,000 per agent/contractor. The Remuneration Committee will review the list of key port agent/contractors and the amount to be awarded before the award dates based on written recommendations of the Management Committee.

Award Dates

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

Exercise Price

The exercise price will be fixed at the Offer Price for awards made in FY 06/07, FY 07/08 and FY 08/09.

Exercise Period

Subject to the satisfaction of any applicable vesting conditions and/or exercise conditions the exercise period will be the period of three months from the award date.

Award of Options

The number of Options awarded will be determined by the Remuneration Committee, having regard to the following:

- an award may be halved if the Company does not meet its budgeted profit target; and
- an award may be withdrawn totally at the complete discretion of the Remuneration Committee if the Company's performance has not been satisfactory.

Vesting and Exercise Conditions

Options will be subject to various conditions that must be satisfied before they vest and can be exercised. Conditions relate to the period of time they have been held, performance hurdles and other conditions (if any) determined by the Remuneration Committee.

Restriction on Number of Options

The maximum number of Options that may be issued under the Share Option Plan for key port agents/contractors in a financial year must not exceed that number of Options having an aggregate exercise price equivalent to \$200,000.

Share Plan

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

General Terms of the Share Plan

Eligibility

The Company has established the Share Plan for eligible employees, being employees of the Group:

- that have elected to participate in the Share Plan under the terms of their Enterprise Bargaining Agreement (EBA eligible employees); or
- whose terms of employment are not governed by an Enterprise Bargaining Agreement (Non-EBA eligible Employees),

who are selected by the Remuneration Committee to participate in the Share Plan and who accept an offer of Shares under the Share Plan.

As at the date of this Prospectus, the only EBA Eligible Employees that have elected to participate in the Share Plan under the terms of their Enterprise Bargaining Agreement are the Company's pilots.

The Remuneration Committee has determined that:

- EBA Eligible Employees will be entitled to participate in the Share Plan if they have been employed for at least 12 months on the date of certification of the relevant EBA between the Company and those EBA Eligible Employees which provides for participation in the Share Plan and they are still Eligible Employees as at the relevant award date. Any EBA Eligible Employees that have been employed less than 12 months at the certification date will still be entitled to participate in the Share Plan (if they are still Eligible Employees as at the relevant award date), however they will only be entitled to a pro-rata proportion of Shares based on their relative length of service. The Company's pilots have voted on and approved the proposed new EBA between the Company and the pilots which provides for participation in the Share Plan, however the EBA has not yet been certified; and
- Non-EBA Eligible Employees will be entitled to participate in the Share Plan if they have been employed for at least 12 months on or before the relevant award date and they are still Eligible Employees as at the relevant award date.

Eligible Employees who accept an offer of Shares under the Share Plan will be entitled to receive the equivalent of 2.0% of their base salary in Shares each financial year for FY 06/07, FY 07/08 and FY 08/09. Such Shares will be issued to Eligible Employees on the relevant award dates.

Award Dates

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

Award Price

Each Share will be issued free of charge but will be issued as credited as fully paid for the amount of the award price. The award price will be fixed at the Offer Price for FY 06/07, FY 07/08 and FY 08/09, except that in the event that

the shares fall in value below the Offer Price, they will be awarded at the current market price (as defined in the ASX Listing Rules) at the award date.

Vesting Conditions

The Company may impose vesting conditions when making an offer to EBA Eligible Employees to subscribe for Shares under the Share Plan.

The vesting conditions for EBA Eligible Employees will be set out in the terms of the EBA between the Company and those employees.

The Remuneration Committee will determine the vesting conditions for the Non-EBA Eligible Employees, which will be mainly contingent on an absence of adverse appraisals.

Issue of Shares

The Shares issued under the Share Plan will rank equally in all respects with all issued ordinary Shares of the Company, except that the Shares will be subject to the restrictions referred to below.

Restricted Shares

Any Shares issued under the Share Plan will be subject to restrictions for a period ending on the earlier of:

- the date on which the Eligible Employee ceases to be an employee of the Company or other member of the Group; and
- the date that the Share Plan terminates.

During the restriction period, a holder of such restricted Shares must not mortgage, charge, pledge, lien, encumber or otherwise dispose of or deal with the Shares. The Company will apply a holding lock to any Shares that are subject to such restrictions.

