

National Hire

**NOTICE OF
ANNUAL GENERAL
MEETING
AND
EXPLANATORY
MEMORANDUM**

ANNUAL GENERAL MEETING

**Level 2, Rooms 3 and 4, Hilton Sydney,
488 George Street, Sydney on
Friday 30 November 2007 at 10.00 am.**

NATIONAL HIRE GROUP LIMITED ABN 61 076 688 938

LETTER FROM THE CHAIRMAN OF NATIONAL HIRE GROUP LIMITED

Dear Shareholder

On behalf of the Board, I have pleasure in inviting you to the Annual General Meeting of National Hire Group Limited (**National Hire**). The meeting will be held at Level 2 Rooms 3 and 4, Hilton Sydney, 488 George Street, Sydney on Friday 30 November 2007 at 10.00 am.¹

The Notice of Annual General Meeting and Explanatory Memorandum is attached. Please read these documents carefully.

Acquisition of Coates

National Hire has successfully grown its business organically and through acquisitions since listing on the ASX in 1997. Today, National Hire has a nation-wide rental business operating from a network of 74 branches with approximately 600 employees and a successful and growing capital sales business. National Hire generated revenues of \$288 million for the year ended 30 June 2007, up 23% from the previous year and EBITDA of \$93 million. National Hire's strategic objective is to become the leading provider of equipment solutions in Australia.

On 2 October 2007, National Hire and The Carlyle Group (**Carlyle**, and collectively **the Consortium**) announced an agreed transaction with Coates Hire Limited (**Coates**) to acquire all of the outstanding shares in Coates for \$6.59 cash per share via a scheme of arrangement (**Coates Scheme**). An independent board committee of Coates has unanimously recommended the Coates Scheme to its shareholders.

The Coates Scheme is subject to approvals by both Coates and National Hire shareholders. The Coates shareholders meeting to approve the Coates Scheme is scheduled to be held on 17 December 2007 (although this date may change).

A new company, Ned Group Holdings Pty Limited (**NED Holdings**), was incorporated as a subsidiary of National Hire specifically for the transaction. National Hire and Carlyle will each hold a 50% effective voting interest and a 47% economic interest in NED Holdings on completion of the transaction.

NED Holdings will fund the Coates Scheme from new debt finance and equal equity contributions of \$339 million from each of National Hire and Carlyle. Financing commitments for the new debt have been obtained from seven leading domestic and international financial institutions.

National Hire will fund its equity contribution of \$339 million by the transfer of its Rental Services business to NED Holdings for \$282 million and \$57 million in cash (**Transfer**). Carlyle will contribute \$339 million in cash.² As part of the Transfer, all of National Hire's existing cash and borrowings will be transferred to NED Holdings with its Rental Services business and will be refinanced. National Hire and Carlyle will also each receive a transaction fee of \$11.8 million at completion of the transaction.

National Hire has entered into a subscription agreement with Elph Pty Ltd (a company controlled by Mr Dale Elphinstone) to make a share placement to Elph and/or its nominee (**Elph**) at \$3.00 per Share to raise \$86 million (**Placement**). Following the Placement, Elph will have a relevant interest of 19.9% in the expanded share capital of National Hire. Part of the Placement proceeds will be used to fund National Hire's cash contribution to NED Holdings, with the balance providing capital for future growth in National Hire.

Under the co-investment arrangements with Carlyle, National Hire or Carlyle may seek to sell their investment in NED Holdings in the future. These arrangements include pre-emptive rights and exit rights in respect of each party's interest in NED Holdings. See section 2.6 of the Explanatory Memorandum for further detail on the exit mechanisms. Under these mechanisms, National Hire's interest in NED Holdings may increase or decrease in the future. The Board of National Hire is satisfied that these exit mechanisms include appropriate protections and flexibility that will allow National Hire to maximise value for its Shareholders in an exit scenario.

A condition to implementation of the Coates Scheme, Transfer and Placement (collectively the **Coates Transaction**) is that National Hire Shareholders approve certain matters. The resolutions to be put to National Hire Shareholders are for the

¹ The Annual Report refers to National Hire's Annual General Meeting being held on 26 October 2007 (inside front cover and page 84). Please disregard this information as it is now out of date.

² These are approximate amounts and may vary depending on the net debt of Coates and National Hire at completion of the transaction.

approval of the Consortium arrangements between National Hire and Carlyle including the entry into and exit from NED Holdings (Resolution 3) and the financial assistance provided in connection with the funding arrangements for the transaction (Resolution 5). Shareholders are also asked to approve the issue of Shares to Elph (Resolution 4). The resolutions are set out in the Notice of Meeting under Special Business and further information about the Coates Transaction is set out in the Explanatory Memorandum accompanying this package.

Following completion of the Coates Transaction, assuming all required resolutions are approved by both Coates and National Hire shareholders, National Hire will remain a listed company in its own right. Its major assets will comprise:

- full ownership of its Capital Sales division, which will trade as Allight;
- a 47% economic interest in NED Holdings (representing the merged Coates and National Hire rental operations); and
- net cash of approximately \$42 million.

You are urged to consider carefully all of this material, to determine how you wish to vote and cast your vote accordingly.

Expected benefits

Your Directors believe that the Coates Transaction is a company transforming opportunity for National Hire that will add value for Shareholders:

- it will create a major Australian equipment hire business with annual hire revenues of approximately \$991 million and EBIT of approximately \$218 million, based on Coates' and National Hire's financial performance for the year ended 30 June 2007;³
- National Hire's Rental Services business will be transferred into NED Holdings for \$282 million, which is a value equivalent to \$3.00 per Share after adjusting for the value of the Capital Sales division and National Hire's final dividend of five cents per Share;
- under the Placement to Elph, National Hire will raise equity capital at a significant premium to historical trading prices;
- National Hire will enter into a preferred supply agreement with NED Operations that will underpin volumes in the Capital Sales division going forward; and
- an opportunity to partner with Carlyle, an international private equity group with significant global rental industry experience.

Recommendation of the Directors

Your Directors unanimously recommend that Shareholders vote in favour of the Resolutions. Each of the Directors of National Hire intends to vote their Shares in favour of all Resolutions in respect of Shares they own or control.

National Hire's major shareholder, WesTrac Pty Ltd (which currently holds approximately 67% of the Shares) has provided a letter to National Hire stating that it intends to vote the Shares it owns or controls in favour of the Resolutions.

If you cannot attend the Annual General Meeting, you are strongly urged to complete the Proxy Form and return it (see Notice of Meeting and Proxy Form for details) as soon as possible and in any event no later than 48 hours prior to the commencement of the meeting.

If you have any questions about the Coates Transaction, please call the National Hire Shareholder Information Line on 1800 242 300 during business hours.

Yours sincerely



Ray Romano
Executive Chairman

³ Provided for illustrative purposes only. Assumes the businesses were merged on 1 July 2006 and excludes any costs or synergy benefits from combining the operations. For further detail on the Pro-Forma Financial Information for National Hire and the combined rental businesses see Section 3.5 of the Explanatory Memorandum.

NOTICE OF ANNUAL GENERAL MEETING

NATIONAL HIRE GROUP LIMITED ABN 61 076 688 938

Notice is given that the Annual General Meeting of members of National Hire Group Limited (**National Hire**) will be held at Level 2 Rooms 3 and 4, Hilton Sydney, 488 George Street, Sydney on Friday 30 November 2007 at 10.00 am.

Please disregard the details on the inside front cover and page 84 of the 2007 Annual Report regarding the Annual General Meeting.

Terms used in this Notice of Meeting, including the resolutions below, have the meanings given to those terms in section 6 of the Explanatory Memorandum that accompanies and forms part of this Notice of Meeting.

The Explanatory Memorandum contains important information in relation to the Resolutions, including an explanatory note about each of the special business Resolutions.

Ordinary business

Financial reports

To receive and consider the financial report and the reports of the directors and auditors of National Hire and its controlled entities for the year ended 30 June 2007.

No resolution is required to be moved in respect of this item.

1. Resolution 1 – Remuneration Report

To consider, and if thought fit, to pass the following as an *advisory resolution*:

‘To approve the Remuneration Report for the year ended 30 June 2007.’

2. Resolution 2 – Re-election of Mr Peter Gammell

To consider, and if thought fit, to pass the following as an *ordinary resolution*:

‘That, Mr Peter Gammell, who retires in accordance with National Hire’s Constitution and, being eligible for re-election, be re-elected as a Director of National Hire.’

Special business

3. Resolution 3 – Consortium, Coates Transaction and Coates Scheme

To consider, and if thought fit, to pass the following as an *ordinary resolution*:

‘That, subject to the passing of Resolution 5 and the

Coates Scheme becoming effective, for all purposes including ASX Listing Rules 11.1 and 11.2, approval is given for National Hire to:

- (1) establish NED Group;
- (2) have Ned Group Holdings Pty Limited acquire Coates Hire Limited;
- (3) purchase or procure a nominee to purchase all of Carlyle’s interest in NED Group pursuant to an exercise of the pre-emptive, call option or purchase rights on the terms and conditions of the Investment Deed in the event that the purchase occurs under the Exit Mechanisms;
- (4) sell all of its interest in NED Group to Carlyle or its nominee pursuant to an exercise of the pre-emptive, call option or purchase rights on the terms and conditions of the Investment Deed in the event the sale occurs under the Exit Mechanisms; and
- (5) sell all of its interest in NED Group to a third party buyer pursuant to an exercise of the tag-along rights or drag-along rights on the terms and conditions of the Investment Deed in the event that the sale occurs under the Exit Mechanisms.’

Voting exclusion statement

National Hire will disregard any votes cast on Resolution 3 by:

- *Carlyle (should it hold any Shares in National Hire) and any person who might obtain a benefit, except a benefit obtained solely in the capacity as a holder of Shares if Resolution 3 is passed; and*
- *any associate of such a person.*

However, National Hire need not disregard a vote if:

- *it is cast as Proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or*
- *it is cast by the person chairing the meeting as Proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the Proxy decides.*

4. Resolution 4 – Issue of Shares to Elph

To consider, and if thought fit, to pass the following as an *ordinary resolution*:

‘That, subject to the passing of Resolution 3 and 5 and the Coates Scheme becoming effective, for the purpose of ASX Listing Rule 7.1 approval is given for National Hire to issue and allot a total of 28,657,143 Shares to Elph Pty Ltd and/or its nominee at an issue price of \$3.00 per Share.’

Notice of Annual General Meeting

Voting exclusion statement

National Hire will disregard any votes cast on Resolution 4 by:

- Elph Pty Ltd and any person who might obtain a benefit, except a benefit obtained solely in the capacity as a holder of Shares if Resolution 4 is passed, and
- any associate of such a person.

However, National Hire need not disregard a vote if:

- it is cast as Proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or
- it is cast by the person chairing the meeting as Proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the Proxy decides.

5. Resolution 5 – Financial assistance

To consider, and if thought fit, to pass the following as a special resolution:

‘That, subject to the passing of Resolution 3 and the Coates Scheme becoming effective, for the purposes of section 260B(2) of the Corporations Act 2001 (Cth), approval is given:

- (a) for the financial assistance to be provided by:
- each subsidiary of National Hire Group Limited that following implementation of the Coates Scheme and the share acquisitions by Ned Group Holdings Pty Limited (**NED Holdings**) will be a subsidiary of NED Holdings;
 - Coates Hire Limited and its subsidiaries that following implementation of the Coates Scheme and the share acquisitions by NED Holdings will be a subsidiary of NED Holdings; and
 - and subsidiary of NED Holdings from time to time, (each a **New Group Member**) to NED Holdings and each New Group Member, as described in the Explanatory Memorandum which accompanies this Notice of Annual General Meeting; and
- (b) for the financial assistance to be provided by any company not within paragraph (a) that is from time to time acquired (directly or indirectly) by NED Holdings or its subsidiaries and becomes a subsidiary of National Hire, to NED Holdings and any of its subsidiaries from time to time, where the giving of the financial assistance is required by the terms of the finance facilities as described in the Explanatory Memorandum which accompanies this Notice of Annual General Meeting.’

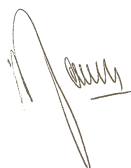
Other business

To transact any other business which may be brought forward pursuant to National Hire’s Constitution or by law.

Dated: 29 October 2007

By order of the Board

By



Ray Harman
Secretary

Explanatory notes for ordinary business

This section contains explanatory information relating to the ordinary business including Resolutions 1 and 2 above. Please refer to the enclosed Explanatory Memorandum for further information on the special business which relates to the major transactions proposed in relation to Carlyle, Coates and the equity investment of Elph.

Receipt of Financial Report

The first item of the Notice of Annual General Meeting deals with the presentation of the consolidated annual financial report of National Hire for the financial year ended 30 June 2007 together with the Directors’ declaration and report in relation to that financial year and the auditor’s report on those financial statements. Shareholders should consider these documents and raise any matters of interest with the Directors when this item is being considered.

No resolution is required to be moved in respect of this item.

Shareholders will be given a reasonable opportunity at the Annual General Meeting to ask questions and make comments on the accounts and on the business, operations and management of National Hire.

The Chairman will also provide Shareholders a reasonable opportunity to ask the Auditor questions relevant to:

- the conduct of the audit;
- the preparation and content of the independent audit report;
- the accounting policies adopted by the company in relation to the preparation of accounts; and
- the independence of the auditor in relation to the conduct of the audit.

Notice of Annual General Meeting

1. Resolution 1 – Remuneration Report

The consolidated annual financial report of National Hire for the year ended 30 June 2007 contains a Remuneration Report which sets out the remuneration policy for National Hire and reports the remuneration arrangements in place for the executive Director and non executive Directors. A copy of the Remuneration Report is set out on pages 21-28 of the consolidated annual financial report of National Hire and can also be found on National Hire's website at www.nationalhire.com.au.

Under the Corporations Act, the Shareholder vote is advisory only and will not require National Hire to alter any arrangements detailed in the Remuneration Report, should the Resolution not be passed. Notwithstanding the legislative effect of this requirement, the Board has determined that it will take the outcome of the vote into account when considering the remuneration policy.

Shareholders will be given reasonable opportunity at the Annual General Meeting to ask questions and make comments on the Remuneration Report.

2. Resolution 2 – Re-election of Mr Peter Gammell

Mr Peter Gammell retires by rotation in accordance with National Hire's Constitution. However, the retiring Director may, if eligible in accordance with National Hire's Constitution, offer himself for re-election.

Mr Gammell offers himself for re-election.

Mr Gammell is a non-executive Director and joined the Board in 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 also a director of WesTrac Holdings Pty Ltd, WesTrac Pty Ltd, and WesTrac China Limited. Mr Gammell is a non-executive director of Seven Network Ltd and Bayard Group Pty Ltd. He has previously been a director of RM Williams Holdings Ltd, B Digital Ltd and HRL 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.

Recommendation

The remaining Directors recommend to the Shareholders that Mr Gammell be re-elected as a Director of National Hire.

Other resolutions

Please refer to the enclosed Explanatory Memorandum for further information on the special business, Resolutions 3 to 5.

Who can vote

You will be entitled to vote at the Annual General Meeting if you are registered as a holder of Shares at 7.00 pm on 28 November 2007.

Proxies

Please note that:

- a member who is entitled to attend and cast a vote at the meeting may appoint a person as the member's proxy (**Proxy**) to attend and vote for the member at the meeting;
- the appointment may specify the proportion or number of votes that the Proxy may exercise;
- a member who is entitled to cast two or more votes at the meeting may appoint two Proxies and may specify the proportion or number of votes each Proxy is appointed to exercise;
- if the member appoints two Proxies and the appointment does not specify the proportion or number of the member's votes each Proxy may exercise, each Proxy may exercise half of the votes;
- if the member appoints one Proxy only, that Proxy is entitled to vote on a show of hands. If a member appoints two Proxies, only one Proxy is entitled to vote on a show of hands;
- where two Proxies are appointed, any fractions of votes resulting from the appointment of two Proxies will be disregarded;
- a Proxy need not be a member of National Hire; and
- a Proxy Form accompanies this Notice of Meeting.

Unless the member specifically directs the Proxy how to vote, the Proxy may vote as he or she thinks fit or abstain from voting.

How to appoint a Proxy

If you wish to appoint a Proxy, you should complete the attached Proxy Form and comply with the instructions set out in that form relating to lodgement of the form with National Hire.

EXPLANATORY MEMORANDUM REGARDING SPECIAL BUSINESS

This Explanatory Memorandum forms part of the Notice of Annual General Meeting of National Hire Group Limited ACN 076 688 938 (**National Hire**). It relates to the special business of the meeting – the proposed acquisition of Coates and related Consortium arrangements, funding arrangements (including the placement by National Hire, transfer and debt approvals) and exit mechanisms. For further information regarding the ordinary business of the meeting, see the ‘Explanatory notes for ordinary business’ section of the Notice of Meeting.

This Explanatory Memorandum consists of the following sections:

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Important notice

Decision on how to vote

You should read this document in its entirety before making a decision on how to vote on the special business at the Annual General Meeting. If you are in any doubt as to how to deal with this document, you should consult with your financial or other professional adviser.

Date of this document

This document has been prepared as at 29 October 2007 (**Preparation Date**), based upon information available, and the facts and circumstances known, to National Hire and, as the case may be, to Carlyle, at that time.

Subject to the continuing obligations of National Hire under the ASX Listing Rules, the Corporations Act and other laws, no person undertakes to review the financial condition or affairs of National Hire or NED Group at any time or to keep a recipient of this document or any Shareholder informed of changes in, or matters arising or coming to their attention which may affect, anything referred to in this document.

Subject to the continuing obligations of National Hire under the ASX Listing Rules, the Corporations Act and other laws, neither National Hire nor any other person accepts any responsibility to Shareholders to update this document after the Preparation Date with regard

to information or circumstances which come to its attention after the Preparation Date.

Limited responsibility for information

The National Hire Information contained in this document has been prepared by National Hire and its advisers and is the responsibility of National Hire. National Hire and its directors, officers and advisors do not assume any responsibility for the accuracy or completeness of any information in this Explanatory Memorandum other than the National Hire Information.

The Carlyle Information contained in this document has been prepared by Carlyle and its advisers and is the responsibility of Carlyle. Carlyle and its directors,

1. OVERVIEW OF PROPOSED TRANSACTIONS

National Hire in conjunction with Carlyle announced on 2 October 2007 that they had reached agreement to acquire all of the outstanding shares in Coates. An independent board committee of Coates has unanimously recommended the all-cash offer to its shareholders.

The Coates Transaction will be implemented by a scheme of arrangement and various share and asset transfers and is subject to a number of conditions including approvals by both Coates and National Hire shareholders. The Coates shareholders meeting to approve the Coates Scheme is scheduled to be held on 17 December 2007 (although this date may change).

The Coates Transaction involves a number of elements:

- **the Coates Scheme** – National Hire has incorporated a new subsidiary, NED Holdings specifically to acquire all of the issued shares in Coates. The aggregate consideration required to be paid to Coates shareholders by NED Holdings under the Coates Scheme is \$1,525 million (assuming a special dividend of 53 cents per Coates Share is declared and paid by Coates). NED Holdings will fund the Coates Transaction from new debt finance and equity contributions from National Hire and Carlyle. Financing commitments for the new debt have been obtained from seven leading domestic and international financial institutions;
- **the Transfer** – National Hire will make an equity contribution of approximately \$339 million to NED Holdings. National Hire will fund its equity contribution by the transfer of its Rental Services business to NED Holdings for \$282 million and \$57 million in cash. National Hire's existing cash and borrowings will also be transferred to NED Holdings with its Rental Services business and will be refinanced; and
- **the Placement** – a placement to Elph to raise \$86 million. National Hire has entered into a subscription agreement

with Elph Pty Ltd (a company controlled by Mr Dale Elphinstone) to make a placement of approximately 28.66 million new Shares at \$3.00 per share. Part of the Placement proceeds will be used to fund National Hire's cash contribution to NED Holdings, with the balance providing capital for future growth in National Hire.

