rex.
Regional Express

ANNUAL REPORT

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

REGIONAL EXPRESS HOLDINGS LIMITED

REGIONAL EXPRESS VALUE STATEMENT

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

COMPANY

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

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

CUSTOMER

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

CONTRACTORS

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

COMMUNITY

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

CAPITAL

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

FOREWORD

AGAINST ALL ODDS

ATW Air Transport World 2010
Regional Airline of the Year

AVIATION WEEK
Top Performing Regional Airline 2009 2010

Best Under A Billion Forbes Asia 2009

Roy Morgan Research 1st 2010
AIRLINE SATISFACTION REPORT

DOMESTIC AIRLINE SATISFACTION SURVEY
1st 2005 · 1st 2007 · 2nd 2009 · 2nd 2010

Regional Airline of the Year
CAPA Aviation Awards for Excellence 2008 2007

This Financial Year 2010 (FY 2010) remained extremely challenging as the aftermath of the Global Financial Crisis continued to batter domestic aviation in Australia. The Rex group was not spared as we experienced a 5% decline in passenger numbers.

Yet Rex was able to remain serene and kept its head when all about it were losing theirs. When the outlook appeared gloomiest, Rex invested more heavily into its future. Rex commenced construction of its Australian Airline Pilot Academy (AAPA) at the start of the FY and injected $20 million into the project without any borrowings. It was with great satisfaction that we were able to have AAPA declared open by the Hon. Anthony Albanese, Minister for Infrastructure, Transport, Regional Development and Local Government, on 27 May 2010, less than one year after the first sod was turned.

Shareholders too will be delighted to know Rex was able to overcome the deficit of revenue to post a record Profits After Tax of $24.6m. This was achieved by careful attention to costs and efficiency gains as well as by sound financial management that enabled Rex to take full advantage of the fiscal incentives put in place by the Government. This result is all the more pleasing considering that Rex's net earnings was even higher than Virgin Blue's!

This explains why Rex continues to be recognised as the best regional airline by industry experts all over the world and again in this FY Rex picked up two of the most coveted honours in aviation. Once again I acknowledge and thank our loyal and dedicated management and staff for producing this outstanding performance against all odds.

The outlook remains extremely difficult. But then again that is nothing new to Rex.

Lim Kim Hai
Executive Chairman
17 September 2010

CORPORATE INFORMATION

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

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

DIRECTORS

Lim Kim Hai
The Hon. John Sharp
James Davis
Russell Hodge
David Miller
Lee Thian Soo

COMPANY SECRETARIES

Irwin Tan
Benjamin Ng

REGISTERED OFFICE

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Mascot, NSW 2020
(Ph): 02 9023 3555
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SHARE REGISTRY

Link Market Services Limited
Level 12, 680 George Street
Sydney, NSW 2000

SOLICITORS

Baker & McKenzie
Level 27, AMP Centre
50 Bridge Street
Sydney, NSW 2000

BANKERS

Westpac Banking Corporation

AUDITORS

Deloitte Touche Tohmatsu

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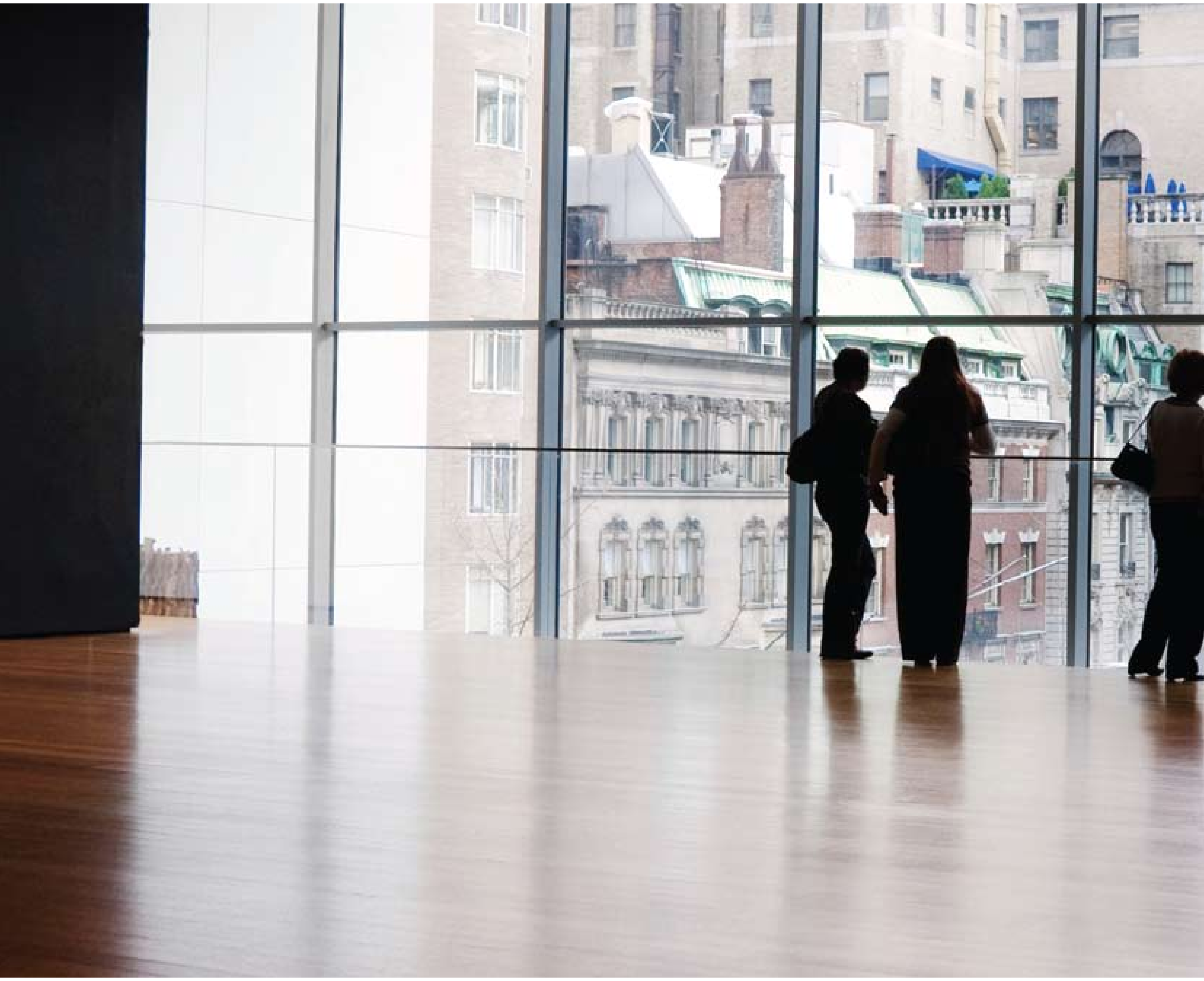


DIRECTORS' REPORT

01 BOARD OF DIRECTORS

In compliance with the provisions of the Corporations Act 2001, the directors of Regional Express Holdings Limited ('Rex') submit herewith the annual report for Rex and its consolidated entities (the 'Group') for the financial year ended 30 June 2010.

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

LIM KIM HAI

Executive Chairman

Appointed 27 June 2003 and re-appointed on 16 November 2006 and 25 November 2009

Mr. Lim started his career as a Defence Engineer specialising in underwater warfare. After 10 years he left to start his own business. Currently he has a portfolio of investment and business interests in diverse sectors and countries. He is also the Chairman of a biomedical company in Singapore, Lynk Biotechnologies Pte Ltd as well as Chairman of WooWorld Pte Ltd, a supplier of mobile games and content to telecommunication companies in Japan and South East Asia.

Mr. Lim obtained his Masters in Electronics Engineering from the prestigious 'Grande Ecoles' engineering colleges in France where he was sent on a French Government scholarship. He later returned to France to complete a Masters of Public Administration at the elite Ecole Nationale d'Administration in Paris on a Singapore Government scholarship. Mr Lim has also a Masters of Business Administration from the National University of Singapore.

Mr. Lim was one of the founding shareholders and directors of Rex.

THE HON. JOHN SHARP

Deputy Chairman and Independent Director

Appointed 14 April 2005 and re-appointed 19 November 2008

The Honourable John Sharp, originally from a farming and business background, is an aviator having been a licensed pilot of both fixed wing and rotary wing aircraft. Mr. Sharp was a member of the House of Representatives of the Commonwealth Parliament for 14 years (1984 – 1998). Mr. Sharp retired from the House of Representatives in 1998 and established his own high level aviation and transport consulting company, Thenford Consulting. Mr. Sharp is a former Chairman of the Aviation Safety Foundation of Australia, a director of Australian Aerospace, a wholly-owned subsidiary of European Aeronautics Defence and Space (EADS) representing Airbus (the aircraft manufacturer of ATR, CASA, Eurocopter and Astrium satellites) and a director of Skytraders, an air freight and aerial work operation providing services for Australia's Antarctic Division. He is Chairman of Parsons Brinkerhoff Advisory Board. This is an engineering and design company operating throughout Australia. He is also Chairman of Power and Data Corporation Pty Limited and Chairman of Pel-Air Aviation Pty Limited. Mr. Sharp is a Trustee and Board Member of John McKeown House, Honorary Federal Treasurer, National Party of Australia and recently retired Chairman of Winifred West Schools Foundation. He is a member of the University of Wollongong Vice Chancellor's Advisory Board. Recently he was appointed a director of the Flight Safety Foundation following his receipt of the Foundation's Presidential Citation for Aviation Safety; the first Australian to receive this award. Mr. Sharp's extensive experience of aviation, regional air services and as the former Federal Minister for Transport and Regional Development in the Federal Government, adds significantly to the expertise and standing of the Board.

JAMES DAVIS

Managing Director

Appointed 26 August 2004 as Executive Director and appointed Managing Director on 27 May 2008

Mr. Davis is a qualified Aeronautical Engineer and worked for four years with the Civil Aviation Safety Authority before obtaining his Air Transport Pilot Licence. Since then he has flown professionally with airlines in Australia and overseas for 26 years accumulating some 12,500 flying hours. Upon joining Hazelton Airlines in 1999, he was appointed Flight Operations and Standards Manager and Deputy Chief Pilot for the airline. In 2001, Mr. Davis was promoted to Chief Pilot of Hazelton, and held that position when Hazelton was merged into, and began trading as part of Rex in 2002. Mr. Davis became Executive General Manager Operations in 2003, and subsequently Managing Director Operations. Mr. Davis became Chief of Staff of the Chairman's Office in 2007 and was appointed Managing Director in May 2008. Mr. Davis is Chairman of the Australian Airline Pilot Academy Pty Ltd. and a Director of Rex Group companies Pel-Air Aviation Pty Ltd and Air Link Pty Ltd. He also sits on the Board of the Regional Aviation Association of Australia.

RUSSELL HODGE

Independent Director

Appointed 9 September 2005 and re-appointed 19 November 2008

Mr. Hodge practiced as a solicitor from 1973 to 1997 and specialised in aviation and commercial law. He retired as senior partner of Owen Hodge & Son Solicitors in 1992. Mr. Hodge, a former CEO of Pel-Air, was an executive director of Pel-Air from November 1994 to March 2008. He currently is a non-executive director of Pel-Air. He was previously a director of the Regional Aviation Association of Australia (RAAA). He has over 30 years experience in aviation regulation, compliance, aircraft financing and the commercial operations of aircraft and airlines.

DAVID MILLER

Executive Director, Rex
Chief Executive Officer, Air Link Pty Ltd

Appointed 28 February 2007 and re-appointed on 15 November 2007

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

LEE THIAN SOO

Non-Executive Director

Appointed 27 June 2003 and re-appointed on 16 November 2006 and 25 November 2009

Mr. Lee has extensive international business experience and currently is the Chairman and owner of a company supplying specialty medical devices, systems and drugs to healthcare institutions in the Asean region. He is also on the board of a biomedical company and a mobile/internet gaming company.

02 SENIOR MANAGEMENT EXECUTIVES

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

JAMES DAVIS

Managing Director

Jim is a member of the Rex Management Committee.

A description of his qualifications, skills and experience is included on page 6.

WARRICK LODGE

General Manager, Network Strategy and Sales

Warrick manages a team responsible for scheduling, pricing, revenue management, sales and commercial analysis. His duties include the monitoring of network performance and analysis of both existing and new market opportunities. Warrick has more than 18 years of regional airline experience in the specialised areas of scheduling, pricing and revenue management and held the position of Manager Network Planning with Kendell Airlines, having joined that company in 1992. Warrick has been with Rex since its inception in 2002 and is also a member of the Rex Management Committee.

CHRIS HINE

General Manager, Flight Operations and Chief Pilot

Chris has over 20 years of aviation experience including 15 years as a First Officer and Captain of Metroliner and Saab 340 aircraft. He is a well-accomplished training and checking pilot and has been Chief Pilot of Rex since the Company's inception in August 2002. Prior to Rex he worked in the same fields in Kendell Airlines from 1995. He currently oversees all facets of the Company's flight operations and all operational matters affecting the safety of flight operations. Chris also has experience as a lecturer in Cockpit Systems Management for the Bachelor of Applied Science (Civil Aviation) degree at the University of South Australia. Chris is a member of the Rex Management Committee and a Director of the Australian Airline Pilot Academy Pty Ltd.

IRWIN TAN

General Manager, Corporate Services

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

MAYOORAN THANABALASINGAM

General Manager, Information Technology and Communications

Mayooran completed his Associate Diploma of Electrical Engineering / Computer Engineering in 2001. He commenced with Rex in April 2004 and leads a team of Information Technology (IT) professionals responsible for ensuring day-to-day operations of the airline. With over 11 years experience and an extensive background in information technology, Mayooran has managed a range of IT projects and initiatives for Rex including the Internet Booking Engine, the Amend Booking Engine and Web check-in. Mayooran is a member of the Rex Management Committee.

GARRY FILMER

General Manager, Engineering

Garry is a Licensed Aircraft Maintenance Engineer with 31 years experience and has been involved in Regional Airline and Maintenance Repair Organization management over the last 17 years, holding positions such as Engineering Manager and General Manager Engineering. Garry joined Rex in 2007 as Engineering Advisor in the Chairman's Office and as a member of the Engineering Management Committee, is involved in the coordination of projects such as the management of Ground Support Equipment, review of Engineering resources and the recruitment of staff. Garry became General Manager, Engineering in June 2008 and is a member of the Rex Management Committee.

DALE HALL

Maintenance Control Manager

Dale has 29 years of aviation engineering experience. He began his career as an apprentice in the Royal Australian Air Force where he served for nine years. He then spent the next 17 years in the industry working in turbine engine and component overhaul facilities, on and offshore gas and petroleum helicopter industries and maintaining aero-medical charter aircraft. Dale joined Kendell Airlines in 1999 as a Licensed Aircraft Maintenance Engineer and held the position of a Technical Support Engineer with both Kendell and Rex. In late 2006 Dale was appointed as a Maintenance Controller for Rex and took up the position of Maintenance Control Manager in 2007. He is a member of the Rex Management Committee.

03 DIRECTORSHIPS OF OTHER LISTED COMPANIES

During the year under review, no directors appointed as at 30 June 2010 served as a director with any other company listed on the ASX.

