Appendix II

Independent Expert's report

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22 August 2001

The Directors
James Hardie Industries Limited
Level 8
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Dear Directors

Proposed Restructure of James Hardie Industries Limited

1 Introduction

On 24 July 2001, James Hardie Industries Limited ("James Hardie Industries") announced its intention to undertake a corporate reorganisation ("the proposed restructure") designed to position the James Hardie group for further international growth and improve the after tax returns to shareholders.

The proposed restructure involves shareholders exchanging their shares in James Hardie Industries for shareholding interests in a new Dutch incorporated company, James Hardie Industries NV ("JHI NV") on a one for one basis. James Hardie Industries will become a wholly owned subsidiary of JHI NV and JHI NV will become the new holding company for the James Hardie group of companies ("James Hardie Group"). No new capital is to be raised and there are no other external changes in the financial or corporate structure of the group. It is intended that JHI NV will maintain a primary listing on the Australian Stock Exchange ("ASX") but will also have a secondary listing on the New York Stock Exchange ("NYSE") (or another stock exchange registered with the SEC as a national securities exchange for the purposes of the Securities Exchange Act of 1934). Shareholders will receive their interest in JHI NV in the form of CHESS Units of Foreign Securities ("CUFS"), an ASX security issued by CHESS which represents a beneficial interest in the underlying shares in JHI NV. Holders of James Hardie Industries' American Depository Receipts ("ADRs[1]") will receive JHI NV ADRs, representing the underlying CUFS.

The proposed restructure follows on from a restructuring undertaken in 1998 ("the 1998 restructuring"). The 1998 restructuring involved listing a new Dutch company owning the James Hardie Group operations on the NYSE through an initial public offering ("IPO") in the United States. The IPO did not proceed because of adverse market conditions, leaving the restructuring incomplete. The current proposal is designed to complete the restructuring and realise most of the original objectives, albeit in a different manner and without raising new capital.

The proposal is to be implemented by way of a Scheme of Arrangement ("the Scheme") under Section 411 of the Corporations Act 2001. The Scheme requires the approval of shareholders and the Supreme Court of New South Wales.

The directors of James Hardie Industries have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's report on the proposed restructure stating whether, in Grant Samuel's opinion, the proposed restructure is in the best interests of shareholders. The report has been prepared to assist in advising shareholders in relation to the proposed restructure and should not be used for any other purpose. The report will accompany the Notice of Meeting and the Information Memorandum to be sent to James Hardie Industries' shareholders.

1 The term ADRs is a reference to either ADRs or ADSs, as the context requires

2 Summary of Opinion

In Grant Samuel's opinion, the proposed restructure is, on balance, in the best interests of James Hardie Industries' shareholders as a whole. The transaction is essentially neutral insofar as shareholders will have the same underlying economic interest in the business of James Hardie Group before and after the proposed restructure. The primary benefit of the proposed restructure is an increase in after tax returns to shareholders. This benefit is a tangible and material gain relative to the status quo. In the absence of some form of restructuring, James Hardie Industries faces an increasing corporate tax rate that could reach almost 50% in the near future. A "do nothing" approach would ultimately have negative consequences on shareholder value.

There are other benefits such as a more attractive "currency" for scrip acquisitions but these are not regarded as substantial. There are a number of costs, disadvantages and risks arising from the proposed restructure. Key issues for shareholders will be impacts on corporate governance and liquidity. While these factors are not inconsequential, and some may be significant for some shareholders, they do not, in Grant Samuel's opinion, outweigh the benefits for shareholders as a whole.

3 Key Conclusions

- **The increasing tax inefficiencies of the current structure of the James Hardie Group mean there is a need to restructure.**

  The Australian and United States tax systems have an adverse impact on net returns to shareholders in James Hardie Industries under the present corporate structure:

  - the vast majority of income is earned in the United States where the standard corporate tax rate is 35% but, when other taxes are included (e.g. state taxes), the effective rate increases to almost 40%. The James Hardie Group's reported tax rate in the year ended 31 March 2001 was 23% but this rate would be 41% when adjusted for certain temporary financing measures which are not sustainable;

  - James Hardie Industries and its Australian subsidiaries have substantial carried forward tax losses which will eliminate tax payable in Australia for at least five years. Accordingly, dividends are likely to be unfranked for at least this period (in the absence of changes to tax laws or failure to meet the "continuity" tests); and

  - James Hardie Industries needs to remit cash to Australia to fund dividend payments. Aggregate dividends substantially exceed after tax cash flows generated in Australia. In future, this cash will largely need to be remitted by way of dividend from offshore operations. Dividends paid out of the United States to Australia incur 15% withholding tax. The withholding tax cannot be offset against Australian income tax as dividend income from the United States is exempt income. As a result, the company's overall effective tax rate will increase to between 45% and 50%, depending on the level of internal dividends and various other factors (the pro forma accounts for the year ended 31 March 2001 show 48% when adjusted for United States withholding tax). This problem is expected to begin to arise in the 2001/02 financial year and fully impact the following year.

    Additionally, neither the United States corporate tax or withholding tax payments generate franking benefits in Australia, resulting in an effective tax rate on James Hardie Industries' United States income for Australian individual shareholders potentially up to 74% (if all income is paid out as dividends):

James Hardie Industries - Net returns to Australian shareholders	
	$
US pre tax earnings	10.00
US corporate tax	(4.00)
US post tax earnings (paid as dividend)	6.00
Internal withholding tax (15%)	(0.90)
Distributable profits paid as dividend (unfranked)	5.10
Personal tax (48.5%)	(2.47)
Net return to Australian individual shareholder	2.63

The inefficiency is clear when it is considered that the net return to an Australian shareholder out of a similar level of Australian sourced earnings would be almost twice as high at $5.15.

These factors mean that a "do nothing" approach would ultimately have negative consequences for shareholder value. The problems are not reduced or mitigated by the sale of the US gypsum business. In short, there is a need to restructure to protect, if not enhance, shareholder returns.

- **The proposed restructure is far more tax efficient**

The proposed restructure has two significant tax related benefits for the James Hardie Group:

- the effective corporate tax rate is reduced through the establishment of a financing vehicle in The Netherlands; and

- there will no longer be any requirement to remit cash from the United States to Australia (within the group) and incur the 15% withholding tax.

JHI NV will establish a Dutch finance subsidiary, James Hardie International Finance BV, which will lend funds to the group's operating subsidiaries. The effective tax shelter from the interest deductions claimed by the operating subsidiaries will be at rates between 30% and 40% depending on the country from which they are made, while the tax payable by James Hardie International Finance BV on its income will be only 15% because of the applicability of the Dutch Financial Risk Reserve ("FRR") regime. This structure therefore lowers the overall average tax rate.

In addition, as JHI NV will be listed on the NYSE and assuming it meets certain other conditions, there is no withholding tax on interest paid from the United States to The Netherlands and only 5% on dividends. The expected internal interest payments will largely meet the cash needs of JHI NV to pay dividends to shareholders.

The effect of the lower average tax rate and the reduction of the looming withholding tax impost are substantial as shown below. The analysis is based on comparing normalised[2] James Hardie Industries' accounts to 31 March 2001 and pro forma accounts for the same period assuming the restructuring was implemented at the beginning of the year. Both sets of figures have been prepared using United States Generally Accepted Accounting Principles ("US GAAP") and the normalised figures assume 15% withholding tax on internal dividends:

Earnings Impact of Proposed Restructure- Year ended 31 March 2001 (US GAAP)		
	Normalised before Proposed Restructure	**Proforma after Proposed Restructure**
Net profit before tax (A$ millions)	151.3	150.3
Income tax (A$ millions)	(72.1)	(41.2)
Net profit after tax (A$ millions)	79.2	109.1
Earnings per share (cents)	*19.3*	*26.6*

Source: James Hardie Industries Information Memorandum

2 James Hardie Industries' normalised accounts have been adjusted to exclude discontinued businesses disposed of prior to 31 March 2001 and to reflect other items (such as withholding taxes on internal dividends) that would impact James Hardie Industries' profit after tax if the proposed restructuring was not implemented.

On a pro forma basis, tax expense is reduced by $31 million per annum and net cash flow is increased by an equivalent amount. The effective tax rate falls from 48% to 27% and earnings per share increases by 38%. A tax rate in the order of 27% is believed to be sustainable in the longer term. This level of benefits will continue to apply, even if the US gypsum business is sold.

The benefits can also be demonstrated in terms of net returns to Australian shareholders (again assuming that all income is paid out as dividends):

JHI NV - Net Returns to Australian Shareholders				
	15% Taxpayer ($)		**48.5% Taxpayer ($)**	
	Before Proposed Restructure	**After Proposed Restructure**	**Before Proposed Restructure**	**After Proposed Restructure**
Pre tax earnings	10.00	10.00	10.00	10.00
Corporate tax (average rate)	(4.00)	(2.70)	(4.00)	(2.70)
Post tax earnings	6.00	7.30	6.00	7.30
Internal withholding tax	(0.90)	-	(0.90)	-
Distributable profits paid as dividend (unfranked)	5.10	7.30	5.10	7.30
Withholding tax on dividend	-	(1.10)	-	(1.10)
Net dividend received by Australian investor	5.10	6.20	5.10	6.20
Taxable income of investor	5.10	7.30	5.10	7.30
Australian income tax for investor	0.77	1.10	2.47	3.54
Credit for withholding tax	-	(1.10)	-	(1.10)
Net Australian tax payable by investor	0.77	-	2.47	2.44
Dividend	5.10	6.20	5.10	6.20
Net Australian tax	(0.77)	-	(2.47)	(2.44)
Net return to Australian shareholder	4.33	6.20	2.63	3.76

▪ **The proposed restructure should enhance shareholder value**

The proposed restructure should result in a significant reduction in tax expense compared to what it would have been under the current group structure. This reduction in overall tax expense and the commensurate increase in cash flow has several benefits:

- future dividends (or alternative forms of distributions in lieu of dividends such as buybacks and capital returns) should be higher than they would have been, assuming JHI NV maintains a similar dividend payout ratio policy;

- the higher cash flow provides greater financial flexibility; and

- other things being equal, the share price should be higher than it would have been had the current structure remained in place, reflecting the higher after tax cash flows and earnings. However, it should be noted that:

  - this does not necessarily mean that the future JHI NV share price will be higher than today's price of shares in James Hardie Industries as this will depend on factors such as future economic and equity market conditions and the future operating performance of the business;

  - any market price reaction is unlikely to match the increase in pro forma earnings per share, at least in part because the market did not expect James Hardie Industries to actually incur a 45-50% tax rate and may have already assumed some form of restructuring would be undertaken to mitigate the problem. In this context, while the sharemarket reacted positively to the announcement of the proposed restructure on 24 July 2001, the share price increased by only 5%; and

  - the savings should be maintainable in absolute terms but as earnings grow there may be a slight rise in the effective tax rate over time.

- **The proposed restructure may enhance the ability of the James Hardie Group to grow**

  As the James Hardie Group continues to expand in the United States (even if only in fibre cement) and internationally, it is likely that its nexus with Australia will become less relevant particularly as the head office is now in the United States. International capital markets and international investors are likely to become more important. JHI NV is likely to be more attractive than James Hardie Industries to offshore investors, particularly United States investors, and potential merger partners because of factors such as:

  - a low to medium overall tax rate sustainable in the long term, even allowing for continued growth in earnings in the United States and other international markets;
  - US dollar reporting and US GAAP primary accounts; and
  - listing on the NYSE.

  These factors will enhance the access to international equity markets. The James Hardie Group plans to expand into new geographic markets and to grow its concrete pipe business. These initiatives may involve substantial capital expenditure requirements and the need for additional equity capital.

  If shareholder value is enhanced relative to the status quo, it will also make it easier for JHI NV to pursue scrip based acquisitions as it would have the benefit of a more attractive "currency" as well as the benefits noted above.

  At the same time, it should be recognised that:

  - the number of potential merger or acquisition targets where scrip is necessary or beneficial is fairly limited. In recent years, the James Hardie Group's growth has primarily been organic or through small acquisitions for cash although scrip has been used where appropriate (eg approximately A$40 million of new capital was issued to acquire Western Gypsum in April 2000) and there may be some additional bolt-on opportunities; and
  - overseas portfolio investors are currently a very small proportion of the shareholder base. While this could be expected to increase after the proposed restructure, it is unlikely to change dramatically in the medium term or lead to any effective migration of the shareholder base to the United States (which would probably require some other type of significant corporate event such as a merger).

- **The costs, disadvantages and risks created by the proposed restructure do not outweigh the benefits**

  The proposed restructure has a number of costs, disadvantages and risks including the following:

  Costs

  - one-off transaction costs of between $17 and $19 million, of which approximately $13 million relates to Dutch capital duty. These costs will be expensed during the year ending 31 March 2002. Approximately $4.5 – 6.5 million of these transaction costs will have already been spent prior to the shareholders meeting;
  - increased administrative costs (estimated to be approximately $1 million per annum);

  Disadvantages

  - the shift to Dutch incorporation adds complications and uncertainties and raises complex issues in relation to corporate governance and control, particularly for Australian resident shareholders:
    - Dutch law requires the annual general meetings and extraordinary general meetings for JHI NV to be held in the Netherlands. It will not be practical for most Australian based shareholders to attend these meetings. However, the Articles of Association of JHI NV will

contain a requirement that an information meeting which all shareholders will be eligible to attend be held in Australia prior to any general meeting in The Netherlands. Representatives of JHI NV's senior management and Board will attend the meetings to answer questions from investors. However, this arrangement provides a less direct avenue for shareholders, particularly in a contentious situation where they would not be able to be present when all the votes are being cast and the decision is actually made;

- voting at shareholder meetings is complex, if the shareholder actually wished to attend the meeting;

- shareholders will be subject to the Articles of Association of JHI NV and to Dutch corporate law in general. JHI NV will be governed by the ASX Listing Rules. In addition, the takeover provisions of the Corporations Act 2001 and shareholder tracing provisions (which seek to replicate the effects of certain elements of the tracing beneficial ownership provisions of the Corporations Act 2001) have been incorporated into JHI NV's Articles of Association. However, Dutch law will apply in many situations. There are a number of differences in law and practice which could impact adversely on shareholders. For example, there is no right for shareholders to bring derivative actions in the name of the company and the rules on share buybacks and placements are more restrictive.

  There is also a lack of certainty as to how some of these provisions, especially the Australian takeover look alike provisions, can be enforced and how they will be applied. The Australian Securities and Investments Commission and The Takeovers Panel have no jurisdiction. While JHI NV will submit to the jurisdiction of the Australian courts, this will not necessarily always apply (e.g. if a shareholder is not Australian) and it is not clear how Dutch authorities and courts would deal with such matters or how they would decide issues. The basis of Dutch law is quite different to Australia. In addition, JHI NV may not be able to directly enforce its Articles of Association against CUFS holders to ensure compliance. While ASIC has agreed in principle to a modification to the Corporations Act 2001, the complexity of the legal issues may mean that this modification is found not to be effective, and JHI NV will have to act through CHESS Depository Nominees Pty Limited, the registered shareholder.

