HALF-YEAR FINANCIAL REPORT

31 December 2005

Regional Express Holdings Limited

ACN 099 547 270 (ASX Code: REX)

31 December 2005 Half-Year Results Announcement to the ASX

(Appendix 4D and Financial Statements
for the Half-Year ended 31 December 2005)

ASX APPENDIX 4D

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	31 Dec 2005 $m	31 Dec 2004 $m	Change $m	Change %
Revenue	77.9	65.8	12.1	+ 18.4
Profit from ordinary activities after tax attributable to members	9.3	2.7	6.6	+ 244.4
Net profit for the period attributable to members	9.3	2.7	6.6	+ 244.4

DIVIDENDS

	Amount per share	Franked amount per share
Interim dividend (31 Dec 2005)	Nil	Nil
Record date for determining entitlements	N/A	N/A

EXPLANATION OF RESULTS

This is set out in the accompanying press release. (See page 2)

OTHER INFORMATION

	Dec 2005 $	Dec 2005 $
Net tangible assets per ordinary share	0.56	0.22 (Adjusted for 0.55:1 share consolidation)

Entities over which control gained or lost during the period:

- Air Link Pty Limited, an unlisted company based in Dubbo, was purchased on 30 Nov 2005 to strengthen passenger services in regional Australia.
- Hazelton Air Services Pty Limited, a wholly owned subsidiary, was divested on 22 Aug 2005. This subsidiary had been dormant since Nov 2003.

DETAILS OF ASSOCIATES

Equity accounted associates	Percentage of ownership interest held at end of period or date of disposal		Contribution to net profit	
	Dec 2005 %	Dec 2004 %	Dec 2005 $m	Dec 2004 $m
Pel-Air Aviation Pty Ltd	50.0	0	1.0	0.0
TOTAL	50.0	0	1.0	0.0

PRESS RELEASE

Regional Express Holdings Limited ("Rex") results for the Half Year to 31 December 2005.

- Profit before tax of $13.2m (up 238% from $3.9m for the six month period to 31 December 2004)
- Net profit after tax of $9.3m (up 244% from $2.7m for the six month period to 31 December 2004)
- Revenue of $77.9m (up 18%)
- Earnings per share of 10 cents per share (up from 5 cents per share)

Operating Results for the Period

Rex today reported a Net Profit before tax of $13.2m for the six months to 31 December 2005, up from $3.9m for the same period last year. This increase was largely driven by steady growth in existing markets, yield improvement and continued cost efficiencies.

The Chairman of Rex, Mr Lim Kim Hai, said Rex continues to make considerable progress in increasing its profit due to the continuing success of its current strategy for:

(i) increased passenger growth through well adapted schedules, new routes/frequencies combined with effective pricing and revenue management approaches;

(ii) improved operational performance and customer service; and

(iii) increased productivity through cost reductions and improved efficiencies.

Mr Lim said of the first half result, "While the environment remained very challenging with fuel price continuing to rise, Rex was more than able to offset this by its disciplined efforts in productivity gains. Overall cost per Available Seat Kilometre (ASK) actually fell by 5% from 20.2c to 19.1c on average during the period."

Revenue and Load Factor

Total revenue for the half-year was $77.9m, an increase of $12.1m or 18% on the comparative half year.

Net passenger revenue, including fuel levy recoveries, were $74.2m, an increase of $10.5m or 16% on the comparative half year. During the period Rex passenger numbers increased by 11% with a corresponding increase of 11% in capacity. Load factor increased from 65.6% to 66.3%

The divestment of Hazelton Air Services, a wholly owned subsidiary which had been dormant since November 2003 resulted in an after tax gain on sale of $0.8m which has been included in this first half result. This was essentially a divestment of a superannuation liability that arose in the previous financial year.

Expenditure

Total expenditure, excluding income tax expense was $65.7m , up 6% on the comparative half year. This increase was due to an 11% increase in capacity growth and also higher fuel prices which increased fuel costs by $3.4m. The average fuel price (including supply cost) was more than 30% higher than the comparative half-year — in line with forecast. Without the higher fuel cost overall expenditure actually decreased by 1%. The company confirms that it has no fuel hedging cover in place.