04 DIRECTORS' SHAREHOLDINGS

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

Directors	Fully paid ordinary shares direct interest	Fully paid ordinary shares indirect interest	Share Options
Lim Kim Hai	18,480,630	5,755,513	-
The Hon. John Sharp	150,000	250,000	-
James Davis	194,911	-	-
Russell Hodge	-	1,124,000	-
David Miller	92,383	-	-
Lee Thian Soo	7,722,181	3,727,181	-

05 DIRECTORS' MEETINGS

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, four Board meetings, two Remuneration and Nomination Committee meetings, two Audit and Corporate Governance Committee meetings and four Safety and Risk Management Committee meetings were held. Note: the Managing Director chairs the Rex Safety Management Group which meets monthly and the Chairman of the Safety and Risk Management Committee attends those meetings.

Directors	Board	Remuneration & Nomination Committee	Audit & Corporate Governance Committee	Safety & Risk Management Committee
No. of meetings held:	4	2	2	4
Attendance:				
Lim Kim Hai	4	-	-	-
The Hon. John Sharp	4	2	2	-
James Davis	4	2	-	-
Russell Hodge	4	-	-	4
David Miller	4	-	-	4
Lee Thian Soo	4	-	2	-

06 REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Information about the remuneration of directors and senior management is set out in the remuneration report of this directors' report, on pages 21 to 23.

07 SHARES UNDER OPTION OR ISSUED ON EXERCISE OF OPTIONS

No options were granted or exercised in FY 2010.

08 FORMER PARTNERS OF THE AUDIT FIRM

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

09 COMPANY SECRETARIES

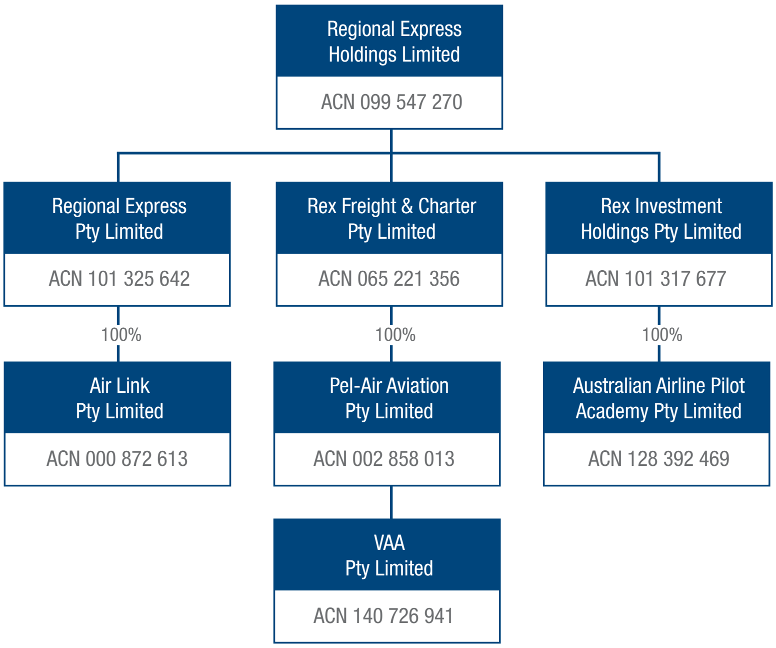
Mr Irwin Tan holds the position of Company Secretary of Rex. A description of his qualifications, skills and experience is included on page 8.

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

10 PRINCIPAL ACTIVITIES

The Group's principal activity during the financial year was air transportation of passengers and freight.

11 ORGANISATION & GROUP STRUCTURES



12 REVIEW OF OPERATIONS

Following the global pilot shortage that hit Rex hard in FY 2008 and the Global Financial Crisis that followed in FY 2009, the past year has been one of consolidation and heavy investment in the future with the building of the new campus of the wholly-owned Australian Airline Pilot Academy at Wagga Wagga in NSW. Construction of the new Academy started in July 2009 and the new campus was officially declared open by the Hon. Anthony Albanese, Minister for Infrastructure, Transport, Regional Development and Local Government on 27 May 2010.

Aerial view showing the proximity of the AAPA Campus to the AAPA Hangar (also the Flight Training Centre), and to the Rex Offices and Hangar

Pilot attrition for the year dropped back to historical levels of around 14%, with the major airlines deferring or slowing expansion plans. Rex was able to consolidate its pilot numbers and even build up a surplus through its pilot cadet training programme which continued throughout the year. By the end of the period Rex had enrolled 85 cadets into the programme with 63 graduating (in five batches) and moving into the airline. Of these, 42 had finished their type training and were checked to line as fully fledged SAAB First Officers.

Graduating cadets of Rex004 and 005 at their graduation ceremony

Rex successfully commenced operations on two subsidised routes, following the award of a tender by the Queensland Government, servicing outback Queensland from Townsville. It also started a commercial route between Townsville and Mount Isa thus giving Rex a firm foothold in Northern Queensland. Contract mining operations continued with two Pel-Air operated SAABs based in Townsville and an Air Link Beech 1900 that was relocated from Dubbo to Townsville.

Rex also spread its wings overseas with the lease of two aircraft to Siam General Aviation Co. Ltd based in Chiang Mai, Thailand. These commenced operations in January 2010 in their colourful new livery and were supported in a training role by Rex pilots and engineers. The lease ended on 30 June 2010.

Bright livery of the SAABs for Siam General Aviation

In line with its primary philosophy, the Group continued to build relationships with the regional communities throughout the network and successfully renewed and formed new partnerships with local council airport operators to jointly invest in improvements to the air services.

In the year under review, a new partnership was formed with Townsville Airport Limited that was critical for Rex in establishing a new Townsville base. Partnership agreements were also renewed with the regional councils that own and operate the following regional airports: Albury, Broken Hill, Bathurst, Ballina, Burnie, Ceduna, Coober Pedy, Dubbo, Grafton, Griffith, Lismore, Moruya, Narrandera, Parkes, Port Lincoln, Taree and Wagga Wagga.

There were no partnership agreements with the regional councils that own and operate the following regional airports: Kangaroo Island, King Island, Mount Gambier, Merimbula, Mildura, Orange and Whyalla.

Pel-Air's results were affected by the ditching of one of its Westwind jets, VH-NGA, off Norfolk Island on 18 November 2009. This led to the Company voluntarily suspending Westwind operations during December whilst a thorough safety check was completed and full operations were resumed on 24 December 2009.

ROUTE NETWORK DEVELOPMENTS

Rex commenced FY 2010 with consolidated network capacity that was largely a continuation of capacity levels experienced in 2H FY 2009. The prior FY 2009 capacity was largely influenced by falling demand associated with the Global Financial Crisis and prior to that the global pilot shortage in FY 2008. In FY 2010 capacity as expressed by Available Seat Kilometre (ASK) increased by a modest 1.5% primarily due to a small number of new routes that commenced during the year.

In August 2009 Rex announced the commencement of services between Townsville and Mackay from 1 October 2009 in competition with QantasLink. The Rex Group, through its subsidiary company Pel-Air had been successfully operating specialist charter services for Barrick Gold between Townsville Airport and Osborne Mine, near Cloncurry, since February 2009 so the new Townsville to Mackay service provided a platform for Rex to establish itself in Townsville with regular passenger services.

In September 2009, Rex announced the resumption of services between Griffith and Melbourne from 9 October 2009. Rex had initially opened up the Griffith to Melbourne route back in July 2007, however was forced to suspend the service in February 2008 due to the global pilot shortage. The service was reintroduced with strong support from the Griffith City Council and a renewed five-year partnership agreement between Rex and council. The service commenced with a prudent single return flight on all days except for Saturday, therefore incrementally utilising existing aircraft and flight crew resources from within the existing Melbourne network.

In early December 2009, Rex was awarded two regulated and subsidised routes by the Queensland State Government following a thorough tender evaluation process. The "Northern 1" route services the communities of Winton and Longreach while the "Northern 2" route services the communities of Hughenden, Richmond, Julia Creek and Mount Isa. Both routes are based out of Townsville and they commenced operations in Q3 which resulted in a fourth SAAB 340 B-Plus aircraft being deployed to Townsville.

ROUTE NETWORK DEVELOPMENTS (CONTINUED)

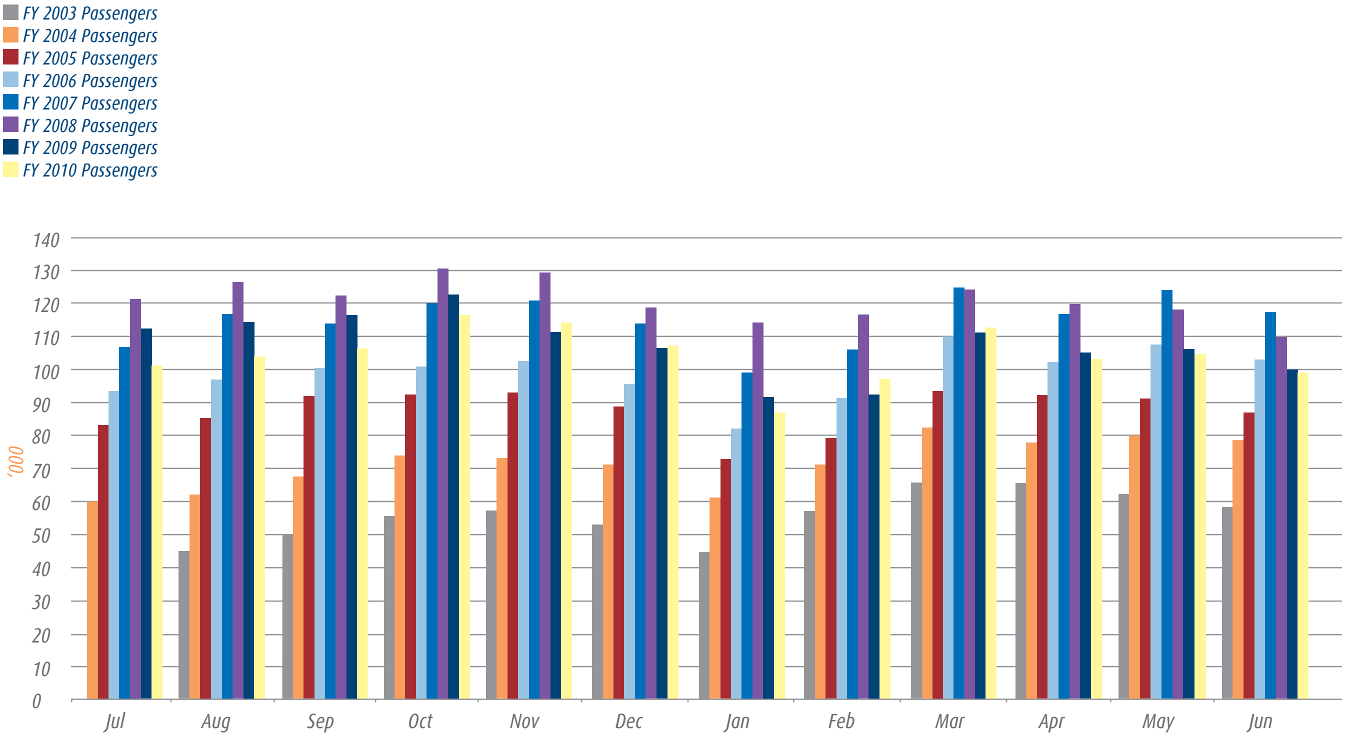
The new "Northern 1" and "Northern 2" routes

In December 2009, Rex also announced the commencement of a new non-stop air service between Mount Isa and Townsville. The awarding of the regulated and subsidised "Northern 1 and 2" routes was a catalyst for the decision to mount the new non-stop services between Mount Isa and Townsville in competition with QantasLink. This new service also commenced in Q3 in line with the commencement of the "Northern 1 and 2" regulated and subsidised routes.

During FY 2010 there were a number of changes to Rex's competitive position. In October 2009 Air South ceased RPT operations between Adelaide and Kangaroo Island, leaving Rex as the sole operator on that route. In January 2010 Rex exited the Townsville to Mackay route that was in competition with QantasLink and in February 2010 Rex commenced operations between Townsville and Mount Isa, also in competition with QantasLink. Also during the month of February 2010, QantasLink commenced operations between Adelaide and Port Lincoln in competition with Rex.

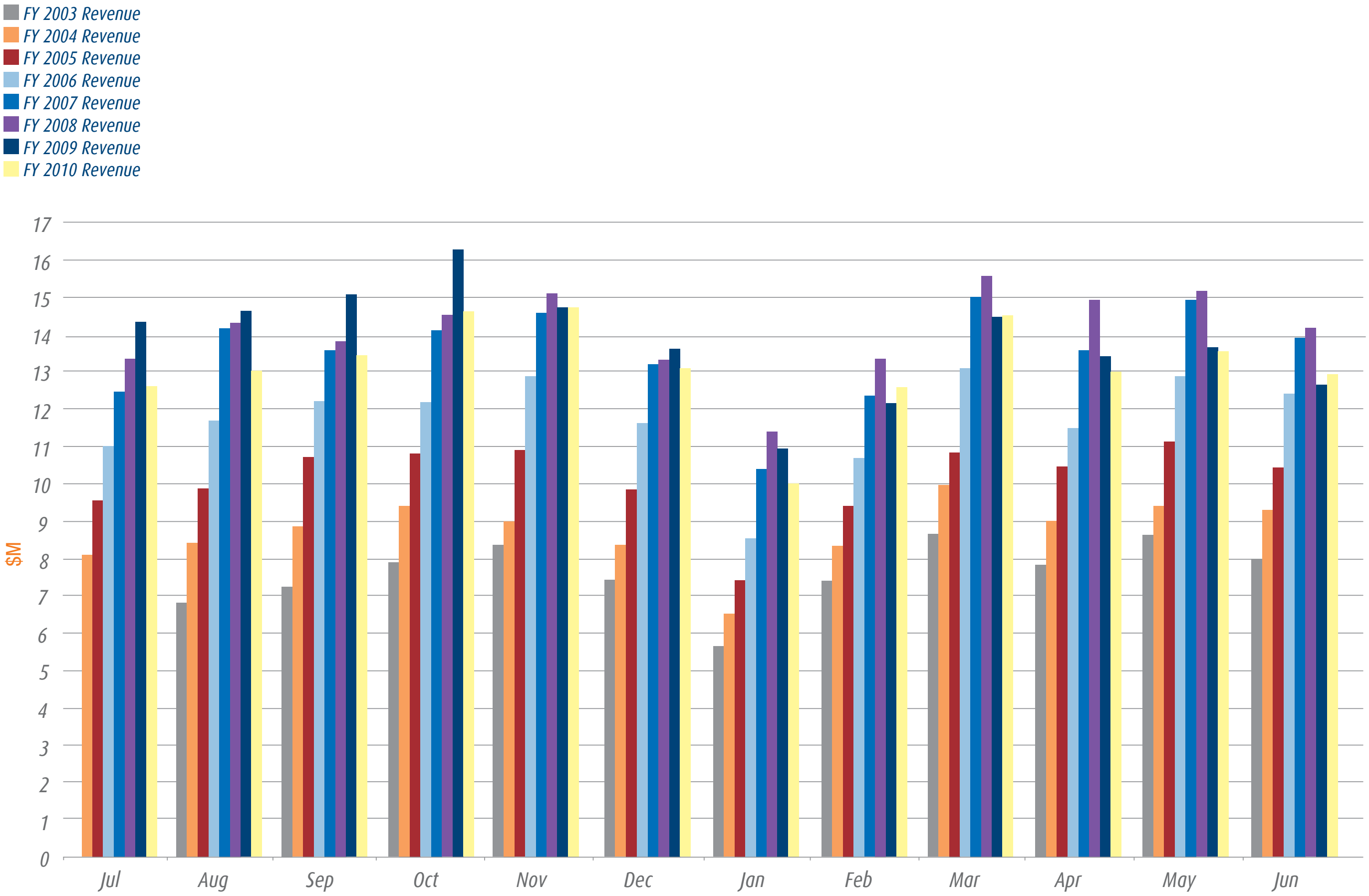
The tables below set out the growth in monthly passenger carriage and monthly passenger revenue over the last eight financial years.

