Part B

Explanatory Statement

EXPLANATORY STATEMENT

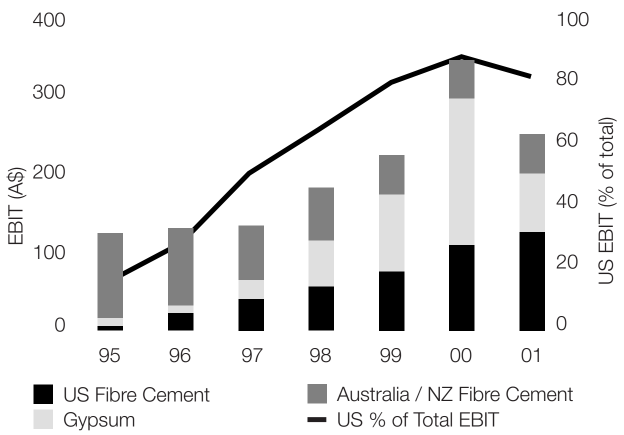
1. BACKGROUND TO THE PROPOSAL

1.1 The business

The James Hardie Group is a world leader in fibre cement technology and the manufacture, sale and marketing of fibre cement building materials, with substantial business activities in the United States, Australia, New Zealand and the Philippines. James Hardie is also currently the fourth largest manufacturer of gypsum wallboard products in the United States, although it is exploring the sale of this business. James Hardie's business activities are described in more detail in Section 4 of this Part B.

James Hardie has focused on growing its highly successful US fibre cement business during recent years. This growth has been funded through operating profits and the disposal of a number of non-core businesses. The success of the US fibre cement business has resulted in approximately 80% of earnings being generated in the US, as illustrated below:

EBIT before abnormals



NOTE: Excludes divested assets, research and development expenditure, corporate costs and losses from James Hardie's windows business and business operations in the Philippines.

Future growth initiatives are expected to focus on the continued development of new fibre cement products using James Hardie's proprietary technology and expansion into new markets. These growth opportunities are expected to be strongest in the United States and, over time, in other international markets. James Hardie continues to invest heavily in fibre cement research and technology in order to exploit these new opportunities, whilst also improving the efficiency of its manufacturing processes.

1.2 Fundamental structural issues

The dominance of James Hardie's US earnings and future growth opportunities, which primarily lie outside of Australia, will result in a number of significant structural issues, unless addressed (see Section 3.2(a) and (b) of this Part B). These issues primarily relate to financial inefficiencies for James Hardie and its existing, predominantly Australian, Shareholders.

In order to maintain dividends and to fund other obligations in Australia, it will be necessary to repatriate US-sourced profits to Australia in the future. This will result in significant US withholding taxes being incurred, lowering the after-tax earnings of JHIL and hence limiting distributions to Shareholders. This would reduce the value captured from the continuing growth of the businesses of the US companies within the James Hardie Group.

In addition, JHIL, as an Australian-listed public company, does not provide an attractive vehicle for global investors seeking to invest in primarily US operations. This is reflected by the low level of foreign Shareholders (approximately 8% of issued capital) relative to the level of US earnings. Accordingly, whilst this may not directly affect existing Shareholders, it may constrain demand for James Hardie shares and also impact on the pricing and ability of James Hardie to raise capital in the future, if necessary.

1.3 The 1998 restructuring

The 1998 restructuring, for which JHIL obtained Shareholder approval, involved the relocation of senior management and the corporate head office to the United States, a corporate restructuring and a proposed IPO of 15% of the issued share capital of JHNV, the Dutch subsidiary of JHIL which holds James Hardie's operating assets.

Although the relocation of senior management and the corporate head office occurred and long-term debt financing was established at attractive rates, market conditions resulted in the withdrawal of the IPO without resolving the fundamental structural issues outlined above. While the Company has been able, in the interim, to manage the adverse impact of US withholding taxes and other inefficiencies which exist under the current corporate structure, this position is not sustainable. A long-term solution to the inefficient financial structure is required. This Proposal provides such a solution.

Unlike the 1998 restructuring, the current Proposal does not involve raising any new capital and, therefore, there is no dilution of Shareholders' interests. Nor is the Proposal subject to the execution risk and costs associated with an equity offering.

2. THE PROPOSAL

2.1 Positions James Hardie for continuing international growth

The Proposal places James Hardie and its Shareholders in a position to maximise value from its existing operations and continuing international growth. This will be achieved by:

> improving after tax returns to Shareholders from the international earnings of James Hardie;

> improved corporate structure to finance growth;

> providing an enhanced investment structure for international Shareholders; and

> providing more attractive scrip to fund international acquisition opportunities should these arise.

These benefits, which are discussed in further detail at Section 3.2 of this Part B, are expected to increase the attractiveness of James Hardie to Australian and international investors.

2.2 Overview

The Proposal involves a corporate restructuring to establish a new holding company, JHI NV, for James Hardie. If the Proposal is implemented, JHIL Shareholders (other than Prescribed Foreign Shareholders) will receive one JHI NV Share, to be held in the form of a CUFS, for each JHIL Share that they currently own. JHIL ADR Holders (other than Prescribed Foreign ADR Holders) will receive JHI NV ADRs, as more particularly described in Section 2.4 of this Part B. The JHI NV Shares will be held in the form of CUFS or ADRs to allow trading on the ASX and NYSE respectively.

Unlike the 1998 restructuring, the Proposal does not involve any capital raising. Consequently, if the Proposal is implemented, JHIL Shareholders will continue to own, through their investment in JHI NV, the same proportion of James Hardie as they currently hold.

The Netherlands has been chosen as the location of the new parent company so that James Hardie may achieve a more efficient financial structure (described in Section 3.2(a) of this Part B), due to The Netherlands' well-established corporate, financial, regulatory and legal systems and because of its attractiveness as a domicile for multinational companies. These benefits will become increasingly relevant as James Hardie's international expansion plans further develop.

JHI NV has applied for a primary listing on the ASX. It has also applied for a secondary listing on the NYSE with the objective of expanding international demand for JHI NV Shares. Whilst there is no assurance that listing on the ASX and NYSE will be granted, the Company has every confidence that this will be achieved.

JHIL Shareholders and JHIL ADR Holders not resident in Australia, New Zealand, the United Kingdom or the United States will not receive CUFS or ADRs in JHI NV if the Proposal is implemented but will receive the cash proceeds from the sale of their entitlement, pursuant to the nominee sale arrangements as set out in Section 2.4 of this Part B. This is because of the difficulty and expense of ensuring compliance with securities laws in locations outside of the above jurisdictions.

2.3 The corporate restructuring

The restructuring, if implemented, will occur by means of a New South Wales Supreme Court approved Scheme of Arrangement pursuant to the Corporations Act 2001.

JHIL will become a wholly owned subsidiary of JHI NV as a result of the Scheme. On implementation of the Scheme, ownership of JHNV, which owns the operating assets of James Hardie, will be transferred from JHIL to JHI NV at market value (based on the market capitalisation of the James Hardie Group as at the Scheme Record Date) in order to ensure that JHI NV has direct access to the profits of its operating and financing subsidiaries thereby achieving withholding tax savings on internal dividends.

Following the transfer of JHNV, JHIL will declare and pay a dividend to JHI NV, and will effect a capital reduction pursuant to Part 2J.1 of the Corporations Act 2001 in respect of all its shares then held by its new parent, JHI NV. The reduction will be conditional on JHI NV subscribing for partly paid shares, and will be effected without cancelling any shares.

Under the terms of issue of the partly paid shares, JHIL will be able to call upon JHI NV to pay any or all of the remainder of the issue price of the partly paid shares at any time in the future and from time to time. The terms of issue of the partly paid shares are set out in Annexure 2 of the Implementation Deed at Part C of this Information Memorandum.

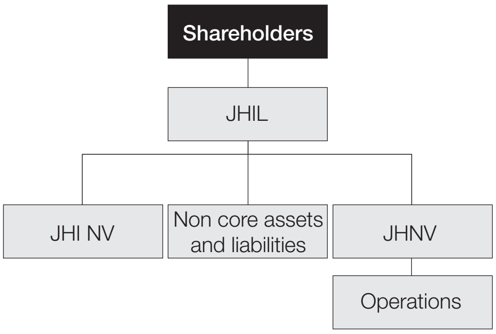
The callable amount under the partly paid shares will be equal to the market value of the James Hardie Group as at the Scheme Record Date less the subscription monies already paid up. The partly paid shares will provide JHIL with access to cash if required in the future to meet any liabilities of JHIL, whilst allowing JHI NV to obtain the financial efficiencies that the Proposal is expected to provide.