Manpower and employee benefits increased by 8% due to:

- Enterprise Bargaining Agreement (EBA) increase of 3%;
- An increase in 11 full-time equivalent employees for Regional Express Pty Limited;
- The acquisition of Air Link Pty Limited; and
- A provision for share gift and profit share to be disbursed in FY 06/07 as part of a productivity based remuneration scheme which has been adopted by all Regional Express staff, with the exception of those employed under the ASU EBA.

The purchase of previously leased aircraft resulted in a decrease in Aircraft operating lease rental costs of 6%. The average fleet size increased by 2 to 29 compared to the first six months of the previous financial year.

Profit from Associate

Included in this result is the share of net profit in associates of $1.0m reflecting the 50% acquisition in Pel-Air Aviation Pty Limited.

Balance Sheet and Cash Flow

Cash Balances for the Group as at 31 December 2005 were $24.3m compared to $2.3m as at 31 December 2004. Cash flows from operations totalled $13.9m, an increase of $12.7m on the prior half year, reflecting increased profitability.

Cash flows from investing activities were $23.8m in net outflows, relating to an associate acquisition (50%) of Pel Air Aviation Pty Limited and the purchase of the wholly owned subsidiary of Air Link Pty Limited. Cash flows from investing activities also includes capital expenditure of $10.7m related to the acquisition of four aircraft and associated aircraft spares as well as other aircraft rotables.

Cash flows from financing activities totalled $29.7m and included the net proceeds from the Initial Public Offering and the payout of a loan facility for Air Link.

Earnings per share doubled from 5c to 10c per share reflecting the increased earnings of the Rex Group.

Outlook

Mr Lim said "Rex has exceeded its half yearly forecast. Taking the current cost structure and forward bookings profile into account, Rex is on track to provide an annual profit outcome in line with the Directors' forecast, as set out in the Prospectus".

Dividend

The Board reviews the Company's dividend policy on a six monthly basis and, as foreshadowed in the Prospectus, has decided not to declare a dividend for the six months to 31 December 2005.

For further information:

Kelly Irvine
Chief Financial Officer 02 6926 7750

Irwin Tan
Company Secretary 02 9023 3515

Charlene Sim
Corporate Communications Manager 02 8374 3230

Contents

Directors' Report

Your Directors submit their report for the half-year ended 31 December 2005

DIRECTORS

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. Directors were in office for this entire period unless otherwise stated.

Lim Kim Hai (Executive Chairman)
Lee Thian Soo
Robert Winnel
Jim Davis (Executive Director)
Geoffrey Breust (Managing Director)
John Sharp (Deputy Chairman)
Russell Hodge (appointed 9 September 2005)
Christopher Chong (ceased 9 September 2005)

REVIEW AND RESULTS OF OPERATIONS

The Rex Group experienced an increase in both revenue and profits during the half-year. Total revenue for the half year was $77.9m (2004: $65.8m) representing an increase of 18% which was driven largely by the growth of existing markets and yield improvement as well as the acquisition of Air Link Pty Limited.

Consolidated net profit after income tax for the half-year was $9.3m (2004: $2.7m), up 244% on the previous corresponding half-year, reflecting the aforementioned revenue growth as well as lower operational costs resulting from ongoing and additional Productivity Committee initiatives. The Rex Group continues to operate successfully in a highly competitive market with three simple strategies:

- partnering regional Australia;
- keeping the fares affordable; and
- being on time.

AUDITOR'S INDEPENDENCE DECLARATION

We have obtained the following independence declaration from our auditors, Ernst & Young, a copy of which has been included on page 2 of this financial report.

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

On behalf of the Directors

Geoffrey Breust
Director

Sydney, 18 Feb 2006

ERNST & YOUNG

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Australia

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Sydney NSW 2001

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Auditor's Independence Declaration to the Directors of Regional Express Holdings Limited

In relation to our review of the financial report of Regional Express Holdings Limited for the half-year ended 31 December 2005, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Greg Logue