Restriction on Total Number of Shares

The total number of Shares issued under the Share Option Plan, together with the number of Options on issue under the Share Option Plan, and any shares issued under the Share Plan or Share Option Plan or under any other employee share plan of the Company in the previous five years, must not exceed 5.0% of the issued Shares of the Company.

Exempt Share Plan

The Company also has established an Exempt Share Plan which is intended to allow employees to take advantage of a tax exemption of up to \$1,000 per year in respect of Shares acquired under the Exempt Share Plan.

The terms of the Exempt Share Plan are substantially similar to those of the Share Plan summarised above.

Profit Share Incentive Scheme

The Company has established a Profit Share Incentive Scheme which will take effect in the financial year commencing 1 July 2006. Under the Profit Share Incentive Scheme, eligible employees will be awarded a share of the Company's Profit Before Tax (PBT) for the financial year immediately preceding the award. The total amount of the Company's PBT which may be awarded to all eligible employees in FY 06/07 has been set at 6.0% of the Company's PBT for FY 05/06. This will be increased to:

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

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

Any person who is a full time or permanent part time employee of a member of the Group, with at least 12 months service or such other service period as the Board decides, and who is invited by the Board to participate in the Profit Share Incentive Scheme is eligible to participate. As at the date

of this Prospectus, the Company's pilots and flight attendants have elected under their EBAs to receive lower fixed annual wage increases in exchange for being entitled to participate in the Profit Share Incentive Scheme. The Company's Non-EBA staff are also entitled to participate in the Profit Share Incentive Scheme.

11.7 ESCROW ARRANGEMENTS

The following Existing Shareholders have agreed to a voluntary escrow restriction on the disposal of their shares for one year following the listing of the Company on ASX:

Shareholder	Number of Shares Escrowed
Canberra Air Pty Limited	9,356,921
Kaycraft Pty Limited	1,023,480
Mr Lim Kim Hai	7,454,362
Mr Lee Thian Soo	3,727,181
Mr Tjoa Joe Tiau	6,627,615
Mr Pasan Madanayake	559,934
Mr Ng Lay Khim	3,727,181
Mr Chua Joo Chye	7,454,362
Mr Lim Kim Lark	11,862,058
Mr See Toh Ming Yew/ Mr Tjoa Hui Ing	7,454,362
Mr Seah Kerk Chuan	10,385,494
Mr Leong Lee	2,150,507

The total Shares escrowed represent about 62.4% of the total Shares of the Company following completion of the Offer.

11.8 LITIGATION AND CLAIMS

As far as the Directors are aware, except as disclosed elsewhere in this Prospectus, there is no current or threatened civil litigation, arbitration or administrative appeal or criminal or governmental prosecution in which

the Company or any of its subsidiaries is directly or indirectly concerned which would be likely to have a material adverse effect on their business, financial condition or the results of their operations.

11.9 INTERESTS OF DIRECTORS

Other than as set out below or elsewhere in this Prospectus:

- No Director has, or has had in the two years before the date of this Prospectus, any interest in the Offer, in the formation or promotion of the Company or in any property of the Company or proposed to be acquired by the Company in connection with the formation or promotion of the Company or the Offer;
- No amount, whether in cash or Shares or otherwise has been paid or agreed to be paid, or any benefit given or agreed to be given, to any Director to induce him or her to become, or to qualify him or her as a Director; and
- No amount, whether in cash or Shares or otherwise has been paid or agreed to be paid, or any benefit given or agreed to be given, for services provided by a Director in connection with the formation or promotion of the Company or the Offer.

Directors' Fees

The Constitution provides that Directors are entitled to such remuneration as the Board determines, but the remuneration of non-executive Directors must not exceed in aggregate a maximum amount of \$750,000 fixed by the Company in general meeting for that purpose. The Constitution allows for payment of additional amounts to non-executive Directors for other duties to be carried out by them from time to time.

The salary and/or fees paid to Directors for the financial year ended 30 June 2004 were as follows:

Director	Salary, Fees	Superannuation Contribution	Total
Lim Kim Hai	\$25,342	\$0	\$25,342
John Sharp	\$0	\$0	\$0
Lee Thian Soo	\$10,137	\$0	\$10,137
Geoffrey Breust	\$63,538	\$7,944	\$71,482
James Davis	\$107,855	\$4,573	\$112,428
Robert Winnel	\$8,301	\$0	\$8,301
Russell Hodge	\$0	\$0	\$0

The salary and/or fees paid to Directors for the financial year ended 30 June 2005 were as follows:

Director	Salary, Fees	Superannuation Contribution	Total
Lim Kim Hai	\$16,671	\$0	\$16,671
John Sharp	\$15,041	\$0	\$15,041
Lee Thian Soo	\$12,506	\$0	\$12,506
Geoffrey Breust	\$110,000 (salary) \$9,301 (fees) \$3,365 (allowance)	\$18,405	\$141,071
James Davis	\$130,000 (salary) \$9,301 (fees)	\$12,843	\$152,144
Robert Winnel	\$12,506	\$0	\$12,506
Russell Hodge	\$0	\$0	\$0

The following non-executive Directors will each be entitled to receive the following annual fee for the current financial year:

- John Sharp: \$90,000
- Lee Thian Soo: \$25,000
- Robert Winnel: \$25,000; and
- Russell Hodge: \$25,000.

In addition, the following executive Directors are entitled to receive the following total remuneration for the current financial year:

- Lim Kim Hai: initially \$25,000 per annum and, effective from 1 November 2005, \$100,000 per annum;
- Geoffrey Breust: \$15,000 in Directors' fees and the remuneration package discussed below;
- James Davis: \$15,000 in Directors' fees and a remuneration package worth a total of \$141,700 (inclusive of superannuation).

Directors' Service Agreements

The Company has appointed Geoffrey Breust to act as Managing Director of the Company. Mr Breust is entitled to receive a remuneration package worth a total of \$126,500 per annum (inclusive of superannuation). The agreement may be terminated by either party giving two months' notice of termination or by the Company without notice if Mr Breust commits any act of serious misconduct. Following any such termination, Mr Breust is subject to certain post termination restraints.

Directors' Holdings of Shares

The Directors currently have the following interests in Shares in the Company, either directly or indirectly:

Director	Shares
Lim Kim Hai	40,852,759
John Sharp	0
Lee Thian Soo	7,454,362
Geoffrey Breust	0
James Davis	0
Robert Winnel	1,023,480
Russell Hodge	0

The Shares in which Mr Lim Kim Hai has a direct or indirect interest are held by Mr. Lim himself and his brother, father-in-law, two brothers-in-law and a sister-in-law.

The Shares in which Mr Lee Thian Soo has a direct or indirect interest are held by Mr Lee himself and his spouse.

The Shares in which Mr. Winnel has a direct or indirect interest are held by Kaycraft Pty Limited. Mr. Winnel holds all of the shares in this company and is a director of this company.

Options

The Directors may be entitled to receive up to the following number of Options under the Share Option Plan.

Director	FY 06/07	FY 07/08
Lim Kim Hai	150,000	150,000
Lee Thian Soo	100,000	100,000
John Sharp	150,000	150,000
Geoffrey Breust	100,000	100,000
James Davis	100,000	100,000
Robert Winnel	100,000	100,000
Russell Hodge	100,000	100,000

The terms of the Options are summarised in Section 11.6. The actual number of Options issued may vary in accordance with the terms of the Share Option Plan.

Other

The Company has entered into a forward exchange contract with an entity related to Mr Lim Kim Hai for the delivery to the Company of USD4.0M in October 2005 at a fixed exchange rate of A\$1.00: USD0.76.

Under the Share Sale Agreement, First and Second Put Option and First and Second Call Option described in Section 6.5, a related entity of Mr Russell Hodge is entitled to receive:

- \$1.8M on completion of the Company's acquisition of a 50.0% interest in Pel-Air following the Offer; and
- Up to a further \$900,000 in cash and \$900,000 in cash or Shares if Rex acquires the remaining 50.0% of Pel-Air under the Put and Call arrangements.

Mr Hodge's related entity may also be entitled to part of a potential success fee if the offer that has been submitted by Pel-Air to supply aerial surveillance for Raytheon Australia Pty Limited with respect to Raytheon's tender for Coastwatch services is successful, in accordance with the Letter Agreement referred to in Section 6.5.

Indemnity

Each Director is entitled to be indemnified by the Company to the extent permitted by the Constitution, as summarised above.

Deed of Access, Indemnity and Insurance

The Company has entered into Deeds of Access, Indemnity and Insurance with each Director setting out the rights of Directors to access Board papers and to be indemnified by the Company and for the Company to maintain D&O insurance, including after they cease to be a Director.

