National Hire

National Hire Group Limited
PO Box 195 Matraville NSW 2036 Australia
ACN 076 688 938 ABN 61 076 688 938
Direct: (02) 9582 7922 Phone: 136 336 Fax: (02) 9666 3701
E-Mail: info@nationalhire.com.au Website: www.nationalhire.com.au

30 September 2005

ASX Online
Australian Stock Exchange Limited
20 Bridge Street
SYDNEY NSW 2000

BY eLODGEMENT

Dear Sir

Please find attached the following:

1. Audited Financial Accounts for the year ended 30 June 2005
2. Directors' Report
3. Auditor's Report

Yours sincerely

STEPHEN DONNELLEY
Chief Executive Officer
0418 266 844

Directors' Report

Your directors present their report on the consolidated entity consisting of National Hire Group Limited and the entities it controlled at the end of, or during, the financial year ended 30 June 2005.

Directors

The following persons were directors of the company during the whole of the financial year and up to the date of this report.

Raymond J Romano
Non-executive director (chairman)
Appointed March 2004

Mr Romano is a director of WesTrac Holdings Pty Ltd, WesTrac Pty Ltd and WesTrac China Limited (chairman). Before joining Australian Capital Equity Pty Limited in November 2000, Mr Romano worked for Caterpillar Inc. and Caterpillar dealers for over 26 years which included focused experience in the rental and used equipment markets.

Special responsibilities - Mr Romano is a member of the audit committee, nomination committee (chairman), remuneration committee and safety, health and environmental committee.

Clive Isenberg
Non-executive director
Appointed March 2004

Mr Isenberg is an associate of the Institute of Chartered Accountants in Australia, a fellow of the Certified Practising Accountants and a graduate of accounting. Mr Isenberg was until August 2004 the managing director of Scottish Pacific Business Finance Pty Ltd, a position he held for 18 years. Mr Isenberg has also held the position of general manager of St. George Bank Business Customer division. Mr Isenberg is the founder and chairman of the Institute for Factors and Discounters of Australia and was chairman of Factors Chain International (an international association of leading cash flow financiers) between 1997 and 1999. Mr Isenberg has extensive experience in financial services and for many years was a director of Bank of Scotland subsidiaries in Australia including Capital Finance Ltd, BOS International Ltd and the holding company of Bank of Western Australia.

Special responsibilities - Mr Isenberg is a member of the audit committee, remuneration committee (chairman) and nomination committee.

Peter J T Gammell
Non-executive director
Appointed December 2004

Mr Gammell is the managing director of Australian Capital Equity Pty Limited (ACE) and has been a director of ACE since 1989. Mr Gammell is a non-executive director of Seven Network Ltd, HRL Ltd and Bayard Capital Partners Pty Ltd. He has previously been a director of RM Williams Holdings Ltd and B Digital Ltd.

Mr Gammell holds a Bachelor of Science degree from the University of Edinburgh and is a member of the Institute of Chartered Accountants of Scotland.

Special responsibilities - Mr Gammell is a member of the audit committee.

Listed public company directorships held during the past 3 years - Seven Network Ltd and B Digital Ltd.

Andrew D Aitken
Non-executive director
Appointed December 2004

Mr Aitken is employed by Australian Capital Equity Pty Limited (ACE), where his focus since joining the company in 2003 has been on the development of the ACE Group's equipment rental businesses.

Prior to coming to Australia in 2003, Mr Aitken worked in the South African financial services industry for 13 years. The majority of his experience was as managing director of various funds management and private banking operations. As a result of the consolidation of the industry, Mr Aitken has been involved with the integration and merger of a number of financial services businesses. Mr Aitken was most recently employed by Nedbank, one of the largest banking groups by assets in South Africa. Nedbank is a subsidiary of Nedcor Limited, a company listed on the Johannesburg Stock Exchange.

Mr Aitken holds a Bachelor of Commerce degree and a honours degree from the University of Natal and the University of Cape Town respectively and a post graduate diploma in social studies from Oxford University.

Special responsibilities - Mr Aitken is a member of the remuneration committee.

Stephen S Donnelley
Executive director
Appointed December 1996

Mr Donnelley has over 20 years experience in the equipment hire industry, both as an employee and principal. Mr Donnelley founded the business as Stephen Donnelley Hire in 1981 and became managing director when the business became National Hire in 1988. He is also a member of the Hire and Rental Association of Australia. He was previously a vice president of that association and a president and vice president of its NSW region.

Special responsibilities - Mr Donnelley is a member of the safety, health and environmental committee (chairman).

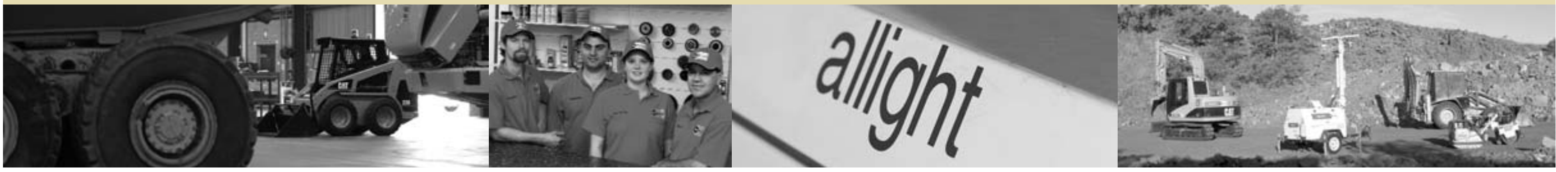
John E Star
Non-executive director
Appointed April 1997

A chartered accountant, with over 20 years experience in public practice. Mr Star established a reputation in the field of insolvency work and was previously a partner of Pannell Kerr Forster before establishing the firm of Star Dean-Willcocks in 1990. Mr Star is the principal of Star Corporate Pty Ltd.

Mr Star holds Bachelor of Arts and Bachelor of Commerce degrees and is a member of the Australian Institute of Chartered Accountants, Institute of Credit Management and Institute of Company Directors.

Special responsibilities - Mr Star is a member of the audit committee (chairman), nomination committee and safety, health and environmental committee.

Directors' Report



Resignation of directors

Mr Gavin G Armstrong was a non-executive director from the beginning of the financial year until his resignation on 9 December 2004.

The directors' relevant interests in the company's shares and convertible notes are:

Name	Ordinary shares	Convertible notes
Mr S S Donnelley	19,959,383	333,334
Mr J E Star	326,890	26,667

Company secretary

The company secretary is Mr Ray Harman. Mr Harman was appointed to the position of company secretary in 2004 and prior to that role, held the position of chief financial officer for 3 years. Prior to joining National Hire, Mr Harman was company secretary and financial controller of a publicly listed commercial construction company. Mr Harman is a fellow of the Certified Practising Accountants, a fellow of Chartered Secretaries Australia Ltd and a member of the Finance and Treasury Association.

Principal activities

The National Hire group's principal activities are as follows:

- the hire of general equipment, access equipment, temporary site accommodation, toilets, mobile lighting equipment, power generation and dewatering pumps
- manufacturing, assembly and sale of mobile lighting, power generation and de-watering pump equipment.
- distribution of engines, power generation sets and parts

Operating results

The profit of the consolidated entity for the year after income tax expense was $10,110,000 (2004: $872,000).

Dividends

No dividends were paid or provided for during the financial year (2004: Nil).

Subsequent to the end of the financial year the directors have declared a fully franked final dividend of $2,990,621 (half of one cent per share) to be paid on 14 October 2005 out of retained profits at 30 June 2005.

The record date is 30 September 2005.

Review of operations

Details of the operations of the consolidated entity during the period are included in the chairman's report on page 2 and managing director's report on page 5 of this annual report.

Significant changes in state of affairs

Significant changes in the state of affairs of the consolidated entity during the financial year were as follows:

(a) Business acquisitions

On 10 December 2004 National Hire Group Limited completed the acquisition of the business of the Cat Rental Store ("CRS") operated by WesTrac Pty Ltd in Western Australia and 100% of the shares in Allight Holdings Pty Ltd for a combined equity consideration of $122.4 million. The consideration was satisfied through the issue

of 298.4 million shares in National Hire Group Limited at a negotiated contract price of $0.375 per share. In accordance with accounting standards the transaction was accounted for at the prevailing market rate immediately after the company assumed control of the acquired assets. Subsequent cash completion adjustments pertaining to the CRS acquisition amounted to $6.1 million.

Other acquisitions during the period included the purchase of the assets of Beavis Hire on the 31 March 2005, Beeline Rentals on 3 December 2004 and Ark Hire on 2 November 2004.

(b) Equity raising

During December 2004, the company successfully completed an equity raising to institutional investors at an offer price of $0.35 per share to raise $40 million, before transaction costs, primarily to fund further expansion of the combined group. A total of 114.3 million shares were allotted.

On 29 December 2004 the company offered to existing shareholders the opportunity to participate in a share purchase plan. The offer allowed each shareholder to subscribe for up to $5,000 worth of new fully paid ordinary shares in the company. The offer raised $4.8 million with 13.6 million shares allotted.