Gregory J Logue
Partner
Date: 18 February 2006

CONDENSED INCOME STATEMENT

For the half-year ended 31 December 2005

	Notes	CONSOLIDATED 2005 $	2004 $
Revenue	2	**75,026,439**	64,457,178
Other income		**2,899,141**	1,362,211
		77,925,580	65,819,389
Expenses	2		
Salaries & employee benefits		**(21,431,608)**	(19,870,910)
Depreciation & amortisation		**(1,766,475)**	(1,240,257)
Finance costs		**(100,487)**	(321,858)
Other expenses from operating activities		**(42,386,953)**	(40,442,311)
Share of profit from associate		**952,000**	-
Profit before income tax		**13,192,057**	3,944,053
Income tax expense		**(3,882,608)**	(1,270,064)
Net profit attributed to members of parent		**9,309,449**	2,673,989
Earnings per share (cents per share)			
Basic earning per share		**0.10**	0.05
Diluted earnings per share		**0.10**	0.05

CONDENSED BALANCE SHEET

For the half-year ended 31 December 2005

	Notes	CONSOLIDATED As at 31 Dec 2005 $	As at 30 June 05 $
ASSETS			
Current Assets			
Cash and cash equivalents	9	**24,301,120**	4,542,887
Receivables		**6,593,663**	7,228,715
Consumable spares		**4,129,894**	3,046,356
Prepayments and other assets		**1,262,565**	4,521,879
Deriatives		**-**	40,255
Total Current Assets		**36,287,242**	19,380,092
Non-current Assets			
Investment in associates accounted for using the equity method		**13,049,090**	-
Deferred income tax asset		**3,730,671**	6,801,421
Property, plant and equipment		**34,459,300**	24,483,948
Consumable spares		**6,194,841**	4,569,534
Goodwill		**632,567**	-
Other intangible assets		**92,626**	-
Other non-current assets		**126,010**	-
Total Non-current Assets		**58,285,105**	35,854,903
TOTAL ASSETS		**94,572,347**	55,234,995
LIABILITIES			
Current Liabilities			
Payables		**18,349,040**	21,860,573
Interest-bearing loans and borrowings		**507,365**	511,958
Provisions		**4,471,590**	4,024,335
Government grants		**259,704**	283,407
Total Current Liabilities		**23,587,699**	26,680,273
Non-current Liabilities			
Interest-bearing loans and borrowings		**4,092,595**	4,146,736
Provisions		**1,291,175**	1,193,874
Government grants		**593,899**	788,594
Total Non-current liabilities		**5,977,669**	6,129,204
TOTAL LIABILITIES		**29,565,368**	32,809,477
NET ASSETS		**65,006,979**	22,425,518
EQUITY			
Issued capital	4	**69,554,136**	36,576,685
Other reserves		**294,561**	-
Accumulated losses		**(4,841,718)**	(14,151,167)
TOTAL EQUITY		**65,006,979**	22,425,518

CONDENSED CASH FLOW STATEMENT

For the half-year ended 31 December 2005

	Notes	CONSOLIDATED Half-year ended 31 Dec 2005 $m	 Half-year ended 31 Dec 2004 $m
Cash flows from operating activities			
Receipts from customers		**93,780,621**	79,111,880
Payments to suppliers and employees		**(80,225,327)**	(77,811,409)
Interest received		**455,697**	117,588
Borrowing costs		**(100,487)**	(321,858)
Other		**(17,913)**	8,956
Net cash flows from operating activities		**13,892,591**	1,105,157
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**1,228,922**	1,305,560
Purchase of property, plant and equipment		**(10,656,443)**	(5,628,677)
Acquisition of associate		**(12,097,091)**	-
Acquisition of subsidiary, net of cash acquired		**(2,332,899)**	-
Net cash flows used in investing activities		**(23,857,511)**	(4,323,117)
Cash flows from financing activities			
Proceeds from issues of ordinary shares		**35,000,000**	175,000
Payments for the cost of capital raising		**(2,848,666)**	-
Repayment from borrowings - non related parties		**(2,428,181)**	-
Proceeds from issue of convertible notes		**-**	4,000,000
Net cash flows from financing activities		**29,723,153**	4,175,000
Net increase in cash and cash equivalents		**19,758,233**	957,040
Cash and cash equivalents at beginning of period		**4,542,887**	1,316,100
Cash and cash equivalents at end of period	9	**24,301,120**	2,273,140