11.10 INTERESTS OF EXPERTS AND ADVISERS

Except as set out below or elsewhere in this Prospectus, no:

- person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus;
- promoter of the Company; nor
- financial services licensee involved in the Offer,

neither:

- has or had during the two years preceding the Prospectus Date, any interest in the formation or promotion of, or in any property acquired or proposed to be acquired by, the Company, or the Offer; nor
- has been paid or agreed to be paid any amount or given or agreed to be given any other benefit for services rendered by them in connection with the formation or promotion of the Company or the Offer.

Tricom Equities has acted as the Underwriter in relation to the Offer. At the Prospectus Date, the Company estimates that it will pay approximately \$1.75M (excluding disbursements and GST) to the Underwriter in respect of these services.

Baker & McKenzie has acted as legal advisor to the Company in respect of the Offer. At the Prospectus Date, the Company estimates that it will pay approximately \$150,000 (excluding disbursements and GST) to Baker & McKenzie in respect of these services. Further amounts may be paid to Baker & McKenzie in accordance with its normal time based charges.

Deloitte Touche Tohmatsu and Deloitte Corporate Finance Pty Limited have acted as investigating accountants with respect to the Offer and have:

- prepared the Investigating Accountants' Reports which appear in Section 10 of this Prospectus; and

- performed accounting work in relation to the Offer, including conducting due diligence enquiries.

At the Prospectus Date, the Company estimates that it will pay approximately \$27,500 (excluding disbursements and GST) to Deloitte Touche Tohmatsu and approximately \$135,000 (excluding disbursements and GST) to Deloitte Corporate Finance Pty Limited in respect of these services. Further amounts may be paid to Deloitte Touche Tohmatsu and Deloitte Corporate Finance Pty Limited in accordance with their normal time based charges.

11.11 EXPENSES OF THE OFFER

If the Offer proceeds, the total estimated costs of the Offer, including advisory, legal, accounting, tax, listing and administrative fees, as well as printing, advertising and other expenses are currently estimated to be approximately \$2.7M and will result in an equivalent reduction in the proceeds received by the Company pursuant to the Offer.

11.12 CONSENTS

None of the parties referred to below has made, or purports to have made, any statement that is included in this Prospectus or any statement on which a statement made in this Prospectus is based, other than as specified below.

Each of the parties referred to below, to the maximum extent permissible by law, expressly disclaims and takes no responsibility for any part of this Prospectus other than the reference to its name and the statement or report included in this Prospectus with the consent of that party, as specified below.

The Share Registry has given and has not, before the lodgement of this Prospectus with ASIC, withdrawn its written consent to being named in this Prospectus as the share registrar in the form and context in which it is named.

Tricom Equities has given and has not, before the lodgement of this Prospectus with ASIC, withdrawn its written consent to being named in this Prospectus in the form and context in which it is named.

Baker & McKenzie has given and has not, before the lodgement of this Prospectus with ASIC, withdrawn its written consent to being named in this Prospectus as the Company's legal advisor in the form and context in which it is named.

Ernst & Young has given and has not, before the lodgement of this Prospectus with ASIC, withdrawn its written consent to being named in this Prospectus as the Company's auditor in the form and context in which it is named.

Deloitte Touche Tohmatsu has given and has not, before the lodgement of this Prospectus with ASIC, withdrawn its written consent to the inclusion of its Investigating Accountants' Report in this Prospectus and to being named in the Prospectus as Investigating Accountant to the Company in the form and context in which it is named.

Deloitte Corporate Finance Pty Limited has given and has not, before the lodgement of this Prospectus with ASIC, withdrawn its written consent to the inclusion of its Investigating Accountants' Report in this Prospectus and to being named in the Prospectus as Investigating Accountant to the Company in the form and context in which it is named.

11.13 ASX IN-PRINCIPLE CONFIRMATIONS AND ASIC RELIEF

The ASX has provided in-principle confirmation that it will not apply any restrictions to the shares held by Directors and Existing Shareholders under Chapter 9 of the ASX Listing Rules. The Company will apply for relief from ASIC prior to listing so that the takeovers provisions of the Corporations Act will not apply to any "relevant interest" that the Company would otherwise acquire in its own Shares by reason of the escrow arrangements described in Section 11.7.

11.14 REFERENCES TO PUBLICATIONS

References are made in this Prospectus to material that is attributed to various sources. Those references are based on statements already published in public documents or a book, journal or comparable

publication. Those organisations did not prepare those materials specifically for this Prospectus and have had no involvement in the preparation of any part of this Prospectus.