(c) Employee retention bonus shares

During December 2004 the company offered retention bonus shares to 66 executives under the company's deferred employee share plan. The offer was accepted by all nominated employees and consequently in January 2005 the company issued 4.3 million ordinary shares.

The shares were issued under conditions contained in the offer booklet and included a 2 year continuous employment requirement with the company from the offer date.

Likely developments and results

Likely developments in the operations of the consolidated entity and the expected results of those operations have been included in the managing director's report on page 5 of the annual report.

Environmental regulation

The consolidated entity's operations are not subject to any significant environmental regulation under Commonwealth, State or Territory legislation. However, the board believes that the consolidated entity has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements, as they apply to the consolidated entity.

Remuneration report

Details of the nature and amount of each element of the emoluments of each director of the company and each of the 5 officers of the consolidated entity receiving the highest emoluments are set out in note 27 of the financial statements.

Meetings of directors

The numbers of meetings of the company's board of directors and of each board committee held during the year ended 30 June 2005, and the numbers of meetings attended by each director were:

Directors' Report

Name	Board		Safety, health and environmental committee		Audit committee		Remuneration committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
J E Star*	25	23	3	3	7	7	1	1
S S Donnelley	25	24	3	3				
C Isenberg	25	20			7	4	1	1
R J Romano	25	23	3	3	7	5	2	2
A D Aitken	11	11					1	1
P J T Gammell	11	11			5	5		
G G Armstrong**	13	13			2	2	1	1

* Mr J E Star attended the remuneration committee meeting as an alternate director for Mr C Isenberg.
**Mr G G Armstrong was a non-executive director from the beginning of the financial year until his resignation on 9 December 2004.
There was no meeting of the nomination committee during the financial year.

Options

During November 2004 the company issued 600,000 employee options, under its employee share option plan.

The period during which the options may be exercised is between 20 November 2006 and 20 November 2008.

No shares have been issued by the company during or since the end of the reporting period by virtue of the exercise of an option. Under the employee share option plan a total of 1,200,000 options are on issue. Further details on the employee share option plans are set out in note 25 and note 27 to the financial statements.

Indemnification of auditors

The company has not, during or since the end of the financial year, in respect of the current or past auditors of the company or a related body corporate indemnified or paid or made any relevant agreement for indemnifying against a liability incurred as an auditor, including costs and expenses in successfully defending legal proceedings.

Directors' interest in contracts

No material contracts involving directors' interests were entered into since the end of the previous financial year or existed at the end of the financial year other than transactions detailed in note 30 to the accounts.

Insurance of officers

During the financial year, the company paid a premium of $29,453 to insure the directors, secretary and officers of the company and its controlled entities.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the consolidated entity, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the company.

Non audit services

The company may employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company are important.

Details of the amounts paid or payable to the auditor for audit and non audit services provided during the year are set out in note 28 of the financial report.

The board of directors is satisfied that the provision for non audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed did not compromise the external auditors independence as the nature of the services provided do not compromise the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and CPA Australia's Professional Statement F1: Professional Independence.

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 18.

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

Rounding of amounts

The company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Auditor

PricewaterhouseCoopers was appointed during the year ended 30 June 2005 and continue in office in accordance with section 327 of the Corporations Act 2001. The appointment is expected to be ratified at the AGM.

This report is made in accordance with a resolution of the directors.

Ray Romano
Chairman

Stephen Donnelley
Managing Director

Sydney
28 September 2005

Auditor's Independence Declaration

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

Darling Park Tower 2
201 Sussex Street
GPO BOX 2650
SYDNEY NSW 1171
DX 77 Sydney
Australia
www.pwc.com/au
Telephone +61 2 8266 0000
Facsimile +61 2 8266 9999

Auditor's Independence Declaration

As lead auditor for the audit of National Hire Group Limited for the year ended 30 June 2005, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of National Hire Group Limited and the entities it controlled during the period.

Matthew Lunn
Partner

Sydney
28 September 2005

Financial Statements

Statements of financial performance for the year ended 30 June 2005

	Notes	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent entity 2005 $'000	Parent entity 2004 $'000
Sales revenue from ordinary activities		115,087	33,221		
Other revenue from ordinary activities		2,414	1,274	4,780	2,098
Total revenue	3	117,501	34,495	4,780	2,098
Cost of sale of goods		(27,266)			
Occupancy and communication		(6,664)	(3,222)		
Freight & rehire		(8,265)	(4,050)		
Fuel, oil and consumables		(7,487)	(3,014)		
Advertising & promotion		(1,681)	(306)		
Insurance (including damage & excess)		(1,282)	(672)		
Personnel costs (excluding wages included in cost of sale of goods)		(24,101)	(10,620)	(314)	(311)
Other		(8,752)	(5,818)	(599)	(386)
Depreciation and amortisation	4	(16,980)	(4,091)		
Borrowing costs	4	(1,962)	(1,259)	(843)	(935)
Profit from ordinary activities before related income tax expense		13,061	1,443	3,024	466
Income tax (expense) / benefit relating to ordinary activities	5	(2,951)	(571)	43	(171)
Profit from ordinary activities after related income tax expense attributable to members of the parent entity		10,110	872	3,067	295
Total changes in equity other than those resulting from transactions with owners as owners		10,110	872	3,067	295
		Cents	Cents		
Basic earnings per share	6	2.51	0.97		
Diluted earnings per share	6	2.51	0.97		

The above statements of financial performance should be read in conjunction with the accompanying notes.

Financial Statements

Statements of financial position as at 30 June 2005

	Notes	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent entity 2005 $'000	Parent entity 2004 $'000
Current assets					
Cash assets	7	2,153	22,796	28	22,100
Receivables	8	37,510	6,636	141,554	25,117
Inventories	9	26,463	11		
Other assets	10	2,383	671	160	
Total current assets		68,509	30,114	141,742	47,217
Non-current assets					
Receivables	8	122	125	122	125
Other financial assets	11	15	13	78,910	7,053
Property, plant and equipment	12	166,618	30,612		
Deferred tax assets	13	3,780	932	3,568	932
Intangibles	14	50,764	6,180		
Other assets	10	97			
Total non-current assets		221,396	37,862	82,600	8,110
Total assets		289,905	67,976	224,342	55,327
Current liabilities					
Payables	15	32,621	7,774	394	302
Interest-bearing liabilities	16	9,062	3,185	4,006	1,727
Tax liabilities	17	4,797	81	4,553	19
Provisions	18	501	98		
Total current liabilities		46,981	11,138	8,953	2,048
Non-current liabilities					
Interest-bearing liabilities	16	22,012	9,332	3,412	7,157
Tax liabilities	17	635	1,776	148	1,655
Provisions	18	473	306	27	8
Total non-current liabilities		23,120	11,414	3,587	8,820
Total liabilities		70,101	22,552	12,540	10,868
Net assets		219,804	45,424	211,802	44,459
Equity					
Contributed equity	19	207,802	43,526	207,802	43,526
Reserves	21	(6)			
Retained profits	20	12,008	1,898	4,000	933
Total equity		219,804	45,424	211,802	44,459

The above statements of financial position should be read in conjunction with the accompanying notes.

Statements of cash flows for the year ended 30 June 2005

	Notes	Consolidated		Parent entity	
		2005 $'000	2004 $'000	2005 $'000	2004 $'000
Cash flows from operating activities					
Receipts from customers		111,160	31,945	1,365	1,329
Payments to suppliers and employees		(100,928)	(22,940)	(1,020)	(293)
Interest received		1,064	499	3,753	432
Interest and other costs of finance paid		(1,806)	(890)	(726)	(885)
Income tax paid		(955)	(77)	(415)	(19)
Net cash inflows from operating activities	22(a)	8,535	8,537	2,957	564
Cash flows from investing activities					
Payments for property, plant and equipment		(33,509)	(7,504)		
Payments for purchase of businesses (net of cash acquired)		(14,982)	(3,049)		
Proceeds from sale of property, plant and equipment		873	533		
Payments for investments			500	(790)	500
Loans to controlled entities				(63,470)	(5,516)
Net cash outflows from investing activities		(47,618)	(9,520)	(64,260)	(5,016)
Cash flows from financing activities					
Net proceeds from equity raising		40,752	28,081	40,752	28,081
Proceeds from borrowing		5,000	1,107	5,000	1,106
Repayment of borrowings		(31,330)	(5,937)	(10,527)	(2,640)
Net cash inflows from financing activities		14,422	23,251	35,225	26,547
Net (decrease) / increase in cash held		(24,661)	22,268	(26,078)	22,095
Effects of exchange rate fluctuations on the balance of cash held denominated in foreign currencies		12			
Cash at the beginning of the financial year		22,796	528	22,100	5
Cash at end of the financial year	22(b)	(1,853)	22,796	(3,978)	22,100

The above statements of cash flows should be read in conjunction with the accompanying notes.

Notes

Note 1. Summary of significant accounting policies

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

It has been prepared on the basis of historical costs and except where stated does not take into account changing money values or fair values of non-current assets. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year.

a) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by National Hire Group Limited ("Company") as at 30 June 2005 and the results of all controlled entities for the year then ended. All balances and transactions between entities in the consolidated entity, including any unrealised profits or losses, have been eliminated on consolidation.