Further details of the corporate restructuring are set out in the Implementation Deed which forms Part C of this Information Memorandum.

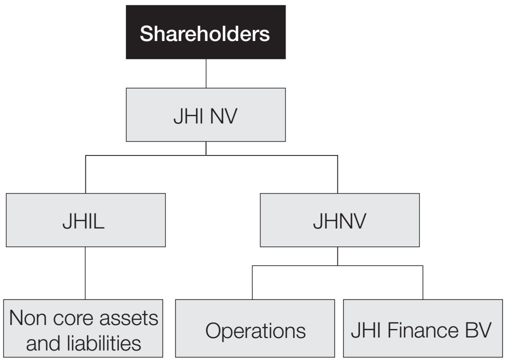
Following the structural steps described above, JHI NV will establish one of the existing Dutch subsidiaries in the group, James Hardie International Finance B.V. (JHI Finance BV), as the group finance company. It will operate under the provisions of the Dutch Financial Risk Reserve (FRR) regime, and will finance James Hardie's operations. JHI Finance BV will be funded by equity contributions from within the Group and by borrowings under the Group's existing bank facilities.

Simplified corporate structures before and after the Proposal is implemented are set out below:

Before



After



2.4 What you will receive under the Scheme

If the Scheme is implemented, Scheme Participants (other than those referred to below) will receive one JHI NV Share, to be held in the form of a JHI NV CUFS, in respect of each JHIL Share held at the Scheme Record Date. CUFS are a type of depositary receipt that provide the holder with beneficial ownership of the underlying shares of JHI NV, whilst the legal title to these shares is held by CDN (CHESS Depositary Nominees Pty Limited, a subsidiary of the ASX) for and on behalf of the JHI NV CUFS Holder.

CUFS are to be issued instead of direct shareholdings in JHI NV to allow trading and clearing on the ASX. The ASX has introduced CUFS in response to circumstances such as this, where the foreign law does not recognise the paperless transfer of shares through CHESS. The use of CUFS also satisfies one of the requirements for CGT scrip-for-scrip rollover relief for Australian taxation purposes. This rollover relief is explained further in Section 6 of this Part B.

Holders of JHIL ADRs at the Implementation Date (other than those referred to in the following paragraph) will receive two (2) JHI NV ADRs in exchange for every five (5) JHIL ADRs upon surrender of JHIL ADRs by the holders thereof to the Depositary. On or about the Implementation Date, James Hardie will instruct the Depositary to terminate the JHIL Deposit Agreement by directing the Depositary to mail a notice of termination to JHIL ADR Holders notifying them that the JHIL Deposit Agreement will be terminated 30 days thereafter. The Depositary's obligations in respect of any JHIL ADRs that have not been surrendered to the Depositary prior to the termination of the JHIL Deposit Agreement will continue to be governed by the terms of the JHIL Deposit Agreement.

Each JHIL ADR presently represents two (2) JHIL Shares, whereas each JHI NV ADR will represent five (5) JHI NV CUFS. The underlying position for each holder of JHIL ADRs will, however, remain unchanged. For example, under the Proposal a current holder of ten (10) JHIL ADRs (which represent in the aggregate twenty (20) JHIL Shares) will receive four (4) JHI NV ADRs (representing in the aggregate twenty (20) JHI NV Shares).

As the ratio of the JHI NV CUFS underlying the JHI NV ADRs will differ from the ratio of JHIL Shares underlying the JHIL ADRs, and because no fractional JHI NV ADRs will be issued, the Depositary will sell any interests in JHI NV CUFS which would require it to issue fractional JHI NV ADRs and distribute the net proceeds in US dollars to owners of JHIL ADRs upon surrender to the Depositary of JHIL ADRs held by any such owner.

As investigation of, and compliance with, the potential securities law restrictions in every country in which JHIL has Shareholders would be prohibitively costly, Scheme Participants whose addresses are recorded in the JHIL Register as outside Australia, New Zealand, the United States and the United Kingdom (or, in the case of corporate entities, whose name, as shown in that register, indicates that they are incorporated in The Netherlands), will not be able to exchange their JHIL Shares for JHI NV CUFS under the Proposal unless, before the Implementation Date (and without being obliged to conduct any investigations into the matter), JHI NV is satisfied that they can lawfully be issued JHI NV CUFS pursuant to the Scheme.

If, following the operation of the previous paragraph, it is determined that a Scheme Participant will not be able to exchange their JHIL Shares for JHI NV CUFS under the Proposal, the allocation of JHI NV CUFS which they would otherwise have received will be sold on their behalf by a Nominee on the ASX during the first 14 days of trading of JHI NV CUFS and the proceeds of sale will be remitted to them. Accordingly, if the Proposal proceeds, these Shareholders can expect to receive their cash proceeds by early November 2001.

In the case of JHIL ADR Holders whose address is shown on the JHIL ADR register of the Depositary as outside Australia, New Zealand, the United States and the United Kingdom (or, in the case of corporate entities, whose name, as shown in that register, indicates that they are incorporated in The Netherlands), such persons will not be able to exchange their JHIL ADRs for JHI NV ADRs under the Proposal unless, before the Implementation Date (and without being obliged to conduct any investigations into the matter), JHI NV is satisfied that they can lawfully be issued JHI NV ADRs pursuant to the Scheme.

If, following the operation of the previous paragraph, it is determined that a JHIL ADR Holder will not be able to exchange their JHIL ADRs for JHI NV ADRs under the Proposal, the Nominee will sell on the ASX, during the first 14 days of trading of JHI NV CUFS, the JHI NV CUFS underlying the allocation of JHI NV ADRs which those persons would otherwise have received and the proceeds of sale will then be remitted to them following the surrender of such JHIL ADRs to the Depositary.

3. IMPORTANT CONSIDERATIONS FOR SHAREHOLDERS

3.1 Introduction

The purpose of this Section is to set out relevant considerations for Shareholders, when deciding whether or not to approve the proposed Scheme. These considerations include:

> benefits of the Proposal;

> disadvantages of the Proposal;

> risks and other considerations associated with the Proposal;

> other alternatives considered by the Board; and

> the recommendation of the Board on whether to vote for the Proposal.

Shareholders should also have regard to the other Sections of this Information Memorandum when deciding whether or not to approve the resolution required for the Scheme.

3.2 Benefits of the Proposal

The Proposal is designed to position James Hardie for continuing international growth and to ensure that existing, predominantly Australian, Shareholders benefit to the maximum extent possible from that growth.

(a) Improved after-tax returns by removing structural inefficiencies

James Hardie's current structure is sub-optimal due to the cumulative effect of foreign corporate and withholding taxes. Withholding taxes are taxes imposed on dividends paid to shareholders and on interest paid to lenders, where the shareholder or lender resides outside of the jurisdiction of the paying entity. These taxes are collected by the company paying the dividend or interest and paid to the tax authorities in the country in which the company is resident. The corporate restructuring provides James Hardie with an opportunity to implement a more efficient financial structure.

Given the success and profitability of James Hardie's US fibre cement business relative to its Australian operations, James Hardie expects that it will be necessary in future years to source the majority of dividends out of profits from US operations on which the US would impose withholding tax. This tax represents a cash cost to the James Hardie Group. For example, if the dividend of 19 cents per share paid to Shareholders in the March 2001 year had been paid directly to JHIL from its US operations, there would have been a 15% withholding tax cost to James Hardie totalling A$13.9 million. If a higher dividend had been paid, then the withholding tax cost to James Hardie would have been higher; if a lower dividend had been paid, then the withholding tax cost to James Hardie would have been lower.

The Proposal will establish a more efficient structure that will reduce the level of the James Hardie Group's US withholding taxes that would otherwise be incurred. Following the implementation of the Proposal, the Dutch finance subsidiary (described in Section 3.2(b) below) will have profits from its group financing operations from which it can pay dividends to JHI NV without a withholding tax cost. As a result, only a small portion of future dividends paid by JHI NV to Shareholders will need to be sourced from the profits of the US companies within the Group.