11.15 GOVERNING LAW

This Prospectus, the Offer and the contracts formed on acceptance of Applications under the Offer are governed by the law applicable in New South Wales. Each applicant submits to the exclusive jurisdiction of the courts of New South Wales.

11.16 EXPIRY DATE

No shares will be offered on the basis of this Prospectus after the Expiry Date.

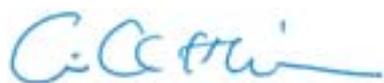
11.17 DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents may be inspected during the Offer free of charge at the registered office of the Company during normal business hours:

- Constitution; and
- the consents referred to in Section 11.12.

11.18 AUTHORISATION BY DIRECTORS

This Prospectus is authorised by each Director who consents to its lodgement with ASIC and its issue. This Prospectus has been signed by the Executive Chairman (on behalf of the Board).



Lim, Kim Hai
Executive Chairman

GLOSSARY

"ACCC"	Australian Competition & Consumer Commission
"ADF"	Australian Defence Forces
"AEST"	Australian Eastern Standard Time
"AFAP"	Australian Federation of Air Pilots
"Airlines of South Australia"	Hawkes ASA Pty Ltd (ABN 29 007 937 528)
"Ansett"	Ansett Australia Holdings Limited (ABN 29 004 216 291)
"Ansett Group"	Ansett and its subsidiaries
"AOC"	Air Operator's Certificate
"Applicant"	A person who makes an Application
"Application"	An application to purchase Shares under this Prospectus
"Application Form"	An application form attached to, or accompanying, this Prospectus
"Application Monies"	Funds accompanying an Application
"ASIC"	Australian Securities & Investment Commission
"ASIO"	Australian Security and Intelligence Organisation
"ASK" or "Available Seat Kilometres"	The total number of seats available for passengers multiplied by the number of kilometres flown
"ASTC"	ASX Settlement and Transfer Corporation Pty Limited (ABN 49 008 504 532)
"ASTC Settlement Rules"	The settlement rules of ASTC
"ASX"	Australian Stock Exchange Limited (ABN 98 008 624 691)
"ASX Listing Rules"	The listing rules of ASX
"ATK" or "Available Tonne Kilometres"	The total amount of capacity, in tonnes, available for freight multiplied by number of kilometres flown
"ATPL"	Air Transport Pilot's Licence
"Board"	Board of Directors of Rex as disclosed in this Prospectus
"Bush Pilots Airways"	Air Queensland Pty Ltd (ACN 009 656 599)
"Business"	The business of the Company
"capacity"	A term used in the airline industry to describe the number of revenue generating seats on an aircraft
"CASA"	Civil Aviation Safety Authority
"CHES"	Clearing House Electronic Subregister System
"Closing Date"	28 October 2005, subject to amendment by the Company
"COA"	Certificate of Approval
"Company" or "Rex" or "Regional Express"	Regional Express Holdings Limited (ABN 18 099 547 270)

“Compliance & Quality Assurance Department”	A department of the Company responsible for ensuring the Company complies with government regulations and Company requirements
“Constitution”	The constitution of the Company
“Corporations Act”	Corporations Act 2001 (Cth)
“CPA”	Certified practising accountant
“Directors”	Directors of Rex as disclosed in this Prospectus
“Dollars” or “\$”	Australian dollars, unless otherwise stated
“DOTARS”	Department of Transport and Regional Services
“EBA”	Enterprise Bargaining Agreement
“EBIT”	Earnings before interest and taxes
“EBITA”	Earnings before interest, taxes and amortisation
“EBITDA”	Earnings before interest, taxes, depreciation and amortisation
“EBITDAR”	Earnings before interest, taxes, depreciation, amortisation and aircraft operating lease payments (rent)
“ECMP”	Engine Care Maintenance Plan
“Existing Shareholders”	Current shareholders in the Company as at the date of this Prospectus
“Expiry Date”	The date which is 13 months after the Prospectus Date
“Exposure Period”	The waiting period specified in section 727(3) of the Corporations Act, being a minimum period of seven days after the lodgement of this Prospectus with ASIC during which an Application must not be accepted, subject to any extension by ASIC
“First Call Option”	Has the meaning given to it in Section 6.5
“First Put Option”	Has the meaning given to it in Section 6.5
“Flight West Airlines”	ACN 010 718 975 Pty Limited (ABN 12 010 718 975). Previously called Flight West Airlines Pty Ltd
“FY”	Financial year
“GDS” or “Global Distribution Systems”	Third party booking engine software infrastructure for reservations
“Group”	The Company and its subsidiaries
“GST”	Goods and services tax
“Hazelton” or “Hazelton Airlines”	HZL Limited (ABN 99 061 965 642). Previously called Hazelton Airlines Limited
“HIN”	Holder Identification Number
“Institutional Investor”	An investor to whom offers or invitations in respect of securities can be made without the need for a lodged prospectus (or other formality, other than a formality which the Company is willing to comply with), including in Australia persons to whom offers or invitations in respect of securities can be made without the need for a lodged prospectus under section 708 of the Corporations Act