Where controlled entities have entered or left the consolidated entity during the year, their operating results have been included from the date control was obtained or until the date control ceased.

b) Revenue

Amounts disclosed as revenue are net of returns, allowances, duties and taxes paid. Revenue is recognised for the major business activities as follows:

> revenue from the sale of goods is recognised upon the delivery of goods to customers

> hire revenue is earned commencing on receipt of equipment by the customer and recognised over the period of the hire contract

> other revenue comprises proceeds received on sale of property, plant and equipment and sundry income

> interest revenue is recognised on an accruals basis

c) Income tax

Tax effect accounting procedures are followed whereby the income tax expense in the statement of financial performance is matched with the accounting profit after allowing for permanent differences.

Deferred tax assets in relation to tax losses are not brought to account unless the benefit is virtually certain of realisation. Income tax on cumulative timing differences are set aside to the deferred income tax or deferred tax asset accounts at the rates which are expected to apply when those differences reverse.

National Hire Group Limited and its wholly owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The company is responsible for recognising the current and deferred tax assets and liabilities for the consolidated group as if those transactions were its own. Amounts receivable or payable under a tax sharing agreement with the tax consolidated entities are recognised separately as tax related amounts receivable or payable. Expenses and revenues arising under the tax sharing agreement are recognised as a component of income tax expense or benefit.

The deferred tax balances recognised by the parent entity in relation to wholly-owned entities joining the

Note 1. Summary of significant accounting policies (continued)

tax consolidated group, are measured based on their carrying amounts at the level of the tax consolidated group before the implementation of the tax consolidation regime, except those relating to assets that had their tax values reset on joining the tax consolidated group which have been measured at the reset value.

d) Foreign currencies

i) Transactions

Foreign currency transactions are initially translated into Australian currency at the rate of exchange at the date of the transaction. At balance date, amounts receivable and payable in foreign currencies are translated into Australian currency at rates of exchange current at that date. Resulting exchange differences are recognised in determining the profit or loss for the year.

ii) Foreign controlled entity

As the foreign entity is self-sustaining, its assets and liabilities are translated into Australian currency at rates of exchange current at balance date, while its revenues and expenses are translated at the average exchange rates ruling during the year. Exchange differences arising on translation are taken to the foreign currency translation reserve.

e) Acquisition of assets

The purchase method of accounting is used for all acquisitions of assets. Cost is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their market price at the acquisition date. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of acquisition. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained under comparable terms and conditions.

Goodwill is brought to account on the basis described in note 1(m)(i).

Where an entity or operation is acquired and the fair value of the identifiable net assets acquired, (including liability for restructuring costs) exceeds the cost of acquisition, the difference, representing a discount on acquisition, is accounted for by reducing proportionately the fair values of the non-monetary assets acquired until the discount is eliminated.

f) Cash

For the purposes of the statements of cash flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash within a short period, net of outstanding bank overdrafts.

Notes

Note 1. Summary of significant accounting policies (continued)

g) Receivables

All trade debtors are recognised at the amounts receivable as they are due for settlement no longer than 60 days from the date of recognition. Collectability of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful debts is raised when some doubt exists as to the collectability of the debt.

h) Inventories

Inventories, including raw materials, work in progress and finished goods are valued at the lower of cost and net realisable value.

i) Recoverable amounts of non current assets

The recoverable amount of an asset is the net amount expected to be recovered through the cash inflows and outflows arising from its continued use and subsequent disposal.

Where the carrying amount of a non current asset is greater than its recoverable amount, the asset is written down to its recoverable amount. Where net cash inflows are derived from a group of assets working together, recoverable amount is determined on the basis of the relevant group of assets. Any reduction in the carrying amount is recognised as an expense in net profit or loss in the reporting period in which the recoverable amount write down occurs.

j) Investments

Interests in listed and unlisted securities, other than controlled entities and associates in the consolidated financial statements, are brought to account at cost. Controlled entities and associates are accounted for in the consolidated financial statements as set out in note 1(a).

k) Depreciation of property, plant and equipment

Depreciation is calculated on a straight line basis to write off the net cost or revalued amount of each item of property, plant and equipment over its expected useful life to the consolidated entity. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items. The expected useful lives are as follows:

Class of fixed asset	Useful life
Leasehold improvements	Term of Lease
Plant and equipment	2 - 10 years
Leased plant and equipment	2 - 10 years

l) Leased assets

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of the asset, and operating leases under which the lessor effectively retains such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the present value of the minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the interest expense.

Note 1. Summary of significant accounting policies (continued)

The lease asset is amortised on a straight line basis over the term of the lease, or where it is likely that the consolidated entity will obtain ownership of the asset, the life of the asset.

Incentives received on entering into operating leases are recognised as liabilities. Lease payments are allocated between interest expense and a reduction of the liability.

Operating lease payments are charged to the statement of financial performance in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

m) Intangible assets and expenditure carried forward

i) Goodwill

Where an entity or operation is acquired, the identifiable net assets acquired are measured at fair value. The excess of the fair value of the cost of acquisition over the fair value of the identifiable net assets acquired, including any liability for restructuring costs, is brought to account as goodwill and amortised on a straight line basis over the period which the benefits are expected to arise, which is twenty years.

ii) Brand names

National Hire has adopted the views expressed by Australian Securities and Investments Commission (ASIC) in respect of the amortisation of brand names. The directors have considered Australian Standard AASB 1021, Accounting Interpretation AI 1 and International Accounting Standard IAS 38.

Brand names are amortised on a straight line basis over forty years, being the period in which the related future benefits are expected to be realised.

iii) Research and development

Costs incurred on research and development are deferred to future periods to the extent that they are expected beyond any reasonable doubt to be recoverable. Deferred costs are amortised from the commencement of production of the product to which they relate, on a straight line basis.

n) Trade and other creditors

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and usually paid within 60 days of recognition.

o) Interest bearing liabilities

Loans are carried at their principal amounts which represent the present value of future cash flows associated with servicing the debt. Interest is accrued over the period it becomes due and is part of other creditors.

On issue of convertible notes, the fair value of the liability component, being the obligation to make future payments of principal and interest to note holders, is calculated using a market interest rate for an equivalent non-convertible note. The difference between the proceeds received and the value of the debt, representing the fair value of the conversion option, is included in equity with no recognition of any change in the value of the conversion option in subsequent periods. The liability is included in borrowings until the liability is extinguished on conversion or maturity of the notes with interest on the notes recognised as borrowing costs.

Notes

Note 1. Summary of significant accounting policies (continued)

p) Dividends

Provision is made for the amount of any dividend declared, determined or publicly recommended by the directors on or before the end of the financial year but not distributed at balance date.

q) Maintenance and equipment rebuilds

Expenditure for maintenance is charged to profit from ordinary activities before income tax as incurred. Expenditure incurred on major equipment rebuilds as opposed to maintenance is capitalised and depreciated over the asset's remaining useful life as described in note 1(k).

r) Employee benefits

i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries including non-monetary benefits and annual leave and sick leave expected to be settled within 12 months of the reporting date are recognised in other creditors in respect of employees services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

ii) Long service leave

The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in the provision for employee benefits and is measured in accordance with (i) above. The liability for long service leave which is not expected to be settled within twelve months is measured as the present value of the estimated future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity that match, as closely as possible, the estimated future outflows.

iii) Superannuation

Contributions are made by the consolidated entity to employee superannuation funds and are charged as expenses when incurred.

iv) Employee benefit on-costs

Employee benefit on-costs, including payroll tax, are recognised and included in employee benefit liabilities and costs when the employee benefits to which they relate are recognised as liabilities.

v) Equity-based compensation benefits

Ownership-based remuneration is provided to nominated employees via the company option plan and employee share schemes. No accounting entries are made in relation to the company option plan until options are exercised, at which time the amounts receivable from employees are recognised in the statements of financial position as share capital.

Note 1. Summary of significant accounting policies (continued)

s) Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred. Borrowing costs include:

> interest on bank overdrafts, short term and long term borrowings
> finance lease charges
> establishment fees
> amortisation of discounts or premiums related to borrowings

t) Earnings per share

(i) Basic earnings per share

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figure used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

u) Rounding of amounts

The company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases to the nearest dollar.

Notes

Note 2. Segment information

Business segments

The consolidated entity is organised in the following divisions by product and service type:

Equipment hire

Includes hire of equipment, access equipment, temporary site accommodation, toilets, mobile lighting equipment, power generation equipment and de-watering pumps.

Equipment sales

Includes design and assembly of mobile lighting equipment, power generation equipment and de-watering pumps.

Geographical segments

The consolidated entity operates in the Australian market with a minor operation in Indonesia. For the purposes of segment reporting, the results of this operation are not considered material.