JHI NV will be a resident of The Netherlands for the purposes of the US-Netherlands Income Tax Treaty. Subject to the conditions of the treaty being satisfied (see Section 3.4(b) of this Part B) the James Hardie Group will utilise the treaty rate of withholding tax on dividends (5%) and interest payments (0%) from the US to The Netherlands. For example, if the dividends in the March 2001 year had primarily been sourced from the profits of the Dutch finance subsidiary with the remainder from profits of US subsidiaries, the withholding tax cost to James Hardie would only have been A$0.7 million instead of A$13.9 million.

(b) Improved corporate structure to finance growth

The James Hardie Group will have a Dutch finance subsidiary, JHI Finance BV, to finance its operations after the Proposal is implemented. This structuring option is not available to JHIL under its current structure.

JHI Finance BV has received a 10 year written ruling from the Dutch tax authorities that states that, subject to complying with the conditions of the ruling, JHI Finance BV may apply the Dutch Financial Risk Reserve (FRR) legislation to its financing operations. The FRR legislation is expected to reduce the effective tax rate on the profits of JHI Finance BV from 35% (the Dutch corporate tax rate) to approximately 15%. Assuming a 15% rate, the Company expects that there will be an annual reduction of US$9.7 million (A$17.4 million) in James Hardie's tax expense due to the application of the FRR regime. Lower rates than 15% can apply if finance company profits are reinvested in qualifying capital projects.

The improvements described above are summarised in the table below.

	US GAAP A$M	Earnings per share
Before Proposal		
Normalised NPAT	79.2	19.3¢
After Proposal		
add: withholding tax savings on internal dividends	13.2	
add: impact of Dutch finance company on tax expense	17.4	
less: after tax incremental costs of new structure	(0.7)	
Pro forma NPAT	109.1	26.6¢
EPS improvement		7.3¢

The Normalised NPAT amount of A$79.2 million represents James Hardie's A$92.0 million profit after tax and before extraordinary and abnormal items as at 31 March 2001 adjusted:

> into US GAAP (as this is the standard to be adopted by JHI NV for future financial reporting);

- to exclude discontinued businesses disposed of prior to 31 March 2001; and
- to reflect other items that would impact James Hardie's profit after tax if the Proposal was not implemented (e.g withholding taxes on internal dividends).

The combined effect of the savings in withholding tax on dividends and the benefits of the Dutch FRR regime is an increase in future after-tax profits of approximately A$30 million a year compared to maintaining James Hardie's current structure. The A$30 million improvement in future after-tax profits compared to maintaining James Hardie's current structure depends on the assumed level of dividends, as explained in Section 3.2(a). The higher the dividend the greater the withholding tax saving. The benefits to be achieved under the Dutch FRR regime described at Section 3.2(b) are expected to be relatively stable, irrespective of the levels of earnings and dividends.

(c) Enhanced investment structure for international investors

Although the majority of James Hardie's profits are earned from its US fibre cement businesses, there is limited participation by US and other international investors on the share register of JHIL. Only about 8% of JHIL's total number of Shares are held by international investors and only about 1,000 Shareholders reside outside Australia out of a total of approximately 22,000 Shareholders.

While the Proposal has primarily been designed for existing, predominantly Australian, Shareholders, JHI NV is expected to provide a more attractive company for international investors due to:

- the more efficient financial structure discussed above, providing enhanced returns; and
- the NYSE listing of JHI NV ADRs.

The NYSE listing of JHI NV ADRs is expected to provide James Hardie with a higher profile in the United States than it currently holds. It may also allow US institutions that are prohibited by their investment mandates from investing in foreign securities, such as JHIL Shares, to invest in the NYSE listed JHI NV ADRs.

(d) More attractive scrip for acquisitions

The NYSE listing will provide James Hardie with a US dollar listed security. It is expected that these securities may be more acceptable scrip consideration than JHIL Shares for future acquisitions. "Scrip" denotes the offering of shares or other securities as a form of consideration in relation to an acquisition. While James Hardie is not currently considering any scrip acquisitions and such opportunities may be limited, NYSE listed US dollar scrip may provide greater funding flexibility if such opportunities were to arise. It also provides access to US capital markets for raising further funding for growth opportunities.

(e) Potential for enhanced share market returns

The Board believes that, all other factors being equal, the share price performance of JHI NV over time will reflect the higher earnings of JHI NV and other benefits outlined above relative to the current structure. The higher earnings are demonstrated in the pro forma financial information contained in Section 5 of this Part B.

3.3 Disadvantages of the Proposal

This Section 3.3 sets out certain potential disadvantages of the Proposal. In addition, Section 3.4 refers to certain risks in relation to the Proposal which, if they were to eventuate, would also be regarded as disadvantageous.

(a) Differences due to the use of foreign stock

In exchange for JHIL Shares, JHIL Shareholders (other than Prescribed Foreign Shareholders) will receive JHI NV CUFS representing beneficial ownership of shares in the Dutch incorporated JHI NV. Certain Shareholders may be concerned about holding an investment in a Dutch company, as it may be an investment vehicle which is unfamiliar to them.

JHI NV, as the new parent of the James Hardie Group, will control the same operations, assets and liabilities as JHIL. Appendix I sets out the principal differences which will result for Shareholders as a consequence of holding their investment in James Hardie through a Dutch company compared to holding their investment through an Australian incorporated company. Some of the differences may be regarded by Shareholders as being disadvantageous.

Shareholders will be able to trade their JHI NV CUFS on the ASX in the same manner as they can trade JHIL Shares today.

As JHI NV Shares will be held in the form of CUFS, JHI NV CUFS Holders will need to direct the CHESS nominee, CDN, how to vote the underlying shares. (Details of voting are set out in Section 5.2(b) of Appendix I to this Information Memorandum).

Due to the requirements of Dutch law, all general meetings of Shareholders must be held in The Netherlands. Accordingly, the practical ability of Shareholders based outside Europe to attend and vote in person is likely to be limited. To overcome this limitation, the Articles of Association have been structured to require that an information meeting be held in Australia prior to each general meeting (including prior to each AGM).

Information meetings will provide investors with similar information and content to JHIL's general meetings and the opportunity to question members of the Joint Board and management on matters to be considered at the subsequent general meeting.

In addition, all voting at general meetings will occur by written poll.

Instead of the current JHIL Board, JHI NV will have a three-tiered Board structure comprising a Joint Board, Managing Board and Supervisory Board. This is further described in Section 4.13 of this Part B. Whilst the Company does not regard this change as being disadvantageous in any way, it is recognised that some Shareholders may prefer the current one-Board structure.

(b) Loss of pre-CGT status for Australian Resident Shareholders

Australian resident Shareholders who hold JHIL Shares acquired prior to 20 September 1985 ("pre-CGT Shares") are currently exempt from Australian CGT on any gain arising from the sale of those JHIL Shares and cannot claim any capital loss that may arise on their disposal. JHI NV CUFS exchanged for pre-CGT JHIL Shares will be deemed for Australian tax purposes to have been acquired at the time the JHI NV Shares (settled in the form of JHI NV CUFS) are issued and will carry a CGT cost base equal to the last sale price of JHI NV CUFS on the first day of trading on the ASX after the Implementation Date. As a result, such Shareholders will be subject to Australian tax on any capital gain that arises upon any subsequent disposal of those JHI NV CUFS, calculated by reference to that cost base.

(c) Limitation on holding of shares

As JHI NV is a Dutch company, the provisions of the Australian Takeovers Code do not apply to it. Furthermore, as it is not intended to list JHI NV in The Netherlands, no takeovers regime will apply to it under Dutch law. Accordingly, JHI NV's Articles of Association adopt a takeover regime which incorporates certain principles of the Australian Takeovers Code. Nevertheless, given the inherent difficulties (both legal and practical) in transposing an Australian statutory regime into the articles of association of a Dutch company, it is not possible to restate every provision of the Australian Takeovers Code in JHI NV's Articles of Association. Accordingly, there may be no analogous provisions under the Articles of Association in respect of certain of the provisions under the Australian Takeovers Code. For example, the Articles of Association do not provide for a power analogous to that of the Corporation and Securities Panel under the Corporations Act 2001 to declare circumstances in relation to a takeover or to the control of JHI NV to be unacceptable circumstances and to make orders accordingly.