The combined effect of these arrangements is that upon completion of the Coates Transaction:

- NED Holdings will hold the rental operations of Coates and National Hire and the rental operations will be merged;
- National Hire and Carlyle will each hold a 47% economic interest in the capital of NED Holdings, with other financial investors holding the remaining 6% economic interest. National Hire and Carlyle will each hold a 50% effective voting interest in NED Holdings. National Hire will account for its investment in NED Holdings as an associate;
- National Hire will retain and continue to operate its Capital Sales division (Allight, Perkins, FG Wilson and HJ Godwin) – which will trade as Allight, and will enter into a preferred supply agreement with NED Operations. National Hire and NED Holdings may also share various administrative services;
- Elph will have a relevant interest of 19.9% in the expanded share capital of National Hire; and
- National Hire and Carlyle will each be subject to various 'exit mechanisms' described in section 2.6, under which National Hire and Carlyle may, subject to certain conditions, sell their interest in NED Holdings (including potentially to each other) after approximately three years. Under these mechanisms, National Hire's interest in NED Holdings may increase or decrease (including being fully sold) in the future, as described in section 3.3(g).

officers and advisors do not assume any responsibility for the accuracy or completeness of any information in this Explanatory Memorandum other than the Carlyle Information.

Forward looking statements

This document includes certain forward looking statements which have been based on the information obtained by National Hire from Coates and its advisers during its due diligence on Coates, some of which has not been independently verified by National Hire, and the current expectations about future events of National Hire. The profile of NED Group, the Pro-Forma Financial Information and the stated intentions of

National Hire in the event the Coates Transaction is implemented are among the forward looking statements contained in this document. These forward looking statements in relation to the operations and financial performance of National Hire and NED Group are subject to risks, uncertainties and assumptions that could cause actual events or results to differ materially from the expectations expressed or implied by such statements. These factors include those risks identified in section 3.6 and other matters not yet known to, or considered material by, National Hire. These statements speak only as at the date of this document.

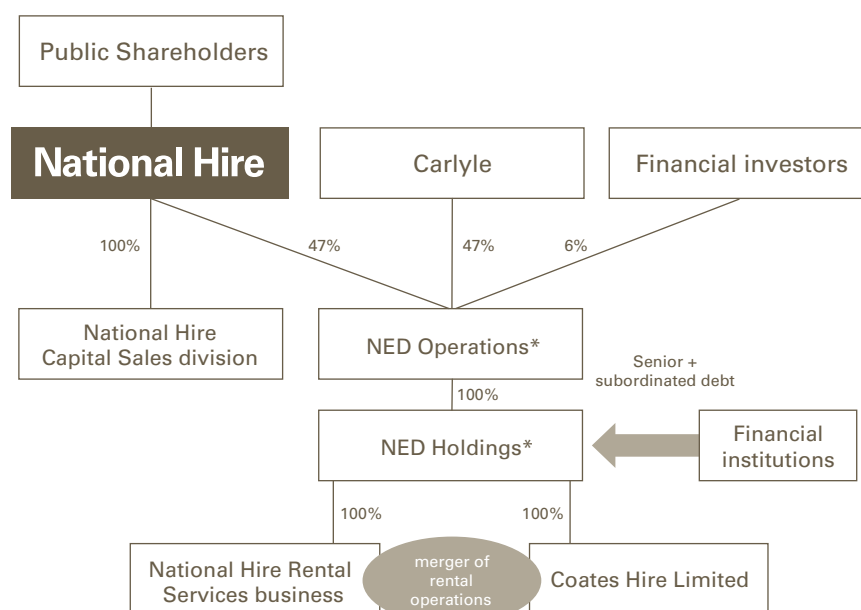
Independent investment decisions

This document does not take into account the investment objectives, financial position and particular needs of any particular person. Before making any decision on the basis of this document you should consider, after consulting with an investment adviser, whether that decision is appropriate in the light of the information contained in this document.

Enquiries

Shareholders with any questions in relation to the contents of the Notice of Meeting and this Explanatory Memorandum can call the National Hire Shareholder Information Line on 1800 242 300 during business hours.

The following diagram illustrates the structure of National Hire upon completion of the Coates Transaction:



* The equity funding will be provided to NED Operations, the senior and subordinated debt is funded into NED Holdings and the convertible notes of the financial investors, Carlyle and National Hire are held in NED Operations.

Information about Carlyle is set out in section 2.2.

For the Coates Transaction to proceed, it is a requirement that Shareholders approve certain elements of the Coates Transaction and associated matters. The Resolutions are set out in the Notice of Meeting under special business and explained in section 1.1.

Each of these Resolutions is conditional on the Coates Scheme becoming effective and therefore will not be implemented if the Coates Scheme is not approved by the required majority of Coates shareholders and the Court.

1.1 Reasons for Shareholder vote

(a) The Coates Transaction Resolution

The proposed Coates Transaction Resolution asks Shareholders to approve entry into the Coates Transaction and certain possible future exits under the Consortium arrangements.

The ASX Listing Rules require shareholders to vote to approve changes to scale or scope of a company's business, including a complete disposal of that company's main undertaking. Although entry into the Consortium arrangements and acquisition of Coates do not require shareholder approval, the Exit Mechanisms contemplated in the Coates Transaction documents include possible outcomes that could involve changes to the scale or scope of National Hire's business. This is why Shareholders are being asked to vote now.

These possible outcomes include that National Hire could:

- increase substantially its interest in a much larger rental services business by exercising its pre-emptive, call option or purchase rights (including its right to purchase Carlyle's interest on a default) to buy NED Group interests of Carlyle (a change in scale);
- if it has not exercised its pre-emptive rights, call option or purchase rights, have its entire interest realised for cash if Carlyle finds a buyer for its NED Group interest and exercises its drag-along right or if Carlyle exercises its right to purchase National Hire's interest on a default or under its pre-emptive or purchase rights; or
- if it has not exercised its pre-emptive rights, call option or purchase rights, reduce its interests in NED Group and potentially dispose of the entire interest for cash by exercising its tag-along right at the same time as Carlyle is selling its interest (a possible change in scale or disposal of National Hire's main undertaking).

As the possible outcomes are diverse, the Board considers it appropriate to put the whole transaction (including entry and potential exits) to its Shareholders now. This gives Shareholders an opportunity now to approve National Hire's proposed mix of businesses and investments following completion of the Coates Transaction and how that may change in the future.

ASX has indicated that if Shareholders have their say now, by passing the Coates Transaction Resolution, no further

vote will be required to implement the Exit Mechanisms should National Hire or Carlyle seek to exercise them. The Exit Mechanisms include National Hire purchasing Carlyle's interest in NED Group or National Hire selling all its interest in NED Group in certain circumstances. It is essential to both National Hire and Carlyle that they have an ability to exercise any and all of their rights under the Exit Mechanisms in the future without having to obtain further approvals at that time, and therefore that any approvals are obtained prior to completion of the Coates Transaction. See section 2.6 for further details of the Exit Mechanisms.

(b) The Placement Resolution

The proposed Placement Resolution asks Shareholders to approve the placement of Shares to Elph. The ASX Listing Rules require this vote because the number of Shares to be issued to Elph will exceed 15% of National Hire's existing Share capital.

(c) The Financial Assistance Resolution

The proposed Financial Assistance Resolution asks Shareholders to approve the financial assistance that may be given by subsidiaries of National Hire, following implementation of the Coates Transaction, in connection with funding the Coates Transaction. The Corporations Act requires this shareholder vote because National Hire will be the listed domestic holding company of these subsidiaries. An equivalent resolution will also be put to National Hire's ultimate parent company, Australian Capital Equity Pty Ltd.

1.2 Summary of advantages and disadvantages of the Coates Transaction

The Coates Transaction provides a number of advantages that are expected to increase Shareholder value. The advantages of the Coates Transaction include:

- creation of a major Australian equipment hire business with annual hire revenues of approximately \$991 million and EBIT of approximately \$218 million;⁴
- premium value for National Hire's Rental Services business;
- opportunity to raise equity capital at a significant premium to historical trading prices;
- a preferred supply agreement between National Hire's Capital Sales division and NED Operations;
- potential re-rating of the Shares to higher trading levels;
- access to a broader pool of management expertise; and
- opportunity to partner with global private equity firm, The Carlyle Group.

Factors that may be viewed as disadvantageous include:

- National Hire will not own 100% of the combined rental operations;
- Shareholders will be diluted as a result of the Placement;
- higher gearing levels in NED Group will increase the investment risk related to this transaction; and
- dividends in the short to medium term may be impacted as a result of higher gearing levels in NED Holdings and limitations on dividends payable out of NED Holdings.

1.3 Directors' recommendation

The Directors unanimously recommend that Shareholders vote in favour of the Coates Transaction Resolution, the Placement Resolution and the Financial Assistance Resolution. The detailed reasons for the Directors' recommendation are set out in section 3.3(a).

Each of the Directors of National Hire intends to vote their Shares in favour of all Resolutions in respect of Shares they own or control.

1.4 WesTrac's voting intention

The Directors have received a letter from WesTrac, National Hire's major Shareholder (holding approximately 67% of the Shares in National Hire as at the date of this Explanatory Memorandum) stating that it intends to vote the Shares it owns or controls in National Hire in favour of the Coates Transaction Resolution, the Placement Resolution and the Financial Assistance Resolution.

1.5 Shareholder Information Line

If you have any questions about this Explanatory Memorandum or the Coates Transaction, please call the National Hire Shareholder Information Line on 1800 242 300 during business hours.

⁴ Pro-forma revenue and earnings based on Coates' and National Hire's financial performance to 30 June 2007. Assumes the businesses were merged on 1 July 2006 and excludes any costs or synergy benefits from combining the operations. For further detail on the Pro-Forma Financial Information for National Hire and the combined rental businesses see Section 3.5 of this Explanatory Memorandum.

2. TRANSACTION STEPS AND STRUCTURE

2.1 Consortium and establishment of NED Group

NED Holdings is the acquiring entity under the Coates Scheme and is currently an indirect wholly-owned subsidiary of National Hire. All of the issued shares in NED Holdings are held by NED Operations, which in turn is a wholly-owned subsidiary of National Hire. NED Holdings was specifically established for the Coates Transaction and has not conducted any business.

If the Coates Scheme is approved, National Hire will transfer its Rental Services business to NED Holdings. Simultaneous with the transfer of National Hire's Rental Services business, NED Operations will issue convertible notes to National Hire and Carlyle and additional ordinary shares to National Hire. NED Holdings will also acquire all issued shares of Coates in accordance with the Coates Scheme.

The result of the subscription of the convertible notes and the additional ordinary shares will be that National Hire and Carlyle will each hold a 50% effective voting interest in NED Holdings and National Hire and Carlyle will each hold rights to a 47% economic interest in NED Group. The remaining 6% will be a non-voting interest held by financial investors.

The key agreements to effect the above steps are summarised in sections 5.5.1, 5.5.3, 5.5.5 and 5.5.6 of this Explanatory Memorandum.

Following implementation of those steps, the relationship between National Hire, Carlyle, NED Operations and NED Holdings will be regulated by the Investment Deed summarised in section 5.5.4 of this Explanatory Memorandum. This document records the parties' agreement in relation to the operation, control and management of NED Operations and each of its subsidiaries (including Coates). In particular, the Investment Deed provides:

- initially, National Hire and Carlyle will each be entitled to appoint four Directors to the board of NED Operations and each subsidiary with this number to be adjusted to reflect any movement in their percentage of Equity Securities held;
- National Hire will be entitled to appoint the chairman of the board whilst it holds at least 33.3% of the Equity Securities issued by NED Operations and retained collectively by National Hire and Carlyle;
- whilst National Hire holds at least 33.3% of the Equity Securities issued by NED Operations and retained collectively by National Hire and Carlyle, it will have a veto right over certain specified matters including altering the constitution of any NED Group company; changing the share capital or rights attaching to any

class of security; and applying for a stock market listing (unless it is a listing proposal that is specifically provided for under the terms of the Investment Deed); and

- arrangements regulating voting at the board level of NED Operations to allow Carlyle and National Hire nominee directors to cast votes on the basis of the total number of nominee directors Carlyle and National Hire is entitled to appoint (as opposed to the total number of nominee directors present at relevant board meetings).

Further details of the Consortium agreements are set out in section 5.5 of this Explanatory Memorandum.

2.2 Consortium investor – The Carlyle Group

(a) Overview of The Carlyle Group

The Carlyle Group is one of the world's largest private equity firms. As of October 2007, Carlyle had more than US\$75.6 billion under management committed to 55 funds. Since its founding in 1987, Carlyle has invested US\$32.3 billion of equity in 686 transactions for a total purchase price of \$157.7 billion. Carlyle employs more than 900 people in 21 countries. In the aggregate, Carlyle portfolio companies have more than \$87 billion in revenue and employ more than 286,000 people around the world.

Carlyle has assembled one of the largest private equity teams in Asia and Japan with a staff of over 90 investment professionals with over US\$6.3 billion under management. Carlyle's strong presence in Asian buy-outs has supported 14 acquisitions in a range of sectors including financial services, media and telecommunications, industrial and consumer.

Carlyle invests in buy-outs, venture and growth capital, real estate and leveraged finance in Africa, Asia, Australia, Europe, North America and South America focusing on aerospace and defence, automotive and transportation, consumer and retail, energy and power, financial services, healthcare, industrial, infrastructure, technology and business services and telecommunications and media.

Carlyle has previous experience in the equipment rental sector through its investment in The Hertz Corporation (**Hertz**). Hertz is the largest worldwide general use car rental brand, and the second largest equipment rental business in North America.

(b) CAP Orange Holding B.V.

CAP Orange Holding B.V. is a Dutch company which has been formed by The Carlyle Group for the purpose of investing in NED Operations.

Explanatory Memorandum regarding special business

CAP Orange Holding B.V. is owned by:

- Carlyle Asia Partners II LP (**CAP II**), a fund managed by Carlyle and dedicated to buy-out investments in the Asian region (but not including Japan); and
- CAP II Co-investment LP (**Carlyle Sub-Fund**), Carlyle's employee co-investment fund, which invests pro-rata alongside CAP II.

Both CAP II and Carlyle Sub-Fund are limited partnerships and each are controlled by a limited liability company which acts as a management company.

2.3 Coates Scheme

National Hire announced on 2 October 2007 that it, together with Carlyle, had reached agreement with Coates to acquire

all of the outstanding shares of Coates. This acquisition will occur through a scheme of arrangement between Coates and its shareholders.

If implemented, the Coates Scheme will have the effect that all Coates shares will be transferred to NED Holdings, and Coates will legally become a subsidiary of National Hire, although National Hire would have an effective economic interest of only 47% of Coates, the remainder being held by Carlyle and other financial investors.

An independent board committee of the Coates board has unanimously recommended the Coates Scheme to Coates shareholders. Key details of the Coates Scheme are set out below:

Coates Scheme meeting	The Coates shareholder meeting to approve the Coates Scheme is proposed to be held on 17 December 2007 (although this date could change).
Voting thresholds	The Coates Scheme must be approved by: <ul style="list-style-type: none">• a majority in number (more than 50%) of Coates shareholders present and voting at the Coates Scheme meeting (in person or by proxy, attorney or corporate representative); and• at least 75% of the total number of votes that are cast at the Coates Scheme meeting.
Court approval	Coates will ask the Court to approve the Coates Scheme, if the Coates Scheme is approved by Coates shareholders at the Coates Scheme meeting. Court approval is required for the Coates Scheme. The Court approval hearing is expected to be held on or around 20 December 2007, but this could change and the hearing could occur in early 2008. The Coates Scheme becomes effective once the Court approval order is lodged with ASIC.
Conditions to implementation of the Coates Scheme	As well as the approval of Coates shareholders and the Court, implementation of the Coates Scheme is conditional on the satisfaction or waiver of a number of other matters, including Shareholders approving the Coates Transaction Resolution and the Financial Assistance Resolution. More detail regarding the Coates Scheme and the conditions to implementation are set out in section 5.5.1 of this Explanatory Memorandum.
Funding arrangements	NED Group will fund the acquisition of Coates shares from new debt finance and equity contributions from each of the Consortium parties. ABN AMRO Bank NV (Australian Branch), Australia and New Zealand Banking Group Limited, Calyon Australia Limited, Mizuho Corporate Bank Limited, Sumitomo Mitsui Banking Corporation and Westpac Banking Corporation have provided a commitment to underwrite senior debt funding. Goldman Sachs Capital Partners L.P. and Goldman Sachs International have provided a commitment to underwrite subordinated debt funding. More details regarding the debt funding arrangements are set out in section 2.5 of this Explanatory Memorandum.
Implementation of the Coates Scheme	On the day the Coates Scheme is implemented: <ul style="list-style-type: none">• Coates will pay its shareholders the Coates Scheme consideration; and• NED Holdings will be registered as the holder of all the outstanding Coates shares. On the same day, National Hire will transfer its Rental Services business to NED Holdings.

2.4 Equity funding obligations of National Hire

National Hire has entered into an agreement with Carlyle and NED Operations under which National Hire is obliged to provide equity funds of approximately \$338.6 million to NED Operations.

National Hire will fund its equity contribution in NED Group by:

- the transfer of its Rental Services business to NED Holdings for \$281.5 million; and
- approximately \$57.1 million in cash.

As part of the Coates Transaction, all of National Hire's existing cash and borrowings will be assumed by NED Holdings and will be refinanced using part of the proceeds of the equity and debt funding.

National Hire will only provide equity funding under the Subscription Agreement if the Coates Scheme becomes effective. Similarly, National Hire will only transfer its Rental Services business to NED Holdings if the Coates Scheme becomes effective.

National Hire has also entered into a subscription agreement with Elph Pty Ltd under which Elph will be issued approximately 28.66 million new Shares at \$3.00 per share to raise \$86 million. Part of the Placement proceeds will be used to fund National Hire's cash contribution to NED Operations. The balance will provide capital for future growth in National Hire. The Placement is subject to approval by Shareholders (Resolution 4) and conditional on Court approval of the Coates Scheme. Following the Placement, Elph will have a relevant interest of 19.9% in the expanded share capital of National Hire. See section 3.3(a) and 4.2 for further information on these arrangements.

2.5 Debt funding of NED Holdings to pay Coates Scheme consideration

The debt funding consists of senior and subordinated debt. The senior debt is underwritten and arranged by ABN AMRO Bank NV (Australian Branch), Australia and New Zealand Banking Group Limited, Calyon Australia Limited, Mizuho Corporate Bank Limited, Sumitomo Mitsui Banking Corporation and Westpac Banking Corporation.

Subordinated debt is in the form of unlisted subordinated notes and convertible equity notes.

The subordinated notes are underwritten by Goldman Sachs Capital Partners L.P. and arranged by Goldman Sachs JBWere Pty Limited.

The convertible equity notes (**Subscriber Convertible Notes**) will be issued by NED Operations in an aggregate amount of up to \$50 million and will be underwritten by Goldman Sachs International. Unless syndicated prior to

financial close, Goldman Sachs International or one of its affiliates will subscribe for the Subscriber Convertible Notes. The Subscriber Convertible Notes confer rights on the noteholders as creditors of NED Operations, and noteholders have the right to receive copies of all documents which NED Operations sends to its shareholders. However, the Subscriber Convertible Notes do not confer on the noteholders any right to attend or vote at general meetings of NED Operations. The Subscriber Convertible Notes may be converted into non-voting ordinary shares in NED Operations on the maturity date (as will be specified in the Subscriber Convertible Note terms) or on a winding up of NED Operations. On conversion, Subscriber Convertible Notes are expected to constitute approximately 6% of the issued share capital of NED Operations. This will be a non-voting interest.