Primary reporting - business segments	Equipment sale of goods $'000	Hire $'000	Inter-segment eliminations* $'000	Consolidated $'000
Sales to external customers	34,407	80,680		115,087
Intersegment sales	2,923	2,041	(4,964)	
Total sales segment	37,330	82,721	(4,964)	115,087
Other revenue		1,314	(310)	1,004
Total segment revenue	37,330	84,035	(5,274)	116,091
Segment result	2,715	21,456		24,171
Unallocated revenue				1,410
Less unallocated expenses				(12,520)
Profit from ordinary activities before related income tax expense				13,061
Income tax expense				(2,951)
Profit from ordinary activities after related income tax expense				10,110
Net profit				10,110
Segment assets	48,057	195,225	(12,003)	231,279
Unallocated assets				58,626
Total assets				289,905
Segment liabilities	25,379	43,264	(29,936)	38,707
Unallocated liabilities				31,394
Total liabilities				70,101
Acquisition of property, plant and equipment, intangibles and other non-current segment assets		14,982		14,982
Depreciation and amortisation expense	232	15,815	933	16,980
Other non-cash expenses			83	83

* Segment revenues, expenses and results include transfers between segments. Such transfers are priced on an "arms length" basis and are eliminated on consolidation.

Comparatives for the previous year have not been included as the consolidated entity only operated in the general hire industry.

Note 3. Revenue

	Notes	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent entity 2005 $'000	Parent entity 2004 $'000
Revenue from operating activities					
Sale of goods		34,407			
Sales revenue		80,680	33,221		
		115,087	33,221		
Revenue from outside operating activities					
Proceeds on sale of non-current assets		873	534		
Interest received		1,064	499	3,753	432
Management fees				1,027	1,666
Other revenue		477	241		
		2,414	1,274	4,780	2,098
Revenue from ordinary activities		117,501	34,495	4,780	2,098

Note 4. Profit from ordinary activities

Profit and loss from ordinary activities before income tax includes the following expenses:

	Notes	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent entity 2005 $'000	Parent entity 2004 $'000
Cost of sales of goods		27,266			
Borrowing costs					
Interest and finance charges paid/payable		1,606	1,246	843	935
Finance charges on capitalised leases		356	13		
		1,962	1,259	843	935
Amortisation of non-current assets					
Goodwill		1,508	215		
Brand names		99	99		
Leasehold improvements		187	119		
Plant and equipment under lease		400	30		
		2,194	463		
Depreciation of non-current assets					
Plant and equipment		14,787	3,628		
Bad and doubtful debts - trade debtors		(342)	572		
Diminution of employee share plan loans	8	3	2	3	2
Operating lease rental expense		4,015	2,017		
Net loss on disposal of plant and equipment		629	76		

Notes

Note 5. Income tax

	Notes	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent entity 2005 $'000	Parent entity 2004 $'000
The income tax expense for the financial year differs from the amount calculated on the profit. The differences are reconciled as follows:					
Profit from ordinary activities before income tax expense		13,061	1,443	3,024	466
Income tax calculated @ 30% (2004 - 30%)		3,918	433	907	140
Income tax expense attributable to other members of the tax consolidated group				3,187	424
		3,918	433	4,094	564
Tax effect of permanent differences:					
Non-deductible depreciation and amortisation		483	94		
Non-deductible interest		24	26	16	13
Other non-deductible items		47	18	1	18
Under / (over) provision for tax relating to prior years		50		(222)	
Tax benefit resulting from adjustment to deferred tax balances on implementation of tax consolidation		(1,571)		(745)	
Income tax expense attributable to operating activities before the impact of the tax sharing and funding agreement		2,951	571	3,144	595
Compensation received by the parent entity from tax consolidated group entities				(3,187)	(424)
Income tax (benefit) / expense attributable to parent entity				(43)	171

Tax consolidation legislation

All entities in the consolidated group have elected to implement the tax consolidation legislation. The accounting policy in relation to the legislation is set out in note 1(c).

The wholly-owned entities have fully compensated National Hire Group Limited for deferred tax liabilities assumed by it on the date of implementation and have been fully compensated for any deferred tax assets transferred to National Hire Group Limited.

The entities have also entered into a tax sharing and funding agreement. Under the terms of this agreement, the wholly-owned entities reimburse National Hire Group Limited for any current income tax payable by National Hire Group Limited arising in respect of their activities. The reimbursements are payable at the same time as the associated income tax liability falls due.

In the opinion of the directors, the tax sharing agreement is also a valid agreement under the tax consolidation legislation and limits the joint and several liability of the wholly owned entities in the case of default by National Hire Group Limited.

Note 6. Earnings per share

	2005 Cents	2004 Cents
Basic earnings per share	2.51	0.97
Diluted earnings per share	2.51	0.97
	Number	Number
Weighted average number of ordinary shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share:	402,922,028	89,936,608
Reconciliation of earnings used in calculating earnings per share	$'000	$'000
Operating profit after tax	10,110	872
Earnings used in calculating basic earnings per share	10,110	872

It has been determined diluted earnings per share was not materially different from basic earnings per share at 30 June 2005.

Information concerning the classification of securities:

Convertible notes

Convertible notes with a maturing date of 30 April 2007 are not considered to be dilutive based on current market conditions. Each note has a face value of 75 cents and is convertible into 1 ordinary share or if not converted within 5 days after maturity date is refundable at face value together with any interest payable.

Options

Options granted to employees are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share. The options have not been included in the determination of basic earnings per share.

Note 7. Cash assets

	Notes	Consolidated		Parent entity	
		2005 $'000	2004 $'000	2005 $'000	2004 $'000
Cash at bank	22(b)	2,153	22,796	28	22,100

Notes

Note 8. Receivables

	Notes	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent entity 2005 $'000	Parent entity 2004 $'000
Current assets					
Trade debtors		37,759	6,802		
Provision for doubtful debts		(1,148)	(659)		
		36,611	6,143		
Other debtors		899	493		339
Controlled entities	30			141,554	24,778
		37,510	6,636	141,554	25,117
Non-current assets					
Trade debtors		16	16	16	16
Employee share plan	25	111	111	111	111
Provision for diminution		(5)	(2)	(5)	(2)
		106	109	106	109
		122	125	122	125

Note 9. Inventories

	Notes	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent entity 2005 $'000	Parent entity 2004 $'000
Current assets					
Consumables - at cost		39	11		
Inventory - at cost		26,424			
		26,463	11		

Note 10. Other assets

	Notes	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent entity 2005 $'000	Parent entity 2004 $'000
Current assets					
Prepayments		2,383	671	160	
Non-current assets					
Research and development		175			
Less: Accumulated amortisation		(85)			
		90			
Incorporation costs		9			
Less: Accumulated amortisation		(2)			
		7			
		97			

Note 11. Other financial assets

	Notes	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent entity 2005 $'000	Parent entity 2004 $'000
Non-current assets					
Non-traded investments					
Shares in controlled entities - at cost	31			71,857	
Shares in other corporations - at cost*		25	23	23	23
Less: Provision for diminuition		(10)	(10)	(10)	(10)
		15	13	13	13
Units in controlled unit trust - at cost	31			7,750	7,750
Provision for diminution				(710)	(710)
				7,040	7,040
		15	13	78,910	7,053

*Non traded shares in other corporations have been written down to their recoverable amount being the present value of net cash flows from expected future dividends and subsequent disposal costs of the shares.

Note 12. Property, plant and equipment

	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent entity 2005 $'000	Parent entity 2004 $'000
Freehold land				
At cost	318			
Leasehold improvements				
At cost	2,169	853		
Less: Accumulated amortisation	(819)	(502)		
	1,350	351		
Total land and buildings	1,668	351		
Plant and equipment				
At cost	196,060	46,506		
Less: Accumulated depreciation	(43,963)	(16,327)		
	152,097	30,179		
Plant and equipment under finance lease				
At capitalised cost	13,247	254		
Less: Accumulated amortisation	(396)	(181)		
	12,851	73		
Capital works in progress	2	9		
	166,618	30,612		

Notes

Note 12. Property, plant and equipment (continued)

Reconciliation

Reconciliation of the carrying amounts for each class of property, plant and equipment are set out below:

	Land	Leasehold improvement	Plant & equipment	Leased plant & equipment	Capital WIP	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Carrying amount at 1 July 2004		351	30,179	73	9	30,612
Additions		720	37,989	13,292		52,001
Additions through acquisition of businesses	318	467	100,096			100,881
Depreciation & amortisation		(187)	(14,787)	(400)		(15,374)
Disposals		(1)	(1,458)	(43)		(1,502)
Transfers			78	(71)	(7)	
Carrying amount at 30 June 2005	318	1,350	152,097	12,851	2	166,618

Note 13. Deferred tax assets

	Notes	Consolidated		Parent entity	
		2005	2004	2005	2004
		$'000	$'000	$'000	$'000
Future income tax benefit		3,780	932	3,568	932

Note 14. Intangibles

	Notes	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent entity 2005 $'000	Parent entity 2004 $'000
Goodwill - at cost		50,902	4,310		
Less: Accumulated amortisation		(3,397)	(1,488)		
		47,505	2,822		
Brand names - at cost		3,950	3,950		
Less: Accumulated amortisation		(691)	(592)		
		3,259	3,358		
		50,764	6,180		

Note 15. Payables

	Notes	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent entity 2005 $'000	Parent entity 2004 $'000
Current liabilities					
Trade creditors		29,268	2,049		
Other creditors		3,353	5,725	394	302
		32,621	7,774	394	302

Note 16. Interest-bearing liabilities

	Notes	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent entity 2005 $'000	Parent entity 2004 $'000
Current liabilities					
Secured					
Hire purchase liabilities		3,695	1,239		
Lease liabilities	24	1,211	45		
Other financiers			1,727		1,727
		4,906	3,011		1,727
Unsecured					
Bank overdraft		4,006		4,006	
Other		150	174		
		4,156	174	4,006	
		9,062	3,185	4,006	1,727
Non-current liabilities					
Secured					
Hire purchase liabilities		6,825	1,788		
Lease liabilities	24	11,511			
Other financiers			3,800		3,800
		18,336	5,588		3,800
Unsecured					
Convertible notes		3,412	3,357	3,412	3,357
Other		264	387		
		3,676	3,744	3,412	3,357
		22,012	9,332	3,412	7,157

Lease and hire purchase liabilities

Lease and hire purchase liabilities are effectively secured as the rights to the assets revert to the financier in the event of default.