Appendix I, Section 3 describes in detail the provisions in JHI NV's Articles of Association which impose limitations on the holding of JHI NV Shares and what JHI NV may do in enforcing those provisions. Appendix I also describes the means by which acquisitions of relevant interests in JHI NV in excess of those thresholds can be effected.

Any breach of those provisions, whether caused by a JHI NV Shareholder, a JHI NV CUFS Holder or someone holding an interest through such a person, will constitute a breach of the Articles of Association and will entitle JHI NV to exercise the powers referred to in Appendix I, Section 3.1(e). These include the power to require disposal of JHI NV Shares, disregard votes and suspend rights to dividends or other distributions.

(d) Enforcement of Articles of Association and corporate law breaches

In the event of breaches or alleged breaches of JHI NV's Articles of Association or other corporate law matters by JHI NV or its directors, shareholders may wish to take legal action. It is likely that most of such issues will be determined in accordance with Dutch law rather than Australian law.

JHI NV has submitted to the jurisdiction of the Australian courts as a result of becoming a registered foreign company under the Corporations Act 2001. However, no assurance can be given that an Australian court would be willing, or regard itself as properly placed, to hear such an action. Accordingly, any such proceedings may need to be brought in the courts of The Netherlands.

Furthermore, even if an Australian court were to hear such an action, if the Shareholder sought to enforce any subsequent judgment in The Netherlands, the Dutch court may not recognise the Australian court's judgment, depending on the circumstances. For example, in respect of matters for which Dutch law provides that Dutch courts have exclusive jurisdiction, for example in respect of breaches or enforcement of the Articles of Association, it is most unlikely that a Dutch court would recognise an Australian court's judgment.

In any proceedings seeking to enforce the Articles of Association, both courts would interpret the provisions of the Articles of Association in accordance with Dutch law. Given, however, that the Australian courts are not practised in matters of Dutch law, it is to be expected that if such proceedings are taken before the Australian courts, there may be some delay before those courts are able to reach a decision.

As discussed in Section 3.3(c) of this Part B, the Articles of Association contain a takeovers regime modelled on the Corporations Act 2001. Accordingly, this takeovers regime will not have statutory effect. As such, JHI NV will, if necessary, enforce its Articles of Association through the courts. ASIC and the Corporations and Securities Panel will not have jurisdiction over the takeover regime.

Whilst takeover regimes have been adopted by other Dutch companies into their articles of association, James Hardie understands the enforcement of such regimes has never been tested in the Dutch courts. That said, James Hardie has received advice that these provisions should generally be enforceable under Dutch law. Finally, a court in The Netherlands will not be as familiar with such provisions as an Australian court and, accordingly, may find it difficult to issue a judgment which relate to those provisions as quickly as an Australian court could.

(e) Increased corporate and compliance costs

The corporate structure proposed introduces certain complexities and costs to James Hardie's administration. As mentioned above, all general meetings, including 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. As James Hardie already holds a number of offshore Board and management meetings, the additional cost is expected to be minimal. JHI NV will also be required to maintain its treasury and insurance operations in The Netherlands. James Hardie will continue to maintain an investor relations office in Australia.

Incremental costs associated with the restructuring are expected to be approximately A$1 million per annum. These have been included in the pro forma financial information set out in Section 5 of this Part B. JHI NV will also need to comply with Dutch laws, including corporate and securities laws, and reporting requirements in addition to Australian and US securities laws and to ASX and NYSE requirements. Although incremental, these requirements are not unduly onerous or costly.

(f) Implementation costs

One-off costs associated with implementing the Proposal are expected to be approximately A$17 to A$19 million. These costs primarily relate to Dutch capital duty (approximately A$13 million) payable during the 2002 financial year. Implementation costs are expected to be recouped from financial efficiencies within the first 12 months of operation under the new structure.

(g) Tax consequences for New Zealand resident Shareholders

Whilst James Hardie has not undertaken detailed research of the taxation implications for New Zealand resident Shareholders holding JHI NV Shares, it is understood that New Zealand's Foreign Investment Fund (FIF) tax regime may apply to such Shareholders and, therefore, potentially require payment of New Zealand tax based on attributed income. Certain exemptions may apply to exclude particular Shareholders from this FIF regime, including a de minimus exemption for natural persons where their interest at all times during the year in question is less than NZ$50,000. Shareholders who may be affected by this regime are advised to obtain their own tax advice.

3.4 Risks and other considerations

(a) Share market performance of JHI NV

Following implementation of the Proposal, the Board believes enhanced share market performance could be achieved by JHI NV over time, as the benefits of the restructuring are realised and are reflected in improved returns to investors in James Hardie. No assurances as to future performance can be given, however, and there are a number of risks associated with the operations of the James Hardie Group which could impact on the share market performance of JHI NV over time.

These risks relate to the existing core operations and would be expected to impact on the share market performance of JHIL or JHI NV (as the case may be) whether or not the Proposal was implemented. The key risk factors include: competition and product pricing in the markets in which the Group operates; dependence on cyclical construction markets; the supply and cost of raw materials; the reliance on a small number of product distributors; the consequences of product failures or defects; exposure to environmental or other legal proceedings; risks of conducting business internationally; volatility in financial and currency markets; and foreign exchange risks.

(b) Improvement in after tax returns

Withholding taxes

The reduction in the US withholding tax imposed upon the distribution of profits and interest from the US subsidiaries of James Hardie is dependent on JHI NV successfully listing its ADRs 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 meeting specified aggregate trading levels on the NYSE and the ASX.

The US – Netherlands Income Tax Treaty only applies to reduce withholding taxes on distributions from the United States in any taxable year if, among other requirements for eligibility, the aggregate volume of trading in JHI NV Shares on any approved stock exchange, which includes both the ASX and NYSE, during the previous taxable year was at least 6% of the average number of JHI NV Shares on issue during that taxable year. Based on the aggregate volume of trading in JHIL Shares, which has averaged approximately 33% over the previous 3 fiscal years, the Board expects that JHI NV will satisfy this test for the relevant periods and meet the requirements for eligibility. However, the number of JHI NV CUFS and JHI NV ADRs that are traded is beyond the control of JHI NV and there can be no assurance that the necessary trading volume will be achieved.

If the required level of trading is not satisfied, the withholding tax rate on dividends paid by US companies in the Group to JHI NV will be 30% (compared to 5% if the required level of trading is satisfied) and on interest paid by US companies to JHI Finance BV will be 30% (compared to 0% if the required level of trading is satisfied). Any such additional withholding taxes will be a cost to James Hardie.

Dutch Finance Company

JHI Finance BV will be able to apply the FRR legislation to its financing activities only if it complies with the conditions of a ruling received from the Dutch tax authorities. These conditions require the concentration of the treasury activities and other finance activities of the group in The Netherlands and include the maintenance of an office, and the employment of the group treasurer, a company secretary and several other full-time staff members in The Netherlands. The application of the FRR regime has been confirmed by the Dutch tax authorities which have provided a 10 year binding ruling to that effect.

The James Hardie Group will also need to comply with the applicable tax laws in the countries in which its operations are located to ensure that the interest payments made to JHI Finance BV are deductible against the profits of the operations in that country.

(c) Possible changes to Australian tax law

The Australian Government has announced that it intends to implement changes to the dividend franking system from 1 July 2002.

For James Hardie this means that, if the Government changes are introduced and the Proposal not implemented, some of the foreign dividend withholding taxes imposed upon the distribution of profits from the US operations to JHIL would give rise to franking credits. Where these profits from the US operations are passed on to Shareholders, the franking credits arising on the payment of withholding tax would also be passed on. The cost of the withholding taxes would, however, still adversely impact JHIL's tax expense, thereby reducing the after-tax profits of James Hardie and the amounts available for distribution to Shareholders.

The implementation date for the change has been deferred once already (from 1 July 2001), a federal general election must be called by 12 January 2002 and there are several other significant tax changes due for implementation on the same date as the proposed franking changes. Accordingly, no assurances can be given that the above change will be implemented or as to the timing of implementation.

This change would be of benefit to Shareholders only if the present structure were maintained. Under the present structure, the benefit of this change to a Shareholder on the top marginal tax rate (48.5%) would be an increase of 17.5% to the after tax cash return. If the Scheme proceeds, however, any change to the franking system will not benefit JHI NV Shareholders. As a non-resident of Australia, JHI NV will not be able to frank its dividend payment.

