

2008

31 DECEMBER 2007  
HALF YEAR FINANCIAL REPORT



**Regional Express Holdings Limited**  
ACN 099 547 270 (ASX Code: REX)

rex.



# Regional Express Holdings Limited

ACN 099 547 270 (ASX Code: REX)

Appendix 4D: Results For Announcement To The Market  
& Half Year Financial Report  
For The Half Year Ended 31 December 2007

## ASX APPENDIX 4D

### RESULTS FOR ANNOUNCEMENT TO THE MARKET

	31 Dec 2007 \$M	31 Dec 2006 \$M	change \$M	change %
Revenue	128.9	104.4	24.5	23.5
Profit from ordinary activities after tax attributable to members	10.3	11.5	- 1.2	- 10.4
Net profit for the period attributable to members	10.3	11.5	- 1.2	- 10.4

### DIVIDENDS

	Amount per share	Franked amount per share
Interim dividend	Nil	Nil
Final dividend	Nil	Nil
Record date for determining entitlements	NA	NA

### OTHER INFORMATION

	31 Dec 2007 \$	31 Dec 2006 \$
Net tangible assets per ordinary share	0.81	0.64

### EXPLANATION OF RESULTS

The first half of FY 2008 saw an increase in Group revenue by 23.5% to \$128.9M (inclusive of Pel-Air's revenue of \$18.5M which is consolidated this year for the first time) as well as an increase of 9.8% year-on-year in passengers carried to 772,837.

Fuel unit costs increased 23% in November & December, leading to an increase in total spending on fuel by \$1.4M year-on-year. There was also a one-off increase in engineering cost of \$3M as a result of a clustering of major scheduled maintenance (C checks) and weather-related maintenance during this period.

Acute pilot shortages with a 60% annualised attrition rate resulted in an increased number of flight cancellations, route suspensions and service disruptions. Consequently, there was also increased recruitment and training costs. Additionally there was the start-up cost of a pilot academy in Victoria. The total cost of these additional expenses are estimated to be about \$1M.

The loss of the Olympic Dam service resulted in a reduction of overall network yield as the redeployed activity and new routes will not immediately achieve the same yields. Additionally, there were temporary suspensions and reductions in services on some routes due to pilot shortage (refer to Review of Operations in the Directors' Report on pages 1 to 4 for more details).

Due to the combined effect of the above, the Group saw a reduction in Profit After Tax of 10.4% from \$11.5M to \$10.3M, despite the increase in revenue.

### DETAILS OF ENTITIES OVER WHICH CONTROL HAS BEEN GAINED DURING PERIOD

	Date Acquired	CONTRIBUTION TO NET PROFIT			
		31 Dec 2007 \$'000	31 Dec 2006 \$'000	Change \$'000	Change %
Civil Aviation Training Academy Pty Ltd Profit from ordinary activities after tax attributable to members	1 November 2007 (50%)	(0.013)	NA	NA	NA

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# DIRECTORS' REPORT

## DIRECTORS

The directors of Regional Express Holdings Limited submit herewith the financial report for the half year ended 31 December 2007.

The names and details of the company's directors in office during the half year and until the date of this report are as below:

**Lim Kim Hai** Executive Chairman

**The Hon. John Sharp** Deputy Chairman and Independent Director

**James Davis** Acting Managing Director and Chief of Staff, Chairman's Office

**Russell Hodge** Chief Executive Officer, Pel-Air Aviation Pty Ltd

**David Miller** Chief Executive Officer, Air Link Pty Ltd

**Lee Thian Soo** Non-Executive Director

**Robert Winnel** Independent Director

**Stephen Jermyn** Independent Director

**Geoffrey Breust** Managing Director (Ceased directorship and employment on 5 December 2007)

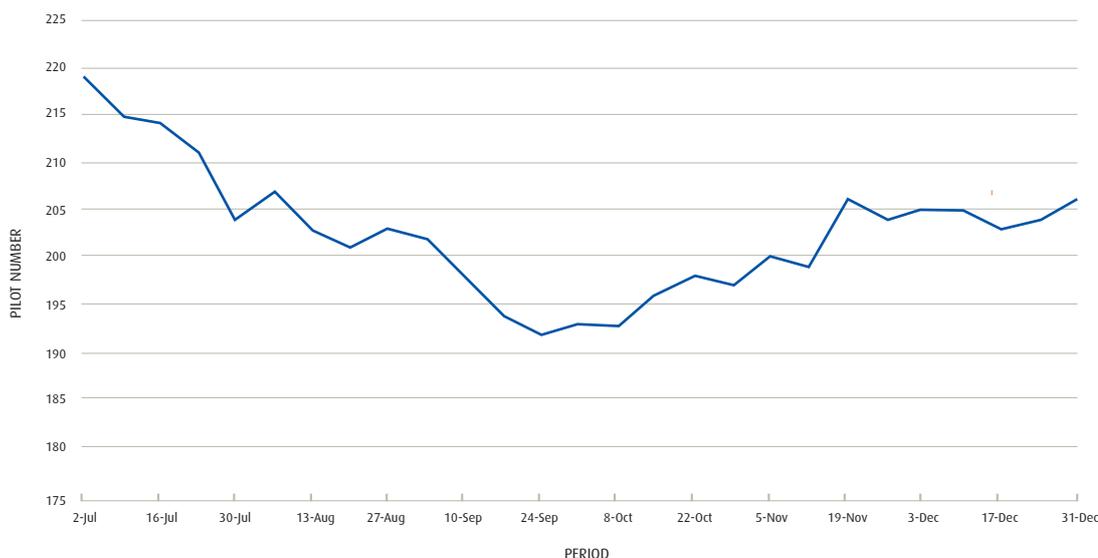
## REVIEW OF OPERATIONS

### Summary Review

The period was dominated by an exceptionally high level of recruitment of Rex pilots by the major Australian airlines. The Rex pilot attrition rate was 60% on an annualised basis. This resulted in an increased number of flight cancellations, route suspensions and a deterioration of the On Time Performance (OTP). Despite this, Rex still managed to achieve some of the best OTP results in the industry, coming in top in four of the six months.

Measures taken to combat the pilot shortage include significantly increased recruitment, removing marginal flying activity and commencing the Rex Cadet Scheme. These measures have allowed for a steady recovery in required pilot numbers from a low point halfway through the period.

### Rex Pilot Situation July - December 2007



In conjunction with the Cadet Scheme, Rex has started its own airline pilot academy at Mangalore Airport in Victoria as a stand-alone business venture to help supply the massive world-wide demand for airline pilots as well as train its own cadets. It is expected that the first year of operation will produce 80 pilots for Rex and thereafter the Academy should be able to produce an additional 100 pilots for other airlines.

The record fuel prices in November and December saw fuel unit costs increasing 23%. The total fuel spend increased by \$1.4M compared with the first half of FY 2007 and this led to an increase in fuel levy for all new sales from 1 November 2007. Rex engineering costs also saw an increase from \$10.4M to \$13.3M due to the clustering of major scheduled maintenance (C checks) in the period, increased maintenance due to the harsh winter, as well as additional cost associated with bringing five additional aircraft into service.

The loss of the Olympic Dam service was compensated by new growth in other services and overall the passenger numbers continued to grow by 9.8% to 772,837. However, reduced yields resulted in passenger revenue increasing by only 5.6% from \$100.6M to \$106.2M.

Air Link operations were reduced with the upgrade of the well-patronised Sydney to Dubbo service to a SAAB 340 aircraft. This released one of Air Link's Beech 1900 aircraft for other operations but this could not be instituted during the period due to insufficient pilots and downtime required for the painting and maintenance of the aircraft.

# DIRECTORS' REPORT

## REVIEW OF OPERATIONS (CONTINUED)

### Summary Review (continued)

Pel-Air has achieved continued growth in charter revenue with an increase of 18.2% from \$15.9M to \$18.8M over the previous period particularly from ad-hoc charter for the resource sector in South Australia. This growth has been tempered by an increase in network operating costs because of increased pilot recruiting and training requirements to meet the extra demand as well as unscheduled maintenance events on the Brasilia aircraft. Additionally, Pel-Air has changed its accrual policy with regard to engine maintenance in order to align with that of Rex, resulting in additional accrual of \$745,000. This increased expenditure resulted in a reduction of Profit Before Tax from \$2.7M in the prior period to \$2.3M.