2.6 Exit Mechanisms

The Investment Deed contains detailed provisions regulating how National Hire and Carlyle may sell their interests in NED Operations (**Exit Mechanisms**). The Exit Mechanisms generally provide for the possible sale of interests in NED Operations after an initial period of approximately three years and include:

- pre-emptive, call option or purchase rights so that if either investor wishes to sell its interests in NED Operations to a third party or list them on a stock exchange it must first offer the interests to the other investor;
- drag-along rights under which, subject to certain conditions being satisfied including the pre-emptive and other available rights not being exercised by the other investor, either investor can require the other investor to sell all of its interest in NED Operations to a third party on the same price and terms as the investor has obtained for its interest in NED Holdings; and
- tag-along rights under which, subject to certain conditions being satisfied including the pre-emptive and other available rights not being exercised by that investor, an investor can insist on selling all of its interest in NED Operations to a third party buyer on the same price and terms as the other investor has negotiated.

National Hire and Carlyle have agreed to the Standstill Period during which neither investor may sell or otherwise deal with their interests in NED Operations, including under the Exit Mechanisms. The Standstill Period applies until the earlier of the release of National Hire's audited financial results for the year ending 30 June 2010 and the third anniversary of the completion date, being the date on which the Coates Transaction is implemented.

(a) Exit relating to a listing proposal

Following the expiry of the Standstill Period, either National Hire or Carlyle may seek to initiate a process in which NED Operations (or a subsidiary or alternative holding

vehicle) may be listed on ASX or another recognised investment exchange and securities in that vehicle quoted. The implementation of a listing in these circumstances is subject to various conditions and restrictions including final approval by a nominee of National Hire and a nominee of Carlyle. To obtain this final approval, one investor must issue the other a listing implementation notice. This is a formal request to the recipient for investor approval and the recipient may give or withhold its approval at its discretion.

Purchase rights

At the same time as the listing implementation notice is given investor approval, the recipient will be deemed to be given the option to purchase the requesting investor's securities the subject of the listing proposal at the price determined out of a bookbuild process.

In the case where National Hire is the recipient of the listing implementation notice and the purchase rights option, it can choose to:

- exercise the option in which case it, or its nominee, would buy all of Carlyle's interest that was intended to be listed and the listing proposal will not be implemented; or
- not exercise the option in which case the listing proposal may be implemented according to the terms agreed between National Hire and Carlyle.

(b) Exit following a sale initiation

National Hire or Carlyle may seek to initiate a process in which they sell their interest in NED Operations to a third party under the Exit Mechanisms. This will require the investor seeking to exit (**Selling Investor**) to first notify the other investor (**Holding Investor**) in writing that it wishes to sell all (but not some) of its interest in NED Operations. The Selling Investor's sale notice must specify the sale price and the terms on which the Selling Investor proposes to sell the securities.

Pre-emptive rights

At the same time as the Holding Investor receives the sale notice it will also be given the option to purchase (or find a nominee to purchase) the nominated securities on the terms and conditions specified in the Selling Investor's notice (**Call Option**). The Call Option can only be exercised for a limited time.

In the case where National Hire is the Holding Investor it can choose to:

- exercise the Call Option in which case it, or its nominee, would buy all of Carlyle's interest in NED Operations; or
- not exercise the Call Option in which case Carlyle would be permitted to negotiate with third party buyers with the possibility that National Hire would be required to sell its interest following an exercise of the drag-along rights or could participate in a sale of its interest under the tag-along rights (both described below).

Sale to third party

If the Call Option is not exercised, the Selling Investor may only agree to a sale with a third party buyer provided that certain conditions are satisfied including the sale being for not less than 97.5% of the sale price per security under the Call Option and on terms no less favourable than those originally offered pursuant to the Call Option.

If these conditions are satisfied, the Selling Investor will be able to conclude the sale provided that certain additional conditions are satisfied including that the sale is completed within a prescribed period of 120 days from when the process was originally instigated.

Before the execution of sale documentation with a third party buyer, the Selling Investor must provide the Holding Investor with written notice (**Second Sale Notice**) which provides the Holding Investor with certain information including:

- the sale price for each security; and
- the identity of the third party buyer and a copy of the relevant sale agreement.

Drag-along rights

The Second Sale Notice may also include a statement to the Holding Investor confirming that it requires the Holding Investor to sell all of its securities on the same terms to the same buyer under the Selling Investor's drag-along rights. Drag-along rights can be exercised by the Selling Investor provided that:

- the Selling Investor holds at least 33.3% of NED Operations' equity securities collectively held by the Selling Investor and the Holding Investor; and
- the Holding Investor is not required to provide any warranties under than title, capacity and their securities in NED Operations being sold unencumbered.

In the case where National Hire is the Holding Investor and Carlyle exercises its drag-along rights, National Hire will be required to sell its interest in NED Operations to the third party buyer. National Hire will receive the same price for each security and same terms of sale as Carlyle has negotiated for itself.

If, alternatively, National Hire was the Selling Investor and exercised its drag-along rights, Carlyle would be required to sell its interest on the same terms to the same buyer.

Tag-along rights

The Second Sale Notice must also include a statement confirming that Holding Investor has 'tag-along' rights to sell all of its securities on the same terms to the same buyer as set out in the Second Sale Notice.

In the case where National Hire is the Holding Investor it can elect to exercise its tag-along rights, and sell its interest in NED Operations to the third party buyer on the terms set out in the Second Sale Notice.

If alternatively National Hire was the Selling Investor and Carlyle exercised its tag-along rights, National Hire can only complete the sale if it procures the third party buyer to purchase all of Carlyle's securities.

(c) Exit following a breach of consortium arrangements

National Hire and Carlyle have rights to require the other investor to exit their interest in NED Operations if the other investor has breached certain prescribed obligations under the Investment Deed.

In these circumstances, the non-defaulting party may:

- purchase all of the interest of the defaulting party to an amount equal to the fair value of the interest (as determined by an independent valuer) less 10%; or
- commence the sale initiation process (described in section 2.6(b)) to find a third party buyer to acquire the defaulting party's interest.

These rights may be exercised at any time including prior to the expiry of the Standstill Period (ie within three years). However, National Hire intends to comply with its obligations under the Investment Deed so these rights cannot be triggered resulting in a disposal of its interests in NED Operations. Nevertheless, Shareholders are asked to consider them at this time as they are contemplated under the Exit Mechanisms.

A description of what National Hire would look like following an exercise of the rights under the Exit Mechanism is set out in section 3.3(g).

(d) Other interests in NED Operations

Financial investors will hold the remaining 6% economic interest in NED Operations. These financial investors will not have any pre-emptive, call-option or purchase rights

to acquire National Hire's or Carlyle's interest in NED Operations. However the financial investors will receive the right to tag-along with any sale to a third party buyer on the same price and terms as the Selling Investor. The Selling Investor will also be able to require the financial investors to sell their interest to a third party buyer under the Selling Investor's drag-along rights.

2.7 Steps are interdependent

Each element of the Coates Transaction is interdependent with each other element and the Coates Scheme so it cannot be implemented unless all other elements are implemented. As a result, the steps outlined in section 2.1 will not occur if any of the following do not occur:

- approval of the Coates Transaction Resolution by Shareholders;
- approval of the Financial Assistance Resolution by Shareholders;
- approval of the Coates Scheme by Coates shareholders; and
- Court approval of the Coates Scheme.

3. EFFECT ON NATIONAL HIRE GROUP

3.1 Current profile of National Hire

National Hire operates two divisions: Rental Services and Capital Sales. The Rental Services business trades as National Hire The Cat Rental Store® in New South Wales, Australian Capital Territory and Western Australia and as National Hire in Queensland, Victoria, South Australia and the Northern Territory. The Capital Sales division (Allight, FG Wilson, HJ Godwin and Perkins) trades as Allight in Australia, Indonesia and the United States.

In December 2004, National Hire acquired all of the assets to conduct The Cat Rental Store® operations in Western Australia and all of the shares of Allight Holdings Pty Ltd. National Hire is now one of the leading hire companies in Australia and the manufacturer and distributor of Allight mobile lighting towers and a distributor of FG Wilson power generation and de-watering equipment, HJ Godwin pumps and Perkins engines.

National Hire issued its audited results for the year ended 30 June 2007 on 9 August 2007. National Hire reported revenue for the 2007 financial year of \$288 million and EBITDA of \$93 million and had net assets at 30 June 2007 of \$243 million. In those results, National Hire highlighted the continued strong growth in Queensland and Western Australia and noted that major infrastructure projects in New South Wales are still ramping up. National Hire is well positioned for any upturn in the construction industry in New South Wales and Victoria and has identified a number of exciting export opportunities for Allight products.

Further details about National Hire's current business is set out in National Hire's 2007 Annual Report, distributed with this Notice of Meeting and Explanatory Memorandum.

As of the close of trading on 26 October 2007, National Hire's total market capitalisation was \$334 million.

3.2 Current profile of Coates

The information in this section is based on information provided by Coates. National Hire is not able to independently verify this information.

(a) Coates business highlights

- Coates is a major equipment hire company in Australia;
- national footprint with significant scale;
- equipment fleet of \$1.34 billion (at cost) as at 30 June 2007;
- strong financial performance – compound annual growth in revenue of 19.5% between 2003 and 2007;
- diversified income stream:
 - broad geographic spread;
 - no product contributes more than 10%;
 - diverse fleet categories; and
 - low customer concentration (top 5 customers contributed 16% of revenue in 2007); and
- strong management team.

(b) Business overview

Coates is a major equipment hire company with over 120 years of experience, supplying to a wide variety of sectors including engineering, civil construction, building construction and maintenance, mining and resources, manufacturing, Government, industrial shutdowns and events. Coates has over 190 branches and satellite locations and its own maintenance and transport capability.

Coates' overseas operations consist of Coates Offshore based in Aberdeen in the UK providing specialised equipment to the offshore oil and gas industry, and Coates Indonesia with six locations supporting the mining resource and offshore sectors.

The table below provides an overview of each of Coates' operating divisions:

DIVISION	OPERATIONS	REGIONS
Coates	<ul style="list-style-type: none"> • Provides a full range of compaction equipment, scissor and boom lifts, portable power generation and lighting towers, air compressors, welders, electric tools, general pumps, ladders and scaffold, traffic management equipment, and general tools and equipment. • Industrial services, shutdown equipment and toolstore services are specialist areas. • A leading hirer of excavation support equipment, trench safety systems, specialist pumps, dewatering equipment and associated products. • A major provider of portable and commercial transportable buildings, portable toilets, temporary fencing and storage containers to a variety of sectors for both short and long-term hire. • Provides total turnkey packages for large events including consultation, planning and logistics management. • FY2007 revenue contribution: 86%. 	<ul style="list-style-type: none"> • Coates services the whole of Australia with a presence in each state and territory: <ul style="list-style-type: none"> – North (Queensland) – East (New South Wales and Australian Capital Territory) – West (Western Australia and Northern Territory) – South (Victoria, South Australia and Tasmania)

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DIVISION	OPERATIONS	REGIONS
Allied Equipment	<ul style="list-style-type: none"> Hire and sale of large earthmoving equipment predominantly to mining industry, with balance to civil construction. Based in Perth – operates throughout Australia. FY2007 revenue contribution: 10%. 	<ul style="list-style-type: none"> All states in Australia
Coates Offshore	<ul style="list-style-type: none"> Hires specialist compressors and steam generators to the global offshore oil and gas industries. Approximately 50% of the revenues are generated from supplying equipment into the North Sea, with remaining business derived from other offshore customers around the world. FY2007 revenue contribution: 3%. 	<ul style="list-style-type: none"> North Sea and other offshore locations
Coates Indonesia	<ul style="list-style-type: none"> Hires air compressors, lighting towers, compaction, pumps, welding, access equipment and other equipment to mainly mining and oil and gas companies across the archipelago. Operates from major centres in Java and Kalimantan, with on-site facilities in Sulawesi, North Kalimantan, Central Sumatra and East Java. FY2007 revenue contribution: 1%. 	<ul style="list-style-type: none"> Indonesia

(c) Coates branch locations (Australia)



Explanatory Memorandum regarding special business

(d) Coates financial information

Coates' income statements for the years ended 30 June 2007 and 30 June 2006

	2007 \$000	2006 \$000
Income from continuing operations	775,717	717,709
Expenses from continuing operations		
Advertising and marketing	3,178	10,584
Amortisation	6,388	1,731
Cleaning and waste material	4,385	4,568
Communication	5,772	5,750
Consumables	14,195	14,422
Depreciation	143,308	116,058
Freight and transport	69,531	63,519
Hire fleet maintenance and running	72,308	65,184
Property costs	23,607	21,012
Rehire	19,465	20,900
Salaries and employee benefits	193,080	189,521
Other	55,098	45,315
Expenses excluding borrowing costs	610,315	558,564
Borrowing costs	31,847	23,083
Total expenses from continuing operations	642,162	581,647
Profit before income tax expense from continuing operations	133,555	136,062
Income tax expense	41,171	36,021
Net profit attributable to members of Coates Hire Limited	92,384	100,041
Net profit before significant items attributable to members of Coates Hire Limited	102,359	93,600
Basic EPS (cents per share)	37.5	42.4
Diluted EPS (cents per share)	37.0	41.8
Basic EPS (cents per share) before significant items	41.5	39.6
Diluted EPS (cents per share) before significant items	41.0	39.1
100% franked dividends (cents per share)	21.0	19.0

Explanatory Memorandum regarding special business

Coates' balance sheets as at 30 June 2007 and 30 June 2006

	2007 \$000	2006 \$000
Current assets		
Cash and cash equivalents	5,948	10,529
Trade and other receivables	147,040	132,807
Inventories	40,177	18,758
Prepayments	4,240	4,002
Other	385	337
Total current assets	197,790	166,433
Non-current assets		
Other receivables	1,372	1,913
Property, plant and equipment	1,022,018	848,045
Intangible assets	85,816	74,785
Deferred tax assets	15,787	18,686
Total non-current assets	1,124,993	943,429
Total assets	1,322,783	1,109,862
Current liabilities		
Trade and other payables	68,347	44,277
Income tax payable	8,865	11,190
Provisions	31,929	35,519
Derivatives	999	294
Total current liabilities	110,140	91,280
Non-current liabilities		
Interest bearing loans and borrowings	460,236	371,277
Deferred tax liabilities	24,391	18,639
Provisions	4,689	3,904
Derivatives	41,653	4,022
Total non-current liabilities	530,969	397,842
Total liabilities	641,109	489,122
Net assets	681,674	620,740
Equity		
Contributed equity	489,704	479,200
Treasury shares	-1,141	-2,540
Reserves	-72	-6,585
Retained profits	193,183	150,665
Total equity	681,674	620,740

(e) Further information on Coates

Coates' most recent announcements are available from its website (www.coates.com.au) and also ASX's website (www.asx.com.au).

Coates is required to lodge various documents with ASIC. Copies of documents lodged with ASIC by Coates may be obtained, or inspected at, ASIC offices.

3.3 Profile of National Hire if Coates Transaction and Coates Scheme approved

(a) Overview

If the Coates Transaction is completed, NED Holdings will acquire all of the shares in Coates and will hold National Hire's Rental Services business.

National Hire and Carlyle will each hold a 47% economic interest in the capital of NED Holdings, with other financial investors holding the remaining 6% interest. National Hire and Carlyle will hold a 50% effective voting interest in NED Holdings. National Hire will account for its investment in NED Holdings as an associate.

National Hire will retain and continue to operate its Capital Sales division. For the year ended 30 June 2007, the Capital Sales division generated EBIT of \$6.4 million, before internal profit eliminations. Sales conducted through PT Allight contributed a portion of this (\$700,000). As PT Allight will no longer be part of the retained business, National Hire intends to review the arrangements and may appoint a new sales agent in Indonesia.

Following the Placement, Elph will have a relevant interest of 19.9% in the expanded share capital of National Hire. Part of the Placement proceeds will be used to fund the cash component of National Hire's contribution to NED Holdings, with the balance of the Placement proceeds providing capital for future growth in National Hire.

The Directors believe that the Coates Transaction is a company transforming opportunity for National Hire that will add value for Shareholders. The transaction is consistent with National Hire's strategic objective of becoming the leading provider of equipment solutions in Australia. The advantages of the Coates Transaction include:

- **Creation of a major Australian equipment hire business** – the combined rental operations of National Hire and Coates will have annual revenues of approximately \$991 million and EBIT of approximately \$218 million, based on Coates' and National Hire's financial performance to 30 June 2007.⁵ Shareholders will benefit from the increased scale, diversity and opportunities of the combined National Hire and Coates rental operations. Shareholders will also benefit from any cost synergies that may be created through merging the rental operations.
- **Premium value for National Hire's Rental Services business** – National Hire's Rental Services business will

⁵ Provided for illustrative purposes only. Assumes the businesses were merged on 1 July 2006 and excludes any costs or synergy benefits from combining the operations. For further detail on the Pro-Forma Financial Information for National Hire and the combined rental businesses see Section 3.5 of this Explanatory Memorandum.

be transferred into NED Holdings for \$282 million, which is a value equivalent to \$3.00 per National Hire share after adjusting for the value of the Capital Sales division and National Hire's final dividend of five cents per Share.

- **Opportunity to raise equity capital at a significant premium to historical trading prices** – as part of the Coates Transaction National Hire will make a placement to Elph at \$3.00 per Share. This represents a significant premium to prices at which National Hire's Shares have traded in the past.
- **National Hire will have a preferred supply agreement with NED Operations** – National Hire's Capital Sales division (Allight mobile lighting towers, Perkins engines, HJ Godwin pumps and FG Wilson generators) will continue to be operated by National Hire and will not transfer to NED Holdings. A preferred supply agreement will be entered into between National Hire, Allight and NED Operations.
- **It is likely that National Hire Shares will be re-rated to higher trading levels if the Coates Transaction proceeds** – on the day prior to the Coates Scheme being announced, National Hire Shares closed at \$1.86. National Hire's Shares have traded between \$2.40 and \$2.97 since the day following the announcement to the close of trading on 26 October 2007.
- **Access to a broader pool of management expertise** – NED Holdings will be led by Malcolm Jackman the current Chief Executive Officer & Managing Director of Coates and will be managed by a combination of National Hire's and Coates' existing management teams and external candidates where appropriate.
- **Opportunity to partner with a global private equity firm** – Carlyle is an international private equity group with significant global rental industry experience. National Hire's investment partnership with Carlyle will introduce additional depth of expertise and governance to the merged operations.

As with any large transaction, there may be actual or perceived disadvantages that need to be weighed against the advantages. The Directors believe that the advantages for Shareholders of the Coates Transaction outweigh the disadvantages. Factors that may be viewed as disadvantageous include:

- **National Hire will not own 100% of the combined rental operations** – at completion of the Coates Transaction, National Hire will have a 50% effective voting interest and a 47% economic interest in NED Holdings. However, currently National Hire's Rental Services business represent only 22% and 19% of the pro-forma revenue and EBIT respectively for the combined operations 2007 respectively.
- **Shareholders will be diluted as a result of the Placement** – the proposed share placement is for approximately 28.66 million National Hire Shares. Following the Placement, Elph will have a relevant interest of 19.9% in the expanded share capital of National Hire.
- **Higher gearing levels increase investment risk** – higher gearing levels in NED Group will increase the investment risk related to this transaction.

- **Dividends in the short to medium term may be impacted**
– higher gearing levels in NED Holdings and limitations on dividends payable out of NED Holdings may impact cash returns to National Hire and Carlyle in the short to medium term.

(b) Retained business

National Hire will retain and continue to operate its Capital Sales division, which will trade as Allight. For the year ended 30 June 2007, the Capital Sales division generated EBIT of \$6.4 million, before internal profit eliminations. Sales conducted through PT Allight contributed a portion of this (\$700,000). As PT Allight will no longer be part of the retained business, National Hire intends to review the arrangements and may appoint a new sales agent in Indonesia.

Following completion of the Coates Transaction, the Board will conduct a review to determine the appropriate management team and other arrangements, including IT systems for the Capital Sales division going forward. The current employee incentive schemes are likely to be suspended and may be replaced.

National Hire and its wholly owned subsidiary Allight Pty Ltd (**Allight**) will enter into a Supply Agreement with NED Operations in respect of National Hire's Capital Sales division. The Supply Agreement will provide for National Hire and Allight to be the preferred supplier for NED Operations of the equipment within the Capital Sales division's product range. These arrangements also provide that NED Operations will be the preferred customer of National Hire and Allight for these goods. The Supply Agreement will have an initial term of five years, and NED Operations may extend the agreement for an additional three years.