Monthly Passenger Chart
Total Passengers



Monthly Passenger Revenue

Passenger Revenue*



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

PEL-AIR

Pel-Air's jet operations were affected by a reduction in the jet Aero Medical retrieval operations following the ditching in November 2009. Pel-Air's defence support operations operated steadily throughout the year as did the SAAB freight operations in support of Australian Air Express.

The Fly-in / Fly-out business continued to demonstrate growth with many ad hoc opportunities arising in line with resource exploration, particularly in Central Queensland. Pel-Air has based a SAAB 340A passenger aircraft in Brisbane to capture growth opportunities in the resources industry in Central Queensland

AIR LINK

Air Link has concentrated its efforts and resources into the Air Charter market over the past year. This has yielded an increase in the Tourism, Mining and Government Sectors. Working in conjunction with Pel-Air the Group has been unique in being able to provide choices of aircraft from five, eight, and 19 through to 32 seat capacities. Third party engineering services from its Dubbo facility has also grown.

REVIEW OF OPERATIONS (CONTINUED)

FLEET CHANGES

Rex has taken delivery of the last two SAAB 340B Plus aircraft of the 25 aircraft agreement with SAAB Leasing. These aircraft have now entered service with Rex, bringing the Group total to 51 SAAB 340 aircraft.

Pel-Air has taken delivery of four new Beechcraft Kingair B200 C aircraft, ahead of schedule, for their Victorian Air Ambulance contract.

One of the brand new Kingairs from Hawker Beechcraft in the USA

Australian Airline Pilot Academy (AAPA) has taken delivery of eight new Piper Warrior III and two Piper Seminole aircraft, bringing their fleet to 16 Warriors and four Seminoles.

During the period the Group did not dispose of any aircraft.

IMPROVING PRODUCTIVITY

The Group's productivity committee continues its efforts throughout the year with the launching of its sixth consecutive productivity drive. The committee ended the year with a total realised savings of $2.5M.

The Group's Cost per ASK decreased 5.3% from 25.6 cents in FY 2009 to 24.2 cents in FY 2010. This reduction is due to lower fuel cost. Albeit lower than previous years, the realised productivity savings enabled the Group to keep air fares at a competitive and affordable level. The Group's average fare in FY 2010 remained 7.5% below that of FY 2003 (inclusive of fuel levy, exclusive of airport taxes and GST) which was Rex's first year of operations.

OPERATIONAL AND SERVICE STANDARDS

Rex delivered improvements in on-time-performance and service reliability in FY 2010. Pleasingly the results were back to the historic performance levels of before the global pilot shortage in FY 2008. As reported by the BITRE, Rex recorded a solid third-ranking with 86.6% on-time performance, marginally behind the top two performers who achieved 87.7% and 86.8% respectively. More significantly Rex had the industry's lowest cancellation rate of 0.2%, some 350% lower than the next best performer.

	On Time Departure				Cancellation Rate (%)			
Airline	**FY 2010**	**FY 2009**	**FY 2008**	**FY 2007**	**FY 2010**	**FY 2009**	**FY 2008**	**FY 2007**
rex. Regional Express	3rd	4th	1st	3rd	0.2%	0.8%	1.2%	0.2%
QantasLink	2nd	1st	2nd	1st	0.7%	1.1%	1.2%	0.6%
Qantas	1st	5th	6th	4th	0.8%	2.6%	2.3%	1.0%
Jetstar	6th	7th	7th	4th	1.1%	0.9%	0.9%	0.5%
Virgin Blue	4th	3rd	3rd	2nd	1.6%	2.0%	1.9%	0.9%
Skywest	5th	2nd	4th	6th	0.7%	1.4%	0.9%	3.1%
MacAir	N/A	7th	5th	5th	N/A	6.7%	5.2%	2.2%
Tiger Airways	7th	6th	N/A	N/A	1.5%	0.4%	N/A	N/A

Rex continued to be recognised as the world's best performing regional airline and was awarded several of the aviation world's most coveted honours in the FY:

In a study commissioned by Aviation Week and Space Technology of all listed carriers in the world, PriceWatersCoopers ranked Rex as the world's Top Performing Airlines in the category of Regional Carriers.

AVIATION WEEK
Top Performing Regional Airline 2009

Rex outranked giants in American regional aviation such as SkyWest, Republic, Pinnacle and Mesa Air, in the study that examined the airlines' liquidity, financial health, earnings, performance, asset utilization and fuel cost management.

The 2009 rankings of publicly-traded airlines identify companies that were best positioned to weather the global recession and volatility in fuel prices.

Best Under A Billion Forbes Asia 2009

Forbes Asia ranked Rex among the top 200 listed companies in Asia Pacific with revenue less than USD1 billion. The winners were culled from 25,326 publicly listed companies in Asia Pacific including economic giants like China, Japan, Taiwan, India, Singapore and Australia/New Zealand and were selected based on profitability, growth, moderate indebtedness and future prospects. No other airlines made it into the prestigious list and only 17 other Australian companies were included.

The airline world's most coveted and valued honour, the Air Transport World (ATW) Industry Achievement Award, has been conferred on Regional Express (Rex) as the Regional Airline of the Year 2010. This award is in recognition of the airline's superior safety record and operational excellence that have been demonstrated by outstanding punctuality and flight completion. The airline was also praised for its outstanding customer service as evidenced by the consistent top rankings in consumer polls over the years.

ATW Air Transport World 2010
Regional Airline of the Year

Roy Morgan Research 1ST 2010
AIRLINE SATISFACTION REPORT

Rex was rated the top performing domestic airline for customer satisfaction by Roy Morgan Research in the 2010 Airline Satisfaction Report. 83.5% of Australians who took a flight with Rex in the last 12 months ending April 2010 were 'very' or 'fairly' satisfied. This is in comparison to only 80.3% for QantasLink and 79.7% for Virgin Blue.

The CHOICE domestic airline satisfaction survey conducted in 2010 saw Rex ranked 2nd for another consecutive year. The survey studied overall consumer satisfaction with domestic airlines for economy flights.

Rex's wholly-owned subsidiary the Australian Airline Pilot Academy (AAPA) was awarded "Best New Business" for the Wagga Wagga Business Chamber 2009 Golden Crow Awards. This annual event recognises and honours excellence and outstanding achievements in business.

COMMUNITY INVOLVEMENT

True to its motto "Our heart is in the Country", Rex is committed to contributing towards helping those in dire straits in the regional areas. In addition, Rex understands the importance of key community events in the various regional towns and is privileged to be able to play role in supporting such events.

Throughout the year, Rex contributed more than a quarter of a million dollars in sponsorship of worthy charitable and community projects across its network. Some of the causes supported by Rex included:

- Griffith Festival of Gardens
- Moruya Jazz Festival
- Cootharinga Charity Race Day
- Dragon Abreast Orange
- Various Relay for Life events around the region

13 CHANGES IN STATE OF AFFAIRS

In July 2009, work started on the new campus for the Australian Airline Pilot Academy (AAPA) in Wagga Wagga. Work continued throughout the year with the first accommodation blocks being ready for occupation in January 2010 and full possession taking place in April 2010.

In addition to the new campus the Academy took delivery of 10 more brand new training aircraft and entered a partnership with the Wagga Wagga City Council and Airservices Australia to build an Instrument Landing System (ILS) at Wagga Wagga Airport. This was also supported by a $1m grant from the federal government.

In Q3 AAPA attained RTO (Registered Training Organisation) and CRICOS (Commonwealth Register of Institutions and Courses for Overseas Students) accreditation which are essential for the training of overseas students.

In the last quarter, AAPA saw the graduation of 18 cadets that successfully completed the Rex Pilot Cadet Programme as well as a batch of four graduates from its first Flight Instructor Rating course.

Pel-Air continued to scale back its commercial medivac business while it prepared for the start of the Victorian Government Air Ambulance operations. In April 2010, it announced the termination of the partnership with Careflight for the provision of commercial medivac services. On the other hand it has taken delivery, ahead of schedule of four new B200C Kingair aircraft for the Victorian Air Ambulance contract.

In the year under review, the Rex group has been successful in the following tenders/contracts:

QUEENSLAND SUBSIDISED ROUTE

In February 2010, Rex commenced the Queensland licensed and subsidised Northern 1 and 2 routes from Townsville. The contract term is until March 2013.

VICTORIAN GOVERNMENT TRAVEL

Rex was appointed by the Victorian Government on to a new panel of airline suppliers for regional, domestic and international air services. The contract commenced 1 March 2010 with a contract term until 28 February 2013. The Victorian Government has the discretion to extend with two one-year extension periods.

WHOLE OF AUSTRALIAN GOVERNMENT TRAVEL

Rex was also one of four domestic airlines to be appointed in May 2010 by the Federal Government to supply travel services across the Commonwealth. The Whole of Australian Government (WoAG) travel tender commenced 1 July 2010 with a contract term until 30 June 2013. The Federal Government has the discretion to extend by an additional two one-year periods.

FLY-IN/FLY-OUT (FIFO) MINING CONTRACTS

In August 2009, Pel-Air commenced a three year FIFO contract for Iluka Resources to Jacinth-Ambrosia from Adelaide in both SAAB 340 and Metro 23 aircraft.

AMBULANCE VICTORIA

Pel-Air was awarded the Ambulance Victoria contract on 24 December 2009 to provide fixed wing aircraft for air ambulance services, following a year long tender process. The 10 year contract with a two year option to extend will see Pel-Air providing and operating four B200C Kingair aircraft fitted out in accordance to Ambulance Victoria specifications. Operations will start on the 1 July 2011.

Rex has also tendered for the following contracts for which an outcome is expected in the next FY:

JP66 PHASE 1 REPLACEMENT FOR AIR DEFENCE

Pel-Air has submitted a tender to supply air defence target services to the Commonwealth of Australia through the Department of Defence. The tender was submitted on 22 February 2010 and it is expected that the results of this tender will be released in the first half of the calendar year 2011.

NORTHERN TERRITORY INTEGRATED AERO-MEDICAL SERVICE CONTRACT

In April 2010, Pel-Air tendered for the Northern Territory Integrated Aero-Medical Services contract. This contract requires the 24/7 provision of a Door to Door Ambulance service across the Northern Territory, comprising of fixed wing and rotary wing aircraft, medical crew, a Logistics Control Centre and road ambulances. The service will operate from bases at Katherine and Gove Airports with the main base located at Darwin Airport.

Pel-Air submitted a full turn-key solution for this tender having assembled a robust consortium, comprising of St John Ambulance and HeliWest.

The contract is for a period of 10 years with the announcement expected to be mid-September 2010.

NORTHERN TERRITORY INTERSTATE CONTRACT

In August 2009, Pel-Air in conjunction with CareFlight, tendered for the Northern Territory Interstate contract. This is a panel contract which will provide Interstate Aero-medical transfers, allowing Territorians access to specialist Medical Services not currently available within the state.

The service requires the use of a medically-crewed and equipped jet to provide the hospital transfers. A Pel-Air Westwind jet in Air Ambulance configuration together with CareFlight's medical crew have been proposed in this tender.

The contract is for a period of 36 months with the announcement date expected to be mid-September 2010.

14 SUBSEQUENT EVENTS

The six-month aircraft leasing contract with Siam General Aviation Co. Ltd for the lease of two SAAB 340 aircraft terminated on 30 June 2010. The two aircraft remained in Thailand and are being leased to Happy Air Travelers, an airline based in Phuket.

AAPA signed an agreement with Jeppesen Australia, a subsidiary of Boeing, on 20 July 2010 to provide pilot training to Jeppesen's pilot trainees. This agreement paves the way for the training of pilots from all over the world. Jeppesen anticipates training around 80 pilots a year at the Academy in Wagga Wagga.

Rex Managing Director and AAPA Chairman Jim Davis with Boeing Australia and South Pacific President Ian Thomas

Sale contracts were signed in two separate deals which saw the disposal of eight Metro freighters previously operated by Pel-Air. This now sees all of the old freighter fleet disposed of with only one Brasilia aircraft still to be sold.

Pel-Air's contract with Barrick Gold to operate services to the Osborne mine ceased in July 2010 and flights are now continued on an ad hoc basis. Barrick Gold recently announced the sale of the Osborne Mine assets to Ivanhoe Australia who intends to continue operating the assets in support of their Merlin Project from October 2010. Pel-Air is well placed to operate these services for Ivanhoe Australia who have been a client of Pel-Air since November 2009.

Rex announced the scaling back of services in several regional cities as a result of increased airport charges and the absence of a partnership agreement. The effect of this scaling back will see the load factors increasing with an increased pressure on ticket prices. Rex expects its passenger numbers in these ports to fall slightly. The ports affected are:

- Burnie (TAS) – reduction of 22%
- Port Lincoln (SA) - reduction of 18%
- Mount Gambier (SA) - reduction of 15%
- Orange (NSW) – reduction of 8%

15 FUTURE DEVELOPMENTS

The restructuring of Pel-Air will continue during most of FY 2011. In order to increase margins the focus will move from Pel-Air's traditional fields of freight and jet medical retrieval to scheduled and ad hoc mining charters and contracted Air Ambulance work. Defence work will continue throughout the new FY but with a focus on the contract extension expected to be announced later in the new FY.

With its facilities fully completed and all the necessary accreditations in place, AAPA will embark in earnest in recruiting overseas students either through its partner Jeppesen or by its own means.

As for the airline, the emphasis for the year would be to optimise the existing network and to strengthen its pilot strength to be ready for an upswing expected for the last part of the FY.

16 ENVIRONMENTAL REGULATIONS

Rex continues to be an active participant in programs aimed at maximising energy efficiency and reducing Greenhouse gas emissions in accordance with the Energy Efficient Opportunities Act 2006 (EEO) and the National Greenhouse Energy Reporting Act 2007 (NGER).

Since its registration with the EEO program in November 2007, two public reports on the initiatives undertaken by Rex has been made available on the Rex website at www.rex.com.au

Since its registration with the NGER program in January 2009, Rex has made it first reporting in Oct 2009 and its second reporting is due in October 2010.

17 DIVIDENDS

In respect of the financial year ended 30 June 2009, the directors had recommended the prudent approach of postponing the payment of dividends as the outlook was uncertain.

In respect of the financial year ended 30 June 2010, the directors have recommended a fully franked dividend of 6.6 cents per share be paid to holders of fully paid ordinary shares. This dividend is subject to approval by shareholders at the Annual General Meeting.

18 INDEMNIFICATION OF OFFICERS AND AUDITORS

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

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

19 REMUNERATION REPORT

REMUNERATION AND NOMINATION COMMITTEE

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

REMUNERATION POLICY

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

REMUNERATION STRUCTURE

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

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

PROFIT SHARE INCENTIVE PLAN

Rex has established a profit share incentive scheme which has run for four financial years, and will continue to run for another two financial years. Under this scheme, eligible employees will be awarded a share of Rex's profit before tax (PBT) (excluding contributions from subsidiaries and associates) for the financial year immediately preceding the award. The profit share is allocated on an equal share basis. Permanent part time employees will receive an amount proportional to their employment hours. In FY 2010, the Pilot EBA has opted for a 2% plus CPI salary increase in lieu of the profit share. The ASU EBA opted for a 4% fixed salary increase in lieu of the profit share.