The combined effect of the record fuel prices, high attrition rates of pilots, flight cancellations and suspension of some routes and one-off engineering expenses resulted in a reduction in Profit After Tax of the Group of 10.4% from \$11.5M to \$10.3M.

### Key Performance Indicators Table (Passenger Service Only)

	1H FY 2008	1H FY 2007	CHANGE
Passengers	772,837	703,915	+9.8%
ASKs (M)	419	384	+9.1%
Average Fare (\$)	137.4	143.0	-3.9%
(Excl. Fuel Levy)	(115.0)	(119.3)	(-3.6%)
Load Factor (%)	68.4	68.8	-0.4% pts
Passenger Revenue/ASK (cents)	25.3	26.2	-3.4%
Total Passenger Cost/ASK (cents)	23.6	23.2	+1.7%
(Excl. Fuel)	(19.2)	(18.9)	(+1.6%)
Fuel % Total Cost	18.8	18.8	Nil

### Route Network Developments

Following the cessation of services between Adelaide and Olympic Dam at the end of FY 2007, due to the BHP Billiton contract expiry, Rex continued with its strategy of increasing flight frequency on high-load routes in its vast regional network of 39 routes, of which 33 are sole operated.

In July 2007, Rex increased service frequency between the Adelaide – Mount Gambier and Adelaide – Whyalla routes. In partnership with the District Council of Lower Eyre Peninsula, service frequency also increased between Port Lincoln and Adelaide. The traditional competitor on the Mount Gambier routes, O'Connor Airlines, ceased operating in December 2007 after 30 years of operations leaving Rex as the only operator on these routes and this followed O'Connor withdrawing from the Whyalla to Adelaide route in September 2007.

In partnership with the Griffith City Council, a new service between Griffith and Melbourne was launched in July with 24 weekly flights, which also saw an increase in flight frequency on the established Griffith – Sydney route.

The month of September 2007 saw further frequency increases between the Adelaide – Mount Gambier and Adelaide – Port Lincoln routes. With this, the Adelaide – Port Lincoln route is now receiving up to nine return services each day, including a new late evening service from Adelaide and early morning departure from Port Lincoln, further improving schedule convenience.

Rex commenced services between Brisbane and Maryborough in October 2007 in partnership with the Maryborough City Council. This saw 36 weekly flights and a once-weekly service between Brisbane and Lismore that linked the new Queensland operation with the traditional Rex network. However, the pilot shortage forced the suspension of these services in early November 2007.

In November 2007, a number of Air Link 19-seat Beech 1900D services between Dubbo and Sydney were transitioned to the Rex 34-seat Saab 340 aircraft, adding needed capacity between Dubbo and Sydney during the peak travel times. Due to the shortage of pilots, we also saw temporary suspension of services between Sydney and the Snowy Mountains (Cooma) and the temporary reduction in service frequency between Wagga Wagga and Sydney, both of which coincided with softer seasonal trends

# DIRECTORS' REPORT

## REVIEW OF OPERATIONS (CONTINUED)

### Fleet Changes

The first half of FY 2008 saw five additions to the Rex fleet of Saab 340B Plus aircraft as part of an agreement reached with Saab Aircraft Leasing in November 2006 for Rex to lease 25 Saab 340B Plus aircraft for delivery over three years, between July and December 2007.

	As at 31 December 2007	As at 30 June 2007
<b>SAAB 340A</b>		
Owned	8	8
<b>SAAB 340B</b>		
Owned	14	10
Leased	9	13
<b>TOTAL</b>	<b>23</b>	<b>23</b>
<b>SAAB 340B PLUS</b>		
Leased	6	1
<b>TOTAL OWNED</b>	<b>22</b>	<b>18</b>
<b>TOTAL LEASED</b>	<b>15</b>	<b>14</b>
<b>TOTAL FLEET</b>	<b>37</b>	<b>32</b>

Additionally, in July 2007, Rex acquired four aircraft coming off lease. Full payment of \$9.4M was made for the acquisition of these aircraft during FY 2007, funded by operating cash flows.