  At the same time, there can be some comfort taken from the example of the way in which Managed Investment Schemes effected takeover provisions through their trust deeds.

  Equally, it should be acknowledged that The Netherlands is a well recognised jurisdiction and base for major corporations (such as Unilever NV and Royal Dutch Petroleum Company NV) listed on the NYSE and elsewhere. International investors regard it as an acceptable place of incorporation and do not appear to be dissatisfied with corporate governance arrangements and shareholder protection provisions;

- primary accounts will be prepared under US GAAP (although the accounts will be translated into Australian dollars and JHI NV will provide any other information that ASIC requests);

- CUFS are an unusual form of primary ownership arrangement; and

- withholding tax will be deducted from dividends and will need to be reclaimed (see below).

These factors may combine to make it less attractive and more complex for Australian shareholders to hold shares in an offshore company such as JHI NV. On the other hand, Australian shareholders deal with complex structures such as dual listed companies or stapled securities;

- dividends from JHI NV will not be franked and will have withholding tax of up to 15% deducted from them. However:

  - James Hardie Industries' dividends would have been unfranked for some years in any event (under current tax laws); and

  - the withholding tax is creditable against the shareholders' foreign income in Australia and most other jurisdictions. Accordingly, there should be no net cost to the shareholder;

- loss of pre-CGT status for shareholders who own James Hardie Industries shares acquired before 20 September 1985. The new base for CGT purposes will be the market value of the JHI NV shares immediately after implementation of the Scheme. These shareholders will be subject to CGT on any capital gain from this date upon subsequent sale of their JHI NV shares. James Hardie Industries believes this will apply to shareholders owning approximately 14% of the issued capital;

- certain shareholders based in overseas jurisdictions will not be able to receive JHI NV shares and will only receive the proceeds from a sale of their shares. However, this will apply to less than 0.1% of the issued capital and they should receive market value;

- some New Zealand shareholders could be adversely affected under New Zealand/Foreign Investment Fund tax regime;

- there may be some institutional shareholders of James Hardie Industries that, under the terms of their investment mandates, are unable to hold overseas shares but James Hardie's research to date has indicated that this is unlikely to be a substantial issue. Such shareholders would be forced to sell, putting downward pressure on the share price; and

- reporting and regulatory complexity.

Risks

- the directors expect that JHI NV will be substituted for James Hardie Industries in both the S&P/ASX and MSCI indices. While this is a reasonable expectation, it is not certain and there is a risk that MSCI (and possibly S&P/ASX) may not regard JHI NV as being appropriate for its Australian indices, even though the shareholder base is predominantly Australian. Even if not immediate, this is a risk over time if the composition of the shareholder base changes. Exclusion from indices or any downward change in index weighting would have adverse consequences for liquidity and cause downward pressure on the share price in the short term. However, at present, removal from the MSCI indices would probably have a minor impact (although it would serve to deter new overseas investors). Removal from the S&P/ASX indices would be far more serious but this appears less likely.

  In a broader sense there is a risk that over time JHI NV drifts into a kind of investors "no man's land" where it has lost its Australian following because it is so distanced from this market and becomes perceived as essentially a United States company but it is not traded sufficiently in other markets such as the NYSE to generate real interest. However, this could also happen under the current structure;

- the ability to achieve a low average tax rate for the James Hardie Group relies in part on JHI NV being listed on the NYSE (or another stock exchange registered with the SEC as a national securities exchange for the purposes of the Securities Exchange Act of 1934) and minimum monthly level of trading in JHI NV. In addition, the aggregate number of shares traded on recognised stock exchanges in the previous tax year must be at least 6% of the average issued capital during the year. While this level of trading is expected to be easily achieved, it is beyond the control of JHI NV; and

- there are risks as to changes in the tax law regimes that have created the tax benefits. For example:

  - there could be changes in future to the United States/Netherlands double tax treaty that currently provides nil or low withholding tax rates on interest and dividend payments out of the United States. As this treaty has only recently been effected, changes are unlikely in the near term; and

  - there could be changes to the FRR regime which currently prescribes a maximum tax rate of 15% on income derived by James Hardie International Finance BV, so long as the conditions for operating in the FRR regime are satisfied. In this context, the European Commission has indicated intentions to undertake reviews of member countries' tax systems in relation to "prohibited state aid".

In Grant Samuel's opinion, these issues are not inconsequential, particularly for some individual shareholders, but they are outweighed by the benefits for shareholders as a whole of the more efficient tax structuring of the group relative to the status quo.

- **Alternatives are not as attractive**

  There is a possibility of changes in tax laws that would ameliorate the United States/Australian withholding tax issue, thereby removing the need to restructure. The Australian Government has announced intentions to grant franking credits on certain withholding tax payments (such as James Hardie Group's dividends from the United States). There is also the potential for a reduction in the withholding tax rate. However:

  - the granting of franking credits has already been delayed and is far from certain;
  - the rate reductions are merely speculation; and
  - in any event, the proposed restructure would still give a more favourable outcome in tax terms even if withholding tax was reduced to zero or franking credits were granted.

4 Other Matters

Grant Samuel's opinion should not be construed as a recommendation as to whether or not to vote in favour of the resolutions. Approval or rejection of the proposed restructure is a matter for individual shareholders based on their own circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the proposed restructure should consult their own professional adviser.

The opinion is made as at the date of this letter and reflects circumstances and conditions as at that date.

This letter represents only a summary of Grant Samuel's opinion. The full report from which this summary has been extracted is attached and should be read in conjunction with, and as an integral part of, this letter.

Yours faithfully

GRANT SAMUEL & ASSOCIATES PTY LIMITED

Grant Samuel & Associates

James Hardie Industries Limited

Independent Expert's Report

on

Proposed Restructure

Grant Samuel & Associates Pty Limited

August 2001

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1 Details of the Proposal

In September 1998, James Hardie Industries Limited ("James Hardie Industries") announced a proposal for a restructure and capital return to shareholders ("the 1998 restructuring"). The 1998 restructuring was intended to address the increasing structural imbalance and resulting operational, financial and commercial issues created by the predominance of the operations in the United States while the corporate management and shareholder base were located in Australia. The key elements of the transaction were:

- incorporation of a wholly owned subsidiary, James Hardie NV, in The Netherlands;
- sale of the core operating businesses of James Hardie Industries to this subsidiary;
- sale of approximately 15% of James Hardie NV through an initial public offering ("IPO") in the United States;
- re-location of operational headquarters and key members of the management team from Sydney to California; and
- a capital return to shareholders of between 30 and 60 cents per share.

While the majority of the restructuring occurred and a number of the benefits originally sought were derived, the withdrawal of the IPO left James Hardie Industries in need of a permanent solution to reduce its high effective tax rate and align capital markets with its operations. In particular, the company faces a significant withholding tax impost on cash repatriated to Australia to pay dividends to James Hardie Industries shareholders. This problem is likely to become an issue in the 2001/02 financial year and fully impact in the following year.

On 24 July 2001, James Hardie Industries announced its intention to undertake a further corporate reorganisation ("the proposed restructure") of James Hardie Industries and its subsidiaries ("the James Hardie Group").

The proposed restructure is being driven by the desire to improve the after-tax returns to shareholders and to position the James Hardie Group for further international growth. It completes the work commenced in the 1998 restructure and is designed to resolve the tax inefficiencies facing the company.

The proposed restructure is to be implemented by a Scheme of Arrangement ("Scheme") whereby shareholders will exchange their shares in James Hardie Industries for shareholding interests in a new Dutch incorporated company, James Hardie Industries NV ("JHI NV") on a one for one basis.

James Hardie Industries will become a wholly owned subsidiary of JHI NV and JHI NV will become the new holding company for the James Hardie Group. It is intended that JHI NV will maintain a primary listing on the Australian Stock Exchange ("ASX") but will also have a secondary listing on the New York Stock Exchange ("NYSE") (or another stock exchange registered with the SEC as a national securities exchange for the purposes of the Securities Exchange Act of 1934).

Other features of the proposed restructure include the following:

- JHI NV shares will be held in the form of CHESS Units of Foreign Securities ("CUFS") for interests listed on the ASX and American Depository Receipts ("ADRs") for securities listed on the NYSE[1]. CUFS are an ASX-listed security issued by CHESS[2]. Each JHI NV CUFS unit will give its holder a beneficial interest in one underlying JHI NV share. Legal title to the underlying JHI NV share will be registered in the name of a CHESS nominee, CHESS Depository Nominees Pty Limited ("CDN"). The ADRs will represent an underlying interest in the CUFS;
- scrip for scrip rollover relief from Australian capital gains tax is expected to apply to the Scheme;

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[1] The term ADRs is a reference to either ADRs or ADSs as the context requires.

[2] The clearing house electronic sub-register system of share transfers operated by ASX Settlement and Transfer Corporation Limited.

- all the directors of James Hardie Industries will become directors of JHI NV (except for PJ Willcox who will be retiring for personal reasons unrelated to the proposed restructure) but the board will be structured in a manner usual for Dutch incorporated companies involving:
  - a Supervisory Board (non executive directors only);
  - a Managing Board (executive directors only); and
  - a Joint Board (non executive directors, the chairman of the Managing Board and possibly some other executive directors);
- JHI NV will be constituted under Dutch law but its Articles of Association will incorporate, to the extent possible, elements of Australian corporate law including:
  - the takeover provisions under Chapter 6 of the Corporations Act 2001; and
  - certain shareholding tracing provisions (which seek to replicate the effect of certain elements of the tracing beneficial ownership provisions of the Corporations Act 2001);
- general meetings (annual and extraordinary) will be held in The Netherlands but there will be "informational" shareholder meetings held in Australia prior to the formal meeting;
- financial accounts will be prepared in US dollars under United States Generally Accepted Accounting Principles ("US GAAP") and translated into Australian dollars;
- a Dutch company, James Hardie International Finance BV will be established as the James Hardie Group's new finance company to undertake the James Hardie Group's borrowings and other treasury functions; and
- shares in JHI NV that would have been issued to ineligible shareholders (shareholders resident outside of Australia, New Zealand, the United States and the United Kingdom) will be sold by a nominee through the sharemarket and the proceeds returned to the overseas shareholders.

The Scheme requires the approval of both shareholders and the Supreme Court of New South Wales.

2 Scope of the Report

2.1 Purpose of the Report

The proposed restructure is subject to the Corporations Act 2001 and the ASX Listing Rules. In particular, it is subject to approval in general meeting by James Hardie Industries' shareholders pursuant to Section 411 of the Corporations Act 2001 ("Section 411").

Section 411 governs schemes of arrangement and requires the prior approval of shareholders before a scheme of arrangement can be effected. Part 3 of Schedule 8 to the Corporations Regulations prescribes the information to be sent to shareholders in relation to a scheme of arrangement pursuant to Section 411. Schedule 8 of the Corporations Regulations requires an independent expert's report in relation to a scheme of arrangement pursuant to Section 411 to state whether a scheme of arrangement is in the best interest of the shareholders and to state reasons for that opinion. The information provided to shareholders under Part 3 of Schedule 8 must include an independent expert's report when a party to the scheme of arrangement has a prescribed shareholding or where any of its directors are also directors of the scheme company. As the directors of James Hardie Industries will also be directors of JHI NV, a report is required in these circumstances.

The directors of James Hardie Industries have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare a report stating whether, in its opinion, the proposed restructure is in the best interests of the shareholders of James Hardie Industries.

This report has been prepared by Grant Samuel for the benefit of James Hardie Industries' shareholders (and no other party) to assist them in considering the resolutions to approve the transaction. It will accompany the Notice of Meeting and Information Memorandum to be sent to shareholders. The sole purpose of the report is as an expression of Grant Samuel's opinion as to whether the proposed restructure is in the best interests of James Hardie Industries' shareholders.

Grant Samuel's opinion should not be construed as a recommendation as to whether or not to vote in favour of the resolutions. Approval or rejection of the proposed restructure is a matter for individual shareholders based on their own circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the proposed restructure should consult their own professional adviser.

2.2 Basis of the Report

There is no legal definition of the expression "*in the best interests*". The Australian Securities Commission, now the Australian Securities and Investments Commission ("ASIC"), issued Policy Statement 75 which established certain guidelines in respect of independent expert reports prepared for the purposes of Sections 411, 648 and 703 of the Corporations Act 2001. Policy Statement 75 is primarily directed towards reports prepared under Section 648 and, in particular, the meaning of "*fair and reasonable*" in the context of a takeover offer. The statement gives limited guidance as to the regulatory interpretation or meaning of "*in the best interests*" in the context of schemes of arrangement other than to imply that it is similar to "*fair and reasonable*".

Schemes of arrangement pursuant to Section 411 can encompass a wide range of transactions. Accordingly, "*in the best interests*" must be capable of a broad interpretation to meet the particular circumstances of each transaction. This involves a judgement on the part of the expert as to the overall commercial effect of the transaction, the circumstances that have led to the proposal and the alternatives available. The expert must weigh up the advantages and disadvantages of the proposal and form an overall view as to whether the shareholders are likely to be better off if the proposed transaction is implemented than if it is not.

In Grant Samuel's opinion, the most appropriate basis on which to evaluate the proposed transaction is to assess its overall impact on the shareholders of James Hardie Industries and to form a judgement as to whether the expected benefits outweigh any disadvantages and risks that might result.

The following factors, inter alia, have been considered in determining whether the proposed restructure is in the best interests of shareholders:

- the impact on business operations;
- the effect on earnings and dividends attributable to existing shareholders;
- the effect on the financial position of James Hardie Industries;
- the likely impact on the market for, and market value of, shares in James Hardie Industries;
- any other benefits of the proposed restructure; and
- the costs, disadvantages and risks of the proposed restructure.

2.3 Sources of Information

The following information was utilised and relied upon, without independent verification, in preparing this report:

Publicly Available Information

- the Information Memorandum accompanying this report (including earlier drafts);
- annual reports of James Hardie Industries for the five years ended 31 March 2001;
- recent brokers' reports on James Hardie Industries; and
- other information on the building industry.

Non Public Information Provided by James Hardie Industries

- internal briefing papers related to the proposed restructure; and
- other confidential correspondence, legal advice and working papers.

Grant Samuel has also held discussions with, and obtained information from, senior management of James Hardie Industries and its financial, taxation and legal advisers.

2.4 Limitations and Reliance on Information

Grant Samuel believes that its opinion must be considered as a whole and that selecting portions of the analyses of factors considered by it, without considering all factors and analyses together, could create a misleading view of the process underlying the opinion. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary.