SHARE GIFT PLAN

Rex has established the share gift plan for its executive directors and eligible employees. The share plan which ran from FY 2007 to FY 2009 was offered to all the EBA groups and adopted by all the groups except the flight attendants who voted for an additional 0.45% increase of fixed salary in lieu of the 2% share plan. In FY 2010, the flight attendants have again opted for 3.5% increase of fixed salary in lieu of the 2% share gift. Additionally, groups which opted not to receive share gift in lieu of higher base salaries expanded to include the pilots and ASU EBA staff. The board has also decided that this plan will be offered to all non-EBA employees who are not the subject of an adverse recommendation by the Remuneration and Nomination Committee. This plan is not based on any performance measures as it was established to show its recognition of employees' contribution to Rex by providing an opportunity to share in its future growth and profitability and to align the interests of the employees more closely with the interests of the shareholders.

DIRECTOR AND SENIOR MANAGEMENT DETAILS

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

- Lim Kim Hai (Chairman)
- The Hon. John Sharp (Deputy Chairman)
- James Davis
- Russell Hodge
- David Miller
- Lee Thian Soo

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

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

REMUNERATION REPORT (CONTINUED)

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

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

		Short-term benefits			Post employment benefits	Long-term benefits	Share-based payments			
Directors/Executives	FY	Cash salary & fees $	Cash profit sharing & other bonuses $	Non-monetary $	Pension & super-annuation $	Annual leave & long service leave $	Options & rights $	Share gift provision $	Total $	% Consisting of options %
EXECUTIVE DIRECTORS										
LIM KIM HAI*	2010	-	-	-	-	-	-	-	-	-
Executive Chairman	2009	42,308	-	-	-	-	-	-	42,308	-
JAMES DAVIS	2010	188,846	2,202	-	14,461	-	-	3,200	208,709	-
Managing Director	2009	185,000	-	-	13,951	-	-	3,200	202,151	-
DAVID MILLER	2010	137,500	2,202	5,780	12,573	-	-	2,500	160,555	-
Executive Director, CEO of Air Link Pty Ltd	2009	145,385	2,294	-	13,290	-	-	2,500	163,469	-
NON-EXECUTIVE DIRECTORS										
JOHN SHARP	2010	90,000	-	-	8,100	-	-	-	98,100	-
Deputy Chairman	2009	90,000	-	-	8,100	-	-	-	98,100	-
RUSSELL HODGE	2010	25,000	-	-	2,250	-	-	-	27,250	-
Non-Executive Director	2009	25,000	-	-	2,250	-	-	-	27,250	-
LEE THIAN SOO	2010	25,000	-	-	-	-	-	-	25,000	-
Non-Executive Director	2009	25,000	-	-	-	-	-	-	25,000	-
SENIOR MANAGEMENT EXECUTIVES										
CHRIS HINE	2010	163,606	2,202	-	14,231	-	-	3,075	183,114	-
GM, Flight Operations & Chief Pilot	2009	160,000	-	-	13,518	-	-	3,000	176,518	-
WARRICK LODGE	2010	138,245	2,202	-	12,640	-	-	2,768	155,855	-
GM, Network Strategy & Sales	2009	129,808	-	-	12,150	5,192	-	2,700	149,850	-
IRWIN TAN	2010	133,005	2,202	-	12,169	-	-	2,563	149,939	-
GM, Corporate Services	2009	130,000	-	-	11,700	-	-	2,500	144,200	-
DALE HALL	2010	116,284	2,202	-	10,664	-	-	2,328	131,478	-
Manager, Maintenance Control	2009	113,491	22,782	-	12,264	-	-	2,216	150,752	-
GARRY FILMER	2010	112,644	2,202	-	10,336	-	-	2,255	127,437	-
GM, Engineering	2009	110,000	-	-	9,900	-	-	2,200	122,100	-
MAYOORAN THANABALASINGAM	2010	128,005	2,202	-	11,719	-	-	2,563	144,489	-
GM, ITC	2009	125,000	-	-	11,249	-	-	2,500	138,749	-
TOTAL	**2010**	**1,258,135**	**17,616**	**5,780**	**109,143**	**-**	**-**	**21,252**	**1,411,926**	**-**
	2009	**1,280,992**	**25,076**	**-**	**108,372**	**5,192**	**-**	**20,816**	**1,440,448**	**-**

VALUE OF OPTIONS ISSUED TO DIRECTORS AND EXECUTIVES

No options lapsed, were granted or were exercised during the FY 2010.

** Lim Kim Hai undertook to forfeit his Director's fee in November 2008 in response to the global economic crisis. He continued to voluntarily forfeit his fees in this period in the light of the continuing difficult environment.*

RELATIONSHIP BETWEEN THE REMUNERATION POLICY AND COMPANY PERFORMANCE

The only proportion of remuneration that was dependent on the satisfaction of a performance condition was the Company's profit share bonus. Of the directors, only Jim Davis and David Miller were entitled to the Company's profit share bonus. Both Jim Davis and David Miller volunteered to forego their profit share bonus which would have been paid in FY 2008. The senior management executives were also entitled to the profit share bonus but chose to forego this bonus. Senior management executives also received a share gift as set out in Note 26 of the financial statements.

RELATIONSHIP BETWEEN THE REMUNERATION POLICY AND COMPANY PERFORMANCE

The tables below set out summary information about the Group's earnings and movements in shareholder wealth for the five years to June 2010:

	30 June 2010 $'000	30 June 2009 $'000	30 June 2008 $'000	30 June 2007 $'000	30 June 2006 $'000
Revenue	229,665	250,963	260,513	225,193	174,259
Net profit before tax	26,254	30,789	32,478	33,072	21,984
Net profit after tax	24,627	22,982	24,343	23,627	15,724

	30 June 2010	30 June 2009	30 June 2008	30 June 2007	30 June 2006
Share price at start of year	$0.80	$1.06	$2.75	$0.995	N/A
Share price at end of year	$1.005	$0.80	$1.06	$2.75	$0.995
Interim dividend	-	-	-	-	-
Final dividend[1,2]	6.6cps	-	6.6cps	6.6cps	5.0cps
Basic earnings per share	22.2cps	20.4cps	20.3cps	20.5cps	15.4cps
Diluted earnings per share	22.2cps	20.4cps	20.3cps	20.4cps	15.4cps

[1] Franked to 9.43cps at 30% corporate income tax rate for 2008 and 2007; unfranked for 2006
[2] Declared after the balance date and not reflected in the financial statements.

KEY TERMS OF EMPLOYMENT CONTRACTS

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

20 PROCEEDINGS ON BEHALF OF THE COMPANY

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

21 NON-AUDIT SERVICES

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 28 to the financial statements.

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

The directors are of the opinion that the services as disclosed in Note 28 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit Committee, for the following reasons:

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

22 ROUNDING OFF OF AMOUNTS

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

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

On behalf of the Directors

Jim Davis

James Davis
Managing Director
Sydney, 17 September 2010

Deloitte.

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

17 September 2010

Dear Board Members

Regional Express Holdings Limited

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

As lead audit partner for the audit of the financial statements of Regional Express Holdings Limited for the financial year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Catherine Hill

Catherine Hill
Partner
Chartered Accountant

Liability limited by a scheme approved under Professional Standards Legislation.

FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

	Note	2010 $'000	2009 $'000
Continuing operations			
Passenger revenue		193,202	204,259
Freight revenue		905	925
Charter revenue		27,643	36,311
Other passenger services and amenities		1,913	2,085
Finance income	3	406	525
Other income	3,4	5,596	6,858
Total revenue and other income		**229,665**	**250,963**
Flight and port operation costs (excluding fuel)		(48,840)	(48,964)
Fuel costs		(30,392)	(38,924)
Salaries and employee-related costs	3	(77,620)	(78,102)
Selling and marketing costs		(5,494)	(6,416)
Engineering and maintenance costs		(24,769)	(31,532)
Office and general administration costs		(6,097)	(6,488)
Finance costs	3	(60)	(190)
Depreciation and amortisation	3	(9,995)	(9,139)
Other expenses	3	(144)	(419)
Total costs and expenses		**(203,411)**	**(220,174)**
Profit before income tax		**26,254**	**30,789**
Income tax expense	5	(1,627)	(7,807)
Profit after tax from continuing operations		**24,627**	**22,982**
Profit attributable to:			
Members of the parent		24,627	22,982
		24,627	**22,982**
Earnings per share (cents per share)			
Basic (cents per share)	18	22.2	20.4
Diluted (cents per share)	18	22.2	20.4
Dividends per share (cents per share)	19	6.6	-

Notes to the financial statements are included on pages 33 to 70.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

	2010 $'000	2009 $'000
Profit after tax	24,627	22,982
Other comprehensive income		
Gains arising during the year		
Gain on cash flow hedges taken to equity	1,017	-
Income tax relating to components of other comprehensive income	(305)	-
Reclassification adjustment for amounts recognised in profit or loss	-	(470)
Other comprehensive income for the period (net of tax)	712	(470)
Total comprehensive income for the year	25,339	22,512

Notes to the financial statements are included on pages 33 to 70.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2010

	Note	2010 $'000	2009 $'000
Current assets			
Cash and cash equivalents	24	10,326	15,469
Trade and other receivables	6	9,509	8,308
Available for sale investments carried at fair value – shares		10	10
Inventories	7	7,744	7,488
Current tax assets	5	3,198	-
Total current assets		**30,787**	**31,275**
Non-current assets			
Other financial assets	8	1,028	11
Other receivables	6	3,932	2,742
Deferred tax assets	5	911	745
Property, plant and equipment	9		
Aircraft		106,340	80,509
Other property, plant and equipment		68,486	45,860
Goodwill and intangible assets	10	7,299	7,327
Total non-current assets		**187,996**	**137,194**
Total assets		**218,783**	**168,469**
Current liabilities			
Trade and other payables	11	18,267	14,883
Unearned revenue	14	16,432	16,202
Borrowings	12	-	1,657
Income tax payable	5	-	2,288
Provisions	13	6,540	7,534
Other liabilities	14	494	43
Total current liabilities		**41,733**	**42,607**
Non-current liabilities			
Borrowings	12	26,000	-
Provisions	13	427	453
Total non-current liabilities		**26,427**	**453**
Total liabilities		**68,160**	**43,060**
Net assets		**150,623**	**125,409**
Equity			
Issued capital	15	74,659	75,037
Reserved shares	16	(2,869)	(3,241)
Retained earnings	17	75,998	51,371
Share-based payments reserve	16	533	652
Other reserves	16	2,302	1,590
Total equity		**150,623**	**125,409**

Notes to the financial statements are included on pages 33 to 70.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

	Note	2010 $'000	2009 $'000
Receipts from customers		252,876	269,314
Payments to suppliers, employees and others		(215,224)	(230,275)
Interest paid		(60)	(190)
Income tax paid		(7,584)	(9,000)
Net cash flows provided by operating activities	24 (B)	**30,008**	**29,849**
Interest received		406	525
Proceeds from property, plant and equipment		2,544	10,756
Payments for property, plant and equipment - aircraft and other		(61,901)	(28,371)
Payments for property, plant and equipment – software		(48)	(86)
Proceeds from sale of investments		-	6,693
Payments for investments		-	(5,742)
Net cash flows used in investing activities		**(58,999)**	**(16,225)**
Share buy back		(378)	(3,571)
Reserved shares		(117)	(488)
Repayment of borrowings		(1,657)	(1,818)
Proceeds from borrowings		26,000	-
Dividends paid		-	(7,418)
Net cash flows provided by/(used in) financing activities		**23,848**	**(13,295)**
Net increase/(decrease) in cash held		**(5,143)**	**329**
Cash at the beginning of the financial year		**15,469**	**15,140**
Cash at the end of the financial year	24 (A)	**10,326**	**15,469**

Notes to the financial statements are included on pages 33 to 70.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

	Attributable to equity holders of the Company						
	Issued capital $'000	Reserved shares $'000	Retained earnings $'000	Share-based payments reserve $'000	Cash flow hedge reserve $'000	General reserve $'000	Total equity $'000
At 1 July 2008	**78,608**	**(3,427)**	**35,807**	**545**	**(470)**	**1,590**	**112,653**
Dividends paid	-	-	(7,418)	-	-	-	(7,418)
Profit for the year	-	-	22,982	-	-	-	22,982
Share buy-back	(3,571)	-	-	-	-	-	(3,571)
Shares purchased as reserve shares	-	(488)	-	-	-	-	(488)
Gains/(losses) on cash flow hedges	-	-	-	-	672	-	672
Deferred tax effect on cash flow hedges	-	-	-	-	(202)	-	(202)
Share gift issued	-	674	-	(557)	-	-	117
Share gift plan expense	-	-	-	664	-	-	664
At 30 June 2009	**75,037**	**(3,241)**	**51,371**	**652**	**-**	**1,590**	**125,409**
At 1 July 2009	**75,037**	**(3,241)**	**51,371**	**652**	**-**	**1,590**	**125,409**
Profit for the year	-	-	24,627	-	-	-	24,627
Share buy-back	(378)	-	-	-	-	-	(378)
Share purchased as reserve shares	-	(117)	-	-	-	-	(117)
Gains/(losses) on cash flow hedges	-	-	-	-	1,017	-	1,017
Deferred tax effect on cash flow hedges	-	-	-	-	(305)	-	(305)
Share gift exercised/issued	-	489	-	(460)	-	-	29
Share gift plan expense	-	-	-	341	-	-	341
At 30 June 2010	**74,659**	**(2,869)**	**75,998**	**533**	**712**	**1,590**	**150,623**

Notes to the financial statements are included on pages 33 to 70.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

01 GENERAL INFORMATION

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

02 SIGNIFICANT ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

The financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law. The financial statements comprise the consolidated financial statements of the Group.

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

The financial statements were authorised for issue by the directors on 17 September 2010.

BASIS OF PREPARATION

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

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

CRITICAL ACCOUNTING JUDGEMENTS & SOURCES OF UNCERTAINTY

CRITICAL JUDGEMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES

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

Employee entitlements

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

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

Key sources of estimation uncertainty

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

Impairment of goodwill

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

The carrying amount of goodwill at the balance date was $7,190 thousand (2009: $7,190 thousand) with no impairment loss recognised during the current financial year.

Fair value of derivatives and other financial instruments

As described in Note 25, management uses their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument.

ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

New and revised Standards and Interpretations effective for the current reporting period that are relevant to the Group include:

- AASB 101 'Presentation of Financial Statements'
- AASB 8 'Operating Segments'
- AASB 3 'Business Combinations'

The adoption of these new and revised Standards and Interpretations have resulted in changes to the consolidated entity's accounting policies and presentation of, or disclosure in, its financial statements in the following areas:

AASB 101 'Presentation of Financial Statements'

The Group has adopted the revised AASB 101 (2007) Presentation of Financial Statements from 1 July 2009. The revised Standard separates owner and non-owner changes in equity. As a result, all non-owner changes in equity are presented in a statement of comprehensive income and all owner changes in equity are presented in a statement of changes in equity.