"Investigating Accountants"	Deloitte Touche Tohmatsu (in respect of historical financial information) and Deloitte Corporate Finance Pty Limited (in respect of forecast financial information)
"Investigating Accountants' Reports"	The Investigating Accountant's Report on Pro forma Historical Financial Information and the Independent Review of the Directors' Pro forma Financial Forecasts, as set out in Section 10.
"Jetstar"	Jetstar Pty Ltd (ABN 68 010 832 541)
"Kendell" or "Kendell Airlines"	Anst Lednek Airlines (Aust) Pty Ltd (ABN 79 000 579 680). Previously called Kendell Airlines (Aust) Pty Ltd
"Management", "Management Committee" or "MC"	The management committee of the Company from time to time, and as at the date of this Prospectus comprises Geoff Breust, James Davis, Kelly Irvine, Lindsay Tanner, Nick Gooneratne, Warrick Lodge, David Bannell, Chris Hine and Irwin Tan
"Metroliner routes"	Routes operated by Metro aircraft which have 19 seat capacity
"NIEIR"	The National Institute of Economic and Industry Research
"NPAT"	Net profit after tax
"Offer"	Offer of Shares for subscription under this Prospectus
"Offer Period"	The period commencing on 30 September 2005 and ending on the Closing Date, subject to amendment by the Company
"Offer Price"	\$1.00 per Share being the price that all Applicants must pay per Share
"OTD" or "On Time Departures"	Departures that occur within 15 minutes of the scheduled departure time shown in the carrier schedule
"OTP" or "On Time Performance"	Departures or arrivals that occur within 15 minutes of the scheduled time shown in the carrier schedule
"Ozjet"	Ozjet Airlines Pty Ltd (ABN 56 108 659 972)
"Passenger load factor"	A term used by the airline industry to describe the proportion of revenue generating seats to total seats available
"Pel-Air"	Pel-Air Aviation Pty Limited (ABN 47 002 858 013)
"Pel-Air Group"	Pel-Air and its subsidiaries

"Priority Employees"	Employees of the Group as at 29 September 2005 and who remain employed as at the Closing Date
"Productivity Committee"	A committee established by the Company, consisting of various department heads and staff that investigate and execute initiatives to reduce costs and improve efficiency
"Profit Share Incentive Scheme"	The Company's profit share incentive scheme, as described in Section 11.6
"Prospectus"	This prospectus and any supplementary or replacement prospectus in relation to this prospectus
"Prospectus Date"	29 September 2005
"Qantas"	Qantas Airways Limited (ABN 16 009 661 901)
"Qantas Group"	Qantas and its subsidiaries
"Qantaslink"	A brand used by Qantas in respect of its regional airline services
"RCA"	Request for corrective action
"Regional Investors"	Those persons lodging Applications having a registered address with a postcode outside the metropolitan areas of Sydney, Melbourne, Brisbane and Adelaide
"Remuneration Committee"	The Remuneration Committee of the Company from time to time
"Retail Investor"	Any investor other than an Institutional Investor
"Rex", "Regional Express" or "Company"	Regional Express Holdings Limited (ABN 18 099 547 270)
"Rex FC"	Rex Freight & Charter Pty Ltd (ABN 93 065 221 356)
"RPK" or "Revenue Passenger Kilometres"	The number of paying passengers carried multiplied by the number of kilometres flown
"RTK" or "Revenue Tonne Kilometres"	The amount of revenue earning freight carried multiplied by the number of kilometres flown
"Sabre"	Route planning, scheduling, ticketing sales and distribution software used by Rex and licensed to Rex by Sabre, Inc
"Second Call Option"	Has the meaning given to it in Section 6.5
"Second Put Option"	Has the meaning given to it in Section 6.5
"Section"	A section of this Prospectus
"sector"	A term used by the airline industry to describe a single flight from one airport to another
"Senior Management"	The senior management team of the Company comprised of the MC, Compliance & QA Manager, Operations Manager, National Business Development Manager and Corporate Communications Manager
"Shareholder"	A person who holds Shares
"Share"	A fully paid ordinary share in the capital of the Company