Grant Samuel's opinion is based on economic, sharemarket, business trading, financial, regulatory and other conditions and expectations prevailing at the date of this report. These conditions can change significantly over relatively short periods of time. If they did change materially, subsequent to the date of this report, the opinion could be different in these changed circumstances. However, Grant Samuel has no obligation or undertaking to advise any person of any change in circumstances which comes to its attention after the date of this report or to review, revise or update its report or opinion.

This report is also based on financial and other information provided by James Hardie Industries. Grant Samuel has considered and relied upon this information and its completeness, accuracy and fair presentation. James Hardie Industries has represented in writing to Grant Samuel that, to its knowledge, the information provided was complete, accurate and not misleading in any material respect. The information provided to Grant Samuel has been evaluated through analysis, enquiry and review for the purpose of forming an opinion as to whether the proposed restructure is in the best interests of James Hardie Industries' shareholders. However, in preparing reports such as this, time is limited and Grant Samuel does not warrant that its enquires have identified or verified all the matters that an audit, extensive examination or "due diligence" investigation might disclose. Except as expressly set out in this report, Grant Samuel has not attempted to independently verify the completeness, accuracy or fair presentation of any of the information provided by James Hardie

Industries. In any event, an opinion as to whether a transaction is in the best interests of shareholders is more in the nature of an overall review rather than a detailed audit or investigation.

Grant Samuel has no reason to believe that any material facts have been withheld and James Hardie Industries has confirmed in writing that it believes it has provided all relevant information of which it is aware but Grant Samuel does not represent that it has received all relevant information.

An important part of the information used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgements of management. This type of information was also evaluated through analysis, enquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

Preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of James Hardie Industries. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles and in a manner consistent with the methods of accounting in previous years (except where noted).

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue. In forming its opinion, Grant Samuel has also assumed that:

- the information set out in the accompanying Information Memorandum dated 10 August 2001 is complete, accurate and fairly presented in all material respects;

- the publicly available information relied on by Grant Samuel in its analysis was accurate and not misleading;

- the Scheme will be implemented in accordance with its terms; and

- the legal mechanisms to effect the Scheme are correct and will be effective.

3 Profile of James Hardie Group

3.1 Background

The business of the predecessors to the James Hardie Group commenced in 1888 with the importing of asbestos cement flat sheet into Australia. Manufacturing in Australia of asbestos cement products began in 1917. James Hardie Industries was listed on the ASX in 1951 and diversified its operations during the 1970s and 1980s through a series of acquisitions. In the early 1980s, James Hardie Group pioneered the development of cellulose fibre cement technology, eliminating the use of asbestos in its fibre cement building products. This new technology was applied throughout the operations of the James Hardie Group in Australia and New Zealand during the 1980s as the technology was fully developed and perfected. The James Hardie Group also entered the gypsum wallboard industry in the United States in 1987 by acquiring two gypsum wallboard manufacturers which each held a significant share of the wallboard market in the western region of the United States. In the late 1980s, the James Hardie Group initiated a strategy to extend the fibre cement business internationally by establishing operations in the United States.

In 1993, a process of rationalisation and a refocus on core businesses was initiated. A decision was taken to concentrate on the most prospective businesses, fibre cement and gypsum wallboard. In pursuit of this strategy, the James Hardie Group has:

- expanded its fibre cement business in the United States, opening plants in Florida, Illinios, Texas and Washington in the United States;
- expanded its fibre cement business to other countries, including the Philippines and South America. Plants in Australia and New Zealand have been consolidated and significantly upgraded;
- expanded the gypsum wallboard plants in Washington and Nevada, acquired and expanded the United States gypsum wallboard business of Boral Limited ("Boral") based in Nashville, Arkansas and acquired Western Gypsum, a gypsum mining operation in Utah; and
- disposed of a number of non core businesses including Australian and New Zealand building systems, building services, irrigation, healthcare, amusement parks, bathroom products and plastic pipelines and fittings.

The James Hardie Group is now primarily engaged in two businesses:

- the manufacture and sale of fibre cement products in the United States, Australia, New Zealand and the Philippines and the export of fibre cement products to parts of Asia. The James Hardie Group is the largest manufacturer of fibre cement products in each of its markets and produces over 80% of the fibre cement sold in the United States. The rapid growth in the United States since the early 1990s has been a major feature of the business; and
- the manufacture and sale of gypsum wallboard in the United States. It is the fourth largest gypsum wallboard manufacturer in the United States.

The Australian and New Zealand windows business is in the process of being divested with an expected completion date in the year ending 31 March 2002. The company has also begun a formal process to evaluate a sale of its gypsum business and is in active, ongoing discussions with a number of parties.

The James Hardie Group plans to continue to pursue growth in fibre cement by:

- building on positions in existing markets;
- increasing the product range within these markets. In particular, it plans to use its research and development activities to introduce new and differentiated products; and
- developing new products to enable the expansion of the fibre cement business internationally.

If a sale of its United States gypsum business does not occur, the James Hardie Group aims to capitalise on the scale of its plants, reduce manufacturing costs and expand its service and product offering.

3.2 Fibre Cement

3.2.1 Product Overview

Fibre cement products are used in building and construction applications and include external cladding (siding), roofing, facades, internal walls, ceilings, floors, eaves and fences. Fibre cement products compete with alternative products manufactured from natural and engineered wood, vinyl (plastic), stucco, masonry (bricks and blocks) and gypsum. The James Hardie Group is the world market leader in fibre cement products and systems for internal and external building construction application. The James Hardie Group now uses only cellulose fibre (wood pulp) as the fibre reinforcement in its fibre cement products. The superior durability and versatility of fibre cement products has facilitated its substitution for traditional siding products, such as timber and engineered wood products.

3.2.2 Operations

The James Hardie Group operates fibre cement manufacturing facilities throughout Australia, New Zealand, the United States and the Philippines and has recently commissioned a manufacturing facility in South America. It also markets and distributes fibre cement building products (currently exported from Australia and the Philippines) to selected niche markets in Japan, South Korea, Taiwan, Hong Kong, Vietnam, Thailand, Singapore, Indonesia and the United Arab Emirates.

The location and capacity of each fibre cement plant is summarised below:

James Hardie Group – Fibre Cement Manufacturing Facilities

Location	Commencement of Operations	Annual Capacity (mmsf)[3]
Australia		
Sydney	1978[4]	190
Brisbane	1976[3]	180
New Zealand		
Auckland	1938	90
Philippines		
Cabuyao, Manila	1998	120
South America		
Santiago, Chile	2001	35
United States		
Tacoma, Washington	1998	200
Fontana, California	1989	180
Cleburne, Texas	1997	385
Waxahachie, Texas	2001	260
Plant City, Florida	1994	300
Plant City, Florida (FRC pipes only)	2001[5]	100[6]
Peru, Illinios	2000	200[7]

Source: James Hardie Industries

All facilities have been constructed to provide the flexibility to increase production by either adding more lines to existing facilities or increasing capacity utilisation and

[3] Calculated assuming continuous operation, 24 hours a day and the manufacture of 5/16 inch thickness siding and measured in million square feet ("mmsf").

[4] At current location.

[5] Expected commencement date.

[6] Pipe capacity is measured in tons rather than square feet. The Plant City facility has pipe capacity of 100,000 tons.

[7] An extra line is being added to this plant, increasing total capacity to 400mmsf later in 2001.

enhancing economies of scale. The plants are generally high volume, low cost plants reflecting the economies of scale achievable as a result of the James Hardie Group's market position and the benefits of extensive research and development which has resulted in proprietary process technologies.

3.2.3 Markets and Performance

(i) Asia Pacific

In March 2001, James Hardie Industries announced the formation of a regional division for its Asia Pacific fibre cement operations. This division is designed to improve the performance of the Australian, New Zealand and Philippines operations and adopt a co-ordinated regional approach to sales and marketing.

Australia

The James Hardie Group's Australian product range includes internal lining, wet area lining, architectural columns, facades and fascia panels, fencing and floor and tile underlay.

In Australia, James Hardie Industries faces competition from two domestic competitors as well as import competition. Over recent years, the competition from the other Australian operators and lower priced imports have reduced the James Hardie Group's volumes and sales price. However, in recent years, this has been offset by increased selling prices. Volumes declined in 2001 due to the fall in construction activity. The James Hardie Group's share of fibre cement sales is still high at approximately 71%.

The James Hardie Group has been focused on reducing its manufacturing costs. In September 2001, the James Hardie Group will close its Perth fibre cement plant, the highest cost-producer of its Australian plants. The Sydney and Brisbane plants have sufficient capacity to service the entire Australian market as well as pursue the export market.

New Zealand

In New Zealand, James Hardie Building Products Limited ("James Hardie NZ") remains the only domestic manufacturer but increasing competition over the last four years from lower priced imports from Australia and Asia has reduced market share, sales volumes and selling prices. In 2001, sales and volumes fell due to a dramatic fall in the country's construction activity. Despite the fall in activity, average prices rose 5%, reversing the 3-year trend of falling sales prices. James Hardie NZ's share of all fibre cement sales in the year ended 31 March 2001 was approximately 87%.

These factors can be seen in the performance of the business over the past five years as set out below:

Key Statistics – Australian and New Zealand Fibre Cement Operations

	Year ended 31 March				
	1997	**1998**	**1999**	**2000**	**2001**
Sales revenue[8] (A$ millions)	300.6	268.1	255.4	265.5	241.9
Volume (mmsf)[9]	318.4	299.2	286.3	286.8	255.8
Average sales price per msf[10] (A$)	944	896	892	926	946

Source: James Hardie Industries Annual Reports

8 Sales include all sales of fibre cement sold worldwide excluding the United States and the Philippines.

9 Volume sold represents fibre cement produced or sold worldwide, excluding the United States and the Philippines, and measured in million square feet.

10 Average price of fibre cement sold worldwide, excluding the United States and the Philippines, per thousand square feet.

Philippines

In the early 1980s, the James Hardie Group began exporting fibre cement products to the Philippines where they were sold as an alternative to plywood. In 1998, a plant was commissioned in Manila. In 2001 the business experienced increased sales revenue and volumes as fibre cement products increased market penetration against competing products, principally plywood. The average sales price also increased, reflecting a change in the company's product mix to higher margin products and increased sales of exports. The James Hardie Group's penetration of the market has reached 17%.

The performance of the business over the past five years is set out below:

Key Statistics – Philippines Fibre Cement Operations

	Year ended 31 March				
	1997	**1998**	**1999**	**2000**	**2001**
Sales revenue (A$ millions)	n/a	16.4	12.6	21.6	31.7
Volume (mmsf)	n/a	30.9	27.7	47.0	62.9
Average sales price per msf (A$)	n/a	531	455	460	504

Source: James Hardie Industries

(ii) United States

The United States operations of the James Hardie Group ("James Hardie USA") opened its first fibre cement manufacturing plant to service the residential building market in the United States in 1989. As the market has developed, James Hardie USA has increasingly targeted all segments of the building market including the repair and remodel market and commercial construction segments.

James Hardie USA is the leader in fibre cement in the United States with a share of approximately 86% of all fibre cement sales. James Hardie USA now has six manufacturing plants in the United States.

In order to gain fibre cement business, over the last few years some competitors have reduced prices and James Hardie USA has followed suit, albeit maintaining a premium. This trend was reversed in 2000 when, despite aggressive pricing from competitors, the average sales price increased to US$428 per msf. The upward trend which continued into 2001 reflects changes to the company's product mix with the introduction of higher margin differentiated products. The sales volume in 2001 also increased as fibre cement continued to take market share from other products. In addition, James Hardie USA's share of all fibre cement sales has increased from 80% to 86%.

The dramatic growth in demand is evident in the table below which shows performance of the United States fibre cement operations over the last five years:

Key Statistics – United States Fibre Cement Operations

	Year ended 31 March				
	1997	**1998**	**1999**	**2000**	**2001**
Sales revenue (US$ millions)	148.7	181.1	245.6	310.5	372.1
Volume (mmsf)	317.0	416.1	586.2	724.9	850.1
Average sales price per msf (US$)	469	435	419	428	438

Source: James Hardie Industries Annual Reports

In March 2001, James Hardie USA commenced manufacturing large drainage pipes at a new plant in Florida. The plant has a production capacity of 100,000 tonnes. The initial target market for the pipes will be Florida and the surrounding states due to the current high levels of building and construction activity in this region.

(iii) South America

In December 2000, James Hardie Industries announced its entry into the South American fibre cement market with the acquisition of a new plant in Santiago, Chile. Entry into the South American market was prompted by signs that building products containing asbestos are progressively being banned in that area. South America accounts for approximately 15% of worldwide demand for fibre and asbestos cement building materials. Approximately 80% of that demand is currently for asbestos cement.

The plant commenced commercial production in January 2001 with an annual production capacity of 35 million square feet. The plant will service the Chilean market for fibre cement and also export product to Argentina and Brazil. The company initially plans to sell flat sheet products for interior and exterior wall applications.

In the first three months of operation, the South American business sold 34,000 square feet of fibre cement.

3.3 Gypsum Wallboard

3.3.1 Product Overview

The two main uses for gypsum in construction are in the production of plaster products (plaster and wallboard) and as a setting retarder in the production of cement. Gypsum wallboard (also called plasterboard) is used as a lining in residential and non residential buildings.

3.3.2 Operations

James Hardie USA operates three gypsum wallboard manufacturing facilities in the United States:

James Hardie USA - Gypsum Wallboard Manufacturing Facilities		
Location	**Date of Acquisition**	**Annual Capacity (mmsf)[11]**
United States		
Seattle, Washington	1987	700
Las Vegas, Nevada	1987	670
Nashville, Arkansas	1997	1,400

Source: James Hardie Industries

All of the gypsum manufacturing plants have been substantially expanded and upgraded in order to improve cost efficiencies. The increase in capacity allowed the company to take advantage of the strong demand in the 1999/2000 year.

These plants also produce a wide range of gypsum plaster products for use in construction and industrial applications as well as specialty ground gypsum for agricultural markets.

James Hardie USA has pursued other opportunities in this business, entering the market for joint treatment compounds in October 2000 and in April 2000, acquiring Western Gypsum, a gypsum mining operation in Utah with mining rights to over 3.5 billion tons of high quality, low cost gypsum rock.

In May 2001, James Hardie Industries announced that it had begun a formal process to evaluate the possible sale of its US gypsum assets. On 2 July 2001, the company announced the sale of its gypsum mine in Las Vegas for US$50 million, subject to a number of conditions being fulfilled. This represents the first stage of the company's exit from its gypsum operations.

[11] Calculated assuming the manufacture of ½ inch wallboard and measured in million square feet.

3.3.3 Markets and Performance

Gypsum wallboard is regarded as a commodity product. Competition is largely based on price, rather than product quality or customer service. Profitability is determined by operational efficiency and the strategic location of plants. Sales are closely correlated with the level of building and construction activity and gross domestic product.