The Supply Agreement is further described in section 5.5.2.

National Hire and NED Group may also share various administrative services for a period of 12 months, or for a period agreed between them.

(c) Profile of NED Group

If the Coates Transaction is completed, NED Holdings will hold the rental operations of National Hire and Coates. These operations will be merged under a single business model. Once the Coates Scheme has been implemented, NED Holdings, in conjunction with National Hire and Carlyle, will complete a detailed review of both the National Hire and Coates rental operations to determine the optimal manner in which to integrate the respective businesses and operations. Decisions about the integration and future operating plans of National Hire's Rental Services business and the Coates business will be made by the board of NED Holdings following completion of the detailed post acquisition review. It is expected that a full integration of the two rental operations will take 12-18 months to complete.

As part of the business merger implementation process, NED Holdings will seek to improve the efficiency of the business. This will likely include, where possible, some rationalisation over time of overlapping National Hire and Coates stores and a combination of head office functions between National Hire and Coates. National Hire anticipates that over time in excess of \$30 million (pre-tax) of synergies

per annum may be realised through the merger. However, these synergies are not certain or guaranteed and will depend on the outcome of the business review process and the successful implementation of the merger.

NED Holdings will operate the combined hire fleets of National Hire and Coates. The value of the combined fleets at cost was approximately \$1.7 billion as at 30 June 2007. There are a number of potential benefits that may result from a combination of the rental fleets of the two companies. These include:

- better allocation efficiency of the combined rental fleet across NED Holdings' branch network; and
- it is anticipated that there may be fleet procurement benefits in the future for the expanded rental group. NED Holdings will have an opportunity to streamline its supply arrangements as part of the business integration process.

If the Coates Scheme is implemented, NED Operations will enter into a supply agreement in respect of National Hire's Capital Sales division. The supply agreement will provide for National Hire and Allight to be the preferred supplier of its range of capital equipment to NED Holdings. See section 5.5.2 for further details on the Supply Agreement.

It is proposed that NED Holdings will be led by Malcolm Jackman, the Chief Executive Officer & Managing Director of Coates, and will be managed by a combination of National Hire's and Coates' existing management teams and external candidates where appropriate. The final structure of NED Holdings businesses and the responsibilities of senior management will be determined following integration. It is anticipated that following implementation of the Coates Scheme, Tony Dage, a consultant specialising in industrial business integration, will join NED Holdings to lead the integration of the two rental operations.

If the Coates Scheme is implemented, NED Holdings intends to replace the existing Coates incentive investment plan with a new employee incentive plan that covers the employees of the expanded business in which certain officers and employees of National Hire and Coates will be eligible to participate. The terms of the new employee incentive plan are yet to be determined by the board of NED Holdings and will be finalised after the Coates Scheme has been implemented.

The directors of NED Holdings will be responsible for all key decisions for NED Holdings.

Following approval of the Coates Scheme by the Court, Carlyle and National Hire may each appoint four directors to the NED Holdings board. One of the directors appointed by National Hire will be the chairman of NED Holdings. Further detail on the board representation and voting arrangements for NED Holdings is contained in section 2.1.

Following completion of the Coates Transaction, National Hire and Carlyle will each have an equal investment in NED Holdings. The parties have entered into an Investment Deed that will govern the terms of the consortium relationship between National Hire and Carlyle in NED Holdings and also Exit Mechanisms for either party wishing to exit its investment. See section 2.6 of this Explanatory

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Memorandum for further detail on the Exit Mechanisms. See section 5.5.4 of this Explanatory Memorandum for summary of the key terms of the Investment Deed.

(d) How National Hire will fund its interest in NED Group

Under the Subscription Agreement entered into between NED Operations, National Hire and Carlyle on 2 October 2007, National Hire is obliged to contribute equity of approximately \$338.6 million to NED Operations.

National Hire will fund its equity contribution by the transfer of its Rental Services business to NED Holdings for approximately \$281.5 million plus approximately \$57.1 million in cash. A Subscription and Cancellation Deed and an Asset Transfer Agreement have been entered into to provide for the transfer of the Rental Services business to NED Holdings.

The obligation of National Hire to provide equity funding under the Subscription Agreement is conditional only on the Coates Scheme becoming effective. The Subscription Agreement may only be terminated if the Coates Scheme does not become effective on or before one month after the End Date (as defined in the Scheme Implementation Agreement). The obligation to make the transfers contemplated by the Asset Transfer Agreements is conditional on the Coates Scheme becoming effective.

National Hire's aggregate cash and borrowings will be transferred to NED Holdings at the same time as its Rental Services business and will be refinanced. National Hire intends to arrange a new senior debt facility of approximately \$25 million which would be undrawn on completion of the Coates Transaction.

National Hire has entered into a subscription agreement with Elph Pty Ltd under which Elph will take a placement of approximately 28.66 million new Shares at \$3.00 per share to raise \$86 million. Part of the Placement proceeds will be used to fund National Hire's cash contribution to NED Holdings, with the balance providing capital for future growth in National Hire.

Following the Placement, Elph will have a relevant interest of 19.9% in the expanded share capital of National Hire.

National Hire's major Shareholder, WesTrac, currently holds approximately 67% of the Shares in National Hire. Following the Placement and completion of the Coates Transaction WesTrac will hold approximately 54% of the expanded share capital of National Hire.

(e) Board of National Hire

It is anticipated that following implementation of the Coates Transaction the current Directors of National Hire will continue in office.

The profiles of these Directors are set out in National Hire's Annual Report, distributed with this Notice of Meeting and Explanatory Memorandum.

Under the terms of Elph Pty Ltd's subscription in National Hire, Mr Dale Elphinstone will be entitled to appoint one additional director to the Board following implementation of the Coates Transaction. This appointment will be made to fill

a casual vacancy and that director will be required to stand for election at National Hire's next annual general meeting following appointment.

(f) Financial impact

Currently, Shareholders have a direct exposure to wholly owned rental services and capital sales businesses. Following completion of the Coates Transaction, Shareholders will have:

- **An indirect 47% interest in a significantly expanded rental business** – the combined rental operations of Coates and National Hire will be a major Australian equipment rental business. National Hire anticipates that over time in excess of \$30 million (pre-tax) of synergies per annum may be realised through combining the rental operations.
- **A direct exposure to National Hire's Capital Sales division** – this business will remain wholly owned and operated by National Hire after the transaction. The returns from this business may be enhanced as a result of the Supply Agreement with NED Operations (see section 5.5.2 of this Explanatory Memorandum for further details of the Supply Agreement).

Factors that will impact the revenues and profits of National Hire following the completion of the Coates Transaction include:

- National Hire will benefit from the revenues and earnings of NED Holdings and any synergies that result from merging National Hire's and Coates' rental operations. National Hire will be entitled to 47% of the profits of NED Holdings;
- National Hire's entire borrowings will be refinanced as part of the transaction. It intends to arrange a new senior debt facility following the transaction of \$25 million, however it is expected that this will remain undrawn for the foreseeable future;
- NED Holdings will assume a higher level of financial gearing than that currently of either National Hire or Coates. It is anticipated that in the short to medium term a large component of earnings from NED Holdings will be used to repay borrowings and there will be limitations on dividends payable out of NED Holdings which will impact cash returns to National Hire and Carlyle during this period. It is not anticipated that either National Hire or Carlyle will receive dividends or cash returns from NED Holdings during this period;
- National Hire's initial investment in NED Group will be via the Convertible Notes.⁶ Based on their proposed terms, the Convertible Notes will not pay dividends or return a coupon to the investors;
- National Hire will continue to receive cash returns from the Capital Sales division and will use these earnings and possibly retained earnings to pay dividends to Shareholders in future periods (see section 3.3(h) for further information on dividends); and

⁶ National Hire will hold a nominal number of ordinary shares in NED Operations, however it is not anticipated that these shares will return dividends to National Hire in the short to medium term.

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- National Hire will no longer account for the revenues and earnings of its Rental Services business on a consolidated basis. National Hire will account for its economic interest in the profits or losses of NED Group as an investment in associates (this is discussed in greater detail below).

Following completion of the Coates Transaction there will be a number of changes to the way in which National Hire accounts for its Rental Services business. Currently National Hire's Rental Services business is conducted out of wholly owned subsidiaries of National Hire. For accounting purposes, these subsidiaries are consolidated within National Hire's group accounts.

As part of the Coates Transaction the Rental Services business will be transferred to NED Holdings. At completion, National Hire will have a 50% effective voting interest and a 47% economic interest in NED Operations and therefore will not control NED Holdings for accounting purposes. Consequently National Hire will reflect its investment in NED Operations as an equity accounted investment. The equity method is appropriate on the basis that NED Operations will be a joint venture entity for accounting

purposes based on the Investment Deed. There will also be a number of one-off accounting adjustments that are made to reflect the transfer of the National Hire Rental Services business to NED Operations, the proposed Placement and the refinancing of National Hire's existing borrowings.

See section 3.5 (Financial summary) for further detail on the accounting adjustments that will effect National Hire's reported financial accounts in future periods.

(g) Exit Mechanisms

There are a number of potential exit scenarios that may arise under the Exit Mechanisms within the Investment Deed.

Set out below is National Hire's best assessment, based on the information currently available, of the likely impact on National Hire of the potential exit under different Exit Mechanisms. The actual impact would depend on the full circumstances which would only be known at the time, and may differ, possibly materially, from the descriptions below.

The main exit scenarios and resultant impact on National Hire are:

EXIT SCENARIO	LIKELY IMPACT ON NATIONAL HIRE
National Hire exercises its pre-emptive, call option or purchase rights and acquires Carlyle's interest in NED Operations	<p>National Hire would assume Carlyle's interest in NED Operations and Shareholders would be entitled to an increased share of the revenues and earnings of NED Holdings.</p> <p>National Hire would also control the board of NED Operations and each subsidiary company.</p> <p>National Hire would no longer equity account for its interests in NED Operations and would consolidate NED Operations' financial results in its own accounts.</p> <p>National Hire may need to raise additional equity and/or debt (subject to all necessary regulatory and Shareholder approvals) to fund the acquisition of the additional interests.</p>
National Hire procures an alternative purchaser for Carlyle's interest in NED Operations	<p>There would be no change to National Hire's economic interest in NED Operations or its board representation and investor approval rights.</p> <p>Depending on the method of sale of the third party interests, a new investment deed may need to be entered into with the acquiring party (or parties). National Hire may also elect to terminate the Supply Agreement on 12 months' notice in these circumstances. It would do so if this was determined to be in the Shareholders' best interest.</p>
<p>National Hire does not acquire, or procure an alternative purchaser to acquire, Carlyle's interest in NED Operations and a third party buyer is found</p> <p>Pursuant to its rights under the Investment Deed, Carlyle exercises its right to 'drag' National Hire along in a sale of NED Operations or National Hire considers the potential exit terms so attractive that it wishes to exit along with Carlyle and exercises its right to 'tag-along' in a sale</p>	<p>National Hire's interest in NED Operations would be sold under the terms of the Investment Deed and National Hire would receive consideration from the acquirer.</p> <p>Depending on National Hire's growth strategy at the time and the nature of the consideration (cash or securities in another entity), National Hire would either invest, retain or return some or all of the proceeds to Shareholders.</p> <p>National Hire may also elect to terminate the Supply Agreement on 12 months' notice in these circumstances. It would do so if this was determined to be in the Shareholders' best interest.</p>

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EXIT SCENARIO

LIKELY IMPACT ON NATIONAL HIRE

National Hire exercises its purchase rights in relation to a listing proposal and acquires the interests in NED Operations that Carlyle wishes to sell under the listing proposal

National Hire would increase its ownership of NED Operations and, depending on Carlyle's proposed sell down, may assume 100% ownership of NED Operations. In this case, Shareholders would be entitled to up to 100% of the revenues and earnings of NED Holdings.

If this occurred, National Hire would obtain increased representation rights on the boards of NED Operations and its subsidiaries.

National Hire may need to raise additional equity and/or debt (subject to all necessary regulatory and Shareholder approvals) to fund the acquisition of the additional interests.

National Hire sells its interest in NED Operations following an exercise by Carlyle of its pre-emptive, call option or purchase rights

National Hire's interest in NED Operations would be sold under the terms of the Investment Deed and National Hire would receive consideration from the acquirer.

Depending on National Hire's growth strategy at the time and the nature of the consideration (cash or securities in another entity) National Hire would either invest, retain or return some or all of the proceeds to Shareholders.

National Hire may also elect to terminate the Supply Agreement on 12 months' notice in these circumstances. It would do so if this was determined to be in the Shareholders' best interest.

Any decision by National Hire in relation to the Exit Mechanisms will be influenced by a number of factors prevailing at the time. These may include:

- the growth of NED Holdings during the co-investment period with Carlyle;
- the growth of the Capital Sales division during the co-investment period with Carlyle;
- the price at which one or more third party buyers are willing to acquire interests in NED Operations and how this compares with National Hire's assessment of value;
- National Hire's access to equity and debt financing and what effect those arrangements may have on the financial position of National Hire and on Shareholders;
- the effect of an alternate joint venture party on the operation of NED Group and how the working relationship between this party and National Hire would be anticipated to operate; and
- the availability or likelihood of other investment opportunities at the time or in the future.

A careful assessment of this type of information will be undertaken by the Directors of National Hire at the time so that they can ensure that they pursue the alternative that they consider is in the best interests of Shareholders.

(h) Effect on National Hire's dividends

National Hire does not have a set dividend policy, and has determined dividends in the past based on National Hire's circumstances at the time. Dividends have typically been fully franked. National Hire's dividends in respect of the past three full financial years are set out below:

YEAR ENDING	30 JUNE 2005*	30 JUNE 2006	30 JUNE 2007
Dividend in respect of the full financial year ⁷ (cents per Share)	2.5 cents	7 cents	8 cents
Earnings per Share (diluted)	13.8 cents	14.3 cents	16.1 cents
Percentage of net profit after tax paid out as dividends	18%	49%	50%

* Dividend and earnings per Share for 2005 have been adjusted to reflect the 5 for 1 share consolidation on 17 November 2005.

As a result of the changes to how National Hire will account for its investment in NED Holdings, the higher initial level of debt in NED Holdings and limitations on dividends payable out of NED Holdings, the reported net profit after tax of National Hire may not be an appropriate reference point from which to determine the quantum of dividends for Shareholders. In determining the future level of dividends, the Directors of National Hire will have regard to the earnings from the Capital Sales division and National Hire's retained earnings and cash reserves and the risk factors discussed in section 3.6, many of which are beyond the control of National Hire and the Directors. Therefore, the Directors do not provide any assurance about the level of future dividends nor the extent to which any of the dividends will be franked.

(i) Relationships between National Hire and Caterpillar, WesTrac and NED Group

WesTrac is the appointed Caterpillar dealer in Western Australia, New South Wales and the Australian Capital Territory

⁷ Comprises the interim and final dividend declared in respect of each financial year.

and has a licence to operate The Cat Rental Stores in these locations. WesTrac currently sub-licenses its right to operate The Cat Rental Stores in these territories to National Hire. Following implementation of the transfer of National Hire's Rental Services business to NED Holdings, National Hire will not operate The Cat Rental Stores and its sub-licence would be replaced with a sub-licence to one or more wholly owned subsidiaries of NED Holdings to operate The Cat Rental Stores.

Caterpillar has consented in principle to WesTrac appointing one or more wholly owned subsidiaries of NED Holdings to operate The Cat Rental Stores in Western Australia, New South Wales and the Australian Capital Territory in the context of the merger of National Hire's Rental Services business and Coates. Caterpillar is currently formalising the consent documentation. As with the existing National Hire consent and sub-licence it is likely the consent will include requirements of minimum level of ownership and voting interest in National Hire by WesTrac Pty Limited and in NED Group Holdings Pty Limited by National Hire.

WesTrac has agreed to enter into a deed of undertaking with NED Holdings from implementation of the Coates Transaction. WesTrac agrees with NED Holdings that WesTrac will not be involved (defined broadly) in any business of hiring capital equipment and related services. The restraint also covers licensing any other party to operate a CAT rental business. The restraint continues for a minimum period of three years from completion. After this minimum period, the restraint generally continues until 12 months after WesTrac ceases to hold more than 33.3% of Shares in National Hire, or National Hire's holding in NED Operations falls below 50% of the Equity Securities issued by NED Operations and retained collectively by National Hire and Carlyle.

There are some carve outs and exceptions to the restraint. Some exceptions are specific to Caterpillar and include, for example, if Caterpillar withdraws its consent. In this case, WesTrac must retain a certain level of shareholding in National Hire and the carve out only applies to the extent necessary to protect WesTrac's appointment as a Caterpillar dealer. Other exceptions are not specific to Caterpillar and include, for example, WesTrac carrying out specified activities which WesTrac carries on at the date of the deed.

(j) Tax arrangements

It is intended that there will be revised tax funding and tax sharing agreements for National Hire that will govern tax payments by both National Hire and NED Group. The principle for tax payments going forward will be that NED Group and National Hire will each fund their respective tax liabilities as and when they fall due. As the head entity of the tax group, National Hire will administer this process.

3.4 Profile of National Hire if Coates Transaction and Coates Scheme not approved

If the Coates Transaction Resolution or the Financial Assistance Resolution is not approved, the Coates Scheme will not proceed and National Hire's operations and ownership will not change:

- National Hire will retain and operate its Rental Services business and Capital Sales division;
- the Placement to Elph will not occur;
- National Hire will not increase its interest in Coates as it will not invest in NED Operations and NED Holdings will not acquire Coates; and
- National Hire's borrowings will not be transferred to NED Holdings and refinanced.

However, National Hire will have incurred significant costs associated with the Coates Transaction, being approximately \$3.7 million. If the Coates Transaction is not approved, these costs will impact National Hire's earnings for the twelve months to 30 June 2008.

If the Coates Transaction Resolution or the Financial Assistance Resolution is not approved, National Hire's Shares may not continue to trade at levels that they have traded at since the Coates Transaction was announced. On the day prior to the announcement of the Coates Transaction, National Hire Shares closed at \$1.86. From 3 October 2007 (the day after the Coates Transaction was announced) to 26 October 2007, National Hire Shares have traded between \$2.40 and \$2.97 with a volume weighted average price of \$2.58. The closing price of National Hire Shares on 26 October 2007 was \$2.79.

National Hire's share price from 1 January 2007 to 26 October 2007 is shown in Chart 1 opposite.

National Hire has agreed to pay to Coates a reverse break fee of \$10 million if Shareholders do not approve the Coates Transaction Resolution or the Financial Assistance Resolution.

3.5 Financial summary

(a) Pro-Forma Financial Information

The Pro-Forma Financial Information is set out below in sections 3.5(c), 3.5(d) and 3.5(e) and includes the following:

- an unaudited pro-forma income statement for National Hire group for the year ended 30 June 2007 as if the Rental Services business was transferred to NED Group on 1 July 2006 and before taking into account National Hire's 47% economic interest in NED Group (**National Hire Post-Transaction Unaudited Pro-Forma Income Statement**);

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Chart 1: National Hire Share Price from 1 January 2007 to 26 October 2007



- an unaudited pro-forma income statement for NED Group for the year ended 30 June 2007 reflecting the combined National Hire and Coates rental operations (**NED Group Unaudited Pro-Forma Income Statement**) as if they had been acquired on 1 July 2006; and
- an unaudited pro-forma balance sheet for National Hire group as at 30 June 2007 as if the Coates Transaction took place on 30 June 2007 (**National Hire Post-Transaction Unaudited Pro-Forma Balance Sheet**).

The Pro-Forma Financial Information is illustrative only and does not represent, or purport to represent, the actual or projected financial performance and position of National Hire or NED Group.

The Pro-Forma Financial Information has been prepared to illustrate to Shareholders:

- the impact on the financial performance of National Hire's retained operations following transfer of its Rental Services business to NED Group as if the Coates Transaction had been implemented on 1 July 2006;
- the financial performance of NED Group as if the Coates Transaction had been implemented on 1 July 2006; and
- the unaudited pro-forma financial position of National Hire as if the Coates Transaction had been implemented on 30 June 2007.

The Pro-Forma Financial Information has been prepared using the following sources of information:

- the audited National Hire accounts for the year ended 30 June 2007 (as provided in the 2007 Annual Report that is distributed with this Notice of Meeting and Explanatory Memorandum);
- the audited Coates accounts for the year ended 30 June 2007. A summary of Coates' audited income statement and balance sheet for the year ended 30 June 2007 is set out in section 3.2(d) of this Explanatory Memorandum;
- the unaudited income statements for National Hire's Rental Services business and Capital Sales division for the year ended 30 June 2007; and

- the pro-forma adjustments made by National Hire management to reflect the Coates Transaction based on the key assumptions set out in section 3.5(b) of this Explanatory Memorandum.

(b) Key assumptions underlying the Pro-Forma Financial Information

(1) Acquisition accounting

The Pro-Forma Financial Information has been prepared assuming that the book value of the assets represents their fair value. At completion the rental assets will be adjusted to represent their fair value and therefore the asset values and associated depreciation and amortisation may differ from that stated below.

(2) Other intangibles

For the purposes of preparing the Pro-Forma Financial Information, it has been assumed that there are no separately identifiable intangibles. In the event that separately identified intangibles are subsequently identified, this will have the effect of reducing goodwill arising on the transfer of National Hire's Rental Services business to NED Group and the acquisition of Coates by NED Group. If any separately identifiable intangibles are considered to have finite lives, net profit after tax will decrease as a result of the requirement to amortise these intangibles over their estimated useful life. This will not have an impact on cash flows.

(3) Variation in accounting policies

The Pro-Forma Financial Information applies the individual accounting policies of National Hire and Coates respectively to the financial information of each entity. No allowance for variations in accounting policies between National Hire, Coates and NED Group has been made in the Pro-Forma Financial Information.

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National Hire has not had sufficient access to Coates' financial records to determine the consequences that may arise as a result of differences in accounting policies or in the application of accounting policies between National Hire, Coates and NED Group and, therefore, there is some uncertainty associated with the extent or the amount of the impact of these differences.

National Hire does not make any representation or warranty, express or implied, in relation to the extent or the amount of the impact caused by any accounting policy differences referred to above.

(4) Strategic initiatives

No allowances have been made for synergistic benefits. Specifically, the Pro-forma Financial Information does not include adjustments to reflect the impact of any synergies and related costs that may arise as a result of acquiring and delisting Coates and merging the National Hire and Coates rental operations.

(5) Financial forecasts for National Hire

The presentation of Pro-Forma Financial Information for the financial year ended 30 June 2007 provides National Hire Shareholders with an indication of the profile of National Hire and NED Group over that time period. However, the Pro-Forma Financial Information cannot be relied upon as indicative of National Hire's expectations as to the future performance of National Hire and NED Group. The future performance of National Hire and NED Group will inevitably be different from the information set out in the Pro-Forma Financial Information as it will reflect performance in FY2008 and later years, rather than the financial year ended 30 June 2007.

See sections 3.3 and 3.6 of this Explanatory Memorandum for further details on the intentions and risks of National Hire and NED Group respectively.

National Hire has given careful consideration to whether forecast financial statements (including any internally created projections) can and should be included in this Explanatory Memorandum in respect of NED Group. In particular, National Hire has considered whether there is a reasonable basis for the preparation and disclosure in this Explanatory Memorandum of reliable and useful forecast financial statements. In this regard, National Hire has concluded that forecast financial statements for NED Group cannot be provided in this Explanatory Memorandum as it does not have a reasonable basis for such forecasts as required by applicable law and practice, and therefore the forecasts would not be meaningful or material to Shareholders. The considerations which have resulted in this conclusion include:

- it is expected that the remainder of the 2008 financial year and most of the 2009 financial year will be a transition period for NED Group as a result of the integration of the two businesses and changes in management structure. Further, the management direction and operational strategies historically employed by National Hire and Coates in respect of their rental operations are expected to alter under NED Group, such that forecasts can no longer be reliably based on previous historical performance. National Hire is not currently in a position to determine in a reliable manner the impact that these changes may have on financial performance of the Coates rental business in the short term;
- there is considerable uncertainty in relation to the level of any synergies, costs and timing associated with merging the two rental operations. These factors will only be determined following a detailed review of the National Hire and Coates rental operations to be conducted following completion of the Coates Transaction. Therefore at this stage it would be impossible to forecast accurately and reliably the level of any synergies and implementation costs associated with the merger;
- information is not available to calculate potential fair value adjustments in relation to the assets of Coates following acquisition. Consequently depreciation, amortisation and tax expenses cannot be calculated accurately and may be materially different when finalised; and
- more than 70% of the revenues of NED Group in the 2008 financial year are expected to be generated by the former Coates rental business. As part of the Coates due diligence process National Hire received information relating to Coates' management projections for the 2008 financial year, however National Hire has not had access to the working papers and assumptions behind these projections to determine whether they have a reasonable basis.

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(c) National Hire Post-Transaction Unaudited Pro-Forma Income Statement

The table below sets out the National Hire Post-Transaction Unaudited Pro-Forma Income Statement for the year ended 30 June 2007.

YEAR ENDED 30 JUNE 2007	NATIONAL HIRE (AUDITED) \$MIL	TRANSFER OF RENTAL SERVICES BUSINESS INTO NED GROUP \$MIL	ADJUST FOR INTER-COMPANY SALES BETWEEN CAPITAL SALES DIVISION AND NED GROUP \$MIL	NATIONAL HIRE POST-TRANSACTION UNAUDITED (PRO-FORMA) \$MIL
Revenue	287.7	-220.7	8.5	75.5 ¹
Operating costs	-194.8	130.5	-7.8	-72.1
Earnings before interest, tax depreciation and amortisation	92.9	-90.2	0.7	3.4
Depreciation and amortisation	-49.2	48.6		-0.6
Earnings before interest and tax	43.7	-41.6	0.7	2.8
Interest income				2.1 ²
Profit before tax				4.9
Income tax expense				-1.5 ³
Net profit after tax				3.4 ⁴

Notes:

1 Revenue:

Equity accounting adjustments have been made for sales from the Capital Sales division to NED Group. The Investment Deed provides for an annual management fee from NED Group of \$1.5 million which has not been included in this analysis.

The gain on transfer of National Hire's Rental Services business to NED Group has been excluded from the above analysis.

Any profit from the sale of National Hire's shares in Coates into the Coates Scheme has been excluded from the above analysis.

Revenue excludes any interest income or profit on sale of property, plant and equipment.

2 Interest income:

At completion of the Coates Transaction, National Hire's entire cash and borrowings will be transferred to NED Group and refinanced. Assumes 5% interest is earned on cash balances.

3 Income tax expense:

Tax has been calculated at 30%.

4 Net profit after tax:

Net profit after tax is stated before taking account of the equity accounted profit or loss from National Hire's investment in NED Group.

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(d) NED Group Unaudited Pro-Forma Income Statement

The table below sets out the NED Group Unaudited Pro-Forma Income Statement for the year ended 30 June 2007.

YEAR ENDED 30 JUNE 2007	COATES	TRANSFER OF	NED GROUP
	(AUDITED)	NATIONAL HIRE'S RENTAL SERVICES BUSINESS INTO	(PRO-FORMA)
	\$MIL	\$MIL	\$MIL
Revenue	770.4	220.7	991.1 ¹
Operating costs	-449.1	-130.5	-579.6 ²
Earnings before interest, tax, depreciation and amortisation	321.3	90.2	411.5
Depreciation and amortisation	-145.3	-48.6	-193.9 ³
Earnings before interest and tax	176.0	41.6	217.6
Finance costs			-216.8 ⁴
Profit before tax			0.8
Income tax expense			-0.2 ⁵
Net profit after tax (before significant items)			0.6
Significant item			-10.0 ⁶
Net profit after tax (after significant items)			-9.4 ⁶

Notes:

1 Revenue:

Revenue assumes no cost synergies or revenue loss from the merger of the two rental operations. No adjustment has been made for any cross hire revenue between the two rental operations.

Revenue excludes interest income and profit on sale of property, plant and equipment.

2 Operating costs:

Operating costs are stated before any cost synergy benefits and related costs associated with integrating the two rental operations.

Operating costs exclude the proposed annual management fee of \$3 million that will be paid by NED Group to National Hire and Carlyle.

Excludes transaction costs relating to the Coates Transaction that would be capitalised.

3 Depreciation and amortisation:

On acquisition the assets and liabilities of the combined entity will be recorded at fair value. Therefore the asset values may differ and consequently depreciation and amortisation may be adjusted. These adjustments have not been included in the analysis above.

No account has been taken of any adjustments needed to ensure conformity of accounting policies between the two entities.

4 Finance costs:

Reflects interest on senior debt of \$2,025 million and subordinated debt of \$145 million that will be drawn under the Facilities at completion of the Coates Transaction.

Finance costs have been calculated based on an assumed base rate of 7.075% plus the applicable margins on the senior and subordinated debt facilities.

Assumes that the capital expenditure for the 2007 year for the combined business is included in the price paid for Coates and the transfer value for National Hire's Rental Services business to NED Group at completion.

5 Income tax expense:

Tax has been calculated at 30%.

6 Significant item:

The significant item relates to the after tax cost of the business restructuring and strategic review undertaken by Coates during the 2007 financial year.

Explanatory Memorandum regarding special business

(e) National Hire Post-Transaction Unaudited Pro-Forma Balance Sheet

The table below sets out the National Hire Post-Transaction Unaudited Pro-Forma Balance Sheet as at 30 June 2007.

AS AT 30 JUNE 2007	NATIONAL HIRE (AUDITED)	LESS: RENTAL SERVICES BUSINESS	NATIONAL HIRE (EXCLUDING RENTAL SERVICES BUSINESS)	PLACEMENT ¹	INVESTMENT IN NED GROUP	OTHER COATES TRANSACTION ADJUSTMENTS ²	NATIONAL HIRE POST- TRANSACTION UNAUDITED (PRO-FORMA)
	\$MIL	\$MIL	\$MIL	\$MIL	\$MIL	\$MIL	\$MIL
Cash	4.1	-4.1		86.0	-57.1	13.0	41.9
Receivables	57.7	-46.7	11.0				11.0
Inventory	27.7	-1.2	26.5				26.5
Other current assets	0.3	1.0	1.3				1.3
Current assets	89.8	-51.0	38.8	86.0	-57.1	13.0	80.7
Property plant and equipment	283.6	-282.2	1.4				1.4
Future income tax benefit	0.0	-0.2	-0.2				-0.2
Intangibles	113.0	-91.5	21.5				21.5
Other non current assets	12.1	-12.0	0.1				0.1
Investment in associate ³					297.2	-12.4	284.8
Non current assets	408.7	-385.9	22.8	0.0	297.2	-12.4	307.6
Total assets	498.5	-436.9	61.6	86.0	240.1	0.6	388.3
Trade and other creditors	36.1	-25.1	11.0				11.0
Tax liabilities and provisions	1.3	-1.1	0.2				0.2
Borrowings	13.3	-13.3	0.0				0.0
Current liabilities	50.7	-39.5	11.2	0.0	0.0	0.0	11.2
Provision for deferred tax	0.4	0.0	0.4		14.0		14.4
Borrowings	203.9	-203.9	0.0				0.0
Provision	0.3	-0.2	0.1				0.1
Non current liabilities	204.6	-204.1	0.5	0.0	14.0	0.0	14.5
Total liabilities	255.3	-243.6	11.7	0.0	14.0	0.0	25.7
Net assets	243.2	-193.3	49.9	86.0	226.1	0.6	362.6

Notes:

- The Placement relates to the proposed issue of approximately 28.66 million Shares to Elph at \$3.00 per share under the Subscription Agreement.
- Reflects \$1.2 million of profit made by National Hire on the sale of Coates shares it holds to NED Group under the Coates Scheme plus the proposed transaction fee of \$11.8 million that will be paid to National Hire at completion of the Coates Transaction by NED Operations in consideration for services in relation to arranging the convertible note subscription and bank financing before equity accounting adjustments. Excludes the proposed annual management fee of \$3.0 million that will be paid by NED Group to National Hire and Carlyle in subsequent years.
- The initial carrying amount of the investment in NED Group as an associate is calculated as the sum of the gross consideration receivable for the National Hire Rental Services business of \$281.5 million plus the additional cash contribution of \$57.1 million less equity accounting adjustments relating to the profit on sale of the Rental Services businesses of \$41.4 million receipt of the transaction fees of \$11.8 million and \$0.6 million relating to the \$1.2 million profit on sale of the Coates shares (described in note 2 above).

3.6 Risk factors

Introduction

There are a number of risks in connection with the Coates Transaction which should be considered when making a decision on how to vote on Resolutions 3, 4 and 5 at the Shareholder Meeting.

There can be no guarantee that NED Group will achieve its stated objectives or that any forward looking statements will eventuate. While the Directors recognise and acknowledge these risks, they believe that the advantages outlined in section 1.2 outweigh any risks that may arise from the Coates Transaction.

Risks specific to National Hire

(a) Cat brand usage is not exclusive and may be terminated by Caterpillar

National Hire is currently sub-licensed to use "The Cat Rental Store" trade mark in New South Wales, the Australian Capital Territory and Western Australia. This is a sub-licence from WesTrac who is licensed from Caterpillar. The sub-licence to National Hire will be replaced with a new licence to one or more wholly owned subsidiaries of Ned Group Holdings Pty Limited to operate "The Cat Rental Store" in New South Wales, the Australian Capital Territory and Western Australia. As with the current sub-licence, this new licence is likely to be non exclusive (which means that Caterpillar may license another person to use that trade mark in those territories) and the licence will include a right for Caterpillar to terminate the licence without cause. The loss of such licence or the granting of similar rights to another person by Caterpillar could have a material adverse impact on National Hire's financial performance given National Hire's 47% economic interest in NED Group if the Coates Transaction is implemented.

(b) WesTrac relationship may cease

If WesTrac ceased to satisfy the ongoing minimum level of ownership and voting interest in National Hire required by Caterpillar (see section 3.3(i)), it may have the consequence that it may be a breach of a condition of the consents from Caterpillar, and may mean Caterpillar terminates the consent for WesTrac to appoint one or more wholly owned subsidiaries of Ned Group Holdings Pty Limited to operate The Cat Rental Store business in Western Australia, New South Wales or the Australian Capital Territory.

Further, if WesTrac or any of its related bodies corporate, ceased to be the Caterpillar dealer in Western Australia, New South Wales or the Australian Capital Territory, this may have similar consequence to that outlined above.

This consequence may have a material adverse impact on National Hire's operating and financial performance.

Risks specific to the Coates Transaction

(c) Increased focus on the performance of the Capital Sales division and availability of equipment

National Hire's Capital Sales division generates a significant portion of its revenue from the distribution of products sourced from third party manufacturers. In addition, the equipment assembled and sold by National Hire's Capital Sales division comprises components from third party manufacturers. Any disruption to these supply arrangements, including an ability to obtain products for sale, or the termination of these arrangements, may have a material adverse impact on the operating and financial performance of National Hire. In the short to medium term after completion of the Coates Transaction, National Hire's reported revenue and earnings is expected to be closely linked to the performance of its Capital Sales division and therefore any adverse impact on the performance of this division will have a proportionally larger impact on National Hire's reported revenue and earnings.

(d) Shareholder approval does not mean the Coates Transaction will be implemented

Even if the Coates Transaction Resolution and the Financial Assistance Resolution are passed, there is no guarantee that the Coates Transaction will proceed. This is because the Coates Transaction is conditional on the Coates Scheme being approved by Coates shareholders and the Court.

(e) No certainty as to what National Hire will look like when the Exit Mechanisms are used

Shareholders are being asked to approve the Coates Transaction including the possible Exit Mechanisms now. However, National Hire and NED Holdings may pursue acquisition opportunities in the future and their structures may evolve. As such, the structure of National Hire and of NED Holdings at the time a party exercises its rights under an Exit Mechanism may be different from their current structure. As a result, the outcome of an Exit Mechanism may be different than that described under section 2.6 of this Explanatory Memorandum.

(f) Information provided or obtained may not be accurate

In preparing the information set out in this Explanatory Memorandum concerning the historical financial performance of Coates and the pro-forma information of NED Group and the associated assumptions and risk factors, National Hire has relied on information obtained from Coates during its due diligence on Coates, and on other publicly available information. To the extent that this information is incorrect, inaccurate or incomplete, there may be inaccuracies in, or omissions from, this Explanatory Memorandum. Specifically, the future profitability and prospects of NED Group may differ (including in an adverse way) from National Hire's expectations and as reflected in this Explanatory Memorandum, including in ways that may have a material adverse impact on National Hire's operating and financial performance.

(g) Integration may not occur as planned

The process of integrating National Hire's Rental Services business with Coates may result in unforeseen operating difficulties that may require significant management, financial or personnel resources that would otherwise be available for the ongoing development and expansion of NED Group. If this occurs, it may have a material adverse impact on the financial performance of National Hire given National Hire's 47% economic interest in NED Group if the Coates Transaction is implemented.

(h) Combining information technology systems carries integration risk

The rental operations of both National Hire and Coates rely on their respective information technology systems (IT systems), with transactions and reporting of the businesses being computer based. Aspects of the businesses that are reliant on computers and IT systems include managing inventory, issuing invoices, scheduling customer hiring requests and receiving and processing payments. There may be unforeseen difficulties in integrating the existing IT systems or introducing new IT systems to NED Group. This may have a material adverse impact on the operating and financial performance of NED Group and a consequent impact on the financial performance of National Hire given it will hold a 47% economic interest in NED Group if the Coates Transaction is implemented.

(i) Expected benefits may not be realised

NED Group's ability to realise the expected benefits of merging Coates' operations and National Hire's Rental Services business will depend upon the assumptions made by NED Group in relation to the extent and timing of those benefits. Failure to achieve some or all of the expected benefits may have a material adverse impact on NED Holdings or its operating or financial performance. This may have a material adverse impact on the financial performance of National Hire given National Hire's 47% economic interest in NED Group if the Coates Transaction is implemented.

(j) Key personnel

Although National Hire and Coates have a large number of experienced staff, the loss of key staff may have a significant impact on the operating capabilities and profitability of NED Group and, in relation to the Capital Sales division, National Hire. There is the risk that once the Coates Transaction is complete, some persons may no longer participate in NED Group under the new ownership structure. This could have a material adverse impact on National Hire's operating and financial performance.

(k) Higher leverage means greater susceptibility to interest rate increases

If the Coates Transaction is implemented, the initial net debt of NED Group will be approximately \$2.17 billion. This results in a significantly higher net debt/equity ratio for NED Group as compared to National Hire on a standalone basis. Accordingly, NED Group may be more susceptible to movements in interest rates, including increases. This

could have a material adverse impact on the operating and financial performance of NED Group and an indirect adverse impact on the financial performance of National Hire given National Hire's 47% economic interest in NED Group if the Coates Transaction is implemented.

Risks common to National Hire's and Coates' operations

Shareholders should be aware that a number of risks already apply to National Hire's and Coates' existing businesses and will continue to apply to National Hire even if the Coates Transaction does not proceed.

If the Coates Transaction is implemented, Shareholders will be exposed to these risks:

- directly through National Hire's retained businesses; and
- indirectly through National Hire's 47% economic interest in NED Group.

As Shareholders are already exposed to these risks, they are only briefly set out and described below.

(l) Economic conditions

Both Australian and world economic conditions may negatively effect performance. Any protracted slow down in economic conditions or factors such as the level of production in the relevant economy, inflation, currency fluctuation, interest rates, supply and demand and industrial disruption may have a negative impact on costs and revenue. These changes could have a material adverse impact on National Hire's operating and financial performance.

(m) Industry cycles

The financial performance of a rental operations or capital sales business is sensitive to the level of activity within the building, alterations, additions, civil, construction, mining and manufacturing industries. The level of activity in these industries can be cyclical and sensitive to a number of factors beyond the control of National Hire or NED Group. In addition it is not possible to predict the timing, extent or duration of the activity cycles in the industries in which National Hire and NED Group operate. This could have a material adverse impact on National Hire's operating and financial performance.

(n) Regulatory and legislative risks

Introduction of or changes to legislation or regulations governing hire industry operations, including equipment maintenance techniques, may also have the effect of reducing margins and profitability. Compliance with environmental regulations may also result in changes in the nature of the services provided and increase operating costs. This could have a material adverse impact on National Hire's operating and financial performance.

(o) Loss of major customer

While National Hire has built a wide customer base and NED Group is expected to build one, and while their businesses are not dependent on any one single customer, the loss of a major customer may have a material adverse impact on National Hire's operating and financial performance.

4. MORE DETAIL ON THE PROPOSED RESOLUTIONS TO IMPLEMENT THE PROPOSED TRANSACTIONS

4.1 Resolution 3 – Coates Transaction – including any future exit even if a sale of National Hire’s main undertaking

This is an ordinary resolution to approve the transactions as a whole, involving:

- the establishment of NED Group;
- having Ned Group Holdings Pty Limited acquire Coates Hire Limited;
- National Hire purchasing all of Carlyle’s interest in NED Group pursuant to an exercise of the pre-emptive rights on the terms and conditions of the Investment Deed; and
- National Hire selling all of its interest in NED Group to Carlyle or a third party buyer pursuant to an exercise of the pre-emptive rights, call option rights, drag-along rights, tag-along rights or certain other purchase rights on the terms and conditions of the Investment Deed.

This Resolution is required under ASX Listing Rule 11.1, which requires shareholders to approve a significant change to the nature or scale of a listed entity’s activities and ASX Listing Rule 11.2, which requires shareholders to approve a significant change involving a listed entity disposing of its main undertaking.

National Hire has discussed the proposed transactions with ASX, and sought confirmation from ASX that, if it obtains shareholder approval now for entering into the Coates Transaction to establish NED Group and to make the bid by means of scheme of arrangement for Coates, and makes the appropriate disclosure now of the various exit mechanisms provided for in its arrangements with NED Group and Carlyle, a further shareholder approval will not be required under ASX Listing Rules 11.1 or 11.2 for the exercise of the exit arrangements in the future.

This means that by approving this Resolution, Shareholders are also approving:

- any future exercise by National Hire of its pre-emptive, call option or purchase rights to acquire or procure a nominee to acquire Carlyle’s interest in NED Group;
- any future sale by National Hire of its interest in NED Group upon Carlyle exercising its ‘drag-along’ rights or National Hire exercising its ‘tag-along’ rights; and
- any future sale by National Hire of its interests in NED Group to Carlyle or its nominee following the exercise of the pre-emptive, call option or purchase rights,

each on the terms of the Exit Mechanisms without the need for National Hire to have a further Shareholder vote at the time of any such exit.

Shareholder approval

(a) ASX Listing Rule 11.1

ASX Listing Rule 11.1 states that if an entity proposes to make a significant change, either directly or indirectly, to the nature or scale of its activities, it must provide full details to ASX as soon as practicable, and if ASX requires, the entity must:

- obtain the approval of holders of its ordinary securities; and
- meet the requirements in chapters 1 and 2 of the ASX Listing Rules as if the entity were applying for admission to the official list.

Section 2.6 of this Explanatory Memorandum explains how National Hire’s involvement in the Coates Transaction, could involve transactions representing a significant change to the scale of the activities of National Hire.

Accordingly, National Hire provided details of those potential acquisitions and disposals to ASX and ASX has confirmed that National Hire can obtain the approval of Shareholders at this time, even though there is no certainty that any of these rights will be exercised.

(b) ASX Listing Rule 11.2

ASX Listing Rule 11.2 states that if an entity proposes to make a significant change involving the disposal of its main undertaking, it must obtain the approval of holders of its ordinary securities and must comply with any requirements of ASX in relation to the notice of meeting.

Section 2.6 of this Explanatory Memorandum explains how National Hire’s involvement in the Coates Transaction could involve transactions representing a disposal of National Hire’s main undertaking.

As noted above, if Shareholders approve Resolution 3, National Hire will not need a further Shareholder approval in the future under ASX Listing Rule 11.2 including if it sells its interest in NED Group upon the exercise by Carlyle of its drag-along rights, even if National Hire’s main undertaking at the time of the sale is its interest in NED Group so that the sale would be of National Hire’s main undertaking.

Recommendation

The Directors of National Hire unanimously recommend that Shareholders vote in favour of this Resolution.

4.2 Resolution 4 – Issue of Shares to Elph

This is a proposed ordinary resolution to approve National Hire issuing approximately 28.66 million Shares to Elph Pty Ltd and/or its nominee (**Elph**) at an issue price of \$3.00 per Share. The issue would only be made if the Coates Transaction Resolution and Financial Assistance Resolution are passed by the required majorities and the Coates Scheme proceeds.

This Resolution is required under ASX Listing Rule 7.1.

Terms of Placement

On 2 October 2007 National Hire entered into a subscription agreement with Elph Pty Ltd (a company controlled by Mr Dale Elphinstone) to make a placement of approximately 28.66 million new Shares. Elph Pty Ltd currently holds 842,857 Shares.

Following the Placement, Elph will have a relevant interest of 19.9% in the expanded share capital of National Hire.

If Resolution 3 and Resolution 5 are approved by Shareholders and the Coates Scheme proceeds, National Hire will issue Shares to Elph on the terms summarised in section 5.5.7, including the following terms:

Number of Shares to be issued	28,657,143
Date of issue and allotment	<p>On the date nominated on the subscription notice to be provided by National Hire to Elph following satisfaction of the following:</p> <ol style="list-style-type: none"> 1 final approval of the Coates Scheme by order of the Court pursuant to section 411(4)(b) of the Corporations Act 2001; 2 approval of the holders of Shares of National Hire pursuant to ASX Listing Rule 7.1; and 3 the relevant interest of Elph in National Hire Shares not exceeding 19.9% of National Hire's issued share capital after the Shares held by Elph Pty Ltd and/or its associates referred to above are taken into account. <p>Although the Subscription Agreement indicates the placement must be made by 31 March 2008, the placement will be made sooner if required by the ASX Listing Rules.</p>
Offer price	\$3.00 per Share.
Other terms of issue	The shares will be fully paid ordinary shares in the capital of National Hire and will rank equally in all respects with existing Shares on issue.

Intended use of funds	Part of the proceeds will be used to fund National Hire's cash contribution to NED Group, with the balance providing capital for growth in National Hire.
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Shareholder approval

Under ASX Listing Rule 7.1, National Hire must not (subject to certain exceptions) issue or agree to issue securities where the issue would cause the number of securities issued in the past 12 months to exceed 15% of its ordinary fully paid securities on issue 12 months before the date of issue, without the approval of Shareholders.

Since the issue and allotment of Shares to Elph will exceed 15% of National Hire's existing issued share capital, Shareholder approval of the issue and allotment is required under ASX Listing Rule 7.1.

Advantages of the proposed Resolution

The advantages of the proposed Resolution include:

- the proposed Placement price of \$3.00 per Share represents a significant premium to prices at which National Hire's Shares have traded in the past;
- the Placement will ensure there will be sufficient funds for National Hire to fund its cash equity contribution to NED Group; and
- there will be cash from the Placement remaining following completion of the Coates Transaction to provide National Hire with funds for future capital growth.

Disadvantages of the proposed Resolution

The disadvantages of the proposed Resolution include that Shareholders will not have an opportunity to participate on the same terms as those of Elph and will therefore be diluted as a result of the proposed Placement. However, Shareholders will continue to be able to acquire National Hire Shares that are traded on the ASX.

Recommendation

The Directors of National Hire unanimously recommend that Shareholders vote in favour of this Resolution.

4.3 Resolution 5 – Financial assistance

(a) What is financial assistance

Pursuant to section 260A(1) of the Corporations Act a company may financially assist a person to acquire shares in the company or a holding company of the company only if:

- (1) giving the assistance does not materially prejudice:
 - the interests of the company or its shareholders; or
 - the company's ability to pay its creditors; or
- (2) the assistance is approved by shareholders under section 260B of the Corporations Act; or

(3) the assistance is exempted under section 260C of the Corporations Act.

A company may be regarded as providing financial assistance if it furnishes something which is needed or wanted in order for the acquisition of shares to take place. Common examples include giving a guarantee or granting security over a company's assets to secure another person's liability.

(b) Requirement for shareholder approval in relation to financial assistance

Under section 260B(1) of the Corporations Act for a company to financially assist a person to acquire shares in itself or a company of which it is a subsidiary, the financial assistance must be approved by its shareholders by:

- (1) a special resolution passed at a general meeting of the company, with no votes being cast in favour of the resolution by the person acquiring the shares (or units of shares) or by their associates; or
- (2) a resolution agreed to, at a general meeting, by all ordinary shareholders.

Under section 260B(2) of the Corporations Act, if a company will be a subsidiary of a listed domestic corporation (**Listed Domestic Corporation**) immediately after the acquisition of its shares, the financial assistance must also be approved by a special resolution passed at a general meeting of the Listed Domestic Corporation.

One of the purposes of this section of the Explanatory Memorandum is to explain in further detail the proposed Financial Assistance Resolution set out in the Notice which must be passed under section 260B(2) of the Corporations Act to enable the subsidiaries of the National Hire from time to time (including the companies conducting National Hire's Rental Services business and Coates and its subsidiaries) to enter into loan and security documentation (including guarantees and mortgages and/or charges over its assets), to secure the amounts payable under the Financing which are to be used to fund the Coates Transaction and to undertake certain other actions to support the Financing.

It is also possible that future subsidiaries of NED Holdings will provide further financial assistance to National Hire and NED Group.

Shareholders are asked to consider and, if thought fit, pass the Financial Assistance Resolution as a resolution under section 260B(2) of the Corporations Act to permit National Hire to approve these arrangements which are explained in further detail below.

(c) The proposed Financial Assistance Resolution

The proposed Financial Assistance Resolution is a proposed special resolution to approve:

- (1) the financial assistance to be provided by:
 - each subsidiary of National Hire Group Limited that following implementation of transfer of National Hire's Rental Services business will be a subsidiary

of Ned Group Holdings Pty Limited (**NED Holdings**) (each subsidiary being a **Transferred Subsidiary**);

- Coates Hire Limited and its subsidiaries that following implementation of the Coates Scheme will be a subsidiary of NED Holdings; and
 - any subsidiary of NED Holdings from time to time, (each a **New Group Member**) to NED Holdings and each New Group Member; and
- (2) the financial assistance to be provided by any company that is acquired (directly or indirectly) by and becomes a subsidiary of National Hire, to NED Holdings and any of its subsidiaries from time to time, where the giving of the financial assistance is required by the terms of the finance facilities entered into in connection with the transactions.

Each of the subsidiaries of National Hire from time to time (including those referred to in paragraphs (1) and (2)) is referred to below as a **Subsidiary Guarantor**.

Shareholders are being asked to approve these arrangements because:

- on implementation of the Coates Scheme, Coates and its subsidiaries will be subsidiaries of National Hire, a listed domestic corporation;
- on implementation of the Transfer, the Transferred Subsidiaries will be acquired by NED Holdings but will still be subsidiaries of National Hire, a listed domestic corporation; and
- subsidiaries of NED Holdings from time to time will be subsidiaries of National Hire.

Shareholders are asked to approve Resolution 5, which approves these arrangements.

(d) Financing

Facilities

If the Coates Scheme becomes effective, NED Holdings will pay for the Coates shares acquired under the Coates Scheme using the equity funding described in this Explanatory Memorandum and the Financing.

The Financing for the transaction consists of:

- (1) \$2,260 million of senior debt facilities underwritten and arranged by ABN AMRO Bank NV (Australian Branch), Australia and New Zealand Banking Group Limited, Calyon Australia Limited, Mizuho Corporate Bank Limited, Sumitomo Mitsui Banking Corporation and Westpac Banking Corporation (**Senior Facilities**);
- (2) \$150 million of unlisted subordinated notes underwritten by Goldman Sachs Capital Partners L.P. and arranged by Goldman Sachs JBWere Pty Limited (**Subordinated Notes**); and
- (3) \$50 million of convertible notes underwritten by Goldman Sachs International (**Convertible Notes**), together the **Facilities**.

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The Senior Facilities consist of \$2,025 million term loan (**Senior Term Loan**), a \$175 million capital expenditure facility and \$60 million working capital and are repayable in full six years after the date of the first drawdown.

The Subordinated Notes are repayable in full seven years after the date of the first drawdown.

The Convertible Notes are convertible into non-voting ordinary shares in certain circumstances.

Borrowers

The Senior Term Loan is to be drawn by NED Holdings.
The Subordinated Notes are to be issued by NED Holdings.
The Convertible Notes are to be issued by NED Operations.

The Senior Facilities (except for the Senior Term Loan) may be available to certain members of NED Group.

Purpose

The proceeds of the Senior Term Loan, the Subordinated Notes and Convertible Notes will be used for the purposes of:

- funding the Coates Scheme consideration;
- paying amounts payable in respect of the transfer of National Hire's Rental Services business to NED Holdings;
- refinancing (or possibly collateralising of, if agreed) existing debt facilities of Coates and National Hire (National Hire's debt facilities are to be transferred to NED Holdings on implementation of the Coates Transaction);
- paying certain costs and expenses incurred in connection with the Coates Scheme and associated transactions; and
- in respect of any balance up to \$20.25 million, for general corporate purposes of NED Group. The first drawdown under the Senior Facilities, the Subordinated Notes and the Convertible Notes is required to be made on or before 10 March 2008.

Conditions precedent

The Facilities are subject to satisfaction of a number of conditions precedent, which include:

- definitive Finance Documents being entered into;
- Court approval of the Coates Scheme on the second court date;
- simultaneous funding of each equity and debt funding; and
- satisfaction of other conditions which are procedural in nature and customary for facilities of this kind.

It is expected that these conditions will be satisfied before the second court hearing date (other than Court approval and certain other conditions which are intended to be satisfied concurrently with the first drawdown under the Facilities including the payment of fees and expenses, repayment of indebtedness and releases of security interests).

As at the date of this Explanatory Memorandum, National Hire and NED Holdings are not aware of any reason why any of these conditions precedent will not be satisfied in time to allow payment drawdown and completion of the transactions outlined in this Explanatory Memorandum.

Representations and warranties

The Facilities are subject to representations and events of default as are customary for facilities of this kind. As at the date of this Explanatory Memorandum, National Hire and NED Holdings are not aware of any breach of a representation or warranty nor any circumstances that would lead to a breach of a representation or warranty.

Undertakings

The Facilities are subject to undertakings and events of default as are customary for facilities of this kind. As at the date of this Explanatory Memorandum, National Hire and NED Holdings are not aware of any breach of an undertaking or an event of default.

(e) Hedging Agreements

NED Holdings is required to enter into interest rate hedging arrangements to hedge certain of its interest rate exposure under the Senior Facilities and Subordinated Facility within 45 days after the completion of the Coates Transaction (**Hedging Agreements**).

(f) Accession to the Finance Documents

It is a condition of the Finance Documents for the Senior Facilities and Subordinated Notes that the Subsidiary Guarantors accede to certain finance documents including the facility agreement for the Facilities, the security trust deed and the intercreditor deed, pursuant to accession deeds.

Following execution of accession by a Subsidiary Guarantor, the Subsidiary Guarantor would:

- guarantee all obligations of the borrowers and guarantors under each of the Finance Documents for the Senior Facilities and Subordinated Notes, subject to the terms of such documents (including principal, interest and costs);
- grant certain indemnities including in relation to costs; and
- make various representations, warranties and undertakings contained in the Finance Documents.

(g) Security

It is a condition of the Finance Documents for the Senior Facilities and the Subordinated Facilities that the Subsidiary Guarantors grant security over their assets and undertakings as security for the obligations of all borrowers and guarantors under the Finance Documents.

Each Subsidiary Guarantor (with certain exceptions) will execute:

- first ranking fixed and floating charge (incorporating, where relevant, a share mortgage) in favour of the Security Trustee over all of its assets and undertaking;
- first ranking share mortgage over shares owned by it in favour of the Security Trustee over all of its assets and undertaking; and
- first ranking registered mortgages in favour of the Security Trustee over any freehold properties owned by the Subsidiary Guarantor.

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Under the Finance Documents, the Subsidiary Guarantor is not permitted to mortgage, pledge, charge or otherwise grant a security interest with respect to any of their property subject to certain exceptions.

(h) Other support

In addition, the Subsidiary Guarantors may be required to:

- subordinate intercompany claims;
- transfer assets to, or assume other liabilities of, NED Holdings or other subsidiaries or related parties of the NED Holdings; or
- make available directly or indirectly their cash flows (whether through dividends, capital distributions, intercompany loans or otherwise) or other resources in order to enable the NED Holdings and the other guarantors to comply with their payment and other obligations in respect of the Financing.

If any of the Senior Facilities, the Subordinated Facility or the Hedging Agreements are amended, replaced or refinanced from time to time, the Subsidiary Guarantors may be required to consent to such amendments and/or to provide additional support which may include incurring additional obligations and/or providing additional guarantees, mortgages and/or charges on the same or different terms to the Security referred to below.

In addition to the above benefits, the Subsidiary Guarantors may otherwise provide such financial assistance as NED Holdings may request.

Shareholder approval

The entry into and performance of the Finance Documents by the Subsidiary Guarantors will financially assist NED Holdings to acquire the shares in Coates and the Transferred Subsidiaries by enabling it to comply with its obligations under the financing arrangements used to acquire those shares. The entry into and performance of the Finance Documents by the Subsidiary Guarantors constitutes financial assistance in connection with the Coates Transaction within the meaning of Part 2J.3 of the Corporations Act.

Section 260B of the Corporations Act allows financial assistance to be given by a company (if it does not cause the company to become insolvent or would otherwise result in the directors breaching their duties) if it is approved by:

- a unanimous resolution by the shareholders of the company (namely Coates and each of its Australian subsidiaries and each of the Transferred Subsidiaries); and
- a special resolution by the shareholders of the listed domestic company that is the holding company of the companies to be acquired.

Under the second limb, being section 260B(2) of the Corporations Act, shareholder approval of National Hire is sought because Coates and each of their respective subsidiaries and the Transferred Subsidiaries will each be subsidiaries of National Hire from the implementation of the Coates Transaction.

For the purposes of this Resolution, WesTrac and its associates will be permitted to vote.

Advantages of the proposed Resolution

The advantages of the proposed Resolution include:

- the financiers require the financial assistance as described in this Explanatory Memorandum to be given in order to advance the funding required for the Coates Scheme. If this Resolution is not passed, the Coates Transaction will not proceed and National Hire will remain 'as is' rather than obtaining the anticipated benefits of the Coates Transaction;
- the directors of National Hire believe that the Facilities will be the most efficient form of financing available to finance the Coates Scheme, specifically to fund part of the acquisition of the Coates shares;
- the Subsidiary Guarantors may benefit from the synergies and cost savings through their integration with NED Holdings and each other; and
- the Subsidiary Guarantors will have access to additional working capital and capex facilities available under the Senior Facilities.

Disadvantages of the proposed Resolution

The disadvantages of the proposed resolution include the fact that the borrowers and Subsidiary Guarantors may default under the Finance Documents and the financiers may become entitled to enforce any of their rights under the guarantee and security granted by the Subsidiary Guarantors.

Recommendation

The Directors of National Hire unanimously recommend that Shareholders vote in favour of this Resolution.

5. ADDITIONAL INFORMATION

5.1 Interests of National Hire in Coates Hire Limited

As at the date of this Explanatory Memorandum, National Hire holds 2,009,986 Coates ordinary shares.

5.2 Directors' interests in National Hire

	SHARES
Stephen Donnelley	1,991,877
Raymond Romano	30,000

5.3 Directors' interests in the Resolutions

None of the Directors have any interest in the Resolutions other than in their capacity as an officeholder or a shareholder of National Hire.

5.4 ASX relief

National Hire has received the following confirmations from ASX:

- a confirmation that as a result of Shareholders being asked to consider the Coates Transaction Resolution, no further Shareholder approval for the purposes of ASX Listing Rules 11.1 and 11.2 will be required if the Coates Transaction Resolution is passed now for a later exercise of the Exit Mechanisms, which may have the effect of National Hire increasing or decreasing its interest in NED Operations;
- a confirmation that ASX Listing Rule 10.1 does not apply to the Coates Transaction; and
- a confirmation that ASX Listing Rule 11.4 does not apply to the Coates Transaction.

5.5 Material contracts

The following includes a summary of various contracts entered into by National Hire in relation to the Consortium established between National Hire and Carlyle to undertake the acquisition of Coates.

5.5.1 Scheme Implementation Agreement

(a) Overview

Coates, NED Holdings, NED Operations and CAP Orange Holding B.V. entered into a Scheme Implementation Agreement dated 2 October 2007. NED Operations is a wholly owned subsidiary of National Hire.

Certain defined terms used only in this section are described in paragraph (k).

(b) Conditions

The Scheme Implementation Agreement is subject to the following conditions precedent:

- Coates shareholder approval;
- no injunction or other legal restraint or prohibition restraining or prohibiting the Coates Scheme is in effect;
- no Coates regulated event occurs;
- FIRB approval (although this has been obtained);
- Court approval;
- representations and warranties provided by the parties are materially true and correct;
- no Material Adverse Change;
- NED Holdings' financial accommodation continues to be available; and
- National Hire shareholder approval is obtained for the purposes of section 260B of the Corporations Act and the ASX Listing Rules.

(c) Exclusivity

Coates must ensure that neither it nor any of its representatives solicits any Competing Proposal.

Coates must not:

- enter into negotiations or discussions with any other person regarding any Competing Proposal (even if not solicited);
- solicit or invite any party to undertake due diligence investigations on Coates; or
- make available any non-public information relating to Coates to any other person.

In addition, Coates must notify NED Holdings, and provide all relevant details, of:

- any approach that could reasonably be expected to lead to any Competing Proposal;
- any request for information which Coates has reasonable grounds to suspect may relate to a Competing Proposal; and
- any provision of information relating to Coates to any person in connection with a Competing Proposal,

and must not recommend a Competing Proposal unless at least 48 hours' notice of the matters referred to above has been provided to NED Holdings.

The restrictions set out above do not prevent Coates or the Coates board from taking any action in respect of a bona fide Competing Proposal which was not solicited by Coates, provided that the Coates board has determined:

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- that the Competing Proposal is a Superior Proposal; or
- in good faith and acting reasonably, after having received written advice from its external legal and financial advisers, that failing to respond would constitute a breach of the Coates directors' fiduciary or statutory obligations.

(d) Change of recommendation

The Coates board must not change or withdraw its recommendation in favour of the Coates Scheme unless:

- the independent expert's report concludes that the Coates Scheme is not in the best interests of Coates shareholders (including in any update to that report); or
- the Coates board determines, in good faith and acting reasonably, after having consulted with and received written advice from its external legal and financial advisers, that a Competing Proposal constitutes a Superior Proposal to the Coates Scheme.

(e) Break fee

A break fee of \$10 million is payable by Coates to NED Holdings if:

- a Competing Proposal for Coates is announced or made prior to the earlier of termination of the Scheme Implementation Agreement and the second court date and, within 12 months after the date of the Scheme Implementation Agreement, any person:
 - acquires (whether directly or indirectly) or becomes the holder of all or a substantial part of the business or assets of the Coates group;
 - acquires control (as determined in accordance with section 50AA of the Corporations Act) of Coates; or
 - otherwise acquires or merges with Coates;
- NED Holdings terminates the Scheme Implementation Agreement for a material breach by Coates;
- the Coates board changes or withdraws its recommendation unless that change or withdrawal is consequent upon the independent expert's report concluding that the Coates Scheme is not in the best interest of Coates shareholders and there is no Competing or Superior Proposal;
- the independent expert's report concludes that the Coates Scheme is not in the best interests of Coates shareholders because of a Competing or Superior Proposal;
- NED Holdings terminates the Scheme Implementation Agreement for a breach of the exclusivity provisions by Coates; or
- a Coates regulated event occurs that results in termination of the Scheme Implementation Agreement.

(f) Reverse break fee

A reverse break fee of \$10 million is payable by NED Holdings to Coates if Coates terminates the Scheme Implementation Agreement for a material breach by NED Holdings, or NED Operations or both.

An amount of \$2.5 million is payable by NED Holdings* to Coates if an injunction or other legal restraint or prohibition restraining or prohibiting the Coates Scheme is in effect.

An amount of \$5 million is payable by NED Holdings* to Coates if NED Holdings' financial accommodation is no longer available.

An amount of \$10 million is payable by NED Holdings* to Coates if National Hire shareholder approval is not obtained for the purposes of section 260B of the Corporations Act and the ASX Listing Rules.

(g) Key definitions for the Scheme Implementation Agreement

Competing proposal – a proposal pursuant to which:

- a person (other than NED Holdings, NED Operations, their representatives, or an institutional investor or hedge fund, provided that the investor is not a private equity fund) would, if the proposal were implemented, after the date of the Scheme Implementation Agreement increase its voting power in Coates to 10% or more (or enters into any agreement or arrangement which confers the rights, the economic effect of which is equivalent or substantially equivalent, to becoming a holder of 10% or more of Coates shares); or
- a person (other than NED Holdings, NED Operations or their representatives) would, if the proposal were implemented:
 - acquire (directly or indirectly) or become the holder of all or a substantial part of the business or assets of the Coates group;
 - acquire control (as determined in accordance with section 50AA of the Corporations Act) of Coates; or
 - otherwise acquire or merge (including by reverse takeover bid or dual listed company structure) with Coates.

Material Adverse Change – a matter, event or circumstance that occurs, is announced or becomes known to Coates (whether or not it becomes public) where that matter, event or circumstance has, has had or could reasonably be expected to have, individually or when aggregated with all other such matters, events or circumstances:

- a material adverse effect on the business, assets, liabilities, financial or trading position, profitability or prospects of the Coates group taken as a whole; and
- without limiting the generality of the first bullet point, the effect of:
 - diminishing the net assets of the Coates group by an amount of \$100 million or more; or
 - reducing in any financial year earnings before interest, tax, depreciation and amortisation of the Coates group by an amount of \$25 million or more.

Superior Proposal – a bona fide unsolicited Competing Proposal received by Coates which the Coates board has determined, in good faith and acting reasonably after

* This would be borne fully by National Hire, not Carlyle.

consultation with and the receipt of written advice from their external legal and financial advisers, is, or is reasonably likely to result in a proposal by the person making the Competing Proposal that is:

- reasonably capable of being valued and completed, taking into account all aspects of the Competing Proposal or the proposal and the person making it; and
- more favourable to Coates shareholders (as a whole) than the Coates Scheme, taking into account all the terms and conditions of the Competing Proposal or the proposal.

5.5.2 Supply Agreement

(a) Overview

National Hire, its wholly owned subsidiary, Allight Pty Ltd (**Allight**), and NED Operations will enter into a supply agreement on Completion in respect of National Hire's Capital Sales division (**Supply Agreement**).

The Supply Agreement will provide for National Hire and Allight to be the preferred supplier of Allight lighting towers, Perkins engines, FG Wilson generators and HJ Godwin pumps (**Goods**) to NED Operations. NED Operations will also be the preferred customer of National Hire and Allight for the Goods.

(b) Term

The Supply Agreement will have an initial term of five years and NED Operations may extend the Supply Agreement for an additional three years.

The agreement may be terminated, including for material unremedied breach by the other party of certain obligations or, on 12 months' notice, following an initial public offer of NED Operations or NED Holdings or if National Hire, or CAP Orange Holding BV's Relevant Proportion (as that term is defined in the Investment Deed) falls to 0%.

(c) Preferred supplier arrangement

NED Operations must not purchase the Goods from a third party except in certain circumstances, including:

- if the terms offered by National Hire or Allight are less favourable than those offered by a third party;
- National Hire or Allight notify NED Operations that it is unable to supply the goods and cannot source from a third party, or fail to notify NED Operations within the required time that it can supply the Goods;
- NED Operations requires the Goods urgently and cannot obtain the Goods from National Hire or Allight; and
- National Hire or Allight materially breaches certain obligations to NED Operations including to treat NED Operations as the preferred customer.

(d) Preferred customer arrangement

NED Operations is to be National Hire's and Allight's preferred customer for the Goods. National Hire and Allight must give priority to NED Operations' order and not deal with other customers on more favourable terms.

(e) Price

The price of Goods is based on the direct costs of such goods to the supplier, plus a pre-determined margin and customs duty. The price of the parts for Goods is the direct costs of such parts plus a pre-determined margin and customs duty.

5.5.3 Subscription and Cancellation Deed

(a) Overview

National Hire and NED Holdings entered into a subscription and cancellation deed on 2 October 2007 (**Subscription and Cancellation Deed**), with various National Hire entities which own National Hire's Rental Services business.

Under this deed, the various entities which held National Hire's Rental Services business will cease to be owned by National Hire and will instead become owned by NED Holdings.

(b) Purchase price

NED Holdings must pay \$237,348,954 for the shares and units it requires by a combination of transfer and subscription.

(c) Conditions for Completion

Completion of the Subscription and Cancellation Deed is conditional on the Court making an order under section 411(4)(b) of the Corporations Act approving the Coates Scheme and various matters within the control of National Hire occurring.

(d) Completion

Completion must take place immediately before the implementation of the Coates Scheme or at an earlier date and time agreed between National Hire and NED Holdings. At completion, National Hire must give to NED Holdings the following executed documents:

- the deed of undertaking to be entered into between WesTrac and NED Holdings under which WesTrac provides certain undertakings in order to preserve the interests being acquired by NED Holdings in the goodwill of National Hire's business; and
- the supply agreement to be entered into between National Hire, Allight and NED Operations in respect of the terms on which Allight will supply certain equipment and machinery to NED Operations.

(e) Termination

If completion does not occur before one month after 29 February 2008 (**Cut Off Date**), National Hire may elect, by notice in writing to NED Holdings to terminate the Subscription and Cancellation Deed or extend the Cut Off Date.

(f) Shared support services, shared sites and trade mark licence

National Hire and NED Holdings must use all reasonable endeavours to agree the terms on which members of the National Hire group will provide certain services, shared information technology systems and facilities (**Shared**

Support Services) to each other after completion. Subject to any such agreement, National Hire and NED Holdings must procure that their subsidiaries continue to provide all Shared Support Services for 12 months following completion, or for a period agreed between them.

In respect to leased premises shared by National Hire and NED Holdings (**Shared Sites**), National Hire and NED Holdings will each pay their respective proportion of the rent based on their use and occupation of the Shared Sites.

National Hire will enter into a trade mark licence agreement at completion with NED Holdings in relation to the use of National Hire's intellectual property. Under the agreement, each member of NED Group will be entitled to use the National Hire name in its corporate name.

(g) Contracts

National Hire and NED Holdings must use all reasonable endeavours to novate National Hire's rights and obligations under each key contract. The key contracts are:

- occupation licences between WesTrac and National Hire relating to premises at Reiff Street, Lavington NSW and at Lot 8, 42 Purvis Lane, Dubbo NSW;
- a master agreement between HNL Sales Pty Limited trading as Holden Leasing and National Hire; and
- an agreement between BasePlan Software Pty Ltd and National Hire relating to certain software.

National Hire and NED Holdings must use all reasonable endeavours to obtain any consents or approvals required to effect a novation of these key contracts on, or as soon as reasonably practicable after, completion.

(h) PT Allight

From completion National Hire has agreed that it will procure that NED Holdings is entitled to the benefit and the burden of the business of PT Allight (Allight Pty Ltd's Indonesian subsidiary). The parties have further agreed to procure the legal effective transfer under Indonesian law of the ownership of either the PT Allight business or all the shares in the capital of PT Allight to an entity nominated by NED Holdings within 20 business days of completion of the Subscription and Cancellation Deed.

(i) Warranties

National Hire has agreed to provide certain warranties in favour of NED Holdings in relation to its corporate structures, ability to enter into the transaction under the Subscription and Cancellation Deed, the condition of National Hire's assets, properties, intellectual property and information technology and the tax position of National Hire.

(j) Disclosure and limitations on claims

NED Holdings may not make any claim (other than a tax claim) against National Hire for breach of a warranty in respect of any information which National Hire has disclosed. In addition, National Hire is not liable under a warranty claim (other than a tax claim) unless:

- the amount determined to be payable in respect of any claim is greater than \$500,000; and
- the aggregate amount of claims made against National Hire in respect of the warranties exceeds \$5 million.

The amount National Hire may be liable to pay in respect of warranty claims (including in relation to environmental warranties) during the first 18 months after completion is \$150 million.

In respect of an environmental claim during the period between 18 months and four years after completion, the amount National Hire may be liable to pay is limited to \$35 million.

The amount National Hire may be liable to pay in respect of a tax claim made at any time is limited to \$300 million.

5.5.4 Investment Deed

(a) Overview

National Hire entered into the Investment Deed with Carlyle, NED Operations and NED Holdings on 2 October 2007. The purpose of the Investment Deed is to regulate the relationship between the parties and record the parties' agreement in relation to:

- the operation of the Coates' business and the National Hire operations to be carried on by;
- the control, management and funding of; and
- certain of National Hire and Carlyle's rights and obligations in relation to,

NED Operations (and each of its subsidiaries) (collectively **NED Group**).

(b) Board of NED Operations

The board of NED Operations is responsible for the management of NED Group. The Investment Deed contains provisions setting out the composition of the board and how decision making of the board is to be managed. In particular, each of National Hire and Carlyle will be entitled to appoint members to the board based on their percentage ownership of securities in NED Operations, being ordinary shares and convertible notes (together the **Equity Securities**). Initially, National Hire and Carlyle will each be entitled to appoint four directors to the board with this number to be adjusted to reflect any movement in their percentage of Equity Securities held.

National Hire will be entitled to appoint the chairman of the board whilst it holds at least 33.3% of the Equity Securities issued by NED Operations and retained collectively by National Hire and Carlyle.

The parties have agreed that certain matters require investor approval. While each of National Hire and Carlyle hold at least 33.3% of the Equity Securities retained collectively by National Hire and Carlyle, investor approval will be given if the matter is approved a designated nominee of National Hire and a designated nominee of Carlyle. The matters requiring investor approval are:

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- alteration of the constitution of any NED Group company;
 - changes in share capital or rights attaching to any class of Securities;
 - issuing, allotting, or granting any right to issue, allot or acquire, securities in a NED Group company or its subsidiaries (including securities convertible into shares);
 - any merger, reorganisation or consolidation of NED Group or any NED Group company;
 - other than in accordance with the Exit Mechanisms applying for a listing on a stock exchange, appointing an underwriter or lead manager in relation to a listing or discussing a sale of a NED Group company or any material assets of the business with a trade buyer;
 - insolvency proceedings or arrangements or winding up of a NED Group company (other than to carry out a reconstruction or amalgamation while solvent);
 - any change to the capital structure of the NED Operations from the initial capital structure;
 - entering any transaction, whether through the issue of Securities, debentures, bonds, notes or the entering into of contractual arrangements to reflect the economic rights of Securities, debentures, bonds or notes, that would affect the economic interests of an Investor in NED Group or cause such interests to be other than as reflected by the proportion of Equity Securities held by them;
 - a decision by the NED Operations to redeem Sponsor Convertible Notes other than at the Note Face Value (as defined in the terms attached to the Sponsor Convertible Notes); and
 - any other matter which requires member approval under the Corporations Act.
- entry into, termination of, or material change to, any contracts: (1) outside the ordinary course of business; or (2) which generate revenues or expenses in excess of \$5 million in aggregate over the life of the contract or \$2 million in any financial year;
 - disposal of or dilution of any interest in any subsidiary;
 - approval of any management delegations by the board;
 - appointments and (except in the case of either a material failure to meet business plan targets or material underperformance by NED Group) dismissals of the CEO, CFO and any other senior executives;
 - material change in nature of the Business;
 - any merger, reorganisation or consolidation of NED Group or a NED Group company;
 - determination or payment of any dividend or other distribution or return of capital;
 - approval of, or any amendment to, the business plan or any action inconsistent with or not specifically contemplated by the business plan;
 - except as approved under the business plan, incurring any capital expenditure exceeding, in aggregate, 5% of the capital expenditure budget contained in the business plan for that financial year;
 - alteration to the accounting reference date or to the accounting policies for the preparation of the accounts of any NED Group company (unless such alteration is required by law or relevant accounting requirements);
 - changing the capital structure of any NED Group company from the initial capital structure; and
 - subject to the receipt of all of the CAT consents, materially reducing the number of The Cat Rental Stores operated under the "The Cat Rental Store" or "Caterpillar" trade marks.

The parties have also agreed that certain matters require approval by a majority of directors including the affirmative vote of at least one National Hire nominee and one Carlyle nominee on the board of NED Operations. This applies while each of National Hire and Carlyle hold at least 33.3% of the total Equity Securities retained collectively by National Hire and Carlyle. These matters include:

- acquisition, disposal, termination or closure of a business, joint venture, shares, assets or properties with a value, cost or price above \$5 million other than as specifically contemplated in the business plan;
- making of any loan or advance or giving of any guarantee, indemnity or provision of any credit, other than in the ordinary course or as specifically contemplated in the business plan;
- adoption of, or material changes to employee remuneration and benefit arrangements and establishment of pensions/life assurance and other bonus schemes;
- other than in the ordinary course of business or as specifically contemplated in the business plan, incurring any indebtedness or making any borrowings in excess of \$5 million in any single transaction or series of related transactions;

In the event that a deadlock arises at the board level, each of National Hire and Carlyle must promptly refer the matter to a nominated representative. Each nominated representative must negotiate in good faith to resolve the deadlock within a specified period. If the deadlock is not resolved through this referral process, no action will be taken on the issue in dispute unless it relates to the operations of the business or the agreed business plan, in which case the board must procure that the business is conducted in a manner consistent with the then current business plan.

(c) Ongoing funding of NED Operations

National Hire and Carlyle are not obliged to provide any further funding, whether by debt or equity, to NED Operations or any of its subsidiaries. If NED Operations seeks to raise further funding, it must notify National Hire and Carlyle and allow each of them to participate in the fundraising process so as to allow each party to maintain their proportionate interest in NED Operations.

(d) Dealings in Securities

National Hire and Carlyle agreed that neither of them will sell or otherwise deal with any of their Equity Securities or any other securities in NED Operations (together **Securities**) until the expiration of the Standstill Period.

National Hire and Carlyle are, however, entitled to transfer their Securities in NED Operations to certain prescribed related parties.

National Hire and Carlyle are not permitted to create an encumbrance over any of their securities in NED Operations without the prior approval of the other party.

(e) Listing Proposal

Following the expiry of the Standstill Period, either National Hire or Carlyle may require the parties to review the steps and basis on which NED Operations (or a subsidiary or alternative holding vehicle) (**Listco**), may be listed on ASX or another recognised investment exchange and securities in Listco quoted (**Listing**).

If Carlyle and National Hire decide to proceed with a Listing, a reputable investment bank (**Investment Bank**) must be appointed to advise and assist in developing a listing proposal (**Listing Proposal**). NED Operations will then be required to instruct the Investment Bank to assist in developing and finalising the Listing Proposal (**Finalised Listing Proposal**). Once the Finalised Listing Proposal is received, Carlyle or National Hire (to the extent that either of them holds greater than 33.3% of the Equity Securities retained collectively by them at the relevant time) (being a **Requesting Investor**) may notify the other and NED Operations (such notice being the **Listing Implementation Notice**) that it wishes to proceed with the Final Listing Proposal. In these circumstances, investor approval is required to implement the Final Listing Proposal at the target book build price.

If a Listing Implementation Notice is given and receives investor approval, the Investment Bank is required to carry out a book build process in respect of the Requesting Investor's Securities to be offered for sale under the Final Listing Proposal. The Investment Bank will then report the results of the book build process including specifying the clearing price of the book build process (**Bookbuild Price**) in relation to the Equity Securities.

If a Listing Implementation Notice receives investor approval, this triggers the grant by the Requesting Investor to the other Investor (**non-Requesting Investor**) of an option (**Call Option**) to purchase the Equity Securities of the Requesting Investor nominated in the Final Listing Proposal (**Option Securities**) for participation in the Listing at the Bookbuild Price (**Option Price**). A non-Requesting Investor may exercise this Call Option within three business days of the Investment Bank advising National Hire and Carlyle of the Bookbuild Price (**Option Period**).

If the non-Requesting Investor does not exercise its Call Option within the Option Period, the Final Listing Proposal must be implemented and National Hire and Carlyle must deal with their Securities (other than any Securities they have expressed an intention to retain) in accordance with the Final Listing Proposal, unless agreed otherwise.

If the Bookbuild Price is less than 90% of the Target Bookbuild Price reported in the Final Listing Proposal, either National Hire or Carlyle may stop the Listing Proposal being implemented and prevent any exercise of the Call Option.

(f) Sale Process – Call Option and negotiations with Third Party Buyer

If either National Hire or Carlyle wish to deal with their securities in NED Operations (being a **Seller**), prior written notice must be provided to the other party (**Recipient**) of that intention (**Notice of Sale**). The Notice of Sale must specify that the relevant Seller intends to sell all its securities (**Sale Securities**), the cash consideration per security, the terms of sale and confirm that the other party may purchase all of the Sale Securities at the price and on the terms specified in the Notice of Sale (**Call Option**).

The Recipient has two weeks to engage in discussions with prospective purchasers for the Sale Securities. After this time if it has not nominated a potential purchaser, the Recipient may still exercise its Call Option provided it is still within 10 weeks of receipt of the Notice of Sale. The Recipient also has the ability to nominate a purchaser to purchase the Sale Securities subject to certain limitations.

If the Recipient or its nominee exercises the Call Option, the sale process must complete within 10 business days after the exercise of the Call Option.

If the Recipient or its nominee does not exercise its Call Option, the Seller may, for a period of 120 days following the conclusion of the Call Option process, negotiate with one of more third parties (**Third Party Buyer**). The Seller may only sell the Sale Securities to a Third Party Buyer if a variety of conditions are satisfied including the following:

- the sale price per Security (which must be cash consideration) must not be less than 97.5% of the price specified in the Notice of Sale;
- the terms must be no less favourable to the Seller than those offered to the Recipient in the Notice of Sale; and
- the sale must have completed within the relevant 120 day period.

Before the execution of sale documentation with the Third Party Buyer, the Seller must provide the Recipient with written notice (**Tag-Along Notice**) which provides the Recipient with certain information including the sale price per Sale Security, the identity of the Third Party Buyer and a copy of the relevant sale agreement and a statement confirming that the Recipient has tag-along rights to sell all of its Securities subject to the terms of the Tag-Along Notice.

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If the Recipient exercises its tag-along rights, the Recipient must sell all its Securities to the Third Party Buyer and the Seller must not sell any of the Sale Securities unless at the same time the Third Party Buyer buys all of the Recipient's Securities.

If the Seller holds more than 33.3% of the Securities at the relevant time, it may require the Recipient to sell its Securities to the Third Party Buyer at the same price and on the same terms as the Seller by including a statement to this effect in the Tag-Along Notice (**Drag-along Notice**) subject to limited conditions.

If a Drag-along Notice is given, the Recipient must sell all its Securities to the Third Party Buyer and the Seller may not sell any of the Sale Securities unless at the same time the Third Party Buyer buys all of the Recipient's Securities.

(g) Investor default

If National Hire or Carlyle is in breach of prescribed obligations under the Investment Deed, and such breaches remain unremedied for a specified period (**Event of Default**), then the non-defaulting party may:

- purchase all of the Securities of the defaulting party at an amount equal to the fair value of such Securities (as determined by an independent valuer) less 10%; or
- commence discussions with a Third Party Buyer under the sale process outlined above.

It is an Event of Default if:

- National Hire does not deliver to Carlyle a power of attorney appointing a representative of Carlyle as National Hire's attorney for the period from completion to the earlier of: (i) the date that National Hire or a person to whom it is permitted to transfer its shares in NED Operations ceases to hold any ordinary shares in NED Operations; (ii) the conversion of some or all of Carlyle's convertible notes; or (iii) the transfer by Carlyle of its Equity Securities to a third party (**Power of Attorney**);
- the Power of Attorney is not effective for any reason, and National Hire, in its capacity as a member of NED Operations, breaches its undertaking to exercise its right to vote in respect of Carlyle's Equity Securities in accordance with Carlyle's direction;
- National Hire or Carlyle does any act which requires the consent of the other under the Investment Deed;
- National Hire or Carlyle agrees to provide further funding by way of debt, equity or otherwise to any member of NED Group without the other's approval;
- National Hire or Carlyle transfers or deals with its Equity Securities other than in accordance with the procedure prescribed by the Investment Deed;
- National Hire or Carlyle breaches the procedure described in paragraph (f) above in relation to the sale of its Securities;

- National Hire or Carlyle does not notify the other of an intention to enter into a transaction with a related party or any such proposed transaction is not on commercial terms and approved by the board;
- National Hire or Carlyle does not refer to the board of NED Operations details of certain business opportunities; or
- National Hire or Carlyle breaches certain non-compete and non-solicitation obligations while holding Securities in NED Operations and for a period of 12 months from the date it ceases to hold Securities in NED Operations.

(h) Related party matters and corporate opportunities

The Investment Deed also contains provisions restricting the circumstances in which either National Hire, Carlyle or a related party of either of them may propose that a NED Group company enter into, vary or terminate any agreement or provide financial benefit to National Hire, Carlyle or a related party of either of them.

The Investment Deed also places an obligation on National Hire and Carlyle to notify the board of NED Operations of any opportunities in Australia or New Zealand that either of them become aware of which relate to the business of hiring capital equipment and provision of related services (excluding, when applied to National Hire, the manufacturing and capital sales activities).

(i) Non-compete

In order to promote the objectives of NED Group, National Hire and Carlyle agree that whilst they hold Securities and for a period of 12 months following the date they cease to hold Securities, neither of them will engage in a business similar to the business of NED Group in Australia and New Zealand. National Hire and Carlyle also agreed to certain non-solicitation obligations in relation to customers and employees.

(j) Transaction fees and management fees

Following the completion of the acquisition of Coates, NED Operations will pay a fee of \$11.8 million to each of Carlyle and National Hire in consideration for services in relation to arranging the convertible note subscription and bank financing.

NED Operations will also pay an annual management fee of \$1.5 million to each of Carlyle and National Hire in consideration for their administrative and managerial contributions to NED Operations.

(k) Power of attorney

National Hire will also grant Carlyle a power of attorney to enable Carlyle to vote as a shareholder of NED Operations based on the proportion of Equity Securities held by Carlyle at the relevant time up to a maximum of 35% of the ordinary shares in the capital of NED Operations. This is granted to reflect the fact that Carlyle will hold convertible notes, not ordinary shares.

5.5.5 Subscription Agreement

(a) Overview

NED Operations, Carlyle and National Hire entered into a subscription agreement on 2 October 2007 (**Subscription Agreement**).

NED Operations agreed to issue convertible notes (**Notes**) to National Hire and Carlyle and 99 fully paid ordinary shares to National Hire.

(b) Subscription and issue

Carlyle has agreed to subscribe for 338,583,053 Notes whilst National Hire has agreed to subscribe for 338,582,953 Notes and 99 shares.

NED Operations must issue the Notes and shares to Carlyle and National Hire, issue the corresponding certificates in respect of the Notes and enter the details of the issues of Notes and shares in the appropriate register.

(c) Purchase price

The total purchase price is \$677,166,105.

Carlyle must pay \$338,583,053 to NED Operations in immediately available funds.

National Hire must pay \$338,583,052, being \$338,582,953 for the Notes and \$99 for the shares. National Hire must issue a promissory note for \$281,472,974 to NED Operations, and then pay the balance in immediately available funds.

(d) Conditions precedent

Completion of the Subscription Agreement is conditional on final approval of the Coates Scheme by the Court. National Hire, Carlyle and NED Operations must use their best endeavours to fulfil the condition.

If the condition has not been satisfied by 29 February 2008 or becomes incapable of satisfaction, National Hire, Carlyle or NED Operations may terminate the Subscription Agreement by giving notice to each of the other parties.

(e) Board approvals

NED Operations must convene a meeting at which its directors resolve to:

- issue the Notes and shares to National Hire and Carlyle and approve the entry of the issues in its note register and share register;
- appoint up to four persons notified by Carlyle and four persons notified by National Hire as directors, subject to receipt of consents to act from each such person; and
- adopt a new constitution, subject to shareholder approval.

National Hire, as sole shareholder of NED Operations, must resolve to approve the adoption of the new constitution.

(f) Use of funds

NED Operations must use the proceeds of the investment to:

- pay any amounts payable in accordance with the Scheme Implementation Agreement, in respect of the financing of the National Hire subsidiaries and the Coates group or to any investor or other person under the Investment Deed; and
- provide working capital to NED Operations in respect of any balance.

(g) Completion

Subject to the condition precedent, completion of the Subscription Agreement will take place on the date of implementation of the Coates Scheme.

(h) Terms of issue

The Notes will rank equally in all respects with any other convertible notes on issue. The shares issued to National Hire will rank equally with all other shares on issue.

(i) Warranties and indemnities

NED Operations, Carlyle and National Hire give warranties in favour of each other party in respect of their authority to enter into the Subscription Agreement, compliance with law and relevant documents, corporate existence and the enforceability of their obligations under the Subscription Agreement.

NED Operations also gives warranties in respect of the Notes, its solvency, security over its assets and the effect of its actions following its incorporation.

The parties indemnify each other against any loss suffered from any of their warranties being false and misleading. The indemnity given by NED Operations extends, without limitation, to a loss in the value of its Notes and shares.

5.5.6 Convertible Note Deed Poll

(a) Overview

NED Operations will issue convertible notes (**Notes**) on the terms of the Convertible Note Deed Poll (**Note Deed Poll**) to each person that subscribes for such notes which will be National Hire and Carlyle.

(b) Issue of Notes

The Notes will rank *pari passu* among themselves and are subordinated in accordance with the convertible note terms (**Note Terms**).

(c) Permitted holders, registration and transfer

The permitted holders of the Notes are Carlyle, National Hire and any other person to whom Carlyle, National Hire or any subsequent noteholder is permitted to transfer its Notes under the Investment Deed. NED Operations must keep a register of noteholders.

(d) Rights conferred by Notes and subordination

The Notes constitute unsecured and subordinated debt obligations of NED Operations, ranking behind all of its other present and future obligations (other than obligations due to its shareholders or other noteholders).

On a winding up of NED Operations, the rights of noteholders are postponed to the claims of all holders of debt interests in NED Operations.

(e) No interest

NED Operations does not have to pay interest in respect of the Notes.

(f) Distributions

Prior to the redemption or conversion of all the notes on issue, NED Operations must not:

- declare or pay any dividends on its shares;
- re-purchase, redeem, cancel, buy back or acquire any proportion of its share capital unless it has, at the same time, undertaken an economically equivalent action in respect of the same proportion of the Notes of each noteholder; and
- return any capital unless it, at the same time, pays to each noteholder an amount on each Note equal to the amount of the capital return made on each share.

(g) Redemption and sale

All Notes on issue must be redeemed by NED Operations on the maturity date (being nine years and 11 months from the first date of issue of the oldest Notes on issue) or on a winding up of NED Operations.

A noteholder may choose to redeem some or all of its Notes on the occurrence of an Exit Event (as defined in the Investment Deed), an event entitling Carlyle to convert some or all of its notes, or a transfer of notes, in accordance with the terms of the Investment Deed.

In the event of a recapitalisation of NED Operations, or a refinancing of the debt facilities of NED Operations or its subsidiaries, each noteholder agrees to discuss a possible redemption of such Notes that will preserve each noteholder's proportionate interest in NED Operations.

If Notes are redeemed, NED Operations must pay an amount equal to no less than \$1.00 in respect of each Note, or any other amount at which the Notes may be issued.

(h) Conversion

A noteholder may elect to have its right to receive payment on redemption of the Notes under the Note Terms either partly or fully satisfied through the conversion of a specified number of Notes into fully paid shares. The noteholder must deliver to NED Operations a duly completed conversion notice.

If the notice relates to a mandatory redemption, it must be received at least one business day prior to that event forcing the redemption. Otherwise, it must be received together with an optional or agreed redemption notice as applicable.

The number of shares to be issued by the Issuer in relation to a valid conversion notice must be calculated in accordance with a formula specified in the Note Terms.

(i) Ranking of shares issued on conversion

Shares issued on conversion rank *pari passu* and form one class with the shares on issue on the conversion date. The new shares also rank equally with shares already on issue at the conversion date in respect of any dividends or other distributions of profits which are determined before the conversion date but payment does not occur until after the conversion date.

(j) Options and rights

If, prior to the conversion date, NED Operations grants any options, rights or placements to all shareholders entitling them to subscribe for or purchase securities, each noteholder is entitled to be granted equivalent rights, options and placements in the form of Notes on terms equivalent to those offered to the shareholders.

(k) Bonus issue

If, prior to the conversion date, NED Operations capitalises any amount of profits or reserves and applies that amount in paying up in full the nominal value of any shares to be issued to any shareholders, NED Operations must also issue to each noteholder additional Notes. The number of Notes to be issued must be calculated in accordance with the Note Terms.

(l) Rights issues

If, prior to the conversion date, NED Operations makes any rights issue offer of shares to any shareholders, it must also offer to issue to each noteholder Notes by way of rights on equivalent price, terms and conditions as apply to the rights issued to the shareholders. The number of Notes to be issued must be calculated in accordance with the Note Terms.

5.5.7 Subscription Agreement with Elph

(a) Overview

Subject to certain conditions set out below, Elph Pty Limited a current shareholder in National Hire, has agreed that it and/or its nominee will subscribe for Shares in National Hire.

(b) Details of subscription

National Hire will issue and allot 28,657,143 Shares to Elph at a subscription price of \$3.00 per Share.

(c) Terms of securities

The shares will be fully paid ordinary shares in the capital of National Hire and will rank equally in all respects with existing Shares on issue.

(d) Conditions to subscription

Elph's subscription is conditional upon:

- final approve of the Coates Scheme by order of the Court pursuant to section 411(4)(b) of the Corporations Act 2001;
- approval of the subscription by the Shareholders pursuant to ASX Listing Rule 7.1; and
- the relevant interest of Elph in Shares not exceeding 19.9% of National Hire's issued share capital after the Shares currently held by Elph and/or its associates are taken into account.

(e) Nomination of an affiliate

Elph Pty Ltd may nominate an affiliate to take all or part of the subscription. An 'affiliate' is any person that controls or, is controlled by, or is under common control with Elph Pty Ltd (as control is defined in section 50AA of the Corporations Act).

(f) Appointment rights

If the Coates Scheme becomes effective, National Hire will be entitled to appoint a number of nominee directors to the boards of each of NED Operations and NED Holdings. In these circumstances National Hire will allow Mr Dale Elphinstone to appoint one of those nominees directors to each of the boards of NED Operations and NED Holdings and to also appoint one nominee director to the Board of National Hire.

5.6 Other material information

Except as set out in this Explanatory Memorandum and in National Hire's 2007 Annual Report distributed to Shareholders with this Notice of Annual General Meeting and Explanatory Memorandum, there is no other information material to the making of a decision in relation the Coates Transaction, being information that is within the knowledge of any director of National Hire, which has not previously been disclosed to Shareholders.

6. GLOSSARY

TERM	MEANING
ASIC	the Australian Securities and Investments Commission.
ASX	ASX Limited ABN 98 008 624 691.
ASX Listing Rules	the listing rules of ASX.
Board	the board of directors of National Hire.
Carlyle	The Carlyle Group.
Carlyle Information	the information in section 2.2.
Coates	Coates Hire Limited ABN 70 073 603 586.
Coates Scheme	the proposed scheme of arrangement between Coates and its shareholders under Part 5.1 of the Corporations Act.
Coates Transaction	the proposed acquisition of Coates and related Consortium, funding and exit arrangements.
Coates Transaction Resolution	Resolution 3 of the Notice of Meeting.
Completion	the date on which the Coates Transaction is completed.
Consortium	National Hire and Carlyle for the purposes of implementing the Coates Transaction.
Constitution	the constitution of National Hire Group Limited.
Corporations Act	the Corporations Act 2001 (Cth).
Court	the Federal Court of Australia, being the Court named in the Coates Scheme.
Directors	the board of directors of National Hire.
Effective Date	the effective date under the Coates Scheme, being the day the Court order is lodged with ASIC.
Elph	Elph Pty Ltd ABN 52 070 012 252 and/or its nominee, who may be issued Shares under the Placement.
Equity Securities	the ordinary shares and convertible notes issued by NED Operations under the Investment Deed.
Exit Mechanisms	the mechanisms to permit the Consortium to dispose of interests in NED Group pursuant to clauses 11, 12 and 14 of the Investment Deed.
Explanatory Memorandum	this explanatory memorandum which accompanies the Notice of Annual General Meeting.
Finance Documents	finance documents under which the Facilities are to be provided.
Financial Assistance Resolution	Resolution 5 of the Notice of Meeting.
Financing	funding arrangement provided to NED Operations and NED Holdings and the NED Group under the Finance Documents.
Investment Deed	the Investment Deed dated 2 October 2007 between National Hire, CAP Orange Holding B.V., NED Operations and NED Group.
National Hire	National Hire Group Limited ABN 61 076 688 938.

Explanatory Memorandum regarding special business

TERM	MEANING
National Hire Information	the information in this Explanatory Memorandum other than Carlyle Information.
NED Group	NED Operations and its subsidiaries from time to time.
NED Holdings	Ned Group Holdings Pty Limited ABN 89 126 739 240.
NED Operations	Ned Operations Pty Limited ABN 85 126 069 341.
Notice of Meeting	the Notice of Annual General Meeting which this Explanatory Memorandum accompanies.
Placement	the proposed issue and allotment of approximately 28.66 million Shares at \$3.00 per Share to Elph.
Placement Resolution	Resolution 4 of the Notice of Meeting.
Pro-Forma Financial Information	the National Hire Post-Transaction Unaudited Pro-Forma Income Statement, NED Group Unaudited Pro-Forma Income Statement and National Hire Post-Transaction Unaudited Pro-Forma Balance Sheet, as detailed and explained in section 3.5.
Resolutions	the resolutions proposed to be put to Shareholders as set out in the Notice of Meeting.
Share	a fully paid ordinary share in the capital of National Hire and 'Shares' shall be constituted accordingly.
Shareholder	a shareholder of National Hire and 'Shareholders' shall be construed accordingly.
Shareholder Meeting	the annual general meeting of National Hire to which this Notice of Meeting and Explanatory Memorandum relates.
Standstill Period	the period commencing on the Completion Date (as that term is defined in the Investment Deed) and ending on the earlier of: (a) the release of National Hire's audited financial results for the year ending 30 June 2010; and (b) the third anniversary of the Completion Date.
Transfer	the proposed transfer by National Hire of its Rental Services business to NED Holdings.
Transferred Subsidiaries	the subsidiaries that currently conduct National Hire's Rental Services business that will be transferred to NED Holdings pursuant to the Transfer.
WesTrac	WesTrac Pty Ltd ABN 63 009 342 572.

Sections, paragraphs, appendices or annexures are references to sections, paragraphs, appendices or annexures of this Explanatory Memorandum.

National Hire