Convertible notes

In May 2000 the parent entity issued 4,708,334 unsecured convertible notes with a face value of 75 cents. The notes have a coupon rate of 10% per annum and mature on 30 April 2007. The notes are convertible into ordinary shares of the parent entity at the option of the holder, or repayable on the maturity date. Each note is convertible into ordinary shares by redeeming the note at its face value and applying the redemption in subscription for ordinary shares at an issue price of 75 cents.

Reconciliation of convertible notes:

Balance at beginning of year	3,357	3,307	3,357	3,307
Interest accrued during the year applied to non-current liabilities	55	50	55	50
Balance at end of year	3,412	3,357	3,412	3,357

Notes

Note 16. Interest-bearing liabilities (continued)

	Notes	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent entity 2005 $'000	Parent entity 2004 $'000
Financing arrangements					
The consolidated entity has access to the following lines of credit at balance date					
Total facilities available					
Bank overdraft		10,000		10,000	
Loan facility		50,000	16,400	50,000	16,400
Bank guarantee facility		1,000		500	
		61,000	16,400	60,500	16,400
Facilities utilised at balance date					
Bank overdraft utilised		4,006	5,527	4,006	5,527
Bank guarantees utilised		821		321	
		4,827	5,527	4,327	5,527
Facilities not utilised at balance date					
Bank overdraft		5,994		5,994	
Loan		50,000	10,873	50,000	10,873
Bank guarantee		179		179	
		56,173	10,873	56,173	10,873

Note 17. Tax liabilities

	Notes	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent entity 2005 $'000	Parent entity 2004 $'000
Current liabilities					
Provision for income tax		4,797	81	4,553	19
Non-current liabilities					
Provision for income tax		635	70	148	39
Provision for deferred income tax			2,340		2,250
Less future income tax benefits attributable to tax losses			(634)		(634)
		635	1,776	148	1,655

Note 18. Provisions

	Notes	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent entity 2005 $'000	Parent entity 2004 $'000
Current liabilities					
Employee benefits	25	501	98		
Non-current liabilities					
Employee benefits	25	473	306	27	8

Note 19. Contributed equity

	Notes	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent entity 2005 $'000	Parent entity 2004 $'000
Issued and paid up share capital					
598,124,162 fully paid ordinary shares (2004: 167,490,797)		207,477	43,201	207,477	43,201
Other contributed equity					
4,708,334 convertible notes - equity portion (2004: 4,708,334)		325	325	325	325
		207,802	43,526	207,802	43,526

Movements in ordinary share capital

Date	Details	Notes	No. shares	Issue price	$'000
1 Jul 2003	Opening balance		28,109,498		12,827
13 Oct 2003	6 for 5 renounceable rights issue	(a)	39,381,299	$0.16	6,300
2 Mar 2004	Equity placement	(a)	100,000,000	$0.25	25,000
	Less: Transaction costs				(926)
30 Jun 2004	**Balance**		**167,490,797**		**43,201**
10 Dec 2004	Ordinary shares issued as consideration for acquisitions	(a)	298,437,386	$0.41	122,359
10 Dec 2004	Equity placement	(a)	114,285,038	$0.35	40,000
29 Dec 2004	Share purchase plan	(b)	13,625,714	$0.35	4,769
25 Jan 2005	Retention bonus shares	(c)	4,285,227	-	-
	Less: Transaction costs				(2,852)
30 Jun 2005	**Balance**		**598,124,162**		**207,477**

a) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

b) Share purchase plan

On 29 December 2004 the company offered to existing shareholders the opportunity to participate in a share purchase plan. The offer allowed each shareholder to subscribe for up to $5,000 worth of new fully paid ordinary shares in the company. The offer raised $4.8 million with 13,625,714 shares allotted.

c) Employee retention bonus shares

During December 2004 the company offered retention bonus shares to 66 executives under the National Hire Group Limited deferred employee share plan. The offer was accepted by all nominated employees and consequently in January 2005 the company issued 4,285,227 ordinary shares at $0.44 each. The rights to these shares do not vest with the employees until December 2006 and include a 2 year employment requirement with the company from the offer date.

Notes

Note 19. Contributed equity (continued)

	Notes	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent entity 2005 $'000	Parent entity 2004 $'000
Convertible notes					
Balance at end of year		325	325	325	325

The amount shown for convertible notes is the value of the conversion rights relating to the convertible notes, details of which are shown in note 16.

Note 20. Retained profits

Retained profits at beginning of year	1,898	1,026	933	638
Net profit attributable to members of the parent entity	10,110	872	3,067	295
Retained profits at end of year	12,008	1,898	4,000	933

Note 21. Reserves

Foreign currency translation reserve	(6)			
Foreign currency translation reserve				
Net exchange differences on translation of foreign controlled entity	(6)			
Balance as at 30 June 2005	(6)			

Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are taken to the foreign currency translation reserve as described in note 1(d)(ii).

Note 22. Statements of cash flows

(a) Reconciliation of profit from ordinary activities after income tax to the net cash flows from operating activities

Profit from ordinary activities after income tax	10,110	872	3,067	295
Depreciation of non-current assets	14,786	3,658		
Amortisation of non-current assets	2,194	358		
Loss on disposal of property, plant and equipment	629	76		
Interest expense for equipment acquisitions		280		
Exchange gain on foreign currency	(12)			
Non cash interest expense	83	90	55	49
Increase in provision for diminution - employee share plan	3	2	3	2
Change in operating assets and liabilities				
Increase in trade debtors	(16,679)	(685)		
Increase in inventories	(4,834)	(5)		
Decrease / (increase) in other receivables	(253)	(260)	340	(337)
Decrease / (increase) in prepayments	235	(358)	(149)	
Decrease / (increase) in deferred tax assets	(1,271)	52	(3,484)	35
Increase in deferred income tax payable	4,710	520	4,662	543
Increase / (decrease) in trade and other creditors	(604)	3,801	55	(4)
Increase in employee entitlements	835	213	44	
Decrease in provision for taxation	(1,397)	(77)	(1,636)	(19)
Net cash inflows from operating activities	8,535	8,537	2,957	564

Note 22. Statements of cash flows (continued)

	Notes	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent entity 2005 $'000	Parent entity 2004 $'000
(b) Reconciliation of cash The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows					
Cash balance (note 7)		2,153	22,796	28	22,100
Less: Bank overdraft		(4,006)		(4,006)	
Closing cash balance		(1,853)	22,796	(3,978)	22,100

(c) Non cash financing and investing activities

The following non cash investing and financing activities occurred during the year ended 30 June 2005 in the consolidated entity:

> issue of 298,437,386 ordinary shares as consideration for acquisition of Allight Holdings Pty Ltd and the business of The Cat Rental Stores (WA)

> acquired plant and equipment with an aggregate value of $18,492,484 (2004: $1,038,933) by means of finance leases and hire purchase agreements

The following non cash investing activities occured during the year ended 30 June 2005 in the parent entity:

> issue of 298,437,386 ordinary shares as consideration for acquisition of Allight Holdings Pty Ltd and the business of The Cat Rental Stores (WA)

> an amount of $ 51,292,662 relating to the acquisition of the Cat Rental Stores (WA) has been included in receivables from controlled entities. This does not represent a cash transaction

Note 23. Dividends

	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent entity 2005 $'000	Parent entity 2004 $'000
Dividends not recognised at year end				
The directors have declared a final dividend of 0.5 cent per fully paid ordinary share, fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 14 October 2005 out of retained profits at 30 June 2005, but not recognised as a liability at year end is:	2,991		2,991	
Franked dividends				
Franking credits available for subsequent financial years based on a tax rate of 30% (2004-30%)	11,631	1,178	11,631	1,178

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

> franking credits that will arise from the payment of the current tax liability

> franking debits that will arise from the payment of dividends recognised as a liability at the reporting date

> franking credits that will arise from any dividends receivable at reporting date

> franking credits that may be prevented from being distributed in subsequent financial years

The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of controlled entities were paid as dividends.