The revised Standard also changes the title of other financial statements; the balance sheet is now termed the statement of financial position and the cash flow statement is now termed the statement of cash flows.

Comparative information has been re-presented to comply with the revised Standard. Since the change in accounting policy only affects presentation aspects, there is no impact on the financial position or performance of the consolidated entity.

AASB 8 'Operating Segments'
The Group has adopted AASB 8 'Operating Segments' and AASB 2007-3 'Amendments to Australian Accounting Standards arising from AASB 8' with effect from 1 January 2009. AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (AASB 114 'Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's 'system of internal financial reporting to key management personnel' serving only as the starting point for the identification of such segments. As a result, following the adoption of AASB 8, the identification of the Group's reportable segments has changed.

In prior years, segment information reported externally was reported on the basis of the types of services provided by the Group's operating divisions. However, information reported to the Group's Chief Executive Officer for the purposes of resource allocation and assessment of performance is more specifically focused on the category of customer for each type of service. The Group's reportable segments under AASB 8 are now as follows:

- Regular public transport revenue
- Charter revenue
- Training revenue

Information regarding these segments is presented in Note 30. Amounts reported for the prior period have been restated to conform to the requirements of AASB 8. The accounting policies of the new reportable segments are the same as the Group's accounting policies.

AASB 3 'Business Combinations'
The Group has adopted the revised AASB 3 (2008) Business Combinations from 1 July 2009. AASB 3 (2008) applies prospectively to business combinations occurring on or after this date and alters the manner in which business combinations and changes in ownership interest in subsidiaries are accounted for. Accordingly, while its adoption has no impact on previous acquisitions made by the consolidated entity, the application of the Standard will affect future acquisitions.

All consideration to purchase a business is now recorded at fair value at the acquisition date, with contingent consideration classified as a liability and subsequently remeasured through the income statement. Under the previous version of the Standard, contingent consideration was only recognised when the payment was probable and could be measured reliably and was accounted for as an adjustment to the cost of acquisition

Acquisition-related costs are accounted for separately from the business combination, generally leading to those costs being expensed when incurred. Previously such costs were accounted for as part of the cost of the acquisition of the business.

Non-controlling interests (previously referred to as 'minority' interests) in an acquiree are now recognised either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. This decision is made on an acquisition-by-acquisition basis. Under the previous version of the Standard, the non-controlling interest was always recognised at its share of the acquiree's net assets.

There is no impact on the financial position or performance of the consolidated entity.

AASB 127 'Consolidated and Separate Financial Statements (as revised in 2008)'
The revisions to AASB 127(2008) principally affect the accounting for transactions or events that result in a change in the Group's interests in its subsidiaries.

AASB 127(2008) has been adopted for periods beginning on of after 1 July 2009 and has been applied retrospectively (subject to specified exceptions) in accordance with the relevant transitional provisions. The revised Standard has affected the Group's accounting policies regarding changes in ownership interests in its subsidiaries that do not result in change in control. In prior years, in the absence of specific requirements in A-IFRS, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the carrying amount of the share of net assets disposed of was recognised in profit of loss. Under ASSB 127(2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

02 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

STANDARDS AND INTERPRETATIONS ISSUED NOT YET EFFECTIVE

At the date of authorisation of the financial report, the Standards and Interpretations listed below were in issue but not yet effective.

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

Standard	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 2009-5 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Process'	1 January 2010	30 June 2011
AASB 2009-8 'Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions'	1 January 2010	30 June 2011
AASB 124 'Related Party Disclosures (2009)', AASB 2009-12 'Amendments to Australian Accounting Standards'	1 January 2011	30 June 2012
AASB 9 'Financial Instruments', AASB 2009-11 'Amendments to Australian Accounting Standards arising from AASB 9'	1 January 2013	30 June 2014
AASB 2009-10 'Amendments to Australian Accounting Standards – Classification of Rights Issues'	1 February 2010	30 June 2011
AASB 2009-14 'Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement'	1 January 2011	30 June 2012
AASB 2010-3 'Amendments to Australian Accounting Standards arising from the Annual Improvements Project'	1 July 2010	30 June 2011
AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project'	1 January 2011	30 June 2012
AASB Interpretation 19 'Extinguishing Liabilities with Equity Instruments'	1 July 2010	30 June 2011

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

(A) BASIS OF CONSOLIDATION

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

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

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

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

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

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

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

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

(B) INVESTMENTS IN ASSOCIATES

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

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

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

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

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

(C) BORROWING COSTS

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

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

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

(D) CASH AND CASH EQUIVALENTS

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

Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

(E) FOREIGN CURRENCY

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

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

Exchange differences are recognised in profit or loss in the period in which they arise except for exchange differences on transactions entered into in order to hedge certain foreign currency risks (refer to Note 25).

02 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(F) DERIVATIVE FINANCIAL INSTRUMENTS

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

The Group enters into forward contracts where it agrees to buy specified amounts of USD in the future at a predetermined exchange rate. The objective is to match the contract with anticipated future cash flows from sales and purchases in USD, to protect the consolidated entity against the possibility of loss from future exchange rate fluctuations. The forward exchange contracts are usually no longer than 12 months. Further details of these USD contracts are disclosed in Note 25 to the financial statements.

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

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

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

HEDGE ACCOUNTING

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

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

Note 25 contains details of the fair values of the USD contracts used for hedging purposes. Movements in the hedging reserve in equity are also detailed in Note 16.

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

CASH FLOW HEDGE

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

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

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

(G) EMPLOYEE BENEFITS

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

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

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

DEFINED CONTRIBUTION PLANS

Contributions to defined contribution superannuation plans are expensed when incurred.

(H) FINANCIAL ASSETS

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

Subsequent to initial recognition, investments in associates are accounted for under the equity method in the consolidated financial statements.

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

EFFECTIVE INTEREST METHOD

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

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

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

(i) has been acquired principally for the purpose of selling in the near future;

(ii) is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

(iii) is a derivative that is not designated and effective as a hedging instrument.

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

Fair value is determined in the manner described in Note 25.

AVAILABLE-FOR-SALE FINANCIAL ASSETS

Certain shares and redeemable notes held by the Group are classified as being available-for-sale and are stated at fair value. Fair value is determined in the manner described in Note 25. Gains and losses arising from changes in fair value are recognised directly in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

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

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

LOANS AND RECEIVABLES

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

Interest is recognised by applying the effective interest rate.

IMPAIRMENT OF FINANCIAL ASSETS

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

The carrying amount of financial assets including uncollectible trade receivables is reduced by the impairment loss through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

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

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

02 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(I) FINANCIAL INSTRUMENTS ISSUED BY THE GROUP

DEBT AND EQUITY INSTRUMENTS

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement. Equity Instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

FINANCIAL LIABILITIES

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

FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in Note 25.

OTHER FINANCIAL LIABILITIES

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

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

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

(J) GOODWILL

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

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

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

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

(K) GOVERNMENT GRANTS

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

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

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

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

(L) IMPAIRMENT OF OTHER TANGIBLE AND INTANGIBLE ASSETS

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

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

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

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

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

(M) INCOME TAX

CURRENT TAX

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

DEFERRED TAX

Deferred tax is accounted for based on temporary differences between the tax base of an asset or liability and its carrying amount in the statement of financial position. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

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

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

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

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

CURRENT AND DEFERRED TAX FOR THE PERIOD

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

(N) INTANGIBLE ASSETS

INTANGIBLE ASSETS ACQUIRED SEPARATELY

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

INTERNALLY-GENERATED INTANGIBLE ASSETS – RESEARCH AND DEVELOPMENT EXPENDITURE

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

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

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

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

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

(N) INTANGIBLE ASSETS (CONTINUED)

INTERNALLY-GENERATED INTANGIBLE ASSETS – RESEARCH AND DEVELOPMENT EXPENDITURE (CONTINUED)

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

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

(O) INVENTORIES

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

(P) LEASED ASSETS

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

GROUP AS LESSOR

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

GROUP AS LESSEE

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

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Refer to Note 2(C). Contingent rentals are recognised as expenses in the periods in which they are incurred.

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

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

LEASE INCENTIVES

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

(Q) PROPERTY, PLANT AND EQUIPMENT

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

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

The rates applied are as follows:

Aircraft	15,000 to 60,000 hours
Building	20 to 30 years
Computer Equipment	4 years
Engines	10 years
Furniture & Fittings	8 years
Leasehold improvements	over the unexpired lease period
Motor Vehicles	7 years
Plant & equipment	8 years
Rotable assets	5 to 20 years

(R) PROVISIONS

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

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

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

(S) REVENUE

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

RENDERING OF SERVICES

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

DIVIDEND AND INTEREST INCOME

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

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

(T) SHARE-BASED PAYMENTS

Equity-settled share-based payments with employees and others providing similar services are measured at the fair value of the equity instrument at the grant date.

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

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

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

(U) GOODS AND SERVICES TAX

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

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

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

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

03 REVENUES AND EXPENSES

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

	2010 $'000	2009 $'000
Finance income		
Interest	406	525
	406	**525**
Other income		
Insurance claim	1,748	31
Foreign currency gain	949	30
Grant – Department of Transport and Regional Services	43	244
Gain on disposal of property, plant & equipment	-	3,429
Other income	2,856	3,124
	5,596	**6,858**
Salaries and employee-related costs		
Wages and salaries (excluding bonus – profit share scheme)	(70,735)	(69,178)
Bonus – profit share scheme	(631)	(2,004)
Workers' compensation costs	(884)	(1,465)
Superannuation costs	(5,029)	(4,674)
Expense of share-based payments	(341)	(781)
	(77,620)	**(78,102)**
Finance costs		
Interest expense	(60)	(190)
	(60)	**(190)**
Depreciation and amortisation		
Depreciation and amortisation	(9,919)	(9,017)
Amortisation of development costs and software	(76)	(122)
	(9,995)	**(9,139)**
Lease payments included in consolidated income statement		
Included in flight and port operation costs		
Minimum lease payments – operating lease	(8,938)	(7,604)
	(8,938)	**(7,604)**
Office and general administrative costs		
Bad debts provided	-	(1)
	-	**(1)**
Other expenses		
Foreign currency loss	(144)	(419)
	(144)	**(419)**

04 PROFIT FOR THE YEAR

GAINS AND LOSSES

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

	2010 $'000	2009 $'000
Net gain/(loss) on disposal of property, plant and equipment	(127)	2,365
Net foreign exchange gain/(loss)	805	(389)

05 INCOME TAX

INCOME TAX RECOGNISED IN PROFIT OR LOSS

	2010 $'000	2009 $'000
Tax expense/(income) comprises:		
Current tax expense/(income)	2,933	7,485
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	(471)	322
Over provision of income tax in previous years	(835)	-
Total tax expense/(income)	**1,627**	**7,807**
Attributable to:		
Continuing operations	1,627	7,807
	1,627	**7,807**
The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:		
Profit/(loss) from continuing operations	26,254	30,789
Profit/(loss) from operations	**26,254**	**30,789**
Income tax expense calculated at 30%	7,876	9,237
Non deductible expenses/(income)	(604)	-
Previously unrecognised and unused tax losses and tax offsets not recognised as deferred tax assets	(287)	(888)
Other	(413)	(38)
Over provision of income tax om previous years	(835)	-
Investment allowance	(4,110)	(504)
	1,627	**7,807**

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

Tax effect of tax deduction available in respect of prior years due to a retrospecive change in the tax laws amounted to $835 thousand (2009: nil).

05 INCOME TAX (CONTINUED)

The following current and deferred tax balances have been recognised in the statement of financial position.

	2010 $'000	2009 $'000
Deferred tax		
Other	305	202
	305	**202**
Current tax assets and liabilities		
Current tax assets	3,198	-
	3,198	**-**
Current tax payables		
Income tax attributable:		
Parent entity	-	2,722
Entities in the tax consolidated group	-	(434)
	-	**2,288**
Deferred tax balances		
Deferred tax assets comprise:		
Temporary differences	2,643	3,017
Deferred tax liabilities comprise:		
Temporary differences	(1,732)	(2,272)
Net deferred tax assets/liabilities	**911**	**745**

Taxable and deductible temporary differences arise from the following:

30 June 2010	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Acquisitions / disposals $'000	Exchange differences $'000	Changes in tax rate $'000	Closing balance $'000
Gross deferred tax liabilities							
Inventories	(2,246)	535	-	-	-	-	(1,711)
Other items	(26)	5	-	-	-	-	(21)
	(2,272)	**540**	**-**	**-**	**-**	**-**	**(1,732)**
Gross deferred tax assets							
Employe-related provisions	2,609	(341)	-	-	-	-	2,268
Deferred government grant	13	(13)	-	-	-	-	-
Provision for doubtful debts	11	(8)	-	-	-	-	3
Listing costs deductible over five years	174	(174)	-	-	-	-	-
Other items	210	467	(305)	-	-	-	372
	3,017	**(69)**	**(305)**	**-**	**-**	**-**	**2,643**
Net deferred tax assets/liabilities	**745**	**471**	**(305)**	**-**	**-**	**-**	**911**

30 June 2009	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Acquisitions / disposals $'000	Exchange differences $'000	Changes in tax rate $'000	Closing balance $'000
Gross deferred tax liabilities							
Inventories	(2,016)	(230)	-	-	-	-	(2,246)
Other inventories	-	(26)	-	-	-	-	(26)
	(2,016)	**(256)**	**-**	**-**	**-**	**-**	**(2,272)**
Gross deferred tax assets							
Employee-related provisions	2,398	211	-	-	-	-	2,609
Deferred government grant	86	(73)	-	-	-	-	13
Provision for doubtful debts	10	1	-	-	-	-	11
Listing costs deductible over five years	348	(174)	-	-	-	-	174
Other items	443	(31)	(202)	-	-	-	210
	3,285	**(66)**	**(202)**	**-**	**-**	**-**	**3,017**
	-	-	-	-	-	-	-
Net deferred tax assets/liabilities	**1,269**	**(322)**	**(202)**	**-**	**-**	**-**	**745**

Deferred tax assets of $2,816 thousand (2009: $3,015 thousand) from tax losses have not been brought to account as assets.

06 TRADE AND OTHER RECEIVABLES

	2010 $'000	2009 $'000
Current		
Trade receivables	5,608	5,950
Provision for doubtful debts	(10)	(35)
	5,598	**5,915**
Sundry debtors and other debtors	319	66
Prepayments	2,636	1,751
Deposits and other assets	956	576
	9,509	**8,308**

Trade receivables are non-interest bearing and are generally on 30 day terms. A provision for doubtful debts is made when there is objective evidence that a trade receivable is impaired. The amount of the provision has been measured as the difference between the carrying amount of the trade receivables and the estimated future cash flows expected to be received from the relevant debtors. The Group has provided fully for all receivables deemed irrecoverable based on historical experience.