Fleet numbers for Air Link and Pel-Air have remained unchanged.

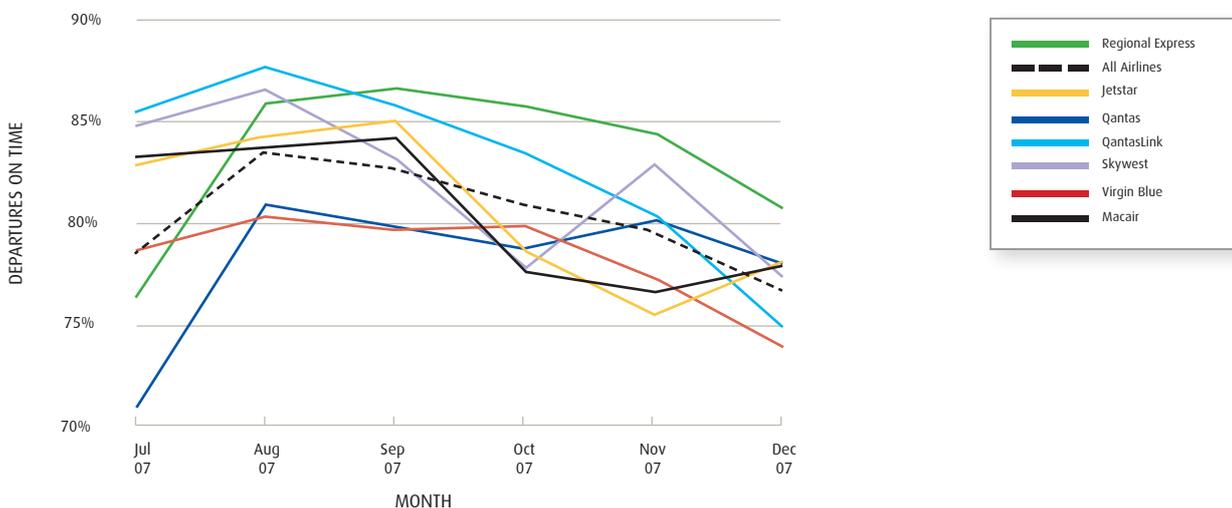
There were, however, some configuration changes made to the Pel-Air fleet, with use of VH-KNS, a Westwind (1124) changed from Freight to Commuter with the addition of aero-medical evacuation, and VH-AJV, a Westwind (1124) now used for Corporate Passengers, also with the addition of aero-medical evacuation.

As a result of the pilot shortage, Air Link is presently operating only one of their two Beech 1900D aircraft, with the opportunity being taken to re-paint one of the aircraft while it is not required.

### Operational and Service Standards

Rex maintained its position as one of the best performing airlines in terms of On Time Departures of all the major airlines for the first half of FY 2008, according to figures released by the Federal Department of Transport and Regional Services, achieving the best results in four of the six months.

#### On Time Departures



# DIRECTORS' REPORT

## REVIEW OF OPERATIONS (CONTINUED)

### Operational and Service Standards (continued)

Rex's traditionally low level of flight cancellations suffered dramatically at the hands of the pilot shortage, with cancellation rates reaching 2.1% in October, prior to action being taken to reduce pressure on the network, which resulted in lower cancellation rates of 1.6% and 1.2% in November and December respectively. While these rates are unusual for Rex (typically 0.2%), Rex's average cancellation rate for the first six months of FY 2008 of 1.4% is comparable to that of the major carriers with Qantas averaging 1.5% and Virgin 1.4%.

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

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

Rex has continued to participate in drought-relief efforts, providing assistance to drought-affected communities through a special scheme established to provide concessional travel for individuals and organisations engaged in relief services. During the first half of FY 2008, "Spirit of the Land" in Wagga Wagga, "Healthy Minds, Healthy Families, Healthy Farms" workshops in Dubbo and workshops in Adelaide regional areas by Eyre Peninsula Community Alliance – in conjunction with Country Health SA – were just some of the beneficiaries of Rex's drought-relief programme.

## AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 5 of the half year report.

## 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 half year financial report are rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of directors made pursuant to s.306(3) of the Corporations Act 2001.

On behalf of the Directors



James Davis  
Acting Managing Director  
Sydney, 27 February 2008



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

26 February 2008

Dear Board Members

## Regional Express Holdings Limited

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

As lead audit partner for the review of the financial statements of Regional Express Holdings Limited for the half year ended 31 December 2007, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours faithfully

DELOITTE TOUCHE TOHMATSU

**CM Barling**  
**Partner**  
Chartered Accountants



Deloitte Touche Tohmatsu  
ABN 74 490 121 060

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## Independent Auditor's Review Report to the members of Regional Express Holdings Limited

### Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Regional Express Holdings Limited, which comprises the balance sheet as at 31 December 2007, and the income statement, cash flow statement and statement of changes in equity for the half-year ended on that date, selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year.

#### *Directors' Responsibility for the Half-Year Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the half-year 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 half-year 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.

#### *Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Regional Express Holdings Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

# INDEPENDENT AUDITOR'S REVIEW REPORT

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## *Auditor's Independence Declaration*

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

## *Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Regional Express Holdings Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Yours faithfully



DELOITTE TOUCHE TOHMATSU



**CM Barling**

**Partner**

Chartered Accountants

Sydney, 26 February 2008

# CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE HALF YEAR ENDED 31 DECEMBER 2007

	Note	HALF YEAR ENDED	
		31 Dec 2007 \$'000	31 Dec 2006 \$'000
<b>REVENUE AND INCOME</b>			
Passenger revenue		106,218	100,680
Freight revenue		466	486
Charter revenue		19,798	779
Other passenger services and amenities		482	495
Finance revenue		687	656
Other income		1,210	1,330
<b>TOTAL REVENUE AND OTHER INCOME</b>		<b>128,861</b>	<b>104,426</b>
<b>COSTS AND EXPENSES</b>			
Flight and port operations costs (excluding fuel)		(23,886)	(22,429)
Fuel costs		(21,738)	(16,808)
Salaries and employee related costs	3 (a)	(37,252)	(27,222)
Selling and marketing costs		(4,932)	(5,719)
Engineering and maintenance costs		(19,295)	(11,639)
Office and general administration costs		(3,435)	(2,338)
Finance costs		(194)	(24)
Depreciation and amortisation		(3,977)	(2,187)
Other expenses		(631)	(818)
<b>TOTAL COSTS AND EXPENSES</b>		<b>(115,340)</b>	<b>(89,184)</b>
Share of profit from associate		(13)	821
<b>PROFIT BEFORE INCOME TAX</b>		<b>13,508</b>	<b>16,063</b>
Income tax expense		(3,174)	(4,598)
<b>NET PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT ENTITY</b>		<b>10,334</b>	<b>11,465</b>
<b>EARNINGS PER SHARE (CENTS PER SHARE)</b>			
Basic earnings per share		8.64	9.98
Diluted earnings per share		8.63	9.87

Notes to the financial statements are included on pages 12 to 13.