The gypsum wallboard business in the United States is dominated by three large competitors which collectively represent approximately 75% of industry sales volumes. James Hardie USA is the fourth largest producer with approximately 8% market share.

James Hardie USA occupies a strong niche position in the market. Its strategy has been to develop well located, large scale, low cost plants to realise economies of scale and to compete effectively.

A strong United States economy and construction cycle resulted in historically strong demand for gypsum wallboard. Combined with increasing capacity, James Hardie USA's sales volumes grew strongly between 1997 and 2000. In 2001, however, the US gypsum business suffered a significant deterioration in earnings. The average net sales price fell dramatically due to price cuts by leading industry participants in an effort to remove excess capacity, and a slowdown in construction activity. Despite the poor performance from the gypsum business, James Hardie USA achieved the highest returns on its gypsum assets in the industry for the three months to 31 March 2001. Due to its low cost manufacturing operations, James Hardie USA's gypsum business was one of only a few in the industry to make a profit in the six months to 31 March 2001.

These factors can be seen from the performance data for the last five years set out below:

Key Statistics – United States Gypsum Wallboard Operations

	Year ended 31 March				
	1997	**1998**	**1999**	**2000**	**2001**
Sales revenue (US$ millions)	103.5	200.5	258.1	358.5	275.2
Volume (mmsf)	862.3	1,554.5	1,883.7	2,197.7	2,218.6
Average gross sales price per msf (US$)	120	129	137	163	124
Average net sales price per msf[12] (US$)			112	138	96

Source: James Hardie Industries Annual Reports

3.4 Asbestos Litigation

The health impact of asbestos has resulted in a long history of claims against companies involved in asbestos production and/or applications over many years including various former members of the James Hardie Group. Claims are expected to continue to arise for at least the next decade as some asbestos related illnesses do not manifest themselves for up to 20 to 30 years.

In February 2001, the James Hardie Group established the Medical Research and Compensation Foundation ("the MRC Foundation") with assets of $293 million to compensate sufferers of asbestos-related diseases with claims against certain former James Hardie Group subsidiaries. These claims and potential claims are against two particular former subsidiaries. All of the shares in the subsidiaries have now been divested to the MRC Foundation. An extraordinary item of $238 million has been charged to the profit and loss account in the year ended 31 March 2001 to reflect the transfer of the companies to the MRC Foundation. All costs incurred by members of the James Hardie Group to date (both legal expenses and settlements) have been expensed as incurred (as a normal operating expense).

3.5 Earnings Performance

A summary of the James Hardie Group's financial and operating performance for the five years ended 31 March 2001 is set out in the table below. The figures are prepared using Australian

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12 As of November 2000, the company began reporting the net sales price for gypsum. The net selling price is the gross selling price less freight, discounts and rebates and is the measure more commonly used by other industry participants.

accounting standards and Australian Generally Accepted Accounting Principles ("Australian GAAP"):

James Hardie Group - Earnings Performance					
	Year ended 31 March (A$ millions)				
	1997	**1998**	**1999**	**2000**	**2001**
Sales revenue	1,626.0	1,297.9	1,368.9	1,602.9	1,548.6
Earnings before depreciation, amortisation, interest and tax ("EBITDA")	**174.0**	**197.6**	**239.0**	**354.3**	**219.5**
Depreciation and amortisation	(83.4)	(62.9)	(75.9)	(83.2)	(73.2)
Earnings before amortisation of goodwill, interest and tax ("EBITA")	**90.6**	**134.7**	**163.1**	**271.1**	**146.1**
Amortisation of goodwill	(3.2)	(2.7)	(3.1)	(3.0)	(3.5)
Earnings before interest and tax ("EBIT")	**87.4**	**132.0**	**160.0**	**268.1**	**142.6**
Net interest expense	(17.4)	(17.6)	(24.8)	(31.8)	(23.8)
Operating profit before tax and abnormal item	**70.0**	**114.4**	**135.2**	**236.3**	**118.8**
Income tax expense	(19.0)	(31.3)	(41.0)	(85.7)	(26.8)
Operating profit after tax and before abnormal items	**51.0**	**83.1**	**94.2**	**150.6**	**92.0**
Minority interests	0.3	0.2	-	-	-
Operating profit after tax and before abnormal items attributable to members	**51.3**	**83.3**	**94.2**	**150.6**	**92.0**
Abnormal items (net of tax)	31.7	(41.7)	(169.3)	7.9	(53.6)
Operating profit after tax and abnormal items attributable to members	**83.0**	**41.6**	**(75.1)**	**158.5**	**38.4**
Extraordinary items (net of tax)	-	-	-	-	(237.9)
Operating profit after tax and abnormal and extraordinary items attributable to members	**83.0**	**41.5**	**(75.1)**	**158.5**	**(199.5)**
Statistics					
Earnings per share, before abnormal items (cents)	*13.1*	*20.6*	*23.1*	*37.0*	*22.5*
Dividends per share (cents)	*13.0*	*14.5*	*15.0*	*18.0*	*19.0*
Total dividends paid or provided for (A$ millions)	*44.0*	*58.7*	*61.1*	*73.3*	*78.2*
Dividends franking (%)	*100.0*	*0.0*	*0.0*	*0.0*	*0.0*
Dividend payout ratio (%)	*83.9*	*70.5*	*64.8*	*48.6*	*85.0*
Effective tax rate (%)	*27.1*	*27.4*	*30.3*	*36.3*	*22.6*
EBITDA/Net interest (times)	*10.0*	*11.2*	*9.6*	*11.1*	*9.2*
EBITA/Net interest (times)	*14.0*	*14.8*	*7.8*	*8.7*	*6.1*

Source: James Hardie Industries Annual Reports

The reported earnings for the James Hardie Group includes the results of the various businesses that were disposed of over the period in particular in the years ended 31 March 1997 and 31 March 2000. Accordingly, the table does not provide a meaningful analysis of the underlying earnings performance of the businesses of the James Hardie Group.

The abnormal items arise from:

- provisions for, and realised, gains and losses on disposals of businesses and investments;
- rationalisation costs, including Asia Pacific rationalisation in 2001;
- costs associated with the reorganisation and debt refinancing ($46.8 million in 1999);
- write-offs of future income tax benefits ($104.2 million in 1999);
- the write-off of marketing expenses associated with establishing the fibre cement business in the Philippines which had previously been capitalised; and
- litigation costs (not including asbestos related costs).

The extraordinary item of $237.9 million in 2001 is due to the establishment of the MRC Foundation.

The table below shows the historical performance on a divisional basis over the last five years, separating out the results of divested businesses. This analysis gives a more meaningful indication of underlying profitability:

James Hardie Group – Divisional Performance					
	Year ended 31 March (A$ millions)				
	1997	**1998**	**1999**	**2000**	**2001**
Sales					
US Fibre cement	188.1	251.4	395.3	481.8	669.3
US Gypsum	131.6	286.6	416.8	556.3	495.1
Aust & NZ Fibre cement	342.6	296.5	279.2	294.3	268.1
Other	77.9	109.7	105.8	117.6	116.1
Continuing Businesses	**740.2**	**944.2**	**1,197.1**	**1,450.0**	**1,548.6**
Divested Businesses	885.8	353.7	171.8	152.9	-
Total Sales	**1,626.0**	**1,297.9**	**1,368.9**	**1,602.9**	**1,548.6**
EBIT					
US Fibre cement	39.5	54.7	73.7	106.7	122.9
US Gypsum	23.6	57.7	95.5	182.2	72.3
Aust & NZ Fibre cement	67.7	65.7	49.1	47.8	49.4
Other	(8.7)	(5.4)	(19.1)	(12.0)	(18.5)
Research and development	(16.0)	(20.7)	(17.0)	(17.1)	(11.7)
Continuing Businesses	**106.1**	**152.0**	**182.2**	**307.6**	**214.4**
Divested businesses	32.9	25.4	11.0	14.6	-
Total from operations	139.0	177.4	193.2	322.2	214.4
Corporate	(51.6)	(45.4)	(33.2)	(54.1)	(71.8)
Total EBIT	**87.4**	**132.0**	**160.0**	**268.1**	**142.6**
Statistics					
EBIT/Sales (%)					
US Fibre cement	*21.0*	*21.8*	*18.6*	*22.1*	*18.4*
US Gypsum	*17.9*	*20.1*	*22.9*	*32.8*	*14.6*
Aust & NZ Fibre cement	*19.8*	*22.2*	*17.6*	*16.2*	*18.4*

Source: James Hardie Industries Annual Report

It should be noted that:

- Aust & NZ Fibre cement includes sales of fibre cement to the Australian, New Zealand and Asian export markets;
- Other includes the fibre cement operations in the Philippines, the fibre cement reinforced cement pipes operations in the United States and the windows business in Australia (which is in the process of being divested);
- corporate expenses include asbestos related litigation and head office costs; and
- the figures are prepared using Australian accounting standards and Australian GAAP.

The table reflects:

- a decline in profitability of the Australian and New Zealand fibre cement operations over the last five years; and
- the dramatic increase in profitability from the United States, with EBIT (before corporate costs) increasing from A$63.1 million to A$200 million in five years. United States operations now represent 86% of EBIT (before research and development costs and corporate costs).

In the year ended 31 March 2001 there was a significant overall decline in total group operating earnings compared with the previous year. Selling prices for US gypsum fell significantly due to price cutting by leading competitors, excess capacity in the industry and lower demand. Gross margins in the United States gypsum business collapsed as a result of these lower product prices combined with higher energy costs, despite cost cutting measures by James Hardie USA.

The United States fibre cement business experienced increased sales volumes as its fibre cement products continued to be substituted for competing products. The favourable exchange rate was also partly responsible for the increase in sales. The increase in EBIT was solely due to the favourable exchange rate. In US dollars, EBIT decreased slightly due to higher manufacturing and freight costs and the recruitment of additional staff. These higher costs arose from the expansion of manufacturing capacity, with a number of new plants coming on line to meet volume growth. As production rises towards capacity margins are expected to recover. Higher freight costs reflected extensive shipping of product around the United States to meet rapidly growing demand before these new facilities came on stream. Despite the downturn in the Australian and New Zealand construction activity, margins in fibre cement increased slightly due to higher average selling prices (a result of the change in product mix to higher margin differentiated products) and a reduction in operating expenses.

3.6 Financial Position

The financial position of the James Hardie Group as at 31 March 2000 and 31 March 2001 is summarised below:

James Hardie Group – Financial Position		
	As at 31 March (A$ millions)	
	2000	**2001**
Current assets		
Debtors	190.2	143.6
Inventories	117.7	178.9
Prepayments and other	40.6	45.0
Total current assets	348.5	367.5
Current liabilities		
Creditors and accruals	(124.1)	(168.1)
Provisions	(116.8)	(121.6)
Total current liabilities	(240.9)	(289.7)
Net working capital	**107.6**	**77.8**
Property, plant and equipment	923.7	1,171.8
Investments	21.1	20.7
Intangibles	53.0	66.3
Future income tax benefits (net of deferred tax)	(39.2)	(63.0)
Other Provisions	(139.6)	(176.7)
Other (net)	136.2	213.4
Capital employed	**1,062.8**	**1,310.3**
Borrowings (net of cash)	(388.4)	(732.7)
Shareholders' funds	**674.4**	**577.6**
Net tangible assets ("NTA") per share	*$1.53*	*$1.23*
Net debt/NTA including minorities	*62.5%*	*143.3%*

Source: James Hardie Industries Annual Reports

The increase in net borrowings reflects capital expenditure, acquisitions and the effect of establishing the MRC Foundation. The lower Australian dollar has also had an effect. In the year ended 31 March 2000, the exchange rate used to convert US borrowings to Australian dollars was $US1.00/$A0.6073 whilst in the year ended 31 March 2001, the exchange rate used was $US1.00/$A0.49. The currency effect is therefore responsible for almost 20% of the increase in borrowings. The reduction in net working capital largely reflects the downturn in demand for the gypsum business and the delay in the seasonal demand for fibre cement products. The fibre cement business is seasonal with March normally recording strong sales volumes. In 2001, the increase in demand did not occur in March (as usual) but in April. The high inventory levels reflect the James Hardie Group's preparation of stock for the demand in April.

3.7 Capital Structure and Ownership

James Hardie Industries has been listed on the ASX since 1951. James Hardie Industries capital structure consists of 450,771,082 fully paid ordinary shares. There are also 1.8 million options on issue.

James Hardie Industries has approximately 22,000 shareholders. The top ten ordinary shareholders hold approximately 41% of the issued ordinary shares:

James Hardie Industries – Top Ten Ordinary Shareholders as at 9 August 2001		
	Number of Shares	**% of Total Issued Shares**
Chase Manhattan Nominees Limited	41,437,690	9.19
Citicorp Nominees Pty Limited	29,169,988	6.47
National Nominees Limited	24,915,971	5.53
Queensland Investment Corporation	16,965,388	3.76
Westpac Custodian Nominees Limited	15,664,878	3.48
AMP Life Limited	13,660,632	3.02
Citicorp Nominees Pty Limited <Imputation Fund>	12,094,375	2.68
Madingley Nominees Pty Limited	10,242,200	2.27
MLC Limited	9,957,135	2.21
Perpetual Trustees Nominees Limited	9,521,782	2.11
Total	**183,570,039**	**40.7**

Source: James Hardie Industries

Brierley Investments Limited held a 28.7% interest in James Hardie Industries until 21 May 2001 when this parcel was placed amongst a number of institutional investors. James Hardie Industries undertook a placement of shares on 1 August 2001 which increased the issued share capital from 415,771,082 to 450,771,082 shares.