CONDENSED STATEMENT OF CHANGES IN EQUITY

For the half-year ended 31 December 2005

31 December 2004

	Attributable to equity holders of the parent		
CONSOLIDATED	**Issue capital $**	**Accumulated losses $**	**Total $**
At 1 Jul 2004	30,271,185	(20,677,825)	9,593,360
Profit for the period	-	2,673,989	2,673,989
Share Issue	175,000	-	175,000
At 31 Dec 2004	**30,446,185**	**(18,003,836)**	**12,442,349**

CONDENSED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the half-year ended 31 December 2005

31 December 2005

	Attributable to equity holders of the parent			
CONSOLIDATED	**Issue capital $**	**Accumulated Losses $**	**Other reserves $**	**Total $**
At 1 Jul 2005	36,576,685	(14,151,167)	-	22,425,518
Profit for the period	-	9,309,449	-	9,309,449
Share issue	35,000,000	-	-	35,000,000
Cost of capital raising (net of tax effect)	(2,022,549)	-	-	(2,022,549)
Cost of share-based payment	-	-	294,561	294,561
At 31 Dec 2005	**69,554,136**	**(4,841,718)**	**294,561**	**65,006,979**

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

For the half-year ended 31 December 2005

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half-year financial report should be read in conjunction with the annual Financial Report of Regional Express Holdings Limited as at 30 June 2005, which was prepared based on Australian Accounting Standards applicable before 1 January 2005 ('AGAAP').

It is also recommended that the half-year financial report be considered together with any public announcements made by Regional Express Holdings Limited and its controlled entities during the half-year ended 31 December 2005 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

(a) Basis of accounting

The half-year financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards including AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements.

The half-year financial report has been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

(b) Statement of compliance

The half- year financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the half-year financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ('IFRS').

This is the first half-year financial report prepared based on AIFRS and comparatives for the half-year ended 31 December 2004 and full-year ended 30 June 2005 have been restated accordingly. A summary of the significant accounting policies of the Group are disclosed in Note 1(c) below.

Reconciliations of:
*AIFRS equity as at 1 July 2004 and 30 June 2005; and
*AIFRS profit for the full year 30 June 2005, to the balances reported in the 30 June 2005 full-year financial report prepared under AGAAP are detailed in Note 1(e) below.

No reconciliations were prepared at 31 December 2004 as this is the first half year report produced by Regional Express Holdings Limited since it's listing on the Australian Stock Exchange ('ASX') on 9 November 2005, and as a result, Regional Express Holdings Limited has never prepared results fo this comparative period. As the transition date to AIFRS was applicable from 1 July 2004 for Regional Express Holdings Limited and this is the first time these results are subject to disclosure, there is no need to restate these numbers.

(c) Summary of significant accounting policies

(i) Basis of consolidation

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

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

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

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

Air Link Pty Limited has been included in the consolidated financial statements using the purchase method of accounting, which measures the acquiree's assets and liabilities at their fair value at acquisition date. Accordingly, the consolidated financial statements include the results of Air Link Pty Limited for the one-month period from its acquisition on 30 November 2005. The purchase consideration has been allocated to the assets and liabilities on the basis of fair value at the date of acquisition.

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS
For the half-year ended 31 December 2005

(ii) Investment in associate
The Group's investment in its associate, Pel-Air Aviation Pty Limited, is accounted for under the equity method of accounting in the consolidated financial statements. This is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

The financial statements of the associate are used by the Group to apply the equity method. The reporting dates of the associate and the Group are identical and both use consistent accounting policies.

The investment in the associate is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate, less any impairment in value. The consolidated income statement reflects the Group's share of the results of operations of the associate.

Where there has been a change recognised directly the associate's equity, the Group recognises its share of any changes and discloses this, when applicable in the consolidated statement of changes in equity.

(iii) Foreign currencies
Both the functional and presentation currency of the Group is Australian dollars ($A).

Translation of foreign currency transactions
Transactions in foreign currencies of entities within the consolidated entity are converted to local currency at the rate of exchange ruling at the date of the transaction. Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the balance sheet date.

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

(iv) Property, plant and equipment
Cost
All classes of property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value.

Depreciation
Depreciation is provided on a straight-line basis on all property, plant and equipment over the estimated useful life of the asset as follows (see table below):
Depreciation rates and methods are reviewed annually and, where changed, are accounted for as a change in accounting estimate. Where depreciation rates or methods are changed, the net written down value of the asset is depreciated from the date of the change in accordance with the new depreciation rate or method. Depreciation recognised in prior financial years is not changed.