# CONDENSED CONSOLIDATED BALANCE SHEET

FOR THE HALF YEAR ENDED 31 DECEMBER 2007

	Note	CONSOLIDATED	
		31 Dec 2007 \$'000	30 June 2007 \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		19,442	18,617
Trade and other receivables		9,594	12,402
Inventories		9,917	6,744
<b>Total current assets</b>		<b>38,953</b>	<b>37,763</b>
<b>Non-current assets</b>			
Other financial assets		3	11
Investment in associate		996	-
Deferred tax assets		130	1,608
Property, plant and equipment			
Aircraft		76,568	78,533
Other property, plant and equipment		34,677	32,172
Total property, plant and equipment		111,245	110,705
Goodwill and intangible assets		7,333	7,386
<b>Total non-current assets</b>		<b>119,707</b>	<b>119,710</b>
<b>TOTAL ASSETS</b>		<b>158,660</b>	<b>157,473</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables		32,423	30,017
Borrowings		1,780	2,402
Income tax payable		9,552	8,799
Provisions		6,323	8,431
Other financial liabilities		291	526
Other liabilities		175	244
<b>Total current liabilities</b>		<b>50,544</b>	<b>50,419</b>
<b>Non-current liabilities</b>			
Borrowings		2,648	3,193
Provisions		653	1,158
Other liabilities		235	235
<b>Total non-current liabilities</b>		<b>3,536</b>	<b>4,586</b>
<b>TOTAL LIABILITIES</b>		<b>54,080</b>	<b>55,005</b>
<b>NET ASSETS</b>		<b>104,580</b>	<b>102,468</b>
<b>EQUITY</b>			
Issued capital	5	82,446	82,446
Reserved shares		(1,325)	(963)
Retained earnings		21,798	19,450
Share based payments reserve		275	471
Other reserves		1,386	946
Equity settled employee benefits reserve		-	118
<b>TOTAL EQUITY</b>		<b>104,580</b>	<b>102,468</b>

Notes to the financial statements are included on pages 12 to 13.

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE HALF YEAR ENDED 31 DECEMBER 2007

	HALF YEAR ENDED		
	Note	31 Dec 2007 \$'000	31 Dec 2006 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		142,337	111,663
Payments to suppliers and employees		(122,632)	(95,349)
Interest and other costs of finance paid		(194)	(24)
Income tax paid		(867)	(967)
<b>Net cash flows from operating activities</b>		<b>18,644</b>	<b>15,323</b>
<b>Cash flows from investing activities</b>			
Interest received		687	656
Proceeds from sale of property, plant and equipment		292	22
Purchase of property, plant and equipment		(7,527)	(14,648)
Acquisition of associate		(1,000)	-
Dividends received		-	1,226
Payment for intangibles		(33)	(75)
<b>Net cash flows used in investing activities</b>		<b>(7,581)</b>	<b>(12,819)</b>
<b>Cash flows from financing activities</b>			
Dividends paid		(7,986)	(5,750)
Proceeds from issues of ordinary shares from options		666	351
Purchase of reserved shares		(1,560)	-
Repayment from borrowings – non related parties		(1,361)	-
<b>Net cash flows from financing activities</b>		<b>(10,241)</b>	<b>(5,399)</b>
Net (decrease)/increase in cash and cash equivalents		822	(2,895)
Effect of FX on cash balances		3	(818)
Cash and cash equivalents at the beginning of the period		18,617	23,583
<b>Cash and cash equivalents at the end of the period</b>		<b>19,442</b>	<b>19,870</b>

Notes to the financial statements are included on pages 12 to 13.

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDED 31 DECEMBER 2007

## ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

	Issued capital	Reserved Shares	Retained Earnings	Share Based Payments Reserve	Other Reserves	Equity Settled Employee Benefits Reserve	Total
<b>CONSOLIDATED</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Balance At 1 Jul 2006</b>	69,546	(2,810)	1,573	-	-	487	68,796
Dividend paid	-	-	(5,750)	-	-	-	(5,750)
Profit for the period	-	-	11,465	-	-	-	11,465
Issue of shares under share option plan	-	130	-	-	-	(18)	112
Transfer from equity settled employee benefits reserve	-	485	-	-	-	(485)	-
Recognition of share-based payment expense	-	-	-	-	-	318	318
<b>Balance at 31 Dec 2006</b>	<b>69,546</b>	<b>(2,195)</b>	<b>7,288</b>	<b>-</b>	<b>-</b>	<b>302</b>	<b>74,941</b>
<b>Balance At 1 Jul 2007</b>	82,446	(963)	19,450	471	946	118	102,468
Dividend paid	-	-	(7,986)	-	-	-	(7,986)
Profit for the period	-	-	10,334	-	-	-	10,334
Purchase of shares under share option plan	-	(1,560)	-	-	-	-	(1,560)
Gains/(losses) on hedges	-	-	-	-	322	-	322
Share gift exercised/issued	-	391	-	(471)	-	-	(80)
New share gift provision	-	-	-	275	-	-	275
Share options exercised	-	807	-	-	-	-	807
Transfer from equity settled employee benefits reserve	-	-	-	-	118	(118)	-
<b>Balance at 31 Dec 2007</b>	<b>82,446</b>	<b>(1,325)</b>	<b>21,798</b>	<b>275</b>	<b>1,386</b>	<b>-</b>	<b>104,580</b>