Notes

Note 24. Commitments for expenditure

	Notes	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent entity 2005 $'000	Parent entity 2004 $'000
(a) Capital expenditure commitments					
Commitments for the acquisition of plant and equipment contracted for at the reporting date but not recognised as liabilities, payable:					
Within one year		18,151			
(b) Lease expenditure commitments					
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:					
Not later than 1 year		4,871	2,137		
Later than 1 year and not later than 5 years		10,439	6,597		
Later than 5 years		839	310		
		16,149	9,044		
Representing:					
Non - cancellable operating leases		13,425	9,044		
Future finance charges on finance leases		2,724			
		16,149	9,044		
Operating leases					
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:					
Not later than 1 year		3,976	2,137		
Later than 1 year and not later than 5 years		8,610	6,597		
Later than 5 years		839	310		
Commitments not recognised in the financial statements		13,425	9,044		
Finance leases					
Commitments in relation to finance leases are payable as follows:					
Not later than 1 year		2,106	45		
Later than 1 year and not later than 5 years		13,340			
Total minimum lease payments		15,446	45		
Less: Future finance charges		(2,724)			
Total lease liabilities		12,722	45		
Representing:					
Lease liabilities - current	16	1,211	45		
Lease liabilities - non current	16	11,511			
		12,722	45		

Note 25. Employee benefits

	Notes	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent entity 2005 $'000	Parent entity 2004 $'000
Aggregate liability for employee benefits, including on-costs:					
Included in other creditors - current		2,584	898	70	
Provision for employee benefits - current	18	501	98		
Provision for employee benefits - non current	18	473	306	27	8
Aggregate employee benefit and related on-cost liability		3,558	1,302	97	8
		Number	Number	Number	Number
Number of employees					
Number of permanent employees at year end		513	183	1	1
Employee share option plan					
(a) The number of share options held by employees are as follows :					
Opening balance		600,000	190,106	600,000	190,106
Granted during the year		600,000	600,000	600,000	600,000
Exercised during the year					
Lapsed during the year			(190,106)		(190,106)
Closing balance		1,200,000	600,000	1,200,000	600,000
(b) Details of share options outstanding as at end of year:					

Grant Date	Expiry date	Exercise date	Exercise price $	Consolidated 2005	Consolidated 2004	Parent entity 2005	Parent entity 2004
20-Nov-2004	20-Nov-2008	Between 20-Nov-2006 and 20-Nov-2008	0.46	600,000		600,000	
20-Nov-2003	20-Nov-2007	Between 20-Nov-2005 and 20-Nov-2007	0.20	600,000	600,000	600,000	600,000
				1,200,000	600,000	1,200,000	600,000

Options are granted under the National Hire Group option plan. All staff are eligible to participate in the plan, however granting of options is at the discretion of the board who will consider several factors including service period (at least 1 year), seniority within the organisation, record of employment and potential contribution to growth.

Options are granted under the plan for no consideration and do not carry rights to dividends or voting rights. Upon exercise, options are converted into one ordinary share.

The exercise price of options is based on the weighted average price at which the company's shares are traded on the Australian Stock Exchange during the five days trading immediately before the options are granted. Amounts receivable on the exercise of options are recognised as share capital.

Employee share plan

The company has established an employee share plan for selected employees as detailed in the Prospectus dated April 1997. Shares acquired by employees are funded by interest free loans which are repaid by the dividends paid on the shares. The outstanding loan balance is repayable on cessation of employment with the consolidated entity. Shares allotted under the plan will rank equally with all existing shares from the date of issue in respect of voting rights and all rights issues, bonus share issues and dividends made or declared after allotment.

Notes

Note 26. Contingent liabilities

	Notes	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent entity 2005 $'000	Parent entity 2004 $'000
The parent entity and controlled entities have agreed to indemnify the group's bankers in respect of guarantees by the group in favour of third parties. The value of the guarantees are:		822	89	321	89
The parent entity has guaranteed specific leasing commitments of one of its controlled entities. The value of the guarantees are:				15,446	

Note 27. Remuneration report

The following persons were directors of National Hire Group Limited during the financial year:

Chairman - non-executive director
Mr R J Romano

Executive director
Mr S S Donnelley, managing director

Non-executive directors
Mr J E Star
Mr C Isenberg
Mr P J T Gammell (appointed on 10 December 2004)
Mr A D Aitken (appointed on 10 December 2004)
Mr G G Armstrong was a non-executive director from the beginning of the financial year until his resignation on 9 December 2004.

Principles used in determining remuneration structure

The aim of the company's executive remuneration framework is to ensure that National Hire Group Limited:

> attracts and retains the right calibre of business professional
> offers remuneration that is competitive in the marketplace (within a rigorous budgetary framework)
> motivates the right behaviours to drive business profitability and growth
> creates a performance culture where rewards are directly and inextricably linked to achievement of business goals, targets and KPIs

The consolidated entity has developed an executive remuneration strategy and framework in conjunction with specialist remuneration consultants, to ensure that latest market data and practices are incorporated. In particular, the remuneration committee is responsible for ensuring that all executive remuneration policies and practices are aligned with

> shareholders interests, including:
  - having economic profit as a core component of plan design
  - focusing on sustained growth in share price and delivering constant return on assets as well as focusing executives on key non-financial drivers of value
  - attracting and retaining high calibre executives

Note 27. Remuneration report (continued)

> program participants' interests, including:
  - rewarding capability and experience
  - reflecting competitive reward for contribution to shareholder growth
  - providing a clear structure for earning rewards
  - providing recognition for contribution

Non-executive directors' fees

Fees and payments to non-executive directors reflect demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed as considered appropriate by the remuneration committee which makes a recommendation to the board. The total directors' fees for the year must be approved by the shareholders at the AGM and the recommendations of the remuneration committee in total must not exceed the approved amount. The chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market.

The current base remuneration was last reviewed with effect from 10 December 2004.

Executive remuneration framework

The executive pay and reward framework has four components:

> base salary
> superannuation
> a short-term incentive plan (STIP)
> benefits and allowances

The combination of these components comprises the executive's total remuneration package.

Base salary

Executives are offered a competitive base salary, based on:

> current market data and analysis for the job role, as provided by remuneration consultants
> the capabilities, expertise and qualifications of the individual incumbent

There are no guaranteed base pay increases fixed in any executive contracts. Any adjustments to executive remuneration packages are based on formal performance reviews, conducted annually by the managing director, and subject to the approval of the board.

Superannuation

The consolidated entity provides executives, the statutory employer contribution to superannuation funds, currently legislated at 9 %. Executives may make additional salary sacrifice contributions at their own discretion.

Short-term incentive plan (STIP)

Should the company achieve a pre-determined profit target set by the remuneration committee, the STIP allows for a cash incentive bonus of up to 25% of base salary to be paid to executives, subject to certain financial covenants being met and always at the absolute discretion of the board. Using a profit target ensures variable award is only available when value has been created for shareholders and when profit is consistent with the business plan.

In all cases, the actual amount of incentive bonus paid is subject to the individual executive achieving certain performance targets and key performance indicators (KPIs).

Notes

Note 27. Remuneration report (continued)

Each year, the remuneration committee considers the appropriate targets and KPIs incorporated in the STIP and the level of payout, if targets are met. This includes setting any maximum payout under the STIP, and minimum levels of performance to trigger payment of short term incentives.

For the year ended 30 June 2005, the KPIs linked to short term incentive plans were based on:

> group profit before tax
> individual goals and objectives
> group safety measures

The short term incentive payments may be adjusted up or down in line with under or over achievement against the target performance levels. This is at the discretion of the remuneration committee. The STIP is reviewed annually with the assistance of specialist remuneration consultants.

Benefits and allowances

Executives of the consolidated entity receive motor vehicle allowances appropriate to their position.

Remuneration report

Directors

Details of the remuneration of each director of National Hire Group Limited for the year ended 30 June 2005 are set out in the following table:

	Primary		Post Employment	
Name	Cash Salary and fees $	Non-monetary benefits $	Superannuation $	Total $
R J Romano, Chairman	50,000			50,000
P J T Gammell	17,500			17,500
A D Aitken	17,500			17,500
G G Armstrong*	5,000			5,000
C Isenberg	50,000		2,700	52,700
J E Star	50,000		2,700	52,700
S S Donnelley, Executive director	198,752	75,699	18,338	292,789
	388,752	75,699	23,738	488,189

* Includes non-executive directors' remuneration from the beginning of the financial year until his resignation in December 2004.
Directors remuneration payments for Mr R J Romano, Mr G G Armstrong, Mr P J T Gammel and Mr A D Aitken are paid to WesTrac Pty Ltd

Executives (other than directors) with the greatest authority for strategic direction and management

The following persons were the five executives with the greatest authority for the strategic direction and management of the consolidated entity during the financial year:

Name	Position	Employer
R B Harman	Company secretary & investor relations	National Hire Administration Pty Ltd
G R Parfitt	General manager - rental services (East coast)	National Hire Administration Pty Ltd
A Manning	General manager - business improvement & growth	National Hire Administration Pty Ltd
G G Armstrong	Chief financial officer	National Hire Administration Pty Ltd
S McCullough	General manager - capital sales	National Hire Administration Pty Ltd

Note 27. Remuneration report (continued)

All the above persons were executives during the year ended 30 June 2004 except for Mr G G Armstrong and Mr S McCullough who were appointed in their executive roles during the year ended 30 June 2005.