Impairment
The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

Major depreciation periods are:	**2005**	**2004**
Aircraft	50,000 - 60,000 hours	15 - 23 years
Engines	10 years	n/a
Leasehold improvements:	40 years	40 years
Cyclic assets	1.5 - 5.5 years	1.5 - 5.5 years
Plant and equipment – ground service equipment	8 years	8 years
Furniture and Fittings	8 years	8 years
Computer equipment	4 years	4 years
Motor vehicles	7 years	7 years
Computer software	2 years	2 years

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

For the half-year ended 31 December 2005

The recoverable amount of property, plant and equipment is the greater of the 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. If the recoverable amount of an asset is estimated to be less than it's carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of the 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 in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

(v) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(vi) Goodwill

Goodwill on acquisition is initially measured at 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.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is not amortised.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the assets expected to benefit from the combination's synergies.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the good will relates. When the recoverable amount of the asset is less than the carrying amount, an impairment loss is recognised.

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Where goodwill forms part of cash-generating unit part of the operation within that unit is disposed of the goodwill associated with the operation disposed of is included in the carrying amount, of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

(vii) Intangible assets

Acquired both separately and from a business combination

Intangible assets acquired separately are capitalised at cost and from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets.

The useful lives of these intangible assets are assessed to be either finite or indefinite. Where amortisation is charged on assets with finite lives, this expense is taken to the income statement through the "depreciation & amortisation" line item.

Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the period in which the expenditure is incurred.

Intangible assets are tested for impairment where an indicator of impairment exists, and in the case of indefinite lived intangibles annually, either individually or at the cash generating until level. Useful lives are also examined on an annual bases and adjustments, where applicable, are made on a prospective basis.

A summary of the Rex Group's intangible assets is as follows:

	Licences	Development Costs
Useful lives	Indefinite	Finite
Method used	Not depreciated or revalued	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

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

For the half-year ended 31 December 2005

Research and development costs

Research costs are expensed as incurred.

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

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

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

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

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

(viii) Recoverable amount of assets

At each reporting date, the Group assesses whether there is an indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds it recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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.

(ix) Consumable spares

Consumable spares and maintenance

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(x) Trade and other receivables

Trade receivables, which generally have 30 day terms, are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

Receivables from related parties are recognised and carried at the nominal amount due. They are non-interest bearing.

(xi) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and ash equivalents as defined above, net of outstanding bank overdrafts.

(xii) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are derecognised and as well as through the amortisation process.

(xiii) Provisions

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

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

For the half-year ended 31 December 2005

specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(xiv) Share-based payment transactions

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

There are currently three plans in place to provide these benefits:
(i) Employee Option Plan;
(ii) Tax Deferred Share Plan; and
(iii) Tax Exempt Employee Share Plan

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Regional Express, where appropriate ('market conditions').

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum, an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(xv) Leases

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

Operating leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as the lease income.

Finance leases

Leases which effectively transfer substantially all of the risks and benefits incidental to ownership of the leased item to the group are capitalised at the inception of the lease at the fair value of the lease property or, if lower, at the present value of the minimum lease payments. A lease liability of equal value is also recognised.

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

(xvi) Revenue recognition

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

Passenger, charter and freight revenue

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

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

For the half-year ended 31 December 2005

Interest

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

(xvii) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

When the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

(xviii) Income tax

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the balance sheet date. Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

(xix) Other taxes

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

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition ofthe asset or as part of the expense items as applicable; and
- Receivables and payables are stated with the amount of GST included.

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

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

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

(xx) Derecognition of financial instruments

The derecognition of a financial instrument takes place when the Group no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

(xxi) Derivative financial instruments

Forward exchange contracts

The consolidated entity enters into forward exchange contracts where it agrees to buy or sell specified amounts of foreign

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

For the half-year ended 31 December 2005

currencies in the future at a predetermined exchange rate. The objective is to match the contract with anticipated future cash flows from sales and purchases in foreign currencies, to protect the consolidated entity against the possibility of loss from future exchange rate fluctuations. The forward exchange contracts are usually for no longer than 12 months.