However, even if these announced changes are implemented, there should be no material difference between the benefit a JHIL Shareholder would receive in respect of a dividend payment from JHIL (with a 15% franking credit) and the after-tax return a JHI NV Shareholder will receive from JHI NV (with a 15% foreign tax credit) were the Proposal to be implemented.

(d) Possible changes to Dutch tax law

James Hardie will establish its finance and treasury activities in The Netherlands. It has obtained a ruling from the Dutch tax authorities under which certain tax benefits may arise. Under existing Dutch legislation, the terms of the tax ruling apply for 10 years provided that the James Hardie Group continues to meet the legal requirements of the FRR regime.

The Netherlands is a member of the European Union (EU) and is consequently bound by its treaties that form the "constitution" of the EU. In this regard it is noted that the European Commission, the executive arm of the EU, undertakes reviews of financial and regulatory arrangements within the EU member states with the broad objective of harmonising these arrangements over time. In this context, the European Commission has recently informed eight EU member states, including The Netherlands, that it wishes to examine eleven separate government approved tax arrangements within those member states to determine whether those arrangements grant benefits that qualify as "prohibited state aid" under the terms of the above European treaties. In a recent letter sent to the Government of The Netherlands, the European Commission has stated that it will investigate whether the FRR regime constitutes prohibited state aid. In the event that the European Commission were to determine that the FRR regime constitutes prohibited state aid, the tax benefits, if any, could be cancelled retroactively, resulting in additional tax payments by James Hardie. The position of the Dutch government is that the FRR regime does not constitute prohibited state aid.

In addition, the EU member states are seeking to eliminate harmful tax competition within the EU. To that effect they have set up a working group to review the legislation of the member states based on a Code of Conduct. The Code of Conduct represents a political commitment of the member states to eliminate harmful tax competition. The conclusions of the working group may result in the amendment or abolition of the FRR regime in the future, such that the effective lifetime of the 10 year written ruling granted to James Hardie may ultimately be applicable for a period of less than 10 years. The position of the Dutch government is that the FRR regime does not constitute harmful tax competition under the terms of the EU Code of Conduct.

The quantum of benefits obtainable under the FRR regime is also available in other European jurisdictions, where tax regimes have been established which meet the harmonisation criteria referred to above, such as Ireland, where a general 16% corporate tax rate applies (reducing to 12.5% in 2003). Were it to become necessary for any reason, JHI NV would have the ability to incorporate a new finance subsidiary in Ireland and achieve materially the same result as that obtainable with its Dutch finance subsidiary with immaterial set up and on-going administrative costs.

The withholding tax benefits expected to arise under the US-Netherlands Income Tax Treaty on interest and dividends paid by the US operations are not affected by the current programme of EU reviews.

(e) Enforcement of takeovers regime against JHI NV CUFS Holders

Under general law principles, holders of JHI NV CUFS would not be bound by the Articles of Association. Therefore, JHI NV would not be able to enforce provisions in the Articles of Association (in particular, the provisions permitting JHI NV to exercise powers in relation to a breach of the takeover provisions) directly against those holders.

However, ASIC has granted a modification to of the Corporations Act 2001, which deems the holders of JHI NV CUFS to be bound by the terms and conditions of the Articles of Association. A copy of the modification instrument is attached at Appendix VII.

Pursuant to the modification and the Articles of Association, JHI NV can require JHI NV CUFS Holders to disclose information about their relevant interests in JHI NV Shares. Also, to protect the interests of the company in exercising its powers if the thresholds are breached, the Articles of Association provide that a JHI NV CUFS Holder will not have a claim against the company, the members of its Managing Board, Supervisory Board or Joint Board or a JHI NV Shareholder for any actions taken by them in accordance with the takeover provisions, provided that the action is in good faith.

James Hardie considers, having regard to the advice it has received, that the Corporations Act 2001 (as modified) should be effective to bind the JHI NV CUFS Holders to the Articles of Association (as governed by Dutch law).

The regime is, however, complex and to James Hardie's knowledge, no similar regime has been considered by either Dutch or Australian courts. Accordingly, the enforceability of the Articles of Association by a court against JHI NV CUFS Holders is not assured.

In giving the modification, ASIC should in no way be considered to have endorsed, or made any representation as to the enforceability of, the takeovers regime in JHI NV's Articles of Association.

In addition, the modification instrument will cease to have effect once the proposed Financial Services Reform Act comes into force on 1 October 2001 or shortly thereafter. Accordingly, JHI NV will need to apply for a replacement instrument before that time and ASIC will need to consider any such application on its merits and in light of the final form of the legislation. No assurance can be given that ASIC will issue the replacement instrument. However, on the basis of discussions with ASIC, the Company believes that there is no significant risk of a replacement instrument not being issued.

If the modification to the Corporations Act 2001 is held not to be effective to bind the JHI NV CUFS Holders to the Articles of Association or is not replaced as contemplated above, where a JHI NV CUFS Holder or some other person has acted in a manner which causes a JHI NV Shareholder to be in breach of the provisions, JHI NV will still be entitled to enforce its rights in accordance with the Articles of Association against CDN as registered holder of the JHI NV Shares which relate to the relevant CUFS holder's JHI NV CUFS.

Accordingly, JHI NV would still be able force a sale of the JHI NV Shares underlying the JHI NV CUFS to the extent the JHI NV Shares exceed the takeover threshold. Furthermore, JHI NV could, to the same extent, suspend the payment of dividends or disregard votes attaching to the shares underlying the JHI NV CUFS so that those benefits would not flow through to the holder of the JHI NV CUFS that had breached the prohibition.

However, JHI NV would not have the right to require a JHI NV CUFS Holder to disclose information about its holdings and the provision described above, which provides that a JHI NV CUFS Holder would have no claim for an action taken under the takeover regime, would not be enforceable. It should be noted, however, that holders may be subject to the beneficial reporting requirements of the SEC, which are summarised in Section 3.1(h) of Appendix I.

(f) Third party actions

The transfer of JHNV to JHI NV is an essential element of the Proposal in order to ensure that JHI NV has direct access to the profits of its operating and financing subsidiaries thereby achieving withholding tax savings on internal dividends. Whilst the Scheme is not conditional upon the transfer of JHNV occurring, JHIL and JHI NV have executed an Implementation Deed (contained in Part C of this Information Memorandum) pursuant to which they agree to effect that transfer. The Implementation Deed similarly binds those parties to effect the payment of dividend, capital reduction and issue of partly paid shares referred to in Section 2.3 of this Part B.

The Company does not believe there is any material risk that these steps will not be implemented following approval of the Scheme. Implementation of these steps is almost exclusively within the control of JHIL and JHI NV. The only material exception is that the transfer of JHNV is required to be effected by notarial deed. Whilst this will require a third party (the civil law notary) to execute the notarial deed, the civil law notary will do so if all necessary formalities are observed in respect of the transfer. The Company has every reason to believe those formalities will be observed and that the civil law notary will proceed to execution.

(g) Potential short term price weakness

Some existing Shareholders may not be able or willing to hold an investment in a company incorporated in The Netherlands, even though listed on the ASX. Consequently, such Shareholders may be forced or choose to sell their investments rather than receiving or holding JHI NV CUFS, notwithstanding that management expects JHI NV to be a more attractive investment vehicle than JHIL.

Any such selling, if at a material level, may result in short term share price weakness for JHIL or JHI NV.

(h) Index treatment

JHIL is currently a member of a number of the S&P/ASX and MSCI share indices. As the Proposal is a corporate restructuring, it is expected that JHI NV will automatically replace JHIL in the S&P/ASX and MSCI indices. This will not be formally confirmed by either organisation's index committee prior to the dispatch of this Information Memorandum because of the policy of both organisations of not commenting until documentation is publicly released.

If JHI NV does not replace JHIL in the relevant S&P/ASX or MSCI indices, this is likely to result in selling by institutional investors that track those indices. The extent of such selling is uncertain but, if it occurred, it would be likely to be sufficient to result in a lower JHIL/JHI NV share price at least in the short term.

In addition, there may be some institutional Shareholders whose mandates prohibit them from holding shares in companies not incorporated in Australia. Any such institutions would be required to sell their JHI NV CUFS. If this occurred in sufficient numbers, it could result in a lower share price in the short term. However, based on discussions with James Hardie's major institutional Shareholders, the Company does not believe there will be any significant level of selling of JHI NV CUFS due to this issue, as most investment mandate restrictions apply to preclude investment in companies which are not listed on the ASX (or not included in the S&P/ASX and MSCI indexes) rather than in foreign companies as such.