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

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

	2010 $'000	2009 $'000
Ageing of past due but not impaired		
60 - 90 days	78	2
90 - 120 days	66	309
Total	**144**	**311**
Movement in the provision for doubtful debts		
Balance at the beginning of the year	(35)	(34)
Impairment losses recognised on receivables	-	(1)
Amounts written off as uncollectible	25	-
Balance at the end of the year	**(10)**	**(35)**
Ageing of impaired trade receivables		
60 - 90 days	-	-
90 - 120 days	-	-
120+ days	(10)	(35)
Total	**(10)**	**(35)**

	2010 $'000	2009 $'000
Non-current		
Trade receivables – at amortised cost	3,932	2,742
	3,932	**2,742**

07 INVENTORIES

	2010 $'000	2009 $'000
Current		
Consumables spares at cost	7,744	7,488

08 OTHER FINANCIAL ASSETS

	2010 $'000	2009 $'000
Non-current		
Investments carried at cost	11	11
Foreign exchange asset	1,017	-
	1,028	11

09 PROPERTY, PLANT AND EQUIPMENT

	2010 $'000	2009 $'000
Aircraft		
At cost	137,587	108,000
Accumulated depreciation and impairment	(31,247)	(27,491)
Net carrying value	**106,340**	**80,509**
Other property, plant and equipment		
Rotable assets		
At cost	36,214	26,866
Accumulated depreciation and impairment	(5,359)	(3,692)
Net carrying value	**30,855**	**23,174**
Leasehold improvements		
At cost	1,106	993
Accumulated depreciation and impairment	(499)	(364)
Net carrying value	**607**	**629**
Motor vehicles		
At cost	872	878
Accumulated depreciation and impairment	(479)	(438)
Net carrying value	**393**	**440**
Furniture and fittings		
At cost	1,408	1,015
Accumulated depreciation and impairment	(651)	(512)
Net carrying value	**757**	**503**
Computer equipment		
At cost	1,752	1,796
Accumulated depreciation and impairment	(1,080)	(1,060)
Net carrying value	**672**	**736**

	2010 $'000	2009 $'000
Plant and equipment – ground service equipment		
At cost	7,651	5,489
Accumulated depreciation and impairment	(3,822)	(3,128)
Net carrying value	**3,829**	**2,361**
Land and buildings		
At cost	26,908	10,107
Accumulated depreciation and impairment	(986)	(571)
	25,922	9,536
Construction in progress	-	2,157
Net carrying value	**25,922**	**11,693**
Engines		
At cost	7,044	7,455
Accumulated depreciation and impairment	(1,593)	(1,244)
	5,451	6,211
Construction in progress	-	112
Net carrying value	**5,451**	**6,323**
Other property, plant and equipment		
Total other property, plant and equipment		
At cost	82,955	56,869
Accumulated depreciation and impairment	(14,469)	(11,009)
Net carrying value	**68,486**	**45,860**
Total property, plant and equipment		
At cost	220,542	164,869
Accumulated depreciation and impairment	(45,716)	(38,500)
Net carrying value	**174,826**	**126,369**

09 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

RECONCILIATIONS	2010 $'000	2009 $'000
Aircraft		
Net carrying amount at beginning of the period	80,509	75,433
Additions	34,830	19,325
Disposals	(2,320)	(8,299)
Reclassification	(742)	169
Depreciation charge for the year	(5,937)	(6,119)
Net carrying value	**106,340**	**80,509**
Other property, plant and equipment		
Rotable assets		
Net carrying amount at beginning of the period	23,174	23,463
Additions	9,368	798
Disposals	(18)	(9)
Depreciation charge for the year	(1,669)	(1,078)
Net carrying value	**30,855**	**23,174**
Leasehold improvements		
Net carrying amount at beginning of the period	629	2,307
Additions	114	14
Reclassification	-	(1,536)
Depreciation charge for the year	(136)	(156)
Net carrying value	**607**	**629**
Motor vehicles		
Net carrying amount at beginning of the period	440	307
Additions	62	308
Disposals	(24)	(75)
Reclassification	-	(28)
Depreciation charge for the year	(85)	(72)
Net carrying value	**393**	**440**
Furniture and fittings		
Net carrying amount at beginning of the period	503	503
Additions	398	105
Disposals	-	(1)
Reclassification	-	(5)
Depreciation charge for the year	(144)	(99)
Net carrying value	**757**	**503**
Computer equipment		
Net carrying amount at beginning of the period	736	878
Additions	279	224
Disposals	-	(5)
Reclassification	-	(31)
Depreciation charge for the year	(343)	(330)
Net carrying value	**672**	**736**

RECONCILIATIONS	2010 $'000	2009 $'000
Plant and equipment – ground service equipment		
Net carrying amount at beginning of the period	2,361	2,375
Additions	2,208	668
Disposals	-	(2)
Reclassification	-	64
Depreciation charge for the year	(740)	(744)
Net carrying value	**3,829**	**2,361**
Land and buildings		
Net carrying amount at beginning of the period	11,693	6,535
Additions	14,644	3,886
Reclassification	-	1,535
Depreciation charge for the year	(415)	(263)
Net carrying value	**25,922**	**11,693**
Engines		
Net carrying amount at beginning of the period	6,323	3,605
Additions	-	3,043
Disposals	(310)	-
Reclassification	(112)	(169)
Depreciation charge for the year	(450)	(156)
Net carrying value	**5,451**	**6,323**
Other property, plant and equipment		
Net carrying amount at beginning of the period	45,860	39,973
Additions	27,071	9,046
Disposals	(351)	(92)
Reclassification	(112)	(169)
Depreciation charge for the year	(3,982)	(2,898)
Net carrying value	**68,486**	**45,860**
Total property, plant and equipment		
Net carrying amount at beginning of the period	126,369	115,406
Additions	61,901	28,371
Disposals	(2,671)	(8,391)
Reclassification	(854)	-
Depreciation charge for the year	(9,919)	(9,017)
Net carrying value	**174,826**	**126,369**

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

No impairment loss has been recognised over items of property, plant and equipment for the year ended 30 June 2010 (2009: nil).

10 GOODWILL AND INTANGIBLE ASSETS

	Goodwill $'000	Software and Development Cost $'000
At 30 June 2010		
Cost	7,190	654
Accumulated amortisation and impairment	-	(545)
Net carrying amount	**7,190**	**109**
Total goodwill and intangible assets		**7,299**
Reconciliation		
At 1 July 2009, net of accumulated amortisation	7,190	137
Additions	-	48
Amortisation at 30 June 2010	-	(76)
At 30 June 2010 net of accumulated amortisation	**7,190**	**109**
Total goodwill and intangible assets		**7,299**
At 30 June 2009		
Cost	7,190	681
Accumulated amortisation and impairment	-	(544)
Net carrying amount	**7,190**	**137**
Total goodwill and intangible assets		**7,327**
Reconciliation		
At 1 July 2008, net of accumulated amortisation	7,190	173
Additions	-	86
Amortisation at 30 June 2009	-	(122)
At 30 June 2009 net of accumulated amortisation	**7,190**	**137**
Total goodwill and intangible assets		**7,327**

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

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

Air Link ($'000) - Charter	**58**
Air Link ($'000) - Passenger routes	**518**
Pel-Air ($'000)	**6,614**
Total ($'000)	**7,190**

PEL-AIR

Pel-Air was purchased by the Group in the financial periods 2006 (50%) and 2007 (50%). The recoverable amount of the Pel-Air cash-generating unit has been determined based on a 3% revenue growth with 3% cost escalation and appropriate capital investment, and a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 13.8% p.a. Cash flows beyond that five year period are extrapolated using a steady 5% p.a. growth rate.

AIR LINK

Air Link is a regional passenger airline that was acquired by the Group in the 2006 financial year. The recoverable amount of the Air Link cash-generating unit is determined based on a 8% revenue growth with 5% cost escalation and appropriate capital investment, and a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a five-year period and a discount rate of 13.8% p.a. Cash flows beyond that five year period are extrapolated using a steady 5% p.a. growth rate.

11 TRADE AND OTHER PAYABLES

	2010 $'000	2009 $'000
Current		
Trade payables	12,341	9,537
Other payables	5,926	5,346
Total	**18,267**	**14,883**

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

12 BORROWINGS

	Effective interest rate %	2010 $'000	2009 $'000
Current			
Loan facility	7.5%	-	1,657
Non-current			
Loan facility	5.5%	26,000	-

The loan facility was used by VAA Pty Ltd (2009: Pel-Air Aviation Pty Limited) to fund a number of aircraft assets. The liabilities are secured over the assets being funded the value of which exceeds the outstanding liability. The loan is repayable over 10 years commencing in the financial year 2012.

13 PROVISIONS

	2010 $'000	2009 $'000
Current		
Employee benefits		
Profit share	2,137	1,894
Annual leave and long service leave	4,403	5,640
	6,540	**7,534**
Non-current		
Employee benefits		
Long service leave	427	453
Total employee benefits provisions	**6,967**	**7,987**

	2010 $'000	2009 $'000
Annual leave and long service leave		
Balance at the beginning of the year	6,093	5,626
Arising during the year	5,250	4,814
Utilised	(6,513)	(4,347)
Balance at the end of the year	**4,830**	**6,093**

14 OTHER LIABILITIES

	2010 $'000	2009 $'000
Current		
Unearned passenger revenue	16,432	16,202
Unearned training revenue	494	-
Government grant	-	43
	494	**43**

15 ISSUED CAPITAL

	2010 $'000	2009 $'000
Fully paid ordinary shares	74,659	75,037

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

	2010		2009	
	No. '000	$'000	No. '000	$'000
Fully paid ordinary shares				
Balance at 1 July	113,396	75,037	117,133	78,608
Share buy-back	(494)	(377)	(3,737)	(3,562)
Cost of share buy-back	-	(1)	-	(9)
Balance at 30 June	**112,902**	**74,659**	**113,396**	**75,037**

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

During the Financial Year 2008, the Group executed a publicly announced share buy-back programme. All the shares purchased under the programme are cancelled. During the current year, the Group bought back 494,000 shares (2009: 3,737,360).

Share units held as reserved shares by subsidiary company was 1,967,056 (2009: 2,196,961).

16 RESERVES AND OTHER RESERVES

	2010 $'000	2009 $'000
Reserved shares	(2,869)	(3,241)
Share-based payments reserve	533	652
Cash flow hedge reserve	712	-
General reserve	1,590	1,590
	(34)	**(999)**
Reserved shares		
Balance at 1 July	(3,241)	(3,427)
Purchase of shares on market	(117)	(488)
Shares granted to directors and employees	489	674
Balance at 30 June	**(2,869)**	**(3,241)**

Reserved shares are ordinary shares in the Group which are re-acquired for later payment as employee share-based payment awards and are deducted from equity.

Share-based payments reserve		
Balance at 1 July	652	545
Share gift issued	(460)	(557)
Share gift plan expense	341	664
Balance at 30 June	**533**	**652**

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

Rex has established the share gift plan for its executive directors and eligible employees. The share plan which ran from FY 2007 to FY 2009 was offered to all the EBA groups and adopted by all the groups except the flight attendants who voted for an additional 0.45% increase of fixed salary in lieu of the 2% share plan. In FY 2010, the flight attendants have again opted for 3.5% increase of fixed salary in lieu of the 2% share gift. Additionally, groups which opted not to receive share gift in lieu of higher base salaries expanded to include the pilots and ASU EBA staff. The board has also decided that this plan will be offered to all non-EBA employees who are not the subject of an adverse recommendation by the Remuneration and Nomination Committee. This plan is not based on any performance measures as it was established to show its recognition of employees' contribution to Rex by providing an opportunity to share in its future growth and profitability and to align the interests of the employees more closely with the interests of the shareholders.

Eligible employees who accept an offer of shares under the share plan will be entitled to receive the equivalent of 2% of their base salary in shares each financial year for three financial years, starting from FY 2007. Such shares will be issued to eligible employees on the relevant award dates. Non eligible employees are given the opportunity to salary sacrifice amounts to acquire Rex shares, with allocation of shares equal to 2% of the their base salary.

	2010 $'000	2009 $'000
Cash flow hedge reserve		
Balance at 1 July	-	(470)
Gain on cash flow foreign exchange hedges	712	470
Balance at 30 June	**(712)**	**-**

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

General reserve		
Balance at 1 July	1,590	1,590
Balance at 30 June	**1,590**	**1,590**
Total other reserves	**2,302**	**1,590**

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

17 RETAINED EARNINGS

	2010 $'000	2009 $'000
Balance at 1 July	51,371	35,807
Dividends provided for or paid (Note 19)	-	(7,418)
Net profit for the year	24,627	22,982
Balance at 30 June	**75,998**	**51,371**

18 EARNINGS PER SHARE

	2010 Cents per share	2009 Cents per share
Basic earnings per share		
From continuing operations	22.2	20.4
Total basic earnings per share	22.2	20.4
Diluted earnings per share		
From continuing operations	22.2	20.4
Total diluted earnings per share	22.2	20.4

Basic earnings per share

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

	2010 $'000	2009 $'000
Net profit	24,627	22,982
Earnings used in the calculation of basic EPS	24,627	22,982
Earnings used in the calculation of basic EPS from continuing operations	24,627	22,982

	2010 No.'000	2009 No.'000
Weighted average number of ordinary shares for the purpose of basic EPS	110,818	112,689

Diluted earnings per share

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

	2010 $'000	2009 $'000
Net profit	24,627	22,982
Earnings used in the calculation of diluted EPS	24,627	22,982
Earnings used in the calculation of diluted EPS from continuing operations	24,627	22,982

	2010 No.'000	2009 No.'000
Weighted average number of ordinary shares for the purpose of diluted EPS	110,818	112,689

19 DIVIDENDS

	Cents per share	Total $'000
Unrecognised amounts		
Dividends on fully paid ordinary shares proposed for approval at AGM:		
Fully franked final dividend for 2010 (2009: nil)	6.6	7,452

In respect of financial year ended 30 June 2010, the directors have recommended a fully franked final dividend of 6.6 cents per share be paid to holders of fully paid ordinary shares. This dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. If approved, the dividend will be paid to all shareholders on the Reister of Members. The total estimated dividend to be paid is $7,452 thousand.

In respect of the financial year ended 30 June 2009, no dividend was declared. In respect of financial year ended 30 June 2008, a fully franked final dividend of 6.6 cents per share was paid to holders of fully paid ordinary shares on 28 November 2008.

	2010 $'000	2009 $'000
Adjusted franking account balance	37,585	35,487
Franking credit / (debit) recognised that will arise from income tax payable / (recoverable) as at the end of financial year	(3,198)	2,288
Impact on franking account balance of dividends not recognised	3,194	-

20 COMMITMENTS FOR EXPENDITURE

As at 30 June 2010, the Group has commitments of $4,000 thousand to equip aircraft to fulfill the requirements of the contract to provide fixed wing air ambulance aircraft, due to start on 1 July 2011.

	2010 $'000	2009 $'000
(A) CAPITAL EXPENDITURE COMMITMENTS		
Property, plant and equipment		
Not longer than one year	4,000	17,400
Longer than one year and not longer than five years	-	1,100
	4,000	**18,500**
(B) NON-CANCELLABLE OPERATING LEASE COMMITMENTS - AIRCRAFT		
Not longer than one year	10,400	9,888
Longer than one year and not longer than five years	22,651	35,394
	33,051	**45,282**

21 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

As at 30 June 2010, no contingent liabilities or assets existed.

22 SUBSIDIARIES

Name of entity	Country of incorporation	Ownership interest 2010 %	2009 %
Parent entity			
Regional Express Holdings Limited	Australia		
Subsidiaries			
Regional Express Pty Limited	Australia	100	100
Rex Freight & Charter Pty Limited	Australia	100	100
Rex Investment Holdings Pty Limited	Australia	100	100
Air Link Pty Limited	Australia	100	100
Pel-Air Aviation Pty Limited	Australia	100	100
Australian Airline Pilot Academy Pty Limited	Australia	100	100
VAA Pty Ltd (incorporated on 24 November 2009)	Australia	100	-

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

23 ACQUISITION OF BUSINESSES

No business was acquired during the financial year.