Forward exchange contracts are recognised at the date the contract is entered into as a fair value hedge. The fair value of forward exchange contract is calculated by reference to current forward exchange rates for contract with similar maturity profiles.

In relation to forward foreign currency contracts, hedge accounting under AASB 132 and AASB 139 has not been applied. As these instruments are held for trading any gain or loss on the forward foreign currency contracts is recognised directly in the income statement.

(xxii) Employee benefits

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

Employee benefit expenses and revenues arising in respect of the following categories:wages and salaries, non-monetary benefits, annual leave, long service leave and other leave benefits; and other types of employee benefits are recognised against profits on a net basis in their respective categories.

(xxiii) Payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity. Payables are generally on 30 day terms. Payables to related parties are carried at the principal amount. No interest is charged on these amounts.

(xxiv) Issued capital

Issued and paid up capital is recognised at the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised, net of taxation directly in equity as a reduction of the share proceeds received.

(d) AASB 1 Transitional exemptions

The Group has made its election in relation to the transitional exemptions allowed by AASB 1 'First-time Adoption of Australian Equivalents to International Reporting Standards' as follows:

Business combinations

AASB 3 'Business Combinations' was not applied retrospectively to past business combinations (ie. Business combinations that occurred before the date of transition to AIFRS).

Share-based payment transactions

AASB 2 'Share-Based Payments' is applied only to equity instruments granted after 7 November 2002 that had not vested on or before 1 January 2005.

Exemption from the requirement to restate comparative information for AASB 132 and AASB 139

The adoption of these standards at 1 July 2005 had no material impact on the financial statements, as derivative instruments were brought to account at period end at fair value, with gains and losses taken to the Income Statement under previous AGAAP, as is required under AIFRS. Other financial instruments were not impacted by the adoption of these standards.

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

For the half-year ended 31 December 2005

(e) Impact of adoption of AIFRS

The impacts of adopting AIFRS on the total equity and profit after tax as reported under Australian Accounting Standards applicable before 1 January 2005 ('AGAAP') are illustrated below.

(i) Reconciliation of total equity as presented under AGAAP to that under AIFRS

		CONSOLIDATED	
		30 Jun 2005	1 Jul 2004
		$	$
Total equity under AGAAP		**18,583,037**	962,889
Recognition of deferred tax asset on tax losses and temporary differences	(a)	**4,914,482**	9,445,573
Deferral of government grant	(b)	**(1,072,001)**	-
Write back of fair value adjustment identified after acquisition	(c)	**-**	(815,102)
Total Equity under AIFRS		**22,425,518**	9,593,360

(a) Recognition of the deferred tax asset relating to tax losses and temporary tax differences on transition. AASB 112 requires the recognition of deferred tax assets in the balance sheet to the extent that it is probable that future taxable amounts will be available with the Group against which the tax losses can be utilised. Previous AGAAP recognition criteria had a stricter application, with tax losses only being recognised if the utilisation of those losses was 'virtually certain'.

(b) Represents the Government Grant received in the 30 June 2005 financial year for the purchase of reinforced cockpit doors. AASB 120 requires the Grant to be recognised over the life of the actual asset that was acquired with the Grant.

(c) Under AGAAP fair value adjustments on acquisition accounting are reflected in the year of the adjustment. AIFRS requires such adjustments to be applied retrospectively in the period which the acquisition occurred. The fair value adjustment raised related to Hazelton Air Services Pty Limited and was identified in the 30 June 2005 financial year. As the acquisition of Hazelton Air Services occurred in the 30 June 2003 financial year, the fair value adjustment has been reversed from profit for the year 30 June 2005 and taken to retained earnings at 1 July 2004.

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

For the half-year ended 31 December 2005

(ii) Reconciliation of profit after tax under AGAAP to that under AIFRS

		CONSOLIDATED 30 Jun 05
Profit after tax as previously reported		11,314,648
Recognition of the movement in the deferred tax asset relating to tax losses and tax temporary differences	(a)	(4,531,092)
Derecognition of Government Grant	(b)	(1,072,001)
Write back of fair value adjustment idenified after acquisition	(c)	815,102
Profit after tax under AIFRS		6,526,657

(a) Recognition of the deferred tax asset relating to tax losses and temporary tax differences on transition. AASB 112 requires the recognition of deferred tax assets in the balance sheet to the extent that it is probable that future taxable amounts will be available with the Group against which the tax losses can be utilised. Previous AGAAP recognition criteria had a stricter application, with tax losses only being recognised if the utilisation of those losses was 'virtually certain'. The amount above represents the usage of tax losses and movement in the temporary tax differences under AASB 112 for the 30 June 2005 year.