(i) Exchange rates

JHI NV CUFS will trade on the ASX in Australian dollars, as JHIL Shares trade currently.

There will be no change in James Hardie's underlying assets, liabilities or treasury management practices as a result of the Proposal. Given the significant proportion of James Hardie's assets and profits that are currently US dollar denominated, the share price on the ASX should, all other things being equal, react similarly to exchange rate fluctuations whether or not the Proposal is implemented.

As JHI NV will prepare its accounts in US dollars, JHI NV will declare its dividends in US dollars. Dividends to JHI NV CUFS Holders will be paid in Australian dollars, using Australian dollar funds purchased by JHI NV on the first business day following the dividend record date. This may result in some fluctuation in the Australian dollar amount received from one dividend payment date to another, even if the declared US dollar dividend amount is the same in both cases. Such fluctuation would be due to changes in the A$:US$ exchange rate applying in respect of the two dividend record dates. The fluctuation in the Australian dollar amount could be favourable or unfavourable, depending on whether the Australian dollar had weakened or strengthened since the prior dividend payment.

3.5 Other alternatives considered by the Board

The consideration and development of the Proposal as the preferred strategic option for restructuring the Group has taken place over an extended period. The benefits and disadvantages of the Proposal have been rigorously tested against a number of alternatives.

The most attractive of these alternatives involved retention of JHIL as the listed vehicle, coupled with an internal restructuring to simplify the existing Group structure by removing certain intermediary holding companies. If this alternative was implemented, US withholding taxes of 15% would apply to internal dividends from the US operations to the listed parent (as compared to 5% following implementation of the Proposal) and James Hardie would not benefit from the Dutch FRR tax regime. Further, this alternative would not position James Hardie for continuing international growth, align operations and capital markets or provide James Hardie and its Shareholders with an optimal financing structure.

If this alternative was implemented, James Hardie's existing Senior Note Facility would need to be renegotiated, as the principal guarantor, JHNV, would be removed from the James Hardie corporate structure. There can be no guarantees as to the borrowing terms that would result from such re-negotiations and this may involve the payment of interest penalties to Noteholders.

This alternative would, however, not require the introduction of a new holding company and hence Shareholders would retain their existing JHIL Shares. This would also involve lower administration costs than are envisaged under the Proposal and would be less complex to implement.

Under this alternative, the impact of US withholding tax on JHIL Shareholders might be mitigated in the future if certain Australian Government proposals to partially convert foreign withholding taxes into Australian franking credits were implemented. Such changes were to have applied from 1 July 2001, but their introduction has been postponed by the Australian Government and are now proposed to be legislated for introduction on 1 July 2002, although there is no certainty that they will be introduced (see Section 3.4 (c) of this Part B).

Separately, double tax treaty renegotiations between Australia and the United States commenced on 26 March 2001. One potential outcome of these renegotiations may be reduced withholding tax on dividends from the United States. However such renegotiations could be lengthy, are in a very early stage and no assurances can be provided as to their timing or result. Further, even if that treaty were amended to reduce withholding tax on dividends, JHIL would still not benefit from it without internal restructuring which would require re-financing of existing debt and would not afford access to the benefits of the Dutch finance company.

While other alternatives considered by the Board have some attractions, they only partially address James Hardie's structural inefficiencies and, in the view of the Board, do not provide as complete a solution as the recommended Proposal.

The Board is of the view that the Proposal represents the only alternative which comprehensively addresses the remaining fundamental structural and financial issues identified in 1998 and still facing James Hardie. The Proposal in its current form could not have been adopted in 1998 as scrip-for-scrip rollover relief was not available for Australian investors at that time.

The Board has also considered maintaining the existing structure. This was considered to be unacceptable, however, as the issues the Proposal is designed to address would remain. In particular, the average corporate tax rate would continue to increase as an increasingly greater proportion of operating earnings are generated in the United States and withholding tax payments would increase if the current dividend pay-out ratio was maintained.

3.6 Directors' recommendation

The Board believes the benefits of the Proposal outweigh the potential disadvantages and risks. In particular, the Board believes that the Proposal provides the most beneficial solution to the strategic issues currently confronting James Hardie through a structure that will enable the business to achieve its full growth potential while maximising value for Shareholders.

The Board unanimously recommends that all JHIL Shareholders vote in favour of the Proposal. Each Director, being Mr A McGregor, Mr P Macdonald, Ms M Hellicar, Mr P Willcox, Mr M Brown, Mr M Gillfillan and Mr M Koffel, intends to vote in favour of the Proposal in respect of the JHIL Shares which he or she controls.

4. DESCRIPTION OF JHI NV

4.1 Introduction

Under the Scheme, JHIL will become a subsidiary of JHI NV which will be the new parent company of the Group. The Proposal has been designed so that an investment in JHI NV is as similar to an investment in JHIL as is possible. Accordingly, JHI NV will have:

> the same operational assets as JHIL;
> a primary listing on the ASX, traded in Australian dollars;
> substantially the same number of ordinary shares as JHIL;
> Articles of Association as similar as possible to the Constitution of JHIL, subject to the requirements of Dutch law;
> a takeover regime in its Articles of Association which incorporates certain principles of the Australian Takeovers Code; and
> substantially the same Board members as JHIL.

4.2 Business description

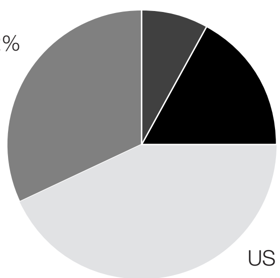
JHI NV will inherit JHIL's position as a global leader in researching, developing, manufacturing, selling and marketing fibre cement building materials. James Hardie's aim will continue to be to create value for its investors by aggressively growing its fibre cement business.

Established over 100 years ago, James Hardie's major business operations span the United States, Australia, New Zealand, Chile and the Philippines. The Group presently employs in excess of 3,700 people, generating revenues of approximately A$1.5 billion in the 2001 financial year.

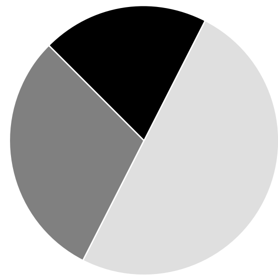
The relative geographic product splits for revenue and EBIT are illustrated in the charts below. The graphs illustrate the large portion of revenue and even greater portion of earnings derived from the United States.

Sales and EBIT of ongoing businesses

FY2001 - Revenue by Segment



FY2001 - EBIT by Segment



4.3 Business strategy

James Hardie has adopted a growth-focused business strategy:

> building upon the already strong positions held in existing markets;
> expanding the product offering within these markets with a strong emphasis on research and development of fibre cement products using James Hardie's unique product and process technology; and
> expanding internationally, as evidenced by the recent movement into the South American market.

The Proposal does not alter James Hardie's ongoing business strategy. It will not affect the ongoing plans for the sale of James Hardie's gypsum business or its windows business (see Section 4.4 below), nor the scale or scope of existing fibre cement operations. James Hardie will continue aggressively to grow its businesses in markets where it can establish a differentiated competitive position using its unique technology and the skills of its employees. This will involve expansion into new international markets and targeting new market segments within existing markets and vigorously defending market share within existing markets. The impact of the Proposal on existing operations should be minimal, essentially being limited to the relocation of certain treasury and insurance functions to The Netherlands.

4.4 Operations

Fibre cement

James Hardie's fibre cement business manufactures the widest range of fibre reinforced cement products available in the United States, Australia, New Zealand and the Philippines.

James Hardie's fibre cement product offering is aimed at the building and construction markets, including new residential construction, manufactured housing, repair and remodelling and a variety of commercial and industrial building applications and drainage pipe markets. In Australia, its fibre cement products are primarily utilised for residential applications, though applications in non-residential construction are increasing with a significant fibre cement pipes business. In the United States, James Hardie has, to date, principally focused on the new residential construction market. Further expansion will also focus on the US repair and remodel, manufactured housing and non-residential construction segments.

James Hardie has recently commenced production of fibre cement pipes in the US at Plant City, Florida. These pipes are targeted at large diameter stormwater and other drainage applications.

The sales of fibre cement products accounted for approximately 61% of James Hardie's total net sales in fiscal year 2001.