Details of the remuneration of the five executives of the consolidated entity with the highest remuneration are set out in the following table:

2005	Primary			Post employment	Equity	
Name	Cash salary and allowances $	Cash bonus $	Non-monetary benefits $	Superannuation $	Options $	Total $
R B Harman	156,209	3,750	16,353	24,251	4,127	204,690
G R Parfitt	159,554		546	14,308	4,127	178,535
A Manning	140,690		14,546	12,569	4,127	171,932
G Armstrong	135,835		5,377	13,913		155,125
S McCullough	105,368	15,733		9,701		130,802
Total	697,656	19,483	36,822	74,742	12,381	841,084

2004	Primary		Post employment	Equity	
Name	Cash salary and allowances $	Non-monetary benefits $	Superannuation $	Options $	Total $
R B Harman	149,204	11,230	21,562	698	182,694
G R Parfitt	137,090		12,150	698	149,938
A Manning	113,374	4,207	10,090	698	128,369
Total	399,668	15,437	43,802	2,094	461,001

Share based compensation - options

The terms and conditions of each grant of options affecting remuneration in this or future reporting periods are as follows:

Grant date	Expiry date	Exercise price $	Value at grant date $	Exercise date
20-Nov-2003	20-Nov-2007	0.20	0.01	Between 20 Nov 2005 and 20 Nov 2007 provided that the shareholder return of the company as measured over the period from issue date to exercise date equals or exceeds 15% p.a. compounding.
20-Nov-2004	20-Nov-2008	0.46	0.02	Between 20 Nov 2006 and 20 Nov 2008 provided that the shareholder return of the company as measured over the period from issue date to exercise date equals or exceeds 15% p.a. compounding.

Details of the National Hire Group option plan are disclosed at note 25.

The number of options in the parent entity held during the financial year by each director of the parent entity and each of the five specified executives of the consolidated entity, including their personally related entities are set out below:

Notes

Note 27. Remuneration report (continued)

Executives	Balance as at 01 July 2004	Granted during the year as remuneration	Exercised during the year	Balance as at 30 June 2005	Vested and exercisable at 30 June 2005
R B Harman	200,000	200,000		400,000	
G R Parfitt	200,000	200,000		400,000	
A Manning	200,000	200,000		400,000	
	600,000	600,000		1,200,000	

Further details relating to options are set out below:

	A Percentage of remuneration consisting of options	B Value at grant date $	C Value at exercise date $	D Total of columns B-C
R B Harman	2.1%	4,127		4,127
G R Parfitt	2.3%	4,127		4,127
A Manning	2.5%	4,127		4,127

A = The percentage of the value of remuneration consisting of options, based on the value at grant date set out in column B.
B = The value at grant date calculated in accordance with AASB 1046 Director and Executive Disclosures by Disclosing Entities of options granted during the year as part remuneration.
C = The value at exercise date of options that were granted as part of remuneration and were exercised during the year.

Shareholdings

The number of shares in the parent entity held during the financial year by each director of the parent entity and each of the five specified executives of the consolidated entity, including their personally related entities are set out below:

Directors	Balance as at 01 July 2004	Net change*	Balance as at 30 June 2005
S S Donnelley	19,930,813	28,570	19,959,383
J E Star	298,320	28,570	326,890
Executives			
R B Harman	300,641	(31,054)	269,587
G R Parfitt	83,582	14,285	97,867
A Manning	41,699		41,699
Total	20,655,055	40,371	20,695,426

* Net change refers to shares purchased or sold during the financial year

Note 27. Remuneration report (continued)

Service Agreements

There were no fixed period service agreements with any of the executive directors or the nominated specified executives.

Other transactions with directors and specified executives

Other transactions with directors of National Hire Group Limited are disclosed in note 30.

Note 28. Remuneration of auditors

	Notes	Consolidated		Parent entity	
		2005 $'000	2004 $'000	2005 $'000	2004 $'000
During the year the following services were paid to the auditor of the parent entity, its related practices and non-related audit firms:					
Audit services					
PricewaterhouseCoopers		100,000		100,000	
Weston Woodley & Robertson		46,000	61,000	46,000	61,000
Total Remuneration for audit services		146,000	61,000	146,000	61,000
Other assurance services					
Weston Woodley & Robertson		32,850	13,672	32,850	13,672
Taxation services					
Weston Woodley & Robertson		119,945	49,917	119,945	49,917
Advisory services					
Weston Woodley & Robertson		15,425	6,419	15,425	6,419
		314,220	131,008	314,220	131,008

Note 29. Financial instruments

(a) Derivative financial instruments

In order to protect itself against exchange rate movements, certain entities in the consolidated entity have entered into forward exchange contracts to buy Great Britain Pounds (GBP). At balance date, the details of outstanding contracts are:

	Sell Australian Dollars		Average exchange rate	
	2005 $'000	2004 $'000	2005	2004
Buy Great Britain Pounds (GBP)				
Maturity				
0-6 months	5,808		0.4105	

As these contracts are hedging anticipated future purchases, any unrealised gains and loses on the contracts, together with the cost of the contract are deferred and will be recognised in the measurement of the underlying transaction. If these forward contracts were terminated as of 30 June 2005 the net loss would be AUD $119,721, this amount has not been recorded in the financial statements as at 30 June 2005.

Notes

Note 29. Financial instruments (continued)

(b) Interest rate risk

The consolidated entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates, and the effective weighted average interest rates on classes of financial assets and financial liabilities is as follows:

Fixed interest rate maturing

	Weighted average effective interest rate		Floating interest rate $'000		Within one year $'000		1 to 5 years $'000		Non-interest bearing $'000		Total $'000	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Financial assets												
Cash	3.40	2.65	2,153	22,796							2,153	22,796
Receivables									37,632	6,761	37,632	6,761
Total financial assets			2,153	22,796					37,632	6,761	39,785	29,557
Financial liabilities												
Bank loans and overdraft	6.13		4,006								4,006	
Trade and other creditors									32,621	7,774	32,621	7,774
Hire purchases and other	8.08	8.26		5,527	3,845	1,413	7,089	2,175			10,934	9,115
Lease liabilities	7.36	13.57			1,211	45	11,511				12,722	45
Convertible notes	10.00	10.00					3,412	3,357			3,412	3,357
Total financial liabilities			4,006	5,527	5,056	1,458	22,012	5,532	32,621	7,774	63,695	20,291
Net financial assets / (liabilities)			(1,853)	17,269	(5,056)	(1,458)	(22,012)	(5,532)	5,011	(1,013)	(23,910)	9,266

The consolidated entity has protected itself against adverse movement in interest rates through the purchase of an interest rate cap. The cap operates to limit the rate applicable to group debt to 7.5% per annum up to a debt level of $15 million, for a period of 10 years, expiring on 30 July 2014. The cost of the cap is $375,000 which is being amortised to the statement of financial performance over the term of the instrument.

(c) Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount, net of any provisions for doubtful debts of those assets, as disclosed in the statement of financial position and notes to the financial statements.

(d) Net fair values

The net fair values of cash and cash equivalents and non interest bearing monetary financial assets and financial liabilities of the consolidated entity approximates their carrying value.

The net fair value of other monetary financial assets and financial liabilities approximates their carrying value. The interest rates are consistent with current rates and the majority of other assets are current with little impact from interest rates. The convertible notes have been recorded at net present value.

Note 30. Related party disclosures

Directors and their director related entities

Particulars of the above transactions with directors and their director related entities:

a) Commercial transactions with director related entities

National Hire Properties Pty Limited rents premises at locations from companies associated with the family of executive director Mr S S Donnelley. The lease arrangements are on normal commercial terms and conditions and in the ordinary course of business. The total rent paid and payable for the period was $564,000 (2004: $587,166).

DWB (NH) Pty Limited has entered into agreements to lease properties from Abbott Properties Pty Limited, a company of which Mr J E Star is a director. Another director, Mr S S Donnelley, is a potential beneficiary of a family trust, which owns shares in Abbott Properties Pty Limited. The total rent paid for the period was $555,386 (2004: $400,723).

Commercial transactions were entered into with Unity Plant Services Pty Limited, an entity indirectly related to Mr S S Donnelley, involving the rental of equipment amounting to $2,677,475. An amount of $183,985 relating to these transactions is included in the trade receivables balance at 30 June 2005.

b) Commercial transactions with the parent and parent related entities

During the reporting period commercial transactions were entered with director related entities within the WesTrac group. Details of the transactions are as follows:

- purchase of Allight Holdings Pty Limited for $71,857,000 as disclosed in note 31
- purchase of The Cat Rental Store (WA) business for consideration of $59,699,000
- hire of equipment totalling $1,670,359
- purchase of property, plant and equipment totalling $7,500,493
- payment of property rent totalling $216,974
- lease of equipment by way of finance lease. The total lease liability at 30 June 2005 totals $15,446,000 as disclosed in note 24. WesTrac has a charge over the hire contracts which is the subject of the finance leases, allowing the contract to revert to it in the event of default by the consolidated entity
- payment of directors fees to WesTrac as disclosed in note 27

Transactions with related parties are made under normal commercial terms and conditions unless otherwise stated.