24 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(A) RECONCILIATION OF CASH AND CASH EQUIVALENTS

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

	2010 $'000	2009 $'000
Cash and cash equivalents	10,326	15,469

(B) RECONCILIATION OF PROFIT FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	2010 $'000	2009 $'000
Profit for the year	24,627	22,982
Depreciation and amortisation	9,995	9,139
Share-based payment	341	781
Difference in market value on share-based payment	29	-
Unrealised foreign exchange loss	(144)	56
(Gain)/loss on disposal of non-current assets	127	(2,365)
Gain on disposal of investments	-	(961)
Movement in bad debt provision	25	1
Interest received and receivable	(406)	(525)
Increase/(decrease) in deferred tax	(166)	322
Increase/(decrease) in current tax	(5,791)	(1,515)
Decrease/(increase) in receivables	(1,232)	3,796
Decrease/(increase) in inventories	(257)	(769)
Increase/(decrease) in trade payables	3,386	(1,403)
Increase/(decrease) in provisions	(1,020)	598
Increase/(decrease) in other liabilities	494	(288)
Net cash flows from operating activities	**30,008**	**29,849**

(C) FINANCING FACILITIES

	2010		2009	
	Used $'000	Limit $'000	Used $'000	Limit $'000
Maximum facilities available and reviewed annually:				
Loan facility	26,000	30,000	-	-
Merchant prepayments	-	8,100	-	10,250
Term cash	3,250	3,750	-	-
Tape negotiations authority	2,900	2,900	-	2,500
Letter of credit	1,758	1,809	1,549	1,608
Set off	-	1,000	-	3,000
Guarantee	912	950	650	786
Exposure mitigation	-	380	-	-
Mastercard	425	425	155	155
Cheque cashing authority	-	-	5	5
	35,245	**49,314**	**2,359**	**18,304**

The facilities are secured by the Group's operating cash flows and properties located in Adelaide, New South Wales at Don Kendell Drive Forest Hill, and 72 Robey Street Mascot.

25 FINANCIAL INSTRUMENTS

(A) CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to stakeholders.

The Group's overall strategy remains unchanged from 2009.

The capital structure of the Group consists of debt as disclosed in Note 12. Equity attributable to equity holders of the parent comprises issued capital, reserves and retained earnings as disclosed in Notes 15, 16 and 17 respectively.

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

GEARING RATIO

The Group's Board reviews the capital structure on a semi-annual basis. As a part of this review the Board considers the cost of capital and the risks associated with each class of capital. The Board will balance its overall capital structure through the payment of dividends, new share issue and share buy-backs as well as the issue of new debt or the redemption of existing debt.

Following a successful tender, the Group was awarded the contract to provide fixed wing air ambulance aircraft to Ambulance Victoria, The Group took on $30 million loan facility to acquire and equip 4 King Air B200C aircraft to fulfill the requirements of the contract that will start on 1 July 2011. The Group has drawn down $26 million of the loan facility with the remaining $4 million to be drawn down in the next financial year. The loan is fixed-interest bearing and repayable over 10 years.

The net cash position at year end was as follows:

	2010 $'000	2009 $'000
Financial assets		
Debt [i]	(26,000)	(1,657)
Cash and cash equivalents	10,326	15,469
Excess of cash and cash equivalents over debt/ (net debt)	**(15,674)**	**13,812**
Equity [ii]	**150,623**	**125,409**
Net debt to equity ratio	**10.4%**	**-11.0%**

[i] Debt is defined as long- and short-term borrowings, as detailed in Note 12.
[ii] Equity includes all capital and reserves of the Group that are managed as capital.

(B) CATEGORIES OF FINANCIAL INSTRUMENTS

	2010 $'000	2009 $'000
Financial assets		
Loans and receivables	10,805	9,299
Cash and cash equivalents	10,326	15,469
Available-for-sale financial assets	21	21
Derivative instruments in designated hedge accounting relationships	1,017	-
Financial liabilities		
Amortised cost	44,267	16,540

(C) FINANCIAL RISK MANAGEMENT OBJECTIVES

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

The Rex Group does not hedge against fuel prices. While fuel is a significant cost, the risk is mitigated by Rex's ability to impose fuel surcharges when required and the largely inelastic nature of its passenger numbers as demonstrated in prior years when surcharges were applied.

(D) FOREIGN CURRENCY RISK MANAGEMENT

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

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

Liabilities		Assets	
2010 USD'000	2009 USD'000	2010 USD'000	2009 USD'000
1,839	1,174	317	462

FOREIGN CURRENCY SENSITIVITY ANALYSIS

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

- Engine care and maintenance programme, approximately USD 10 million per annum
- Operating leases, approximately USD 9 million per annum
- Engineering purchases, approximately USD 8 million per annum
- Airline reservation systems, USD 4 million per annum
- Insurance, approximately USD 0.6 million per annum

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

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

	2010 $'000	2009 $'000
Profit or loss	179	98

The Group's sensitivity to foreign currency has increased mainly due to the increase in USD payables.

FORWARD FOREIGN EXCHANGE CONTRACTS

The Group may enter into forward foreign exchange contracts to manage the risk associated with anticipated sales and purchase transactions up to twelve months and up to 100% of the exposure generated. Basis adjustments are made to the carrying amounts of non-financial hedged items when the anticipated sale or purchase transaction takes place.

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

	Average exchange rate		Foreign currency		Contract value		Fair value	
Outstanding Contracts	2010	2009	2010 USD'000	2009 USD'000	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Buy USD								
Less than 12 months	0.8870	-	3,623	-	3,214	-	4,231	-

(E) INTEREST RATE RISK MANAGEMENT

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

(F) CREDIT RISK MANAGEMENT

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

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

(G) LIQUIDITY RISK MANAGEMENT

Ultimate responsibility for liquidity risk management rests with the Board of Directors, who has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group's operating activities generate positive annual cash flow. The Group tries to maintain a $10 million cash balance by the end of each financial year. As and when required, the Group uses financing facilities as detailed in Note 24.

LIQUIDITY AND INTEREST RISK TABLES

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

	Weighted average effective interest rate %	1 month $'000	1-3 months $'000	3 months to a year $'000	1-5 years $'000	5+ years $'000
2010						
Non-interest bearing	-	18,268	-	-	-	-
Interest bearing	5.5%	163	325	1,463	15,892	23,837
		18,431	**325**	**1,463**	**15,892**	**23,837**
2009						
Non-interest bearing	-	14,883	-	-	-	-
Interest bearing	7.5%	155	465	1,097	-	-
		15,038	**465**	**1,097**	**-**	**-**

The following table details the Group's expected maturity for its non-derivative financial assets. The amounts disclosed are based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Group anticipates that the cash flow will occur in a different period.

	Weighted average effective interest rate %	1 month $'000	1-3 months $'000	3 months to a year $'000	1-5 years $'000	5+ years $'000
2010						
Interest bearing	5.0%	11	36	207	2,077	1,017
Non-interest bearing	-	22	44	216	1,029	131
		33	**80**	**423**	**3,106**	**1,148**
2009						
Interest bearing	5.0%	9	12	96	1,326	762
Non-interest bearing	-	8,312	9	40	173	-
		8,321	**21**	**136**	**1,499**	**762**

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

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

25 FINANCIAL INSTRUMENTS (CONTINUED)

	1 month $'000	1-3 months $'000	3 months to a year $'000
2010			
Gross settled:			
Forward exchange contracts	-	-	3,214
2009			
Gross settled:			
Forward exchange contracts	-	-	-

(H) FAIR VALUE OF FINANCIAL INSTRUMENTS

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

26 KEY MANAGEMENT PERSONNEL COMPENSATION

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

	2010 $	2009 $
Short-term benefits	1,281,531	1,306,068
Post-employment benefits	109,143	108,372
Other long-term benefits	-	5,192
Share-based payment	21,252	20,816
	1,411,926	**1,440,448**

27 RELATED PARTY TRANSACTIONS

(A) EQUITY INTERESTS IN SUBSIDIARIES

Details of interests in subsidiaries are disclosed in Note 22 to the consolidated financial statements.

(B) TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

(I) KEY MANAGEMENT PERSONNEL COMPENSATION

Details of key management personnel compensation are disclosed in Note 26 to the consolidated financial statements.

(II) LOANS TO KEY MANAGEMENT PERSONNEL

There have been no loans made to key management personnel.

(III) KEY MANAGEMENT PERSONNEL EQUITY HOLDINGS

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

	Balance at 1 July 2009	Shares gifted during the year	Balance at 30 June 2010
Directors:			
Lim Kim Hai	24,236,143	-	24,236,143
The Hon. John Sharp	400,000	-	400,000
James Davis	192,431	2,480	194,911
Russell Hodge	1,124,000	-	1,124,000
David Miller	90,460	1,923	92,383
Lee Thian Soo	11,449,362	-	11,449,362
Key management personnel:			
Warrick Lodge	130,499	2,073	132,572
Chris Hine	161,141	2,308	163,449
Irwin Tan	6,605	1,923	8,528
Dale Hall	22,072	1,747	23,819
Garry Filmer	6,417	1,692	8,109
Mayooran Thanabalasingham	59,183	1,923	61,106

During the financial year, no options were granted to (2009: nil), nor exercised by (2009: nil) key management personnel for ordinary Rex shares. No options remained unpaid or to be exercised at the year end.

28 REMUNERATION OF AUDITORS

	2010 $	2009 $
Audit and review of the consolidated financial report	213,000	206,000
Other non-audit services - tax compliance	54,000	49,000
	267,000	**255,000**

The auditor of the Group is Deloitte Touche Tohmatsu.

29 SUBSEQUENT EVENTS

The 6-month contract with Siam General Aviation Co. Ltd. for leasing to them 2 SAAB340 aircraft ceased on 30 June 2010. The two aircraft remained in Thailand, being leased to Happy Air Travellers Co. Ltd., an airline based in Phuket.

The Australian Airline Pilot Academy signed an agreement with Jeppesen Australia, a subsidiary of Boeing, on 20 July 2010 to provide pilot training to Jeppesen's pilot trainees. This agreement paves the way for the training of pilots from all over the world. Jeppesen anticipate training around 80 pilots a year at the Academy in Wagga Wagga.

30 SEGMENT INFORMATION

Information reported for purposes of resource allocation and assessment of performance is categorised as follows:

- Regular public transport
- Charter
- Training

Regular public transport entails the provision of scheduled air transport of passengers and freight. Charter services are provided to users who require air transport outside the scheduled timetable and/or scheduled routes. The Group operates a pilot academy to train cadets to be full fledged pilots.

The following is an analysis of the Group's revenue and results by reportable operating segment for the year:

	Revenue		Segment result	
	2010 $'000	2009 $'000	2010 $'000	2009 $'000
Regular public transport	199,692	212,142	28,593	34,939
Charter	27,643	36,311	2,747	2,486
Training	1,924	1,985	(284)	(513)
	229,259	**250,438**	**31,056**	**36,912**
Finance income	406	525	406	525
Other income	-	-	949	30
Central administration costs and directors' salaries			(6,097)	(6,488)
Finance costs			(60)	(190)
Profit before tax			26,254	30,789
Income tax expense			(1,627)	(7,807)
Consolidated segment revenue and profit	**229,665**	**250,963**	**24,627**	**22,982**

Segment result represents the profit earned by each segment without allocation of central administration costs and directors' salaries. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

The following is an analysis of the Group's assets and liabilities by reportable operating segment as at the end of the year:

	Segment Assets		Segment liabilities	
	2010 $'000	**2009 $'000**	**2010 $'000**	**2009 $'000**
Regular public transport	166,001	119,473	45,386	21,145
Charter	44,325	44,926	14,398	17,934
Training	8,457	4,070	8,376	3,981
Consolidated segment assets and liabilities	**218,783**	**168,469**	**68,160**	**43,060**

Other segment information for the year is as follows:

	Depreciation and amortisation		Additions to non-current assets	
	2010 $'000	**2009 $'000**	**2010 $'000**	**2009 $'000**
Regular public transport	7,309	6,619	25,147	22,888
Charter	2,544	2,358	32,352	4,102
Training	142	162	4,402	1,381
	9,995	**9,139**	**61,901**	**28,371**

31 PARENT ENTITY DISCLOSURES

		2010 $'000	2009 $'000
(A)	**Financial position**		
	Assets		
	Current assets	24,889	29,984
	Non-current assets	143,855	120,593
	Total assets	**168,744**	**150,577**
	Liabilities		
	Current liabilities	36,673	36,881
	Non-current liabilities	-	1,759
	Total liabilities	**36,673**	**38,640**
	Equity		
	Issued capital	74,659	75,037
	Retained earnings	56,014	35,932
	Share-based payments reserve	370	652
	Cash flow hedge reserve	712	-
	General reserve	316	316
	Total equity	**132,071**	**111,937**
(B)	**Financial performance**		
	Profit for the year	20,082	20,406
	Other comprehensive income	712	(470)
	Total comprehensive income	**20,794**	**19,936**

(C) Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

As at 30 June 2010, no guarantees in relation to the debts of subsidiaries existed.

(D) Contingent liabilities of the parent entity

As at 30 June 2010, no contingent liabilities or assets existed.

(E) Commitments for the acquisition of property, plant and equipment by the parent entity

	2010 $'000	2009 $'000
Plant and equipment		
Not longer than 1 year	-	15,500
Longer than 1 year and not longer than 5 years	-	-
Longer than 5 years	-	-
	-	**15,500**

DIRECTORS' DECLARATION

The directors declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

(b) the attached financial statements are in compliance with International Financial Reporting Standards, as stated in Note 2 to the consolidated financial statements;

(c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity; and

(d) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

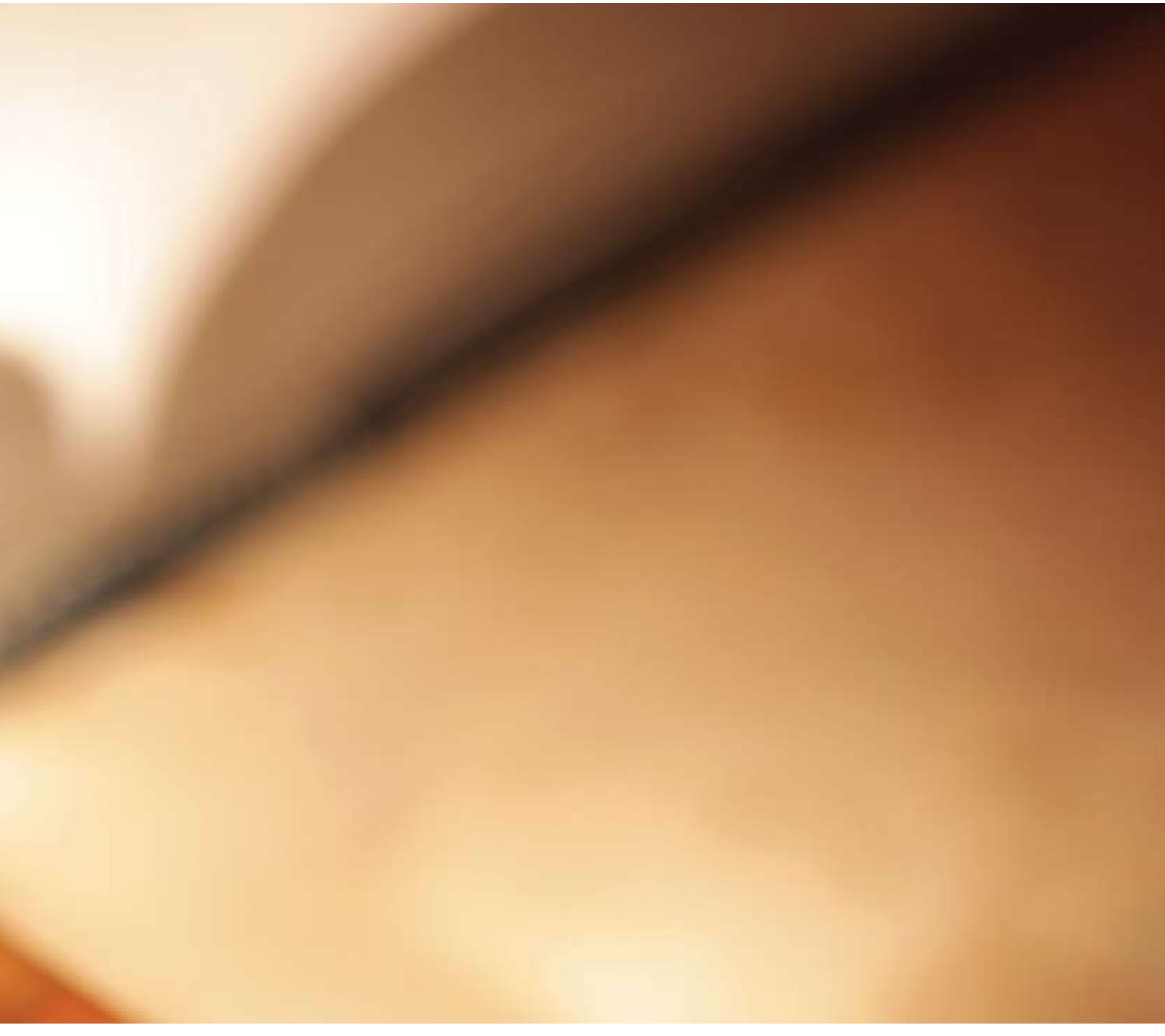
At the date of this declaration, the Company is within the class of companies affected by ASIC Class Order 98/1418. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

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

On behalf of the Directors

Jim Davis

James Davis
Managing Director
Sydney, 17 September 2010



REGULATORY REPORTS

Deloitte.

