

NATIONAL HIRE GROUP LIMITED

Chairman's Address to the 2002 Annual General Meeting Held on Tuesday, 26 November 2002

Clearly 2002 has been a tough year for our Company. In my address last year I reiterated that the Company was expecting to report a loss for the six months to December 2001 and a small operating profit for the second half to June 2002. This was achieved prior to the impact of the settlement of the accident claim for uninsured liabilities for which the Company was responsible following the collapse of HIH Casualty and General Insurances Ltd ("HIH").

I will now review the major issues affecting the financial results.

Overall lower demand, utilization and discounting have impacted on revenue over and above the forecast post Olympic/GST downturn. Revenue has declined by 4.8% or \$1,472,000 compared to the previous year.

During the year the previously announced cost reduction programs including the closure of two branches, management restructure and redundancies cost \$250,000. As a result operating costs before significant items fell by \$1,209,000.

Encouragingly the financial performance of the second half of the year produced stronger EBITDA performance as a result of the cost cutting.

Depreciation and amortisation charges increased as a result of a larger equipment fleet.

Earlier I referred to the impact of the settlement of the accident claim for uninsured liabilities for which the Company was responsible following the collapse of HIH. DWB (NH) Pty Ltd (formerly National Hire Pty Limited) ("DWB") a subsidiary of National Hire Group Limited was the subject of claims by Acko Dimkovski and Jordan Trajkovski. The settlement figure of \$1,000,000 follows negotiations with GIO/WorkCover and Allianz (the insurers of the first and second defendants in the matters). The amount of \$1,000,000 is payable by an initial installment of \$250,000 and then, commencing August 2003, semi-annual installments of \$75,000 concluding in February 2008. No interest is payable on the future installments.

The claims resulted from an industrial accident in 1996 involving a scissor lift owned by DWB.

DWB was joined in the Dimkovski action in 2000 as the Third Defendant. It was joined in the Trajkovski action as a Cross Defendant in 2000 and as a Defendant in February 2002. DWB was insured with HIH which appointed lawyers to act on DWB's behalf in both matters.

Following the appointment of liquidators to HIH in 2001 and acting on legal advice, DWB applied for and was granted assistance from HIH Claims Support Limited ("HCS"). The lawyers previously appointed by HIH to represent DWB were re-instructed by HCS and continued to represent DWB in both matters.

DWB did not participate in the Court proceedings except for providing witnesses and documentation as requested. After a 4 week hearing in February 2002, both matters settled (except for the determination of the quantum of damages in the Trajkovski action). At no time was DWB a party to the settlement negotiations.

DWB does not accept responsibility for the accident giving rise to the proceedings. The injured parties were neither customers of DWB nor were they authorised by DWB to use the scissor lift. The machine was used in contravention of the safety instructions for the machine.

In March 2002, DWB was advised the actions had been settled. The lawyers appointed by HCS to represent DWB requested payment of the excess due under the original HIH public and products liability policy of \$5,000 which was duly paid by DWB.

On 24 April 2002, HCS withdrew its offer of support primarily on the grounds that DWB did not meet the eligibility criteria for "small business" being the category under which DWB sought assistance.

In the Dimkovski matter, damages of \$1,737,500 plus costs were awarded against DWB and in the Trajkovski's matter damages of \$202,588 plus costs were awarded against DWB. In summary DWB's total liability of \$1,940,088 plus legal costs was settled for a payment of \$1,000,000 over time to GIO/Workcover and Allianz.

The initial payment of \$250,000 to GIO/WorkCover and Allianz has been made from funds provided to the Company by Stirhill Pty Ltd being the largest shareholder in the Company and one which is associated with the Company's Chief Executive Officer, Mr Stephen Donnelley. This amount will be repaid and/or converted to equity with shareholder approval.

Now that the Company has reached settlement of the above two matters, it will seek legal advice as to its recovery rights against HIH,

HCS as well as against HCS's claims manager and the lawyers appointed to represent DWB in the proceedings.

The damages claims and the collapse of HHH caused distractions and uncertainty to the business with adverse financial impact on the business. All I can add is to say that the negotiations to reach a manageable settlement were arduous and time consuming. The settlement whilst disappointing is manageable, substantially less than the awarded damages, and behind us.

The operating loss before tax and significant items was \$242,000 for the year.

The Company has reported an after tax loss of \$894,000 for the year that included the \$1,000,000 damages claims settlement.

Cash Flows from the business were used to reduce interest-bearing liabilities by \$2,060,000.

Our corporate objectives are:

- To grow to be an S&P/ASX 300 listed company, and
- To increase our size and scale. This will increase profitability through revenue growth, productivity improvements, acquisitions and continued cost management.

To achieve these objectives we will seek bolt-on acquisitions, pursue organic growth, forge strategic alliances and add complementary product lines.

We believe that now is the time to pursue our objectives, to take advantage of the anticipated construction cycle upswing and the further consolidation anticipated in the hire industry. Our people, our IT platform and our systems are positioned and able to accommodate growth.

Our objectives will require substantial investment that will be funded in part by our strong cash flow and, at the appropriate time, additional debt and equity.

In the event that the Company is able to identify suitable growth opportunities the Board will seek to fund such activity by raising capital in a manner that is best suited to its shareholders. This may include an Entitlement Issue to Shareholders, a placement of shares and/or additional external debt or other structures that are appropriate to the circumstances.

To place the objectives into perspective I remind you that in 1997, the year of our Initial Public Offering and listing on the Australian Stock Exchange and the commencement of the construction upturn, National Hire's revenue was \$13,349,000. Over the next 5 years we grew by 117% to our current revenues which are approaching \$30M. In 1997 operating profit after tax was \$569,000 and grew to \$1,790,000 in 2000 before declining due to the construction industry downturn and the damages claim previously referred to. Given our capacity to accommodate growth we believe that the objectives, given the appropriate funding, are realistic.

Outlook

The immediate outlook for the Company is encouraging, however I caution us to be conservative. During the past four and a half months the Company has concluded the HIH settlement, completed a refinancing arrangement. The refinancing whilst providing substantial facilities now and into the future had a one off significant cost of \$280,000 for the period.

I am happy to report that unaudited sales for the first four months, of the current financial year are \$10,251,000 compared to \$9,809,000 for the equivalent period last year, a rise of 4.5%.

In closing I wish to acknowledge you, our shareholders, for your continued support and thank our loyal and dedicated staff for their hard work and persistence during the past year. I look forward to a much-improved year in 2003.