Substantial shareholders with an interest greater than 5% of James Hardie Industries issued capital as notified to James Hardie Industries are:

James Hardie Industries – Substantial Shareholders as at 9 August 2001		
	Number of Shares	**% of Total Issued Shares**
Commonwealth Bank of Australia (incorporating the interest held by Colonial First State)	58,717,434	14.1
Merrill Lynch Investment Managers	37,644,218	9.1
JB Reid AO	26,543,560	6.4
Credit Suisse First Boston Australia	25,235,923	6.1
AMP Henderson Global Investors	23,568,849	5.7

Source: James Hardie Industries

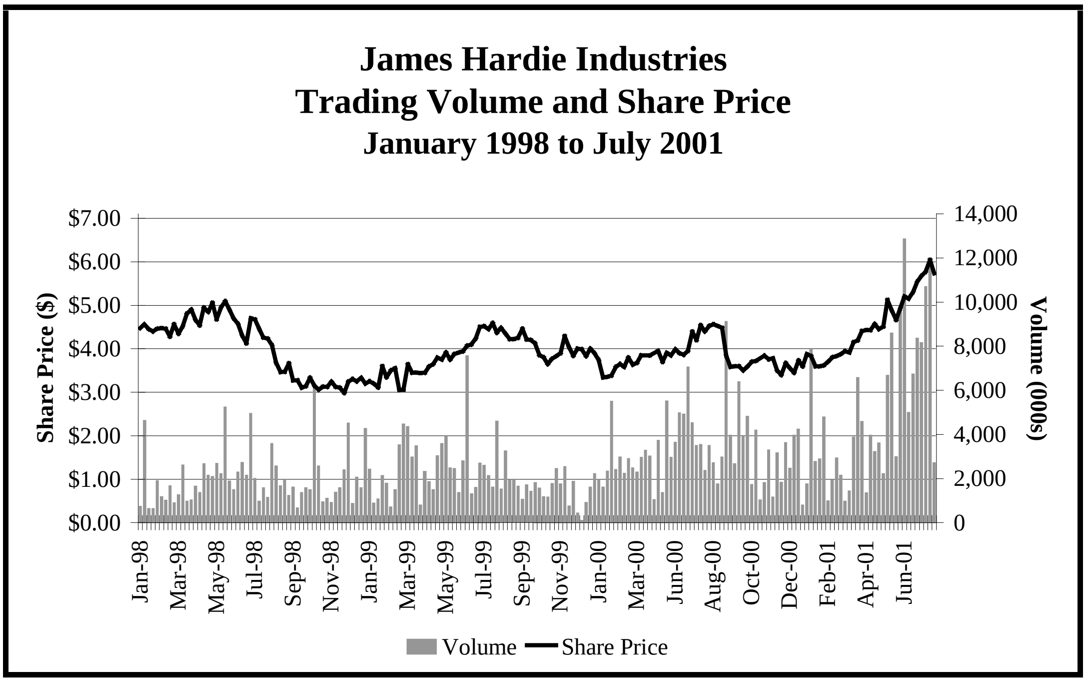
3.8 Share Price Performance

A summary of James Hardie Industries' share price performance from 1 January 1993 to 31 July 2001 is set out in the following table:

James Hardie Industries - Share Price History					
	Share Price ($)			Average Weekly Volume (000s)	Average Weekly Number of Transactions
	High	Low	Close		
Year					
1993	2.79	2.05	2.71	3,515	223
1994	2.85	1.90	2.30	2,960	185
1995	2.47	2.02	2.32	2,275	136
1996	3.96	2.28	3.96	2,362	157
1997	5.75	3.50	4.47	2,558	237
1998	5.21	2.93	3.33	1,976	308
1999	4.62	2.94	3.99	2,212	356
2000	4.65	3.21	3.60	3,156	640
Month					
January 2001	3.88	3.44	3.66	4,197	475
February 2001	3.85	3.61	3.81	2,104	405
March 2001	4.26	3.70	4.19	3,086	586
April 2001	4.60	4.19	4.60	3,178	580
May 2001[13]	5.27	4.41	4.71	33,014	945
June 2001	5.37	4.60	5.30	8,016	995
July 2001	6.30	5.19	6.08	9,304	1,278

Source: BridgeDFS

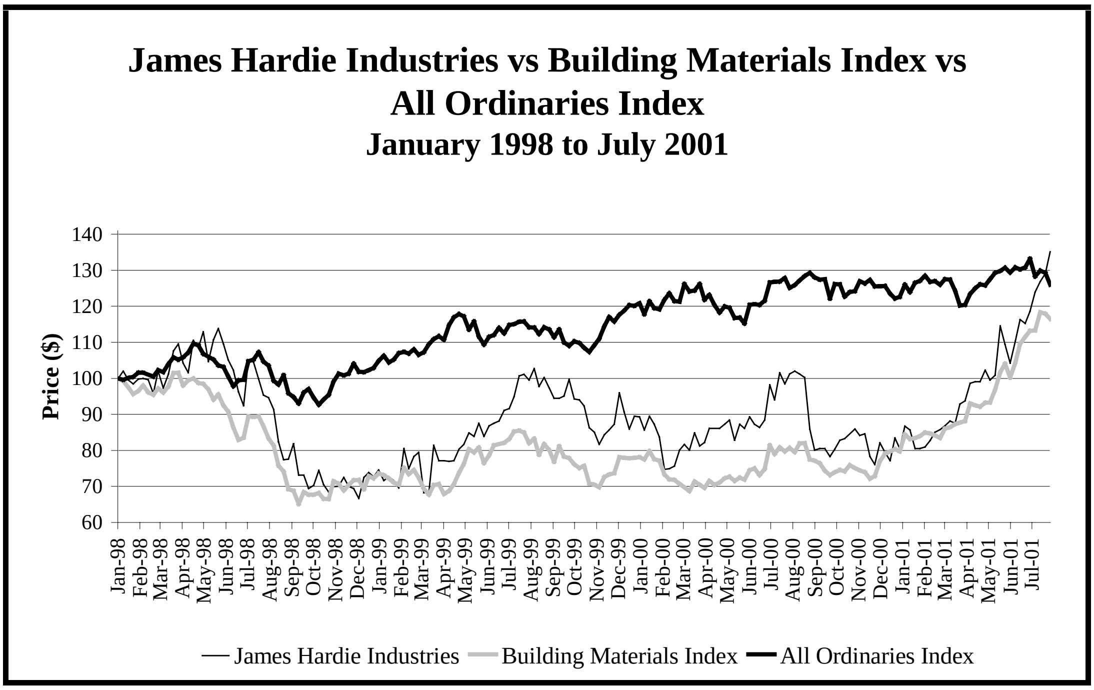
The following graph depicts movements in the ordinary share price and trading volumes from 1 January 1998 to 31 July 2001 (and excludes the impact of the sell-down by Brierley Investments on volumes):



Source: BridgeDFS

The performance of James Hardie Industries' ordinary shares over the same period by comparison with the Building Materials Index and the All Ordinaries Index is shown in the following graph:

13 In May 2001, Brierley placed 119.4 million shares in James Hardie Industries. If this placement is excluded, the average weekly volume falls to 5,536.



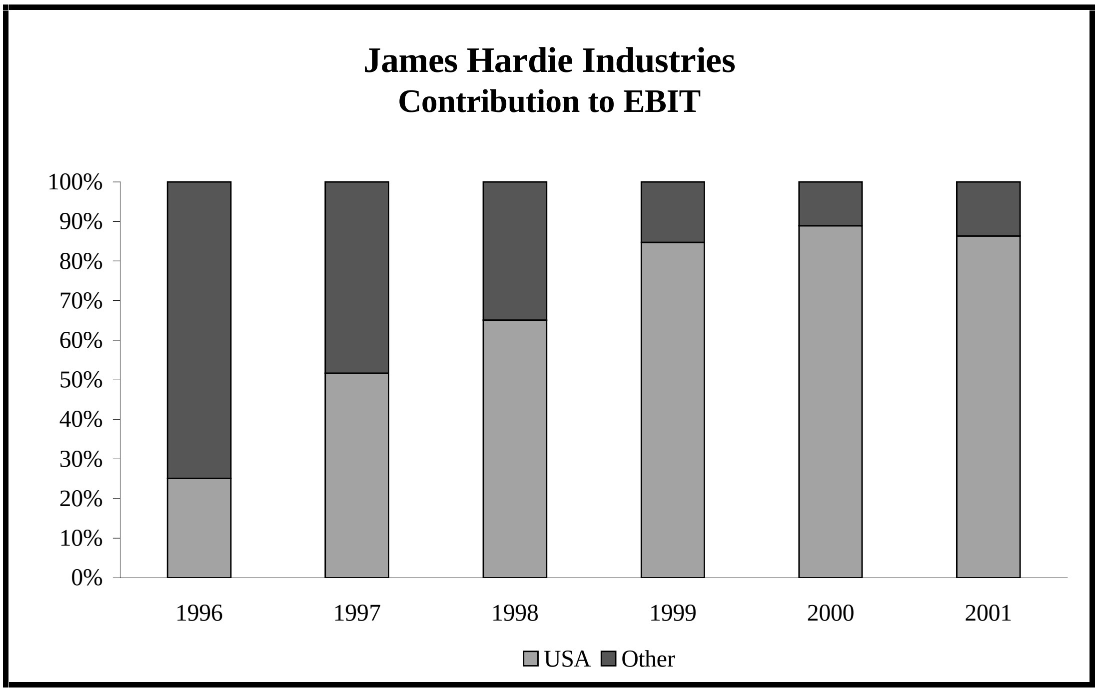
Source: BridgeDFS

The James Hardie Industries' share price has outperformed the All Ordinaries Index and the Building Materials Index. James Hardie Industries' share price underperformed the All Ordinaries Index during 1998 to 2000 due to negative sentiment towards the building materials sector. The James Hardie Industries' share price has increased by more than 40% since January 2001, reflecting positive investor sentiment towards James Hardie Industries following the company's announcement of its intention to sell its US gypsum assets to concentrate on fibre cement activities and an overall shift in sentiment towards cyclical stocks.

4 Evaluation of the Proposed Restructuring

4.1 Background

The James Hardie Group's business is increasingly focused on the United States and international markets. Its two core businesses, fibre cement and gypsum wallboard have experienced very rapid growth in the United States over the last five years and, as a consequence, have become the dominant part of the business. In the year ended 31 March 2001, United States operations represented 86% of the James Hardie Group's earnings (before research and development and corporate costs). The changes over time are shown below:



Source: James Hardie Industries

While strong growth is expected over the next few years in new markets such as South America, the business of the James Hardie Group will be predominantly based in the United States for the foreseeable future, even if the US gypsum business is sold (if US gypsum is excluded US fibre cement still represents 80% of EBIT before research and corporate costs in the year ended 31 March 2001).

The growth in the United States has brought substantial benefits for shareholders. The earnings from the business and the continued strong prospects are the primary reason for the increase in the earnings of James Hardie Industries over the past five years. Without this growth, there would have been a substantial decline in earnings and a considerable loss of shareholder value.

At the same time, this imbalance between the operations and corporate structure has given rise to a number of problems. The background to the main issues is discussed below:

- the James Hardie Group is now essentially a United States business (including having its management based there), but its listing and the majority of its shareholders are located in Australia. This misalignment can have an adverse impact on market rating as investors may feel disconnected from the business and wary of their lack of depth of knowledge of the market and other conditions driving the business. This factor may adversely impact on market ratings;

- James Hardie Industries has not paid franked dividends since the year ended 31 March 1997. James Hardie Industries has substantial carry forward Australian tax losses. Assuming there are no changes to the tax loss grouping rules and the company continues to meet either the continuity of ownership or business test, these tax losses may be used to offset future Australian tax that would otherwise be payable. The losses are expected to offset profits for at least five years. In the circumstances, combined with the high proportion of offshore earnings, it is unlikely that dividends would be franked (at least to any material extent) for at least the same period;

- the James Hardie Group derives most of its taxable income in the United States. The standard corporate tax rate in the United States is 35% but when other taxes are included (e.g. state taxes), the effective average rate increases to almost 40%. The tax rate in other countries is generally slightly lower. In Australia, it is 30% (from 1 July 2001) but James Hardie Group's level of taxable income in Australia is relatively small as most research and development costs are incurred in Australia. It would be reasonable to assume an overall average tax rate on ordinary income of around 35-40%.

  In the year ended 31 March 2001, James Hardie Group's overall tax rate was 23% but this was affected by certain temporary financing measures undertaken by James Hardie Group. These were in the nature of "once off" benefits and are not believed to be sustainable. If the accounts are adjusted to remove these benefits, the tax expense increases by $21.6 million and the effective tax rate increases to 41%;

- the interrelationship of the Australian and United States tax systems have potentially significant adverse impacts on net returns to shareholders in James Hardie Industries under the present structure. In the year ended 31 March 2001, James Hardie Industries paid dividends totalling A$77 million. This level of dividends is well in excess of the after tax profits generated in Australia. To date, dividends have been able to be funded by using alternative sources of cash such as asset sales, capital returns and Australian sourced cash reserves. However, these alternatives are now virtually exhausted and James Hardie Industries will increasingly need to remit cash dividends from the offshore operations to fund this level of dividends. For the foreseeable future, most of this cash will need to come by way of dividends from the United States. Dividends paid from the United States to Australia incur 15% withholding tax (on top of any income taxes that have been paid) which cannot be offset against Australian tax and is not otherwise recoverable. This problem is likely to begin to arise in the 2001/02 financial year and the full impact will be felt in the following year. The effect will be to increase James Hardie Industries' overall effective tax rate and lower the after tax returns to shareholders. The adjusted earnings calculations for the year ended 31 March 2001 demonstrate how the effective corporate tax rate rises to almost 50% if the withholding tax impost is allowed for. The figures are summarised below:

James Hardie Industries - Adjusted Earnings under Current Structure

	Year ended 31 March 2001 (A$ millions)		
	Reported (Australian GAAP)	**Reported (US GAAP)**	**Normalised (US GAAP)**
Profit before tax	118.8	153.5	151.3
Taxation expense	(26.8)	(38.3)	(72.1)
Profit after tax (before abnormals)	92.0	115.2	79.2
Effective tax rate	*22.6%*	*25.0%*	*47.7%*

The second column reflects changes between Australian GAAP and US GAAP in relation to issues such as expensing of asbestos litigation, revaluation and economic issues. The normalised results have been derived by adjustments, inter alia, to:

- include the annual rental and interest payments to the MRC Foundation and to exclude costs of $5.8 million associated with the proposed restructuring which were expensed in the year ended 31 March 2001 and will not recur;

- remove the effects of temporary financing measures giving rise to reductions in United States tax taken by James Hardie Group which are not sustainable going forward ($21.6 million per annum); and

- allow for the impact of withholding tax of 15%, as if James Hardie Industries' dividend of $77 million was fully sourced from dividends from the United States ($13.9 million per annum).

The overall impact is likely to be that the company's effective tax rate will increase from 20-25% to between 45% and 50%, depending on the level of internal dividends and various other factors.

In addition, neither the United States corporate tax or withholding tax payment generate franking credits. As a consequence the effective tax rate on James Hardie Industries' United States income for Australian individual shareholders is potentially up to 74% (if all income is paid out as dividends). This effect is demonstrated below:

James Hardie Industries - Net returns to Australian shareholders	
	$
US pre tax earnings	10.00
US corporate tax	(4.00)
US post tax earnings (paid as dividend)	6.00
Withholding tax (15%)	(0.90)
Distributable profits (unfranked)	5.10
Personal tax (48.5%)	(2.47)
Net return to Australian individual shareholder	2.63

The inefficiency is clear when it is considered that the net return to an Australian shareholder out of a similar level of Australian sourced earnings would be almost twice as high at $5.15.