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

Report on the Financial Report

We have audited the accompanying financial report of Regional Express Holdings Limited, which comprises the statement of financial position as at 30 June 2010 and the income statement, statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 28 to 71.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

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

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

Deloitte.

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

Auditor's Independence Declaration

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

Auditor's Opinion

In our opinion:

(a) the financial report of Regional Express Holdings Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

Report on the Remuneration Report

We have audited the Remuneration Report included in Note 19 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Regional Express Holdings Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Catherine Hill

Catherine Hill
Partner
Chartered Accountants
Sydney, 17 September 2010

CORPORATE GOVERNANCE STATEMENT

The Board is committed to sound corporate governance to ensure shareholder expectations are met and that Regional Express Holdings (the Company) is in compliance with the Australian Securities Exchange (ASX) Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations (ASX Recommendations).

As required by the ASX Listing Rules this statement sets out the extent to which the Company has complied with the ASX Recommendations during the financial year to 30 June 2009 and identifies any of the ASX Recommendations not followed and the reason why the Company has not adopted the ASX Recommendations. This statement adopts the ordering and numbering of the ASX Recommendations.

PRINCIPLE 1: LAY SOLID FOUNDATION FOR MANAGEMENT AND OVERSIGHT

The Board has adopted a charter that details the roles and responsibilities of the Board and its members and their relationship with the Management Committee to achieve the objectives of delivering shareholder value. The Board's Charter, Board Committee Charters, Continuous Disclosure Policy and Code of Conduct are available for access by shareholders and the general public in the corporate governance section of the Company's website. (ASX Recommendation 1.1)

The performances of each Management Committee member is evaluated against goals and objectives at least once a year with the assistance of the Remuneration and Nomination Committee (ASX Recommendation 1.2). The performance of the Management Committee was reviewed in FY 2009 (ASX Recommendation 1.3).

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report are set out in the Director's Report.

The membership of the Board during the year ended 30 June 2010, including independence status was as follows:

Director	Status	Date of Appointment
Lim Kim Hai	Executive Chairman	Appointed 27 June 2003 and re-appointed on the 16 November 2006 and 25 November 2009
The Hon. John Sharp	Deputy Chairman and Independent Director	Appointed 14 April 2005 and reappointed 19 November 2008
James Davis	Managing Director	Appointed 26 August 2004 as executive director and appointed managing director on 27 May 2008
Russell Hodge	Independent Director	Appointed 9 September 2005 and reappointed 19 November 2008
David Miller	Executive Director	Appointed 28 February 2007 and reappointed on 15 November 2007
Lee Thian Soo	Non-Executive Director	Appointed 27 June 2003 and re-appointed on the 16 November 2006 and 25 November 2009

The Board acknowledges the ASX Recommendation that a majority of the Board should be independent directors (ASX Recommendation 2.1). Although the Board has only two directors out of six that qualify as independent non-executive directors, Lee Thian Soo is non- executive and is only considered non independent by virtue of his share ownership. David Miller is only involved in management of a very small part of the business. The Board believes that every director on the current Board will make decisions in the best interests of all shareholders and in accordance with their duties as directors.

The Board also acknowledges that it is desirable that the Chairman be an independent director and for his role to be segregated from that of the chief executive officer (ASX Recommendation 2.2 and 2.3), however, the Board views the Chairman's history of leadership of the company as an advantage, both at the management level and at the Board level that has resulted in performance that matches that of the best airlines in the world.

The Board is responsible for the management of the affairs of the Company and its subsidiaries (the Group), including:

(A) STRATEGIC AND FINANCIAL PERFORMANCE

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

(B) EXECUTIVE MANAGEMENT

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

(C) AUDIT

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

(D) CORPORATE GOVERNANCE

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

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

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

(E) RISK MANAGEMENT

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

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

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

(F) STRATEGIC PLANNING

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

(G) PERFORMANCE EVALUATION

- At least once per year the Board will, with the advice and assistance of the Remuneration and Nomination Committee, review and evaluate the performance of the Board, each Board Committee, and each individual director against the relevant Charters, corporate governance policies, and agreed goals and objectives. (Recommendation 2.5)
- Following each review and evaluation the Board will consider how to improve its performance.
- The Board will agree and set the goals and objectives for the Board and its Committees each year, and if necessary, amend the relevant Charters and policies.
- With the advice and assistance of the Remuneration and Nomination Committee, the Board will review and approve the remuneration of the Company's executive and non-executive directors.

The evaluation of the Board, its committees and directors was carried out during the financial year as set out above.

A Director of the Company is entitled to seek independent professional advice (including, but not limited to, legal, accounting and financial advice) at the Company's expense on any matter connected with the discharge of his or her responsibilities, in accordance with the procedures and subject to the conditions set out in the Board Charter.

The **Remuneration and Nomination Committee** has been established by the Board of the Company (ASX recommendation 2.4 and 8.1) and applies to the Company and its subsidiaries to support and advise the Board in fulfilling its responsibilities to shareholders, employees and other stakeholders of the Company by endeavouring to ensure that:

- the directors and senior management of the Group are remunerated fairly and appropriately;
- the Group's remuneration policies and outcomes strike an appropriate balance between the interests of the Company's shareholders, and rewarding and motivating the Group's executives and employees in order to secure the long term benefits of their energy and loyalty;
- the human resources policies and practices are consistent with and complementary to the strategic direction and objectives of the Company as determined by the Board;
- review and advise the Board on the composition of the Board and its Committees;
- review the performance of the Board, the chairman of the Board, the executive and non-executive directors, and other individual members of the Board; and
- ensure that proper succession plans are in place for consideration by the Board.

(G) PERFORMANCE EVALUATION (CONTINUED)

This Committee is chaired by the Hon. John Sharp and has one other member, James Davis. The Committee had two meetings during the financial year attended by all members of the Committee. Descriptions of the members' qualifications, skills and experience are included in the Directors' Report.

The Board acknowledges the ASX recommendations to have the Committee compose of a majority of independent directors and have at least 3 members

The Committee is currently made up of two directors of which one is the Managing Director. The Board feels at this stage that two members are sufficient for the Remuneration and Nomination committee given the size of the Company and Board. The Board also feels that that James Davis, while not an independent director will still make decisions that are in the best interests of the shareholders in his duty as Remuneration and Nomination committee member. Having had first hand experience working with the members of the Management Committee and various members of the Company's management, he would be in the best position to make recommendations to the Board based on those experiences.

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

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Directors and the Management Committee are required to maintain the highest legal, moral and ethical standards of conduct. The Board has adopted the Code of Conduct which provides guidance to all staff on compliance with legal and other obligations (ASX Recommendation 3.1).

The Company has established a Share Trading Policy. Under this policy, Directors and Management Committee are prohibited from trading in securities of the Company without prior approval from the Board (ASX Recommendation 3.2).

The Code of Conduct and Share Trading Policy are available on the Company's website (ASX Recommendation 3.3)

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

The **Audit and Corporate Governance Committee** has been established by the Board of the Company (ASX recommendation 4.1) to assist the Board in fulfilling its commitment to ensure the integrity of the Company's financial reports and Corporate Governance policies:

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

This Committee is chaired by Lee Thian Soo and has one other member, the Hon. John Sharp. Descriptions of the members' qualifications, skills and experience are included in the Directors' Report. The Committee had two meetings during the financial year attended by all members of the Committee.

The Board acknowledges the ASX recommendations to have the Committee compose of a majority of independent directors, is chaired by an independent director and have at least three members (ASX Recommendation 4.2).

The Committee is currently made up of two non-executive directors of which one is non-independent. This director, who is also the chair of the committee, is only considered non-independent by virtue of his share ownership. The Board feels that the directors in the audit committee will make decisions that are in the best interests of the shareholders in their duties as audit committee members and directors of the company. The Board also feels at this stage that two members are sufficient for the audit committee given the size of the company and Board.

The Audit and Corporate Governance Committee has a formal Charter which is available on the Company's website (ASX Recommendation 4.3).

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

The Company complies with the continuous disclosure obligations of the ASX Listing Rules and, in doing so, immediately notifies the market of any material price sensitive information. The Company has adopted and implemented a Continuous Disclosure Policy which sets out the procedure for the identification of material price sensitive information and reporting of such information to the company secretaries for review (ASX Recommendations 5.1 and 5.2). The Continuous Disclosure Policy is available on the Company's website.

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

It is the Company's policy that the principal communication with shareholders apart from the Company website, is the provision of the Annual Report, including the Financial Statements, quarterly investor briefings and the Annual General Meeting (and any extraordinary meetings held by the Company). Shareholders are encouraged to participate in quarterly investor briefings either by attendance or by dialling in through the Company's teleconferencing facilities and are invited to put questions to the Chairman of the Board in that forum. The Company's website provides additional information and greater detail about the Company, including ASX and media releases and access to statements regarding corporate governance related matters (ASX Recommendation 6.1).

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

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

The Company has integrated risk management processes into its operations to ensure continuity of the business and to minimise any impact on its performance.

The Board has established policies for a sound system of risk oversight and management and internal control which involve the Safety and Risk Management Committee (Recommendation 7.1).

The **Safety and Risk Management Committee** has been established by the Board of the Company and applies to the Company and its subsidiaries to support and advise the Board in fulfilling its responsibilities to shareholders, employees and other stakeholders of the Company by:-

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

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

The Safety and Risk Management Committee has a formal Charter which sets out the responsibilities of the Committee as well as the Company's policies on risk oversight and management. The Charter is available on the Company's website.

The Board reviews the safety and risk management report prepared by the Group's Safety Manager at each Board meeting (ASX Recommendation 7.2)

The Managing Director and the GM Corporate Services who oversees the finance department provide written assurance to the Board as to the integrity of the financial statements and that they are founded on a sound system of risk management and internal controls which are operating effectively and efficiently (ASX Recommendation 7.3).

The Board acknowledges the ASX Recommendation to have the Chief Executive Officer and Chief Financial Officer provide this statement to the Board. The Board believes that it is appropriate for the Managing Director and GM Corporate Services to provide the statement.

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

The Board has established a Remuneration and Nomination Committee. The membership, responsibilities and number of meetings held have been set out under Principle 2. Also set out under Principle 2 is the explanation as to why the membership of the Committee differs from the ASX Recommendations.

Details of the Board and Management Committee remuneration structures are contained in the Remuneration Report. (ASX Recommendation 8.2 and 8.3)

ASX ADDITIONAL INFORMATION AS AT 6 SEPTEMBER 2010

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

NUMBER OF HOLDERS OF EQUITY SECURITIES

ORDINARY SHARE CAPITAL

112,901,569 fully paid ordinary shares are held by 2,696 individual shareholders.
All issued ordinary shares carry one vote per share and carry the rights to dividends.

DISTRIBUTION OF HOLDERS OF EQUITY SECURITIES

	Fully Paid Ordinary Shares		
	Investors	Securities	Issued Capital (%)
1 – 1,000	793	525,278	0.47
1,001 – 5,000	1,246	3,449,461	3.06
5,001 – 10,000	300	2,474,878	2.19
10,001 – 100,000	299	8,263,101	7.32
100,001 and over	58	98,188,851	86.97
Total	2,696	112,901,569	100.00

SUBSTANTIAL SHAREHOLDERS

	Fully Paid	
Ordinary Shareholders	Number	Percentage
Kim Hai Lim	18,480,630	16.37%
Joe Tiau Tjoa	16,234,094	14.38%
Thian Soo Lee	7,722,181	6.84%
Joo Chye Chua	7,454,362	6.60%
Ming Yew See Toh & Hui Ing Tjoa	7,454,362	6.60%
Hui Ling Tjoa	5,755,513	5.10%

TWENTY LARGEST HOLDERS OF QUOTED EQUITY SECURITIES

	Fully Paid	
Ordinary Shareholders	Number	Percentage
Kim Hai Lim	18,480,630	16.37%
Joe Tiau Tjoa	16,234,094	14.38%
Thian Soo Lee	7,722,181	6.84%
Ming Yew See Toh and Hui Ing Tjoa	7,454,362	6.60%
Joo Chye Chua	7,454,362	6.60%
Hui Ling Tjoa	5,755,513	5.10%
Lay Khim Ng	3,727,181	3.30%
Rex Investment Holdings Pty Limited	3,261,628	2.89%
National Nominees Limited	3,220,041	2.85%
Citicorp Nominees Pty Limited	2,804,199	2.48%
Mirrabooka Investments Limited	2,000,000	1.77%
HSBC Custody Nominees (Australia) Limited	1,610,986	1.43%
Thian Song Tjoa	1,382,046	1.22%
RBC Dexia Investor Services Australia Nominees Pty Limited	1,379,046	1.22%
J P Morgan Nominees Australia Limited	1,296,339	1.15%
Kok Leong Lee	1,262,083	1.12%
Jowong Pty Limited	1,001,950	0.89%
Mastar Pty Limited	900,000	0.80%
SCJ Pty Ltd	850,000	0.75%
Gwynvill Trading Pty Limited	800,000	0.71%

Photo by David Morrell
www.davidmorrell.com

REX GROUP OF COMPANIES:

Regional Express

PEL-AIR

AIR LINK

AAPA AUSTRALIAN AIRLINE PILOT ACADEMY