(b) Represents the Government Grant received in the 30 June 2005 financial year for the purchase of reinforced cockpit doors. AASB 120 requires the Grant to be recognised over the life of the actual asset that was acquired with the Grant.

(c) Under AGAAP fair value adjustments on acquisition accounting are reflected in the year of the adjustment. AIFRS requires such adjustments to be applied retrospectively in the period which the acquisition occurred. The fair value adjustment raised related to Hazelton Air Services Pty Limited and was identified in the 30 June 2005 financial year. As the acquisition of Hazelton Air Services occurred in the 30 June 2003 financial year, the fair value adjustment has been reversed from profit for the year 30 June 2005 and taken to retained earnings at 1 July 2004.

(iii) Explanation of material adjustments to the cash flow statements

There are no material differences between the cash flow statements presented under AIFRS and those presented under AGAAP.

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

For the half-year ended 31 December 2005

2. REVENUE AND EXPENSES

(a) Specific items

Profit before income tax expense includes the following revenues and expenses whose disclosure is relevant in explaining the performance of the entity.

	CONSOLIDATED Half-year	
	2005 $	2004 $
(i) Revenue		
Passenger revenue	**74,117,107**	63,684,563
Charter revenue	**438,529**	363,868
Freight revenue	**410,803**	408,747
Total revenue	**75,026,439**	64,457,178
(ii) Other income		
Interest	**455,697**	117,588
Net gain from disposal of property, plant & equipment	**263,354**	208,323
Grant - Department of Transport and Regional Services	**153,555**	-
Gain on sale of subsidiary	**1,080,587**	-
Other revenue	**945,948**	1,036,300
Total other income	**2,899,141**	1,362,211
(iii) Expenses		
Salaries & employee benefits	**(21,431,608)**	(19,870,910)
Depreciation & amortisation	**(1,766,475)**	(1,240,257)
Borrowing cost expense	**(100,487)**	(321,858)
Other expenses:		
Bad & Doubtful debts – Trade debtors	**(7,027)**	(12,624)
Port costs	**(6,650,702)**	(7,482,262)
Selling costs	**(4,998,432)**	(6,358,372)
Fuel costs	**(12,931,536)**	(9,511,572)
Flight costs - excl Fuel	**(11,990,499)**	(10,344,021)
Operating lease rental	**(4,089,080)**	(4,314,423)
Administration costs	**(1,161,835)**	(1,369,829)
Other expenses	**(950,906)**	(1,108,857)
Net foreign currency gains/(losses)	**393,064**	59,649
Total other expenses	**(42,386,953)**	(40,442,311)
Total expenses	**(65,685,523)**	(61,875,336)

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

For the half-year ended 31 December 2005

(b) Seasonality of Operations

Due to the seasonal nature of airline travel, 45% of the revenue and profits for the financial year will be reflected in the results for the second half of the financial year.

(c) Revision of Accounting Estimates

During the half-year the estimated useful lives of aircraft were revised upwards from 50,000 hours to 60,000 hours.The impact of this in the half yearly accounts was a reduction in depreciation of $89,090.

3. DIVIDENDS PAID AND PROPOSED

No dividend has been paid or proposed at 31 December 2005 (30 June 2005: nil).

4. ISSUED CAPITAL

	31 Dec 2005 $	30 Jun 2005 $
Ordinary shares		
Issued and fully paid	69,554,136	36,576,685

	Ordinary shares	$
Movements in ordinary shares on issue		
At 1 Jul 2005	80,000,000	36,575,685
Issued on 7 Nov 2005 as part of share capital raising (net of capital raising costs)	35,000,000	32,978,451
	115,000,000	69,554,136

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

For the half-year ended 31 December 2005

5. CHANGE IN COMPOSITION OF ENTITY

(i) Acquisition of Air Link Pty Limited

On 30 November, Regional Express Pty Limited acquired 100% of the voting shares of Air Link Pty Limited, an unlisted company based in Dubbo, engaging in regional aviation.