“Share Registry”	ASX Perpetual Registrars Limited ABN 54 083 214 537
“Share Option Plan”	The employee option plan described in Section 11.6
“Share Plan”	The employee share plan described in Section 11.6
“Share Sale Agreement”	Has the meaning given to it in Section 6.5
“SIA”	Singapore International Airlines
“Skywest” or “Skywest Airlines”	Skywest Limited (ABN 51 098 304 262)
“Slot”	A term used by the airline industry to describe the designated time for landing or taking off an aircraft at an airport
“Slot Compliance Committee”	A ministerial appointed committee that governs slot time compliance at Sydney airport
“Subsidiary”	A subsidiary company of the Company
“Sunstate”	Sunstate Pty Ltd (ABN 51 061 900 114)
“Trade Practices Act”	Trade Practices Act 1974 (Cth)
“Tricom Equities”	Tricom Equities Limited (ABN 92 067 161 755)
“Underwriter” or “Lead Manager”	Tricom Equities
“US\$” or “USD”	United States Dollars
“USA”	United States of America
“Virgin” or “Virgin Blue”	Virgin Blue Holdings Limited (ABN 54 100 686 226)
“yield”	A term used in the airline industry to describe the price paid by passengers. This is often expressed as revenue per kilometre
Terms cognate with those above have an equivalent meaning	

CORPORATE DIRECTORY

Regional Express Holdings Limited

Level 1, 2B Lord Street, Botany,
NSW, 2019.

Directors

Lim Kim Hai
John Sharp
Lee Thian Soo
Geoffrey Breust
James Davis
Robert Winnel
Russell Hodge

Share Registry

ASX Perpetual Registrars Limited
Level 4,
333 Collins Street
Melbourne VIC 3000

Underwriter and Lead Manager

Tricom Equities Limited
Level 10, Exchange House
10 Bridge Street
Sydney NSW 2000

Investigating Accountants

Deloitte Touche Tohmatsu and
Deloitte Corporate Finance Pty Ltd
Grosvenor Place
225 George Street
Sydney NSW 2000

Legal Advisors

Bakers & McKenzie
Level 27, AMP Centre
50 Bridge Street
Sydney NSW 2000

Auditors

Ernst & Young
Ernst & Young Centre
680 George Street
Sydney NSW 2000



Your Guide to the Application Form

Please complete all relevant white sections of the Application Form in BLOCK LETTERS, using black or blue ink. These instructions are cross-referenced to each section of the form.

The shares to which this Application Form relates are Regional Express Holdings Limited shares. Further details about the shares are contained in the Prospectus dated 29 September 2005 issued by Regional Express Holdings Limited. The Prospectus will expire on 28 October 2006. While the Prospectus is current, Regional Express Holdings Limited will send paper copies of the Prospectus, any supplementary document and the Application Form, free of charge on request.

The Australian Securities and Investment Commission requires that a person who provides access to an electronic application form must provide access, by the same means and at the same time, to the relevant Prospectus. This Application Form is included in the Prospectus.

The Prospectus contains important information about investing in the Shares. You should read the Prospectus before applying for Shares.