The 1998 restructuring was designed to overcome this problem but the failure of the IPO meant it was not solved (although at the time any impact was still 2-3 years away); and

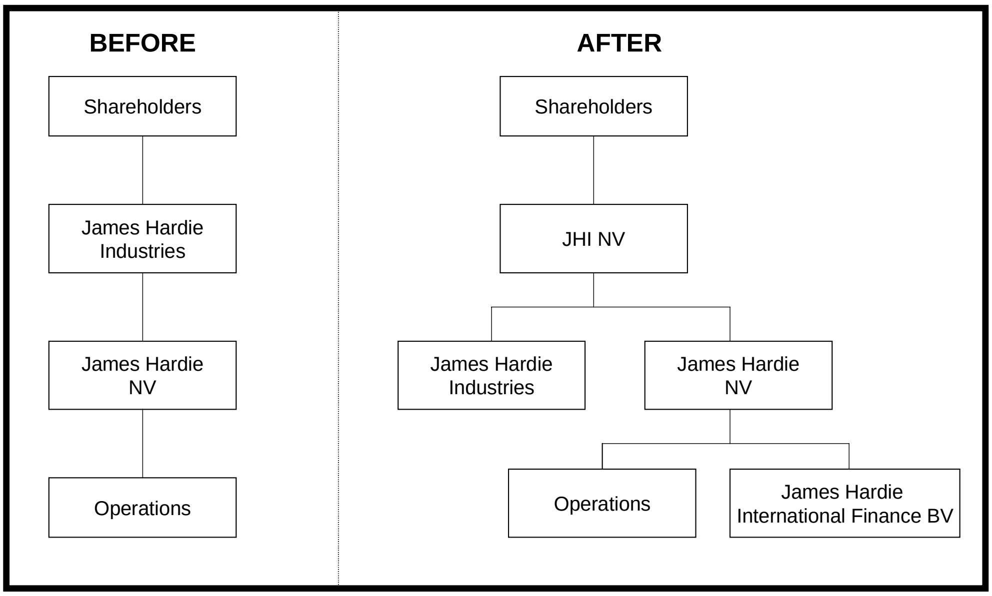
- the controlled foreign company provisions of the Income Tax Assessment Act have the effect of making Australian companies "top up" the tax paid in offshore businesses controlled by them to the standard tax rate of 30% where those countries are not deemed to have comparable taxation regimes (ie. low tax rate countries) and where the income is not from active business. This means that investors cannot benefit from the low corporate tax rates available in some other jurisdictions. Arguably, this is of little consequence to Australian investors and, in any event, the additional Australian tax paid will generate franking credits. However, offshore investors may have alternative opportunities to invest in similar businesses that can generate higher after tax returns. In addition, the embedded exposure to Australian capital gains tax within Australian corporate structures is not attractive to offshore investors. Accordingly, the present structure makes it difficult to attract foreign investors to James Hardie Industries (foreign investors account for only 4.5% of James Hardie Industries' shareholders) and would adversely impact on any move to shift the current corporate structure to the United States (for example, by making the NYSE the primary listing for James Hardie Industries). This factor was a driving force behind the 1998 restructuring and its strategy to list a new company, James Hardie NV, through an IPO.

Collectively, these issues mean that James Hardie Industries needs to address its corporate structure in order to ensure that returns to shareholders do not deteriorate over the medium term and that it remains an attractive vehicle for investors. A "do nothing" approach would ultimately have negative consequences for shareholders in terms of long term shareholder value and may even have adverse consequences in the short term. The withholding tax issues will start to impact in 2001/02. The problems are not reduced by the sale of the US gypsum business.

4.2 Impact of Proposed Restructure on James Hardie Group

4.2.1 Structure and Ownership

The operational structure and ownership of the James Hardie Group before and after the proposed restructure is shown in the following chart:



No new capital is being raised by JHI NV as part of the proposed restructuring. Shareholders in James Hardie Industries will have the same number of shares (through CUFS) and the same percentage interest in JHI NV as they had in James Hardie Industries before the restructuring. As there is no other change in the financial structure of the group, there is no change to each shareholder's underlying economic interests in the James Hardie Group.

The directors of JHI NV are expected to be the same as the directors of James Hardie Industries before the proposed restructuring except for PJ Willcox who will be retiring (for personal reasons unrelated to the proposed restructure). The directors of the Joint Board of JHI NV will comprise:

- the Chairman of the Managing Board, Peter Macdonald; and
- members of the Supervisory Board who will comprise all of the non-executive directors currently on the James Hardie Industries' board except for PJ Willcox. The other non-executive directors are AG McGregor, MR Brown, MJ Gillfillan, MM Koffel and M Hellicar.

4.2.2 Earnings

Set out below is the pro forma consolidated earnings of James Hardie Group for the year ended 31 March 2001 which shows the impact of the proposed restructure on the earnings of James Hardie Group as if it had occurred on 1 April 2000. The figures are presented in accordance with US GAAP[14]:

[14] The figures have been presented according to US GAAP so as to isolate the effect of the proposed restructure and shows more clearly the impact on shareholders. The Information Memorandum includes modified JHI NV accounts under Australian GAAP. These accounts have not been included in the table following because the impact of the proposed restructure alone cannot be represented in Australian GAAP as normalised accounts in Australian GAAP have not been prepared. A comparison between the Australian GAAP results for James Hardie Industries and the modified Australian GAAP results for JHI NV has not been shown in the table as it would be misleading because the differences between the two would reflect both normalisation adjustments and the effects of the proposed restructure. In any event, it is not necessary to include the Australian GAAP comparison in order to understand the effect of the proposed restructure as the presentation of the results in US GAAP is sufficient to adequately show the impact of the proposed restructure.

James Hardie Group –Earnings Impact of Proposed Restructure (US GAAP)			
	Year ended 31 March 2001 (A$ millions)		
	Before Proposed Restructuring		After Proposed Restructuring
	Reported	**Normalised**	**Pro Forma**
Sales revenue	1,557.4	1,557.4	1,557.4
EBIT	**177.3**	**180.1**	**179.1**
Net interest expense	(23.8)	(28.8)	(28.8)
Operating profit before tax and abnormal items	**153.5**	**151.3**	**150.3**
Income tax expense	(38.3)	(72.1)	(41.2)
Operating profit after tax and before abnormal items	**115.2**	**79.2**	**109.1**
Outside equity interests	0.0	0.0	0.0
Operating profit attributable to members before abnormal items	**115.2**	**79.2**	**109.1**
Abnormal items (net of tax)	(47.9)	-	-
Operating profit attributable to members	**67.3**	**79.2**	**109.1**
Statistics			
Earnings per share before abnormal items (cents)	*28.1*	*19.3*	*26.6*
Earnings per share after abnormal items (cents)	*16.4*	*19.3*	*26.6*
Effective tax rate (%)	*25.0*	*47.7*	*27.4*

Source: James Hardie Industries Information Memorandum

The major earnings impact of the proposed restructure on earnings is the reduction in income tax expense. There is also a marginal reduction in EBIT as a result of higher administration costs.

The James Hardie Group's tax rate will be lowered as a result of the group financing structure established in The Netherlands and the listing of JHI NV on the NYSE (or another stock exchange registered with the SEC as a national securities exchange for the purposes of the Securities Exchange Act of 1934). JHI NV will establish a Dutch finance subsidiary, James Hardie International Finance BV, which will assume the funding activities for the James Hardie Group. James Hardie International Finance BV will lend funds to operating subsidiaries in the United States, Australia, New Zealand and elsewhere. The effective tax shelter from the interest deductions claimed by the operating subsidiaries will be at rates between 30% and 40% (depending on the country from which they are made) while the tax rate payable by James Hardie International Finance BV on its income is 15% (which may be capable of further reduction) because of the applicability of the Dutch Financial Risk Reserve ("FRR") regime. The James Hardie Group has received a ten year binding ruling on the applicability of this regime but it will have to conform to certain conditions and there are constraints which limit the amount of debt able to be incurred by operating subsidiaries (e.g. the United States "earnings stripping" rules and the Australian "thin capitalisation" rules).

In addition, if certain conditions are met, the United States/ Netherlands double tax treaty provides that interest payments out of the United States incur no withholding tax and dividends incur only 5%. In fact, given the amount of allowable debt, JHI NV's requirements for cash to meet its dividend payments to shareholders will be able to be mostly met from interest payments from the United States businesses. The level of internal dividends remitted is likely to be relatively low and accordingly withholding tax costs on internal transfers will be minimal. The conditions that must be met for this concessional withholding tax treatment to apply are that:

- JHI NV is listed on a recognised United States stock exchange;
- the aggregate number of JHI NV's issued capital traded on recognised stock exchanges (including the ASX) is at least 6% of the average number of issued shares; and
- there is trading every month other than in minimal amounts.

There will be withholding tax payable on interest payments from Australia and New Zealand but this can be credited against the 15% income tax payable by James Hardie International Finance BV.

The impact of these two elements is to substantially reduce JHI NV's income tax expense and to increase net earnings and cash flows by an equivalent amount. The pro forma accounts show:

- a reduction in tax expense of $31 million;
- a reduction in the effective tax rate from 48% to 27%; and
- an increase in earnings per share of 38%.

This level of benefits will continue to apply even if the US gypsum business is sold.

4.2.3 Financial Position

The proposed restructure does not involve any capital raising, asset sales, investment or other change to the financial structure or corporate structure of the group (other than for changes within the wholly owned group). Accordingly, there is no change to the financial position of the James Hardie Group. However, JHI NV will report under US GAAP. The effect of the restructure can therefore be shown by restating James Hardie Industries' balance sheet from Australian GAAP to US GAAP. The primary changes relate to the treatment of property revaluations, the economic life of fixed assets and certain provisions:

James Hardie Group – Impact of Proposed Restructure on Financial Position

	As at 31 March 2001	
	Reported (Australian GAAP)	**Restated (US GAAP)**
Current assets		
Debtors	143.6	143.6
Inventories	178.9	178.9
Prepayments and other	45.0	53.1
Total current assets	367.5	375.6
Current liabilities		
Creditors and accruals	(168.1)	(168.1)
Provisions	(121.6)	(82.2)
Total current liabilities	(289.7)	(250.3)
Net working capital	**77.8**	**125.3**
Property, plant and equipment	1,171.8	1,144.3
Investments	20.7	20.7
Intangibles	66.3	69.4
Provision for deferred tax (net of FITB)	(63.0)	(62.2)
Other Provisions	(176.7)	(203.3)
Other (net)	213.4	212.0
Capital employed	**1,310.3**	**1,306.2**
Borrowings (net of cash)	(732.7)	(732.7)
Shareholders' funds	**577.6**	**573.5**
Net tangible assets ("NTA") per share	*$1.23*	*$1.21*
Net debt/NTA including minorities	*143.3%*	*145.3%*

Source: James Hardie Industries

4.3 Benefits of the Proposed Restructure

(i) Lower corporate taxes and enhanced shareholder value

The primary benefit of the restructuring is a significant saving in corporate taxes paid by the James Hardie Group compared to what they would have been under the current corporate structure. This saving has two elements (which were described in more detail in Section 4.2.2):

- the reduction in the average rate of income taxes as a result of the Dutch finance company structure that will be established and which will allow part of the James Hardie Group's earnings to be taxed at 15%, lowering the overall average rate; and

- the reduction of the 15% withholding tax that would be incurred on dividends remitted from the United States to Australia to enable James Hardie Industries to pay dividends under the current structure. The new structure involves no need to remit cash internally to Australia. Instead, cash will flow from the United States to The Netherlands (mostly through interest payments) and from there to shareholders in the form of dividends from JHI NV. There will be minimal withholding tax on the flows from the United States to The Netherlands.

The pro forma 2001 earnings calculations show a reduction in tax expense of $31 million, a reduction in the average tax rate from 48% to 27% and a 38% increase in earnings per share. The reduction in the tax rate to approximately 27% is believed to be sustainable in the long term. There may be a slight rise over time as earnings grow (because the saving is based on an amount of intercompany debt which is constrained) but there may also be some opportunities to achieve further savings. The structure is also able to manage growth. It can be used to finance operations into new markets enabling effective tax rates in these jurisdictions to be lowered. The Netherlands has attractive tax treaties with a significant number of other countries particularly in Europe.

The reduction in corporate tax and the commensurate increase in after tax cash flow has several benefits:

- future dividends (or alternative forms of distributions in lieu of dividends such as buybacks and capital returns) should be higher than they would have been, assuming JHI NV maintains a similar dividend payout ratio policy. The directors have indicated they have no current intention to change dividend policy;

- the higher after tax cash flow will strengthen the James Hardie Group's financial position, reduce financing requirements (to the extent the higher cash flows are not paid out as dividends) and provide the group with enhanced financial flexibility; and

- other things being equal, the share price should be higher than it would have been had the current structure remained in place, reflecting the higher after tax cash flows and earnings ($31 million per annum based on the pro forma accounts). Analysts and investors use a number of valuation methodologies but the tax saving would be directly reflected in at least two of the major techniques - discounted cash flows and price earnings multiples. However, it should be noted that:

    - this does not necessarily mean that the future JHI NV share price will be higher than today's price of shares in James Hardie Industries as this will depend on factors such as:

        - future economic conditions, particularly in the construction sector;

        - equity market conditions;

        - competitive forces;

        - the future operating performance of the business; and

        - the ability to enter new markets.

    - any market price reaction is unlikely to match the increase in pro forma earnings per share at least in part because the market did not expect James Hardie Industries to actually incur a 48% tax rate and may have already assumed some form of restructuring would be undertaken to mitigate the problem. For example, the following table sets out the average tax rate assumed by a number of leading brokers' analysts in recent research reports on James Hardie Industries:

Broker Tax Rate Forecasts			
Firm	**Date**	**Year ending 31 March**	
		2002	**2003**
Broker 1	2 July 2001	30%	35%
Broker 2	14 June 2001	36%	36%
Broker 3	14 June 2001	32%	33%
Broker 4	6 June 2001	32%	35%
Broker 5	17 May 2001	30%	36%

At the same time, the table shows that reduction in the rate to around 27% would nevertheless be regarded as an improvement.

- the improvement will only take place once the market is confident of the sustainability of the savings;
- withholding taxes will be incurred by virtually all shareholders on dividends paid by JHI NV (see below); and
- there are risks and uncertainties attached to the tax benefits (see Section 4.5).

These factors are reflected in the market reaction to the announcement of the proposed restructure on 24 July 2001. The share price reacted positively, increasing from $5.80 at the close of business on 23 July 2001 to over $6.00. However, the increase was only approximately 5% (compared to the 38% increase in pro forma earnings per share).