Wholly owned group

The wholly owned group consists of National Hire Group Limited and its wholly owned controlled entities as disclosed in note 31. Transactions between entities in the wholly owned group during the years ended 30 June 2004 and 2005 include:

- management fees and interest on loans
- loans advanced and repaid
- hire of equipment, rental of premises and utilisation of staff
- transactions arising under the tax sharing agreement as described in note 5

Controlling entities

The ultimate parent entity in the wholly-owned group is National Hire Group Limited. The ultimate Australian parent entity is Australian Capital Equity Pty Limited which at 30 June 2005 indirectly owns 57% of the ordinary shares of National Hire Group Limited.

Notes

Note 31. Investments in controlled entities

Name	Country of incorporation	Class of shares	Equity holding 2005 %	Equity holding 2004 %
DWB Unit Trust	Australia	Ordinary	100	100
National Hire Administration Pty Limited	Australia	Ordinary	100	100
National Hire Equipment Pty Limited	Australia	Ordinary	100	100
National Hire Operations Pty Limited	Australia	Ordinary	100	100
National Hire Properties Pty Limited	Australia	Ordinary	100	100
National Hire Trading Pty Limited	Australia	Ordinary	100	100
DWB (NH) Pty Limited formally National Hire Pty Limited	Australia	Ordinary	100	100
NAHI Pty Limited	Australia	Ordinary	100	100
Allight Holdings Pty Ltd	Australia	Ordinary	100	
Allight Pty Ltd	Australia	Ordinary	100	
F.G.W. Pacific Pty Ltd	Australia	Ordinary	100	
PT Allight Indonesia	Indonesia	Ordinary	100	

Controlled entities acquired

On 10 December 2004, the parent entity acquired 100% of the issued share capital of Allight Holdings Pty Ltd for a purchase consideration of $71,857,000 including transaction costs of $790,000. The operating results of the newly controlled entity have been included in the consolidated statement of financial performance since the date of acquisition.

The Australian rental operations of the Allight group were rationalised and integrated into the existing National Hire business at various stages over the period since acquisition.

Details of the acquisition are as follows:

Fair value of identifiable net assets of controlled entity aquired	$'000
Plant and equipment	45,768
Intangible assets	464
Inventories	21,689
Receivables	13,791
Cash	2,124
Other assets	2,000
Investments	3
Deferred tax assets	804
Trade creditors & accruals	(23,958)
Interest bearing liabilities	(23,029)
Tax liabilities	(724)
Provisions	(1,284)
	37,648
Goodwill on acquisition	34,209
	71,857

Note 31. Investments in controlled entities (continued)

	$'000
Represented by:	
Cash	790
Ordinary shares (refer note 19)	71,067
	71,857
Outflow of cash to acquire entity net of cash acquired:	
Cash consideration	790
Cash acquired	(2,124)
Inflow of cash	(1,334)

Note 32. Adoption of international financial reporting standards

The Australian Accounting Standards Board is adopting Australian equivalents to International Financial Reporting Standards (AIFRS) for application to reporting periods beginning on or after 1 January 2005.

The company and consolidated entities will be required to first comply with AIFRS for the half year ending 31 December 2005. The company and consolidated entities, when complying with Australian equivalents to AIFRS for the first time, will be required to restate its comparative financial statements to amounts reflecting the application of AIFRS to that comparative period. Most adjustments on transition to AIFRS will be retrospectively made against retained earnings as at 1 July 2004.

A project team has been established to analyse key financial reporting differences and plan for the conversion to AIFRS in relation to accounting policies and procedures, reporting systems, business processes and business structures. While significant progress has been made towards transition, further work is required to enable the company to reliably estimate the quantitative impacts of AIFRS adoption. Hence the disclosures detailed below are limited to qualitative disclosure only.

Major changes identified to date that will be required to the company's and consolidated entities' existing accounting policies include the following:

i) Share based payments

The Australian equivalent to IAS 2 Share Based Payments requires equity-settled and cash-settled share based payments to be recognised as an expense in the statement of financial performance, with the corresponding entry recognised as equity and liabilities respectively. The date of recognition is the earlier of the grant date or the date at which the relevant goods and services are received. In the case of equity instruments issued with vesting conditions (such as options), the expense is brought to account over the vesting period.

This will result in a change to the current accounting policy, under which share payments and share options are not effected in the books until the shares are issued. In particular, the employee retention share scheme and employee share options issued to date may be reflected in the statement of financial performance.

In addition, the standard outlines more rigorous valuation methods, where equity settled transactions are booked at fair values, based on market prices, taking into account the terms and conditions upon which those equity instruments were granted. If market prices are not available, the entity shall estimate the fair value of the equity instruments granted using a valuation technique to estimate what the price of these equity instruments would have been in an arm's length transaction.

Notes

Note 32. Adoption of international financial reporting standards (continued)

ii) Business combinations

Under AASB 3 Business Combinations, acquisition accounting entries arising from business combinations will need to be revisited. Major impacts on the acquisition entries may arise due to the following reasons:

> purchase price allocations will be more rigorous and will require identification of many more separately identifiable intangibles, if any

> restructuring liabilities are only recorded if they qualify for recognition in the acquiree's books immediately prior to acquisition

> contingent liabilities of the acquired entity are recorded regardless of probabilities and will subsequently be fair valued with changes effected in the statement of financial performance

> goodwill amortisation is replaced by an annual impairment test based on either an independent market value assessment or the risk adjusted discounted cash flow analysis based on the allocation of goodwill to relevant cash generating units

The company will adopt the exception allowed by AASB 1 first time adoption to grand-father the accounting treatment of business combinations undertaken prior to the transition date. Hence only acquisitions carried out after 1 July 2004, such as the acquisition of the Allight group and The Cat Rental Store (WA) may be affected.

iii) Intangible assets

Under AASB 138 Intangible Assets, internally generated intangibles, such as in-house brand names, are not permitted to form part of assets.

Intangibles which are bought or arise from external sources, such as goodwill, are no longer subject to amortisation over a fixed period, but will undergo an annual impairment test.

This will result in a change to the current accounting policy, under which internally generated assets are recorded as non-current assets, and where intangibles are amortised over a set period of time.

iv) Income tax

Under AASB 112 Income Taxes, deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the statement of financial position and their associated tax bases. In addition, current and deferred taxes attribute to amounts recognised directly in equity are also recognised directly in equity.

This will result in a change to the current accounting policy, under which deferred tax balances are determined using the income statement method, items are only tax effected if they are included in the determination of pre tax accounting profit or loss and/or taxable income or loss and current and deferred taxes cannot be recognised directly in equity.

Further, there will be changes in the manner carry forward losses of the group are classified. The entity may account for the future tax benefit of tax losses of controlled entities as an asset. The test of realisation under AIFRS is the probability that sufficient profits will be available in future periods to realise such tax losses, rather than virtual certainty (or beyond a reasonable doubt).

Auditor's Report

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

Darling Park Tower 2
201 Sussex Street
GPO BOX 2650
SYDNEY NSW 1171
DX 77 Sydney
Australia
www.pwc.com/au
Telephone +61 2 8266 0000
Facsimile +61 2 8266 9999

Independent audit report to the members of National Hire Group Limited

Audit opinion

In our opinion:

1. the financial report of National Hire Group Limited:
   - gives a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of National Hire Group Limited and the National Hire Group Limited Group (defined below) as at 30 June 2005, and of their performance for the year ended on that date,
   - is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001* and
2. the remuneration report referred to on page 15 of the directors' report complies with Accounting Standard AASB 1046 Director and *Executive Disclosures by Disclosing Entities* (AASB 1046) and the *Corporations Regulations 2001*.

This opinion must be read in conjunction with the rest of our audit report.

Scope

The financial report, remuneration disclosures and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both National Hire Group Limited (the company) and the National Hire Group Limited Group (the consolidated entity), for the year ended 30 June 2005.The consolidated entity comprises both the company and the entities it controlled during that year.

The company has disclosed information about the remuneration of directors and executives (remuneration disclosures) as required by AASB 1046, under the heading "Remuneration Report" on page 50 of the financial report, as permitted by the *Corporations Regulations 2001*.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report 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. The directors are also responsible for the remuneration disclosures contained in the directors' report.

Auditor's Report

PRICEWATERHOUSECOOPERS

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with AASB 1046 and the *Corporations Regulations 2001*. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected. For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows. We also performed procedures to assess whether the remuneration disclosures comply with AASB 1046 and the *Corporations Regulations 2001*.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report and remuneration disclosures, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Matthew Lunn
Partner

Sydney
28 September 2005