- A** Insert the number of Shares you wish to apply for. The Application must be for a minimum of 2,000 Shares and thereafter in multiples of 100 Shares. You may be issued all of the Shares applied for or a lesser number.
- B** Insert the relevant amount of Application Monies. To calculate your Application Monies, multiply the number of Shares applied for by the issue price. Amounts should be in Australian dollars. Please make sure the amount of your cheque or bank draft equals this amount.
- C** Write the full name you wish to appear on the register of Shares. This must be either your own name or the name of a company. Up to three joint Applicants may register. You should refer to the table below for the correct registrable title. Employees of Regional Express Holdings Limited should tick the box provided. Members of Rex's Frequent Flyer Program should tick the box provided.
- D** Enter your Tax File Number (TFN) or exemption category. Business enterprises may alternatively quote their Australian Business Number (ABN). Where applicable, please enter the TFN or ABN for each joint Applicant. Collection of TFN(s) and ABN(s) is authorised by taxation laws. Quotation of TFN(s) and ABN(s) is not compulsory and will not affect your Application. However, if these are not provided, Regional Express Holdings Limited will be required to deduct tax at the highest marginal rate of tax (including the Medicare Levy) from payments.
- E** Please enter your postal address for all correspondence. All communications to you from Regional Express Holdings Limited and the Share Registry will be mailed to the person(s) and address as shown. For joint Applicants, only one address can be entered.
- F** If you are already a CHES participant or sponsored by a CHES participant, write your Holder Identification Number (HIN) here. If the name or address recorded on CHES for this HIN is different to the details given on this form, your Shares will be issued to Regional Express Holdings Limited's issuer sponsored subregister.
- G** Please enter your telephone number(s), area code and contact name in case we need to contact you in relation to your Application.
- H** Please complete the details of your cheque or bank draft in this section. The total amount should agree with the amount shown in section B. Make your cheque or bank draft payable to "Regional Express – Share Account" in Australian currency and cross it "Not Negotiable". Your cheque or bank draft must be drawn on an Australian bank. Sufficient cleared funds should be held in your account, as cheques returned unpaid are likely to result in your Application being rejected. Pin (do not staple) your cheque or bank draft to the Application Form where indicated. If you receive a firm allocation of Shares from your Broker make your cheque payable to your Broker in accordance with their instructions.

LODGEMENT INSTRUCTIONS

This Application Form and your cheque or bank draft must be mailed or delivered so that it is received before 5.00 pm on 28 October 2005 at:

Regional Express Holdings Limited
C/- ASX Perpetual Registrars Limited
GPO Box 2785
Melbourne VIC 3001

Regional Express Holdings Limited
C/- ASX Perpetual Registrars Limited
Level 4, 333 Collins Street
Melbourne VIC 3000
(do not use this address for mailing purposes)

ASX Perpetual Registrars Limited advises that Chapter 2C of the Corporations Act 2001 requires information about you as a shareholder (including your name, address and details of the Shares you hold) to be included in the public register of the entity in which you hold Shares. Information is collected to administer your shareholding and if some or all of the information is not collected then it might not be possible to administer your shareholding. Your personal information may be disclosed to the entity in which you hold Shares. You can obtain access to your personal information by contacting us at the address or telephone number shown on this form. Our privacy policy is available on our website (www.asxperpetual.com.au).

CORRECT FORMS OF REGISTRABLE NAMES

Note that ONLY legal entities are allowed to hold Shares. Applications must be in the name(s) of natural persons or companies. At least one full given name and the surname is required for each natural person. The name of the beneficiary or any other non-registrable name may be included by way of an account designation if completed exactly as described in the examples of correct forms below.

Type of Investor	Correct Form of Registration	Incorrect Form of Registration
Individual Use given names in full, not initials	Mrs Katherine Clare Edwards	K C Edwards
Company Use Company's full title, not abbreviations	Liz Biz Pty Ltd	Liz Biz P/L or Liz Biz Co.
Joint Holdings Use full and complete names	Mr Peter Paul Tranche & Ms Mary Orlando Tranche	Peter Paul & Mary Tranche
Trusts Use the trustee(s) personal name(s)	Mrs Alessandra Herbert Smith <Alessandra Smith A/C>	Alessandra Smith Family Trust
Deceased Estates Use the executor(s) personal name(s)	Ms Sophia Garnet Post & Mr Alexander Traverse Post <Est Harold Post A/C>	Estate of late Harold Post or Harold Post Deceased
Minor (a person under the age of 18 years) Use the name of a responsible adult with an appropriate designation	Mrs Sally Hamilton <Henry Hamilton>	Master Henry Hamilton
Partnerships Use the partners' personal names	Mr Frederick Samuel Smith & Mr Samuel Lawrence Smith <Fred Smith & Son A/C>	Fred Smith & Son
Long Names	Mr Hugh Adrian John Smith-Jones	Mr Hugh A J Smith Jones
Clubs/Unincorporated Bodies/Business Names Use office bearer(s) personal name(s)	Mr Alistair Edward Lilley <Vintage Wine Club A/C>	Vintage Wine Club
Superannuation Funds Use the name of the trustee of the fund	XYZ Pty Ltd <Super Fund A/C>	XYZ Pty Ltd /Superannuation Fund

Put the name(s) of any joint Applicant(s) and/or account description using < > as indicated above in designated spaces at section C on the Application.