Notes to the financial statements are included on pages 12 to 13.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. SIGNIFICANT ACCOUNTING POLICIES

### Statement of compliance

The half year financial report is a general-purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The half year financial report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

### Basis of preparation

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

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

The accounting policies and methods of computation adopted in the preparation of the half year financial report are consistent with those adopted and disclosed in the company's 2007 annual financial report for the financial year ended 30 June 2007.

## 2. SEGMENT INFORMATION

The consolidated entity continues to operate in one segment being the provision of regular public transport within South East Australia.

## 3. REVENUE AND EXPENSES

### Specific Items

Profit before income tax expense includes the following expenses whose disclosure is relevant in explaining the performance of the entity. The condensed consolidated income statement for the half year ended 31 December 2006 has been re-categorised to be consistent and comparable with the reporting format used for the current financial year.

	HALF YEAR ENDED	
	31 Dec 2007 \$'000	31 Dec 2006 \$'000
<b>(a) Salaries and employee related costs</b>		
Wages and salaries (excluding bonus - profit share scheme)	(21,689)	(16,131)
Bonus - profit share scheme	(902)	(1,470)
Workers' compensation costs	(645)	(339)
Superannuation costs	(2,515)	(1,627)
Employee share option expense	(346)	(234)
Other employee related costs	(11,155)	(7,421)
	<b>(37,252)</b>	<b>(27,222)</b>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 4. DIVIDENDS

### HALF YEAR ENDED

	31 Dec 2007		31 Dec 2006	
	Cents per share	Total \$'000	Cents per share	Total \$'000
<b>RECOGNISED AMOUNTS</b>				
<b>Fully paid ordinary shares</b>				
Interim dividend	-	-	-	-
Final dividend	6.6	7,986	5.0	5,750
<b>UNRECOGNISED AMOUNTS</b>				
<b>Fully paid ordinary shares</b>				
Interim dividend	-	-	-	-
Final dividend	-	-	-	-

## 5. ISSUED CAPITAL

	31 Dec 2007 \$'000	31 Dec 2006 \$'000
<b>Ordinary shares</b>		
Issued and fully paid	82,446	69,546
Reserved shares	(1,325)	(2,195)

## 6. ISSUANCES, REPURCHASES AND REPAYMENTS OF EQUITY SECURITIES

During the half year reporting period, a total of 665,698 options were exercised by employees who received the first allotment of options in October 2006 under the share option plan. These options, together with 167,132 options which expired, represent the unexercised balance of 832,830 options of the total 2,317,238 options granted in October 2006. Shares from the trust held by Rex Investment Holdings were used to fund the option exercise.

In the same reporting period, Regional Express Holdings Limited via its trust held by Rex Investment Holdings purchased 632,887 Rex shares in an open market trade.

There were no other movements in the ordinary share capital or other issued share capital of the company in the current half year reporting period.

## 7. CONTINGENCIES AND COMMITMENTS

As at 31 December 2007, Regional Express Holdings Limited has an arrangement with Saab Aircraft Leasing to lease 19 advanced 34-seat Saab 340B Plus aircraft. Regional Express Holdings Limited will take delivery of these aircraft over the next 2.5 years.

## 8. SUBSEQUENT EVENTS

Regional Express Holdings Limited issued 225,402 fully paid ordinary shares to its key managers under the share gift plan on 2 January 2008. Regional Express Holdings Limited also granted 189,455 fully paid ordinary shares to its Management Committee members under the share gift plan on 11 February 2008. Shares from the trust held by Rex Investment Holdings were used to fund the share plan for the Management Committee.

# DIRECTORS' DECLARATION

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

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the Directors



James Davis  
Acting Managing Director  
Sydney, 27 February 2008

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