Gypsum

James Hardie's gypsum business operates in North America, where it is currently the fourth largest gypsum wallboard producer. It provides a wide range of gypsum wallboard products that are used as interior wall linings in residential, commercial and specialised (moisture and fire resistant) applications and are sold at competitive prices.

On 11 May 2001, James Hardie announced that it had begun a formal process to evaluate a sale of its gypsum business. Whilst James Hardie has entered into discussions with a number of potential purchasers, these have not resulted to date in any formal offer being made for the assets on terms and conditions acceptable to James Hardie. The sale process is ongoing.

Products are designed to provide aesthetic as well as sound and fire retardant features. The majority of these products are sold under the Hardirock™, Hardikote™ and Hardiwall™ brand names. In fiscal year 2000, James Hardie also began manufacturing and marketing joint treatment products (products used for tape, finish and texture wallboard applications). In addition, a wide range of gypsum plaster products for construction and industrial applications, together with speciality ground gypsum for agricultural markets, are produced.

The sales of gypsum wallboard products accounted for approximately 32% of James Hardie's total net sales in fiscal year 2001.

Windows

James Hardie is currently seeking to divest its windows business. It is expected that this divestment will be completed during fiscal year 2002. The business is primarily involved in the manufacture, sale and marketing of wooden, aluminium and louvre windows as well as conservatory style window systems for residential and commercial applications in Australia. It is believed to be the second largest Australian producer of windows.

The windows business accounted for approximately 5% of total net sales in fiscal year 2001. Write-downs of $35.3 million associated with the divestment were made in fiscal year 2001.

4.5 Location of operations

James Hardie has six fibre cement flat sheet plants located in the United States, providing coverage of all significant markets with the exception of the North-east. It also has a newly constructed fibre reinforced cement pipe plant located in Plant City, Florida.

In the Asia Pacific region, James Hardie currently has four fibre cement plants in Australia, one in New Zealand and one in the Philippines, providing national coverage of those markets. These plants are complemented by a series of representative sales offices located through Asia. The plant in Perth, Western Australia is scheduled for closure in the near term, as more efficient manufacturing and distribution in the Australian market can be achieved by other means.

James Hardie has also recently purchased and upgraded a fibre cement plant in Santiago, Chile, providing access to another market that is expected to experience strong growth over the medium term.

James Hardie has three gypsum manufacturing plants servicing most major growth areas in the US, including its main markets being the South Eastern and West Coast markets. Gypsum mines are located in close proximity to the Las Vegas, Nevada and Nashville, Arkansas plants.

The locations of facilities and sales offices are illustrated below:

North America

Australia and New Zealand

Asia

South America

Key

- Fibre Cement plants
- Fibre Cement sales offices
- Gypsum plants

Note: James Hardie also has a fibre cement sales office located in Ontario, Canada

4.6 Research and development

During the year ending 31 March 2001, James Hardie invested A$26.1 million in research and development, predominantly focusing on fibre cement. James Hardie views research and development as key to sustaining and growing its existing market leadership position in fibre cement, and expects to continue to maintain significant funding to this activity. James Hardie's research and development strategy includes:

> developing differentiated products by applying James Hardie's key competencies of manufacturing, process development, material science, and performance characterisation to its core technologies;

> increasing penetration in its existing markets of the United States, Australia, New Zealand, the Philippines and Chile by developing segment-specific products;

> developing innovative technologies and systems that will enable James Hardie to enter new markets globally;

> further investing in James Hardie's manufacturing competency in order to increase capital utilisation and operational efficiencies; and

> building an intellectual property portfolio that will support aggressive growth and help sustain James Hardie's competitive advantage.

4.7 Employees

There will be no redundancies of employees as a result of implementing the Proposal.

4.8 ASX Listing

JHI NV has applied to the ASX for the primary listing of its ordinary shares. If listing is achieved, JHI NV will be subject to the ASX Listing Rules as JHIL is currently. An ASX listing will necessitate JHI NV having to satisfy several requirements, including those specific to foreign companies listed in Australia, notably the requirement to establish an Australian securities register and to maintain appropriate facilities in Australia to register the transfer of its securities.

The listing on the ASX will enable holders of JHI NV CUFS to trade their investment in JHI NV in a manner similar to that in which JHIL Shares are now traded.

The approval of JHI NV Shares for official quotation on the ASX is a condition precedent to the Scheme (see Section 7.1 of this Part B). Whilst no assurance can be given that ASX approval will be granted, the Company has no reason to believe that this will not be forthcoming.

The fact that ASX may admit JHI NV to its official list is not be taken in any way as an indication of the merits of JHI NV.

4.9 Listing on the NYSE

On or about 17 July 2001, JHI NV submitted information on a confidential basis to the NYSE for the purpose of conducting an eligibility review for listing JHI NV ADRs on the NYSE. On 13 August 2001, the NYSE authorised JHI NV to submit a formal listing application. The listing of JHI NV ADRs will be contingent on, among other factors, JHI NV's registration statements on Forms 20-F and F-6 being declared effective by the SEC. These registration statements were submitted to the SEC for confidential review on 13 July and 25 July 2001 respectively.

The Scheme is conditional upon JHI NV ADRs being approved for listing on the NYSE or, if approval for listing on the NYSE is not granted, on any other stock exchange registered with the SEC as a national securities exchange for the purposes of the Securities Exchange Act of 1934 (see Section 7.1 of this Part B). No assurance can be given that NYSE approval will be granted, however, the Company has no reason to believe that it will not be forthcoming.

Under the Proposal, JHIL ADRs (other than those held by Prescribed Foreign ADR Holders), which are traded over the counter in the United States, will be exchanged for JHI NV ADRs upon surrender of JHIL ADRs to the Depositary.

The Bank of New York will continue to act as the Depositary and to co-ordinate institution custodial services for the ADRs. The rights attaching to the listed ADRs are described in more detail in Appendix VI.

4.10 Reporting requirements

The directors of JHI NV intend to maintain the standards of transparency and financial disclosure established by JHIL. JHI NV is required by Dutch law to prepare its accounts under Dutch GAAP. For Shareholders and the market generally, JHI NV will prepare consolidated accounts in US dollars under US GAAP, reporting quarterly as it presently does and publishing an annual report to Shareholders. Published balance sheets and income statements will also show the Australian dollar equivalent of the reported US dollar, US GAAP numbers.

This reporting will more accurately reflect the results of JHI NV's predominantly US dollar based operations and allow direct comparison with other US based building materials companies.

In addition, it is James Hardie's intention that JHI NV's annual report to Shareholders will contain the same level of financial disclosure as presently applies to the JHIL annual report, such that items which are customarily not disclosed in US GAAP annual reports, but have been disclosed in recent JHIL annual reports, will be voluntarily disclosed in the JHI NV annual reports.

As a registered foreign company in Australia, and in accordance with Australian company law, JHI NV will lodge with ASIC its annual accounts, being entity accounts prepared in accordance with Dutch law. It will also lodge its annual consolidated accounts prepared in US dollars under US GAAP and any additional financial information in such form and containing such particulars as may be required by ASIC under section 601CK(3) of the Corporations Act 2001, if ASIC is of the view that the information lodged by JHI NV does not sufficiently disclose its financial position.

Under the ASX Listing Rules, JHI NV will be required to maintain both the continuous disclosure regime and periodic reporting requirements as presently apply to JHIL. JHI NV also intends to continue JHIL's practice of reporting quarterly on a voluntary basis (albeit in US GAAP). In addition to submitting all public disclosures to the ASX, these will also be filed with the NYSE, the SEC, the Dutch Securities Board and, in respect of annual and semi-annual accounts only, to the Chamber of Commerce and Industries in Amsterdam, The Netherlands.

In the United States, JHI NV will be required to lodge annual reports on a Form 20-F and quarterly reports on a Form 6-K with the SEC and will provide copies of these reports to the NYSE.

4.11 Office in The Netherlands

JHI NV will maintain an office in The Netherlands from which group treasury and insurance operations will be run. European development activities will also be run out of this office. JHI NV has its corporate seat in Amsterdam.

4.12 External borrowings

JHI NV will not be required to refinance existing debt facilities as a result of the restructuring. All existing external borrowings have been undertaken by subsidiaries of JHNV, which will remain unaffected by the restructuring.