From the date of acquisition, Air Link Pty Limited has contributed $30,156 to the net profit of the Group.

If the combination had taken place at the beginning of the financial year, the profit contribution to the Group would have been $116,800 and revenue from continuing operations would have been $3,848,391.

The fair value of the identifiable assets and liabilities of Air Link Pty Limited as at the date of acquisition are:

	Recognised On Acquisition $	Carrying Value $
Cash assets	670,913	670,913
Receivables	443,848	443,848
Inventories	611,000	611,000
Property, plant and equipment	3,980,222	2,724,222
Intangible assets	57,000	60,000
	5,762,983	4,509,983
Payables	(460,991)	(460,991)
Provisions	(491,672)	(491,672)
Interest-bearing liabilities	(2,382,075)	(2,382,075)
	(3,334,738)	(3,334,738)
Fair value of net assets	2,428,245	1,175,245
Goodwill arising on acquisition	575,567	
	3,003,812	
Consideration:		
Cash paid	3,000,000	
Direct costs relating to the acquisition	3,812	
Total consideration	3,003,812	
The cash outflow on acquisition is as follows:		
Net cash acquired with subsidiary	(670,913)	
Cash paid	3,003,812	
Net cash outflow	2,332,899	

NOTES TO THE HALF-YEAR FINANCIAL STATEMENTS

For the half-year ended 31 December 2005

(ii) Disposal of Hazelton Air Services Pty Limited

This wholly owned subsidiary was divested on 22 August 2005. Hazelton Air Services Pty Ltd had been dormant since November 2003.

	CONSOLIDATED 2005 $
Consideration received:	
Cash	2
Total disposal consideration	2
Carrying amount of net assets sold	(1,080,859)
Gain on sale before income tax	1,080,857

6. CONTINGENT ASSETS AND LIABILITIES

Since the last annual reporting date, there has been no material change of any contingent liabilities or contingent assets.

7. EVENTS AFTER THE BALANCE SHEET DATE

There have been no significant events after the balance sheet date.

8. SEGMENT REPORTING

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

9. ADDITIONAL INFORMATION

Reconciliation of Cash

For the purpose of the condensed cash flow statement, cash and cash equivalents comprise the following at 31 Dec :

	31 Dec 2005 $	31 Dec 2004 $
Cash at bank and in hand	8,301,120	2,273,140
Short–term deposits	16,000,000	-
	24,301,120	2,273,140

Directors' Declaration

In accordance with a resolution of the Directors of Regional Express Holdings Limited, I state

In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity:

(i) give a true and fair view of the financial position as at 31 December 2005 and the performance for the half-year ended on that date of the consolidated entity; and

(ii) comply with accounting standard AASB134 "Interim Financial Reporting" and the corporations Regulations 2001; and

(b) There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the board

Geoffrey Breust

Director

Sydney, 18 Feb 2006

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Independent review report to members of Regional Express Holdings Limited

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity and accompanying notes to the financial statements for the consolidated entity comprising both Regional Express Holdings Limited (the company) and the entities it controlled during the six months, and the directors' declaration for the company, for the period ended 31 December 2005.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the consolidated entity, and that complies with Accounting Standard AASB 134 "Interim Financial Reporting", in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review approach

We conducted an independent review of the financial report in order to make a statement about it to the members of the company, and in order for the company to lodge the financial report with the Australian Stock Exchange and the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the *Corporations Act 2001*, Accounting Standard AASB 134 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows.

A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included on page 2 of the financial report. In addition to our review of the financial report, we were engaged to undertake other non audit services. The provision of these services has not impaired our independence.

ERNST & YOUNG

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of the consolidated entity, comprising Regional Express Holdings Limited and the entities it controlled during the six months is not in accordance with:

(a) the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the financial position of the consolidated entity at 31 December 2005 and of its performance for the six months ended on that date; and

  (ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the *Corporations Regulations 2001*; and

(b) other mandatory financial reporting requirements in Australia.

Ernst & Young

Gregory J Logue
Partner
Sydney
Date: 18 February 2006