The benefits of the proposed restructure can also be demonstrated in terms of net returns to shareholders. The analysis assumes all income is paid out as dividends:

JHI NV - Net Returns to Australian Shareholders				
	15% Taxpayer ($)		**48.5% Taxpayer ($)**	
	Before Proposed Restructure	**After Proposed Restructure**	**Before Proposed Restructure**	**After Proposed Restructure**
Pre tax earnings	10.00	10.00	10.00	10.00
Corporate tax (average rate)	(4.00)	(2.70)	(4.00)	(2.70)
Post tax earnings	6.00	7.30	6.00	7.30
Internal withholding tax	(0.90)	-	(0.90)	-
Distributable profits paid as dividend (unfranked)	5.10	7.30	5.10	7.30
Withholding tax on dividend	-	(1.10)	-	(1.10)
Net dividend received by Australian investor	5.10	6.20	5.10	6.20
Taxable income of investor	5.10	7.30	5.10	7.30
Australian income tax for investor	0.77	1.10	2.47	3.54
Credit for withholding tax	-	(1.10)	-	(1.10)
Net Australian tax payable by investor	0.77	-	2.47	2.44
Dividend	5.10	6.20	5.10	6.20
Net Australian tax	(0.77)	-	(2.47)	(2.44)
Net return to Australian shareholder	4.33	6.20	2.63	3.76

The net return of $3.76 to a taxpayer on the top marginal rate compares to $2.63 under the current structure, an improvement of 43%. A 15% shareholder would also enjoy a 43% uplift in net returns.

(ii) Enhanced ability to grow overseas

As the James Hardie Group continues to expand in the United States and internationally, it is likely that its nexus with Australia will become less relevant (particularly as the head office is now in the United States). International capital markets and international investors are likely to become more important. It is arguable that JHI NV will be more attractive than James Hardie Industries to offshore investors, particularly United States investors, and potential merger partners because of factors such as:

- a low to medium overall tax rate sustainable in the long term, even allowing for continual growth in earnings in the United States and other international markets;
- US dollar reporting and US GAAP primary accounts; and
- listing on the NYSE (James Hardie Industries' ADRs are currently traded in the United States on an over-the-counter basis).

With these attributes, JHI NV will be able to aggressively market its securities to United States based and other international investors. Accordingly, more overseas investors may be attracted to invest after the proposed restructure. Increased demand should be positive for the share price and may also assist in future capital raisings undertaken by the James Hardie Group .

In a broader sense, the proposed restructure may contribute to aligning the James Hardie Group's ownership and operations. There are many listed Australian companies with extensive overseas operations. Similarly, there are many global corporations with the vast majority of their businesses and earnings located in other jurisdictions. However, in the case of the James Hardie Group the offshore operations are not diversified. Instead they are highly concentrated within the United States (which now represents more than 85% of earnings) and are likely to remain so. In addition, its senior executive management team is based in the United States. As a general proposition it is arguable that it would be better to have the predominant operations and the shareholder base aligned (i.e. located in the same country/market). The natural owners of James Hardie Group in the long term are probably United States based investors. Apart from minimising potential tax inefficiencies (e.g. withholding taxes), investors physically closer to the operations will inevitably have a deeper awareness of economic and market conditions and possibly a greater level of interest even with the increasing globalisation of equity markets, modern telecommunications, information flows and the internationally integrated operations of many institutional investors and financial intermediaries.

However, it should be recognised that overseas portfolio investors are currently a very small proportion of the shareholder base (accounting for only 8% of issued capital). While this could be expected to increase after the proposed restructure, it is unlikely to change dramatically in the medium term or lead to any effective migration of the shareholder base to the United States. The proposed restructure, of itself, is unlikely to have a material impact. A migration to any meaningful extent would probably require some other type of significant corporate event (e.g. a merger).

The James Hardie Group's longer term plans envisage aggressive growth into new geographic markets and, potentially, significant development of its concrete pipe business. These initiatives involve both significant capital expenditure requirements and a gradual build up in operating cash flows. Accordingly, there could be a need to raise further equity.

The proposed restructure may also make it easier to pursue scrip based acquisitions or mergers or other comparable transactions. Particularly in the United States, scrip is attractive to vendors of assets as they can defer capital gains tax liabilities. This is perhaps the most substantive benefit although perhaps not of major consequence. The key contributing factor would be that if shareholder value is enhanced relative to the status quo, JHI NV would be better positioned as it would have the benefit of a more attractive "currency". Other factors that might assist (relative to the status quo) would be its attractive tax structure and its US dollar denominated reporting and conformance with US GAAP reporting requirements.

At the same time, the number of significant potential merger or acquisition targets where scrip would be necessary or beneficial (e.g. providing some kind of rollover relief to a vendor) may be fairly limited. In recent years, James Hardie Industries has primarily grown organically or made acquisitions for cash, although Western Gypsum was acquired in a transaction involving the issue of approximately A$40 million of James Hardie Industries scrip in April 2000 and there may be additional bolt-on opportunities. The James Hardie Group is the dominant fibre cement producer in the United States and there are no direct competitors of any comparable size in other markets. Any substantial merger or acquisition is likely to involve a diversification into new fields, albeit related to the core business.

4.4 Costs and Disadvantages of the Proposed Restructure

The proposed restructure has a number of costs and disadvantages:

(i) Transaction costs

The restructuring will incur transaction costs estimated to be between $17 and 19 million, of which approximately $13 million relate to Dutch capital duty. Approximately $4.5-6.5 million of these costs will have already been incurred prior to the meeting to approve the proposed restructure and are therefore sunk costs. The transaction costs will be expensed during the year ending 31 March 2002. These costs are one-off costs and are not significant in the overall context of James Hardie Industries. They represent less than 1% of market capitalisation.

The implementation of the proposed transaction will result in a deemed disposal by the James Hardie Group of certain Australian assets for capital gains tax purposes. Due to the cost base and current value of these assets as well as the existing tax losses, the company does not expect a significant tax liability to arise from the deemed disposal.

(ii) Additional administrative costs

The annual general meeting of JHI NV will be required to be held in The Netherlands, along with a number of Joint Board, Supervisory Board and Managing Board meetings. JHI NV will also be required to locate its treasury and insurance operations in The Netherlands, comprising at least five permanent employees (to satisfy FRR regime conditions). As James Hardie Industries already holds a number of its Board meetings offshore, the incremental cost is expected to be approximately $1 million.

(iii) Shareholder governance and control issues

There are, and have been, very few overseas incorporated companies where primary listing is on the ASX. Most are mining companies (e.g. Papua New Guinean companies such as Oil Search and Lihir Gold or Fijian companies such as Emperor Mines). JHI NV will be a very rare case, being a major public listed industrial company incorporated overseas and with its head office and major operations overseas but with its primary listing in Australia. The shift from an Australian incorporated holding company to one incorporated in The Netherlands raises a number of issues for shareholders, particularly for Australian resident shareholders, including:

- **General meetings to be held in The Netherlands**

  Under Dutch law, JHI NV will be required to hold all its general meetings in The Netherlands, including its annual general meeting. It will be impractical for most Australian based shareholders to attend these meetings (although some global institutions may be able to). However, the Articles of Association of JHI NV will include a requirement that the company hold an information meeting in Australia prior to any general meetings (including the annual general meeting) in The Netherlands. The Articles of Association will also provide CUFS holders with the right to attend and speak at all JHI NV information and general meetings. At the information meeting prior to the annual general meeting, representatives of the company's senior management and Board will present the results and answer questions from shareholders. CUFS holders will not be able to vote at the information meeting, however they will be able to lodge proxies at the information meeting or in a period thereafter. Issues raised at the information meeting will be taken into account at the general meetings in The Netherlands. In many respects the information meeting will be a satisfactory substitute for attendance at the actual general meeting. However, it is a less direct forum and could prove to be unsatisfactory where there are contentious issues at stake as Australian shareholders, which for the time being is the vast majority of shareholders, will not be able to be present when the full board is in front of the shareholders, all the votes are being cast and the decision is actually made.

- **Inability of CUFS holders to vote directly**

  CUFS holders will be unable to vote JHI NV CUFS directly at general meetings of JHI NV. However, they have the following options:

  - instruct the nominee and legal owner of the JHI NV shares, CDN, to vote the JHI NV shares in a desired manner by proxy;

  - instruct CDN to appoint the CUFS holder as proxy, enabling the CUFS holder to vote the JHI NV shares at the meeting; or

  - converting their JHI NV CUFS into a holding of JHI NV shares and vote these at meeting, which may incur a fee and will require conversion back to JHI NV CUFS in order to sell the shares on the ASX.

  Clearly, CUFS holders will be able to exercise their votes but the process is unusual and cumbersome.

- **Shareholders will be subject to the Articles of Association of JHI NV and to Dutch corporate law in general**

  JHI NV will be governed by its Articles of Association and Dutch corporate law. JHI NV will also be required to adhere to the ASX Listing Rules. A number of steps have been taken to ensure that the general issues surrounding shareholder rights and corporate governance for JHI NV are as much in line with the existing situation for James Hardie Industries as possible:

  - the JHI NV Articles of Association to the fullest extent permitted under Dutch law, are designed to be the same as Australian rules, for example, in relation to:

    - calling of shareholder meetings;

    - demanding polls at shareholder meetings (although all polls will be written);

    - changing the constitution of the company;

    - directors remuneration; and

    - removal of directors.

  - the JHI NV Articles of Association seek to incorporate, to the fullest extent permitted under Dutch law, the relevant provisions of the Corporations Act 2001 governing takeovers (including certain elements of the substantial shareholder provisions); and

  - JHI NV will agree to submit to the jurisdiction of the Australian courts (which could enable an Australian shareholder to deal with, say, takeover disputes, in Australian courts).

The provisions in JHI NV's Articles of Association relating to takeovers will have contractual, rather than statutory, effect and enforcement of the provisions will need to be pursued through the courts. In addition, there are a number of areas where Dutch law prevails and where there are differences in law and practice which could impact adversely on shareholders. For example:

- there is no right under Dutch law for JHI NV shareholders to bring derivative actions. In Australia, shareholders of James Hardie Industries may, with the leave of the Court, bring proceedings on behalf of the company and in the company's name. Shareholders do not have an equivalent right under Dutch law;

- rules on share placements are less flexible in The Netherlands as they give shareholders a pro-rata pre-emptive right to subscribe for any newly issued ordinary shares issued for cash. At the time of listing, this right will be waived for five years (so that the Joint Board has the right to limit or exclude pre-emptive rights on any share issues) so is arguably of limited consequence. It is anticipated that the Board will eliminate pre-emptive rights with respect to any and all issuances of shares during this five year period. To renew this waiver at the end of the five-year period, a shareholder vote will be required;

- rules on buybacks are more restrictive. On the other hand, there is no requirement for the company to cancel the shares that have been bought back, allowing the company to maintain a store of treasury stock which can be used to pursue acquisitions, without requiring shareholder approval; and

- the threshold shareholding required for the general compulsory acquisition power is higher. Under Australian law, a person with voting power of 90% or more in a company may force other shareholders to sell their shares to him/her, subject to certain conditions. Under Dutch law, the shareholder must hold voting power of 95% or more.

A more detailed discussion of the differences between Australian law and JHI NV's Articles of Association and Dutch corporate law is set out elsewhere in this Information Memorandum.

There is also a lack of certainty as to how some of these provisions, especially the Australian takeover look alike provisions will work in a dispute situation:

- while the company will submit to the jurisdiction of Australian courts, it is not clear that Australia would always be the effective jurisdiction. For example, an overseas shareholder or protagonist may wish to take action under Dutch law. Both Australian and Dutch courts would interpret the provisions of the Articles in accordance with Dutch law. The basis of Dutch law is quite different to Australia. While the authorities or courts could call upon Australian sources for guidance as to how the provisions work they are not bound to follow these. Similarly, it is not clear how, for example, the Takeover Panel processes and rulings would interact in these circumstances. The Takeovers Panel would have no jurisdiction but it is designed to play a key role in dispute resolution under the Corporations Act 2001. ASIC also has no jurisdiction; and

- JHI NV may also not be able to directly enforce the requirements of its Articles of Association (eg the shareholder tracing provisions or takeover process provisions) against holders of CUFS. While ASIC has agreed in principle to a modification to s1109D of the Corporations Act 2001 to deem the holders of JHI NV CUFS to be bound by the terms and conditions of the Articles of Association, the legal issues surrounding the enforcement of the Articles of Association are complex and there is a risk that the modification is found not to be effective so that JHI NV will need to pursue such matters through CDN, the registered holder of the JHI NV shares underlying the CUFS. It is not clear how this indirect enforcement will operate.

There is some comfort that can be derived from comparable situations. Historically, Managed Investment Schemes in Australia fell outside the takeovers regime but nevertheless many of these entities incorporated look alike provisions and these were found by the courts to be effective (*West Merchant Bank v Rural and Agricultural Trust* (1996) 20 ACSR 563). However, the cross-jurisdictional and enforcement issues with JHI NV create layers of complexity and significant uncertainties and may well result in shortcomings in terms of the speedy and clear resolution of issues.

Equally, it should be acknowledged that The Netherlands is a well recognised jurisdiction and base for major corporations. A number are listed on the NYSE:

Examples of major Dutch Corporations listed on NYSE

Company	Market Capitalisation (US $millions)
ABN AMRO Holdings NV	28,900
Aegon NV	41,500
CNH Global NV	1,600
Core Laboratories NV	750
Elsevier NV	9,850
Equant NV	5,600
Gucci Group NV	9,300
Head NV	170
ING Groep NV	64,500
Ispat International NV	350
KLM Royal Dutch Airlines NV	900
Philips Electronics NV	42,000
New Skies Satellites NV	950
Royal Dutch Petroleum Company NV	126,500
TNT Post Group NV	10,500
Unilever NV	32,000

JHI NV will not be breaking new ground by having its operations and headquarters outside The Netherlands. Equant NV, Gucci Group NV, CNH Global NV, Core Laboratories NV, Head NV and New Skies Satellites NV are among the companies that are in the same situation.

International investors regard The Netherlands as an acceptable place of incorporation and appear not to be dissatisfied with corporate governance arrangements and shareholder protection provisions. There is clearly no increase in sovereign or political risk by being incorporated in The Netherlands;

- **US GAAP Reporting**

  Following the proposed restructure, JHI NV will adopt US GAAP accounting standards for its primary accounts and report in US dollars. The company intends to translate these reports into Australian dollars and will provide any additional financial information in such form and containing such particulars as may be required by ASIC under s.601CK(3) of the Corporations Act 2001. JHI NV does not intend to report under Australian GAAP unless required by ASIC.

These factors, together with others such as the unusual feature of CUFS as the primary ownership arrangement rather than shares and the fact that withholding tax will be deducted and will need to be reclaimed, may combine to make it less attractive and more complex to hold shares in an offshore company such as JHI NV. This could have an adverse impact on the demand for JHI NV shares.

On the other hand, the situation is arguably no more complex or fraught with issues than other structures in which Australian investors deal with such as dual listed companies or stapled securities.

(iv) Unfranked Dividends and Withholding Tax

As JHI NV is not an Australian incorporated company, dividends will not be franked. In addition, JHI NV dividends will incur withholding tax at the rate of 15% on dividends paid to Australian residents and 15% on dividends paid to United States residents (except for exempt pension funds which incur no withholding tax). However:

- James Hardie Industries dividends would have been unfranked for some years (probably at least five years and only ever partially thereafter) in any event (under current tax laws); and

- for Australian residents, United States residents and residents in most other jurisdictions, the withholding tax will be creditable against the shareholders' foreign income. Accordingly, there should be no net cost for shareholders from the withholding tax impost (although there is always a possibility of an adverse outcome depending on particular individual circumstances).