4.13 Overview of JHI NV Board structure

In accordance with its Articles of Association, JHI NV will have a multi-tiered board structure. This structure will consist of a Managing Board, a Supervisory Board and a Joint Board.

The Joint Board will be responsible for planning and overseeing the general course of affairs of James Hardie and will effectively function as the JHIL Board currently does. It will have an audit and remuneration committee, each of which will be chaired by a member of the Supervisory Board. The Joint Board will comprise all of the Supervisory Board members and the Chairman of the Managing Board, who will be the Chief Executive Officer.

The Supervisory Board will comprise solely of non-executive Directors and will have responsibility for overseeing and supervising the Managing Board.

The Managing Board will consist entirely of executive Directors. It will be responsible for overseeing the day-to-day operations of the group and its financing.

This three-tiered board structure will differ from the current board structure of JHIL, which has a single Board comprising all of the executive and non-executive Directors of the company. The three-tiered board structure, including as it does a joint board combining all of the supervisory and a number of the managing board directors, is used by Dutch companies which wish to replicate as closely as possible a board structure common to a number of common law jurisdictions which includes in one board a combination of executive and non-executive directors. In JHI NV's case, the three-board structure will most closely reflect the current JHIL board structure whilst being consistent with Dutch legal requirements.

The composition of the various boards is described below.

4.14 Joint Board composition

The Joint Board of JHI NV will consist of:

> all of the members of the Supervisory Board;

> the Chairman of the Managing Board (Mr Macdonald); and

> such other members of the Managing Board chosen by the Chairman of the Supervisory Board (provided that the number of directors of the Managing Board on the Joint Board at any given time cannot exceed the number of Supervisory Board Directors then on the Joint Board).

Whilst all of the JHIL Board (other than Peter Willcox, who is retiring) will constitute the Joint Board on implementation, over time this may change, especially as Managing Board members can be appointed to the Joint Board by the Chairman of the Supervisory Board.

4.15 Supervisory Board composition

The Supervisory Board will initially comprise all of the non-executive Directors on the JHIL Board, with the exception of Mr P Willcox who will be retiring (for personal reasons unrelated to the Proposal), namely:

A McGregor AO, MA (Cantab), LLB will be the Chairman of the Supervisory Board. Mr McGregor joined the JHIL Board as a non-executive Director in 1989 and became Chairman in 1995. Mr McGregor is chairman of FH Faulding & Co. Ltd, the Australian Wool Testing Authority Ltd and Burns Philp & Company Ltd and a board or committee member of a number of charitable and community organisations. Mr McGregor is a Member of the Audit and Remuneration Committees of JHIL and will be a Member of the Audit Committee of JHI NV and Chairman of the Remuneration Committee of JHI NV.

M Hellicar BA, LLM (Hons) will be a Member of the JHI NV Supervisory Board. Ms Hellicar joined the JHIL Board as a non-executive Director in 1992. Ms Hellicar is a Director of Goldfields Ltd and Chairman of the Sydney Institute. Ms Hellicar is a Member of the Audit Committee and of the Remuneration Committee of JHIL and will hold the same positions at JHI NV.

M Brown BEc, MBA, FCPA will be a Member of the Supervisory Board. Mr Brown joined the JHIL Board as a non-executive Director in 1992. Mr Brown was group finance Director of Brambles Industries Ltd until retiring in 2000 and is a Director of Energy Developments Ltd and a councillor of the Royal Blind Society of New South Wales. Mr Brown is Chairman of the Audit Committee of JHIL and will fulfil the same role at JHI NV.

M Gillfillan BA, MBA will be a Member of the Supervisory Board. Mr Gillfillan joined the JHIL Board as a non-executive Director in 1999. Mr Gillfillan is based in San Francisco and held a number of senior positions with Wells Fargo Bank and has a diversity of experience in commercial and corporate banking. Mr Gillfillan is a Member of the Audit Committee of JHIL and will fulfil the same role at JHI NV.

M Koffel MS, MBA will be a Member of the Supervisory Board. Mr Koffel joined the JHIL Board as a non-executive Director in 1999. Mr Koffel is Chairman and Chief Executive Officer of URS Corporation and a Director of McKesson HBOC Inc. Mr Koffel is a Member of the Remuneration Committee of JHIL and will fulfil the same role at JHI NV.

4.16 Managing Board composition

The Managing Board will initially comprise the following key members of management:

P Macdonald will be JHI NV's Chief Executive Officer and Chairman of the Managing Board. Mr Macdonald joined JHIL as General Manager - James Hardie Building Boards Australia in 1993 and joined the JHIL Board as Managing Director and Chief Executive Officer in 1999. Mr Macdonald received a Bachelor of Commerce and Administration from Victoria University, New Zealand and an MBA from Pepperdine University, US. Mr Macdonald has worked for over 21 years in building and construction markets throughout the Americas, Asia and Australasia.

D Cameron will be JHI NV's Treasurer and will be a Member of the Managing Board. Mr. Cameron joined JHIL as General Manager, Finance - James Hardie Pipelines in 1991 and served as JHIL's Company Secretary and Chief Accountant from 1994 to 1997. In 1997 he was also appointed JHIL's Treasurer. Prior to joining JHIL, Mr Cameron held a number of senior commercial and financial positions with Southcorp Ltd and Rheem Australia Ltd. Mr. Cameron received a Bachelor of Economics from the University of Adelaide, Australia.

4.17 Other key management positions

Other key members of the JHI NV management team will include the following:

P Morley will be JHI NV's Chief Financial Officer. Mr Morley joined James Hardie as Chief Accountant in 1984 and served as Financial Controller from 1988 until 1995 and Executive General Manager Building Services from 1995 until 1997. He was appointed Chief Financial Officer of James Hardie in 1997. Prior to joining James Hardie, Mr Morley held senior positions in finance and management at Swift & Co Ltd and Pfizer Corporation. Mr Morley, a chartered accountant, received a Bachelor of Economics and an MBA from the University of Sydney, Australia.

L Gries will be JHI NV's Executive Vice President - Building Products, US. Mr Gries joined James Hardie as Manager of the Fontana fibre cement plant in 1991 and was appointed General Manager Building Products (Fibre Cement) in 1992 before being appointed President of James Hardie Building Products (Fibre Cement) in 1993. Prior to joining James Hardie, Mr Gries held senior management positions with United States Gypsum Company (USG). Mr Gries received a Bachelor of Science in Mathematics from the University of Illinois, US and an MBA from California State University, Long Beach, US.

R Rugg will be JHI NV's Executive Vice President - Gypsum. Mr. Rugg joined James Hardie as President of James Hardie Gypsum in 1998. Prior to joining James Hardie, Mr Rugg held a number of senior positions with USG, including General Manager - Industrial Gypsum and Director of Business Development - Gypsum Wood Fibre. Mr Rugg received a B.S. in Finance from the University of Illinois, US and an MBA from St. Mary's College.

Don Merkley will be JHI NV's Manager - Fibre Cement Research & Development. Mr Merkley joined James Hardie in 1993 as Plant Manager of the Plant City fibre cement operation in Florida and was appointed US Product Development Manager in 1997. Prior to joining James Hardie, Mr Merkley held senior positions with USG in various engineering - related roles. Mr Merkley has a Bachelor of Science in Engineering from Arizona State University, US.

J Moller will be JHI NV's Executive Vice President, Building Products Asia-Pacific. Mr Moller jointed James Hardie as General Manager of Building Automation in 1992. He was Manager Building Services from 1995 until it was sold in 1997 when he was appointed Executive General Manager, Building Systems until the business was sold in early 2000. He was appointed Executive General Manager, James Hardie Australasia in 2000. Prior to joining James Hardie, Mr Moller held a number of positions at Honeywell, Australia. Mr Moller has a Bachelor of Engineering from the University of Adelaide, Australia and a Graduate Diploma in Marketing and Master of Finance from Macquarie University, Australia.

G Baxter will be JHI NV's Senior Vice President - Corporate Affairs. Mr. Baxter joined James Hardie in 1996 in the position he continues to hold, General Manager - Corporate Affairs. Prior to joining James Hardie, Mr. Baxter was a partner principal of Balstrup Baxter Corporate Communication from 1993 until 1996 and was General Manager - Corporate Affairs for Goodman Fielder Ltd from 1990 until 1993.

P Shafron will be JHI NV's General Counsel and Secretary. Mr Shafron joined James Hardie as Legal Officer in 1993 and