(v) Loss of pre-CGT status

Australian resident shareholders in James Hardie Industries who own shares acquired before 20 September 1985 are currently exempt from capital gains tax ("CGT") on any gain arising from the sale of those shares.

JHI NV CUFS exchanged for pre-CGT James Hardie Industries shares will be deemed to have been acquired as at the date they are issued, with a cost base equal to the market value of JHI NV shares immediately after implementation of the Scheme. CUFS holders who have received JHI NV shares in return for James Hardie Industries shares will be subject to Australian CGT on any capital gain that arises from the subsequent disposal of JHI NV shares (but only in respect of gains subsequent to the date of the proposed restructure).

This is clearly a potentially significant disadvantage for those shareholders in this position. The company has estimated that pre CGT shareholders represent approximately 14% of the total issued capital.

(vi) Forced disposal for certain shareholders

A number of shareholders will not be able to participate in the restructure. Shareholders resident outside of Australia, New Zealand, the United States of America and the United Kingdom will not be able to exchange their James Hardie Industries shares for CUFS or ADRs in JHI NV in this position. Instead, the JHI NV CUFS or ADRs that would otherwise have been issued to them will be sold by a nominee on their behalf and the proceeds of the sale returned to them.

It is expected that the forced disposal will apply to only 78 shareholders whose combined holding accounts for less than 0.1% of James Hardie Industries' issued capital. In any event, these shareholders will receive market value for their interests.

(vii) Possible tax consequences for New Zealand resident shareholders

As a result of the proposed restructure, New Zealand's Foreign Investment Fund tax regime may apply to JHI NV shareholders resident in New Zealand and may potentially require payment of New Zealand tax based on attributed income. However, certain exemptions may apply to exclude particular shareholders from this regime.

(viii) Mandate restrictions

There may be some shareholders of James Hardie Industries that under the terms of their mandate are unable to hold shares in non Australian incorporated companies. These shareholders would then be forced to sell, putting downward pressure on the share price in the short term.

However, the research undertaken by James Hardie Industries and its advisers suggests this is not a significant issue. Most investment mandate restrictions relate to companies not listed on the ASX (or included in S&P/ASX indices) rather than foreign companies per se, so this should not create a problem as long as JHI NV remains listed on the ASX.

(ix) Reporting and regulatory complexity

The combined group will need to comply with accounting, regulatory and listing rules in three jurisdictions – the United States, The Netherlands and Australia. There will be an increase in the extent and complexity of financial reporting obligations. JHI NV will adopt US GAAP accounting standards and report in US dollars. JHI NV will report quarterly (as James Hardie Industries does currently) and publish an Annual Report to shareholders. The company intends that these reports will be translated into Australian dollars (albeit still adopting US GAAP). JHI NV's financial statements will also need to be prepared in accordance with Dutch GAAP.

4.5 Risks of the Proposed Restructure

The proposed restructuring involves a number of risks for shareholders. These include:

(i) Index weighting and demand for JHI NV shares

James Hardie Industries is currently a member of the S&P/ASX 200, S&P/ASX 300 and MSCI Indices[15]. It is weighted as to 100% in the S&P/ASX indices and 100% in the MSCI indices[16].

The directors expect that JHI NV will be substituted for James Hardie Industries in both the S&P/ASX and MSCI indices. While this is a reasonable expectation neither organisation has confirmed this in writing. There is a risk that MSCI in particular may not regard a company incorporated in The Netherlands, with its head office and vast majority of its business in the United States and reporting in US GAAP and US dollars, as being appropriate for its Australian indices, even though the shareholder base is predominantly Australian. Even if not immediate, this is a risk over time if the constitution of the shareholder base changes. Exclusion from indices or any downward change in index weighting would have adverse consequences for liquidity and cause downward pressure on the share price in the short term as a result of selling by those institutional investors that seek to track those indices (and possibly by those that just use them as performance benchmarks). Arguably, removal (or downweighting) by MSCI would be of limited consequence at present given the very low level of foreign investors (less than 8% of the issued capital) although it would also serve to deter any new investment, particularly foreign index or index related funds (who generally use MSCI as their tracking benchmark).

Removal (or downweighting) from S&P/ASX indices would be far more serious as those are used by almost all Australian based institutional investors. However, the risk of this occurring would seem to be far more remote, at least for the medium term, given the composition of the shareholder base.

In a broader sense there is a risk that over time JHI NV drifts into a kind of investors "no man's land" where it has lost its Australian following because it is so distanced from this market (e.g. loss of local profile) and becomes perceived as essentially a United States company but at the same time it is not traded sufficiently in other markets such as the

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15 The S&P/ASX 200 and 300 indices are indices of the 200 and 300 largest ASX-listed companies (by market capitalisation) run by Standard and Poors in conjunction with the ASX. The MSCI index is the Morgan Stanley Capital International Index run by Morgan Stanley Capital International Inc.

16 On 19 May 2001, Morgan Stanley Capital International Inc announced a change to James Hardie Industries' inclusion in the MSCI index which would see its weighting reduced from 100% to 75%, due to the significant holding by Brierley Investments Limited. The change is due to take place in two tranches, the first in November 2001 and the second in May 2002. Since that announcement Brierley Investments has disposed of its entire 28.7% interest through a placement to over 70 institutions and private investors. The company expects that James Hardie Industries' weighting in the MSCI index will now not be reduced.

NYSE to generate real interest and develop real liquidity in these markets. However, this could also happen under the current structure.

(ii) Dependence on external factors for tax benefits

The reduced tax expense for JHI NV is partly due to low withholding taxes on distributions from the United States. The benefits of the tax treaty between the United States and The Netherlands in reducing withholding taxes on distributions from the United States will apply only as long as, inter alia:

- JHI NV is listed on a stock exchange registered with the SEC as a national security exchange for the purposes of the Securities Exchange Act of 1934;
- the aggregate number of shares traded during the previous tax year on recognised stock exchanges (including the ASX) was at least 6% of the average number of issued shares outstanding during that year; and
- there is trading every month on recognised stock exchanges (including the ASX) other than in trivial amounts.

It is expected that JHI NV will easily satisfy this test for the relevant periods and meet the requirements for eligibility. In the 12 months ended 30 June 2001, the aggregate trading in James Hardie Industries' shares was equal to 78% of the total issued capital. The lowest level of trading in any month was 9.1 million shares and 1,758 transactions. However:

- the level of trading is outside the control of either James Hardie Industries or JHI NV and there is no assurance that the necessary trading volume will be achieved; and
- there is no guarantee that JHI NV will be accepted for listing on the NYSE, although equally at the present point in time there is no reason to believe that it might not be. James Hardie Industries management believes that JHI NV meets the necessary criteria and there has been no adverse feedback to date.

(iii) Possible changes to taxation laws

There are risks as to changes to the lax law regimes that have created the tax benefits. For example:

- there could be changes to the United States/Netherlands double tax treaty that currently provides nil or low withholding tax rates on interest and dividend payments out of the United States. At present, there is no suggestion that these arrangements will be changed or that the conditions will be altered. The treaty has only recently been effected and changes are therefore unlikely in the near term; and
- there could be changes to the FRR regime which currently prescribes a 15% tax rate on income derived by James Hardie International Finance BV. In this context, the European Commission has indicated intentions to undertake reviews of member countries' tax systems in relation to "prohibited state aid". The Dutch government's position is that the FRR regime does not constitute prohibited state aid. Nevertheless, the risk remains despite the ten year ruling that has been obtained.

4.6 Alternatives

The board and management of the James Hardie Industries have considered a number of alternatives over a period of many months. One of the alternative proposals involved retention of the current listed entity and simplification of the existing holding company structure. A tax reform measure has been proposed by the Federal Government which would result in franking credits being credited to James Hardie Industries for foreign withholding taxes paid by Australian companies. The proposed change is due to be enacted as at 1 July 2002 (postponed from 1 July 2001). If this occurred, the effective tax rate incurred by Australian resident shareholders (assuming they can utilise the franking credits) falls as the franking credits would offset the withholding tax. However:

- the proposed tax change is uncertain. A federal election will be held later this year which may result in a change of government. If the proposed tax change were not enacted into law, United States withholding taxes of 15% levied on the remittance of dividends from the United States operations to James Hardie Industries will not generate franking credits;

- the corporate tax rate for James Hardie Group would not be reduced and would remain relatively high (45% to 50%) as the withholding tax between the United States and Australia would still be paid and there would be no ability to reduce the tax expense through a Dutch finance company structure. Corporate cash flows would be reduced accordingly. Even allowing for the full benefit of franking credits the effective tax rate for Australian shareholders would still be in the order of 40%. In this respect the proposed restructure is far superior; and

- not all shareholders can fully utilise the franking credits. The franking credits generated would be of limited value to overseas investors who will inevitably become increasingly important. At the very least it will maintain the relative unattractiveness of James Hardie Industries for overseas investors.

In addition, the bilateral negotiations on the United States/Australia tax treaty commenced in March 2001. It is conceivable that reduced rates of withholding tax could result from these negotiations. Such a reduction would reduce the effective tax rate but again only to the order of 40%. The Dutch finance company structure and the reduction in effective tax rate to around 27% would not be available. In any event, the reduction in the withholding tax rate is merely speculative at this point in time.

4.7 Analysis and Conclusion

As shareholders swap their shares in James Hardie Industries for interests in JHI NV on a one for one basis and there are no other external changes to the financial or corporate structure, they have the same underlying economic interest in James Hardie Group before and after the proposed restructure. In this respect, the proposal is essentially neutral and definitionally “fair”. The critical issue therefore becomes the other consequences of the proposal. This involves a comparison of the advantages and the costs, disadvantages and risks of the proposed restructure.

The tax issues facing the James Hardie Group means that it needs to address its corporate structure in the near future or face the prospect of increasing tax rates. The resolution of this problem is the primary benefit of the proposed restructuring. The structure eliminates the looming withholding tax impost and lowers the overall corporate tax rate. It is an efficient structure for coping with continued growth in earnings in the United States and internationally. The benefits are tangible and meaningful. The improvement in net profit (on a pro forma basis) relative to what it would be under the current structure is in the order of $30 million per annum resulting in a 38% increase in net earnings relative to the status quo. After tax cash flows are similarly enhanced.

There are other benefits but Grant Samuel regards these as relatively minor.

The costs, disadvantages and risks are not inconsequential and need to be carefully considered. Key concerns for shareholders are the possible impact on corporate governance related matters and liquidity. For some shareholders the impact of others may be significant (e.g. the loss of pre-CGT status). However, in Grant Samuel’s opinion, for shareholders as a whole the benefits outweigh these drawbacks. At the same time, it needs to be acknowledged that without the tax benefits it would be far from clear that the proposal was in shareholders’ best interests. There are alternatives but they do not appear to be as effective as the proposed restructure.

In summary, shareholders are likely to be able to realise a higher value for their CUFS in JHI NV than they would for their shares in James Hardie Industries if the proposed restructure is not implemented. This is not to say that the JHI NV share price will be higher than it is today (as that will depend on future operating performance) but only that it will be higher than it would be if the status quo is maintained.

Accordingly, Grant Samuel believes that, on balance, the proposed restructure is in the best interests of James Hardie Industries shareholders taken as a whole.

5 Qualifications, Declarations and Consents

5.1 Qualifications

Grant Samuel's primary activity is the preparation of company and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions in Australia. Since its inception in 1988, Grant Samuel and its related companies have prepared more than 200 public expert or appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Stephen Wilson MCom (Hons) CA (NZ) FSIA and Ross Grant BSc (Hons) MCom (Hons) MBA. Both have a significant number of years of experience in relevant corporate advisory matters and are authorised representatives of Grant Samuel pursuant to its Dealer's Licence under Part 7.3 of the Corporations Act 2001. Nooshin Erfanian BEc LLB ASIA assisted in the preparation of this report.

5.2 Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion as to whether the proposed restructure is in the best interests of James Hardie Industries' shareholders. Grant Samuel expressly disclaims any liability to any James Hardie Industries' shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose.

This report has been prepared by Grant Samuel with care and diligence and the statements and opinions given by Grant Samuel in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by Grant Samuel or any of its officers or employees for errors or omissions however arising in the preparation of this report, provided that this shall not absolve Grant Samuel from liability arising from an opinion expressed recklessly or in bad faith.

Grant Samuel has had no involvement in the preparation of the Information Memorandum and has not verified or approved any of the contents of Information Memorandum. Grant Samuel does not accept any responsibility for the contents of the Information Memorandum (except for this report).

5.3 Independence

Grant Samuel does not have at the date of this report, and has not had within the previous three years, any shareholding in or other relationship with James Hardie Industries or related companies, except that Grant Samuel:

- prepared an independent expert's report on the 1998 restructuring;
- prepared independent valuations of various companies and businesses in the James Hardie Group for the purposes of transferring those companies pursuant to the 1998 restructuring;
- prepared a valuation of James Hardie Building Systems (Holdings) Pty Limited in 1999; and
- undertook certain valuation work in relation to the proposed transfer of assets to the MRC Foundation in 2000.

Grant Samuel will receive a fixed fee of $275,000 for the preparation of this report. This fee is not contingent on the outcome of the proposal. Grant Samuel will receive no other benefit for the preparation of this report. Grant Samuel does not have any pecuniary or other interests which could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the proposal.

Grant Samuel had no part in the formulation of the proposal to restructure James Hardie Industries. Its only role has been the preparation of this report.

Grant Samuel considers itself independent for the purposes of Practice Note 42 issued by the Australian Securities Commission.

5.4 Declarations

James Hardie Industries has agreed that, to the extent permitted by law, James Hardie Industries will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the conducting of the review or preparation of the report. This indemnity will not apply in respect of any proportion of such liability that is held by a court to be primarily caused by any negligence, breach of contract or statutory duty or wilful misconduct. James Hardie Industries has also agreed to indemnify Grant Samuel and its employees and officers for time and costs incurred in relation to any inquiry or proceeding initiated by any person except where Grant Samuel or its employees and officers are found liable for negligence, wilful misconduct, breach of contract or statutory duty in which case Grant Samuel shall bear such costs.

Advance drafts of this report were provided to executives of James Hardie Industries and its advisers. Changes were made to the drafting of the report as a result of the circulation of this draft report. However, there was no alteration to the methodology, evaluation or conclusions.

5.5 Consents

Grant Samuel consents to the issuing of this report in the form and context in which it is included in the Information Memorandum to be sent to shareholders of James Hardie Industries. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

5.6 Other

The attached letter dated 22 August 2001 forms part of this report.

GRANT SAMUEL & ASSOCIATES PTY LIMITED
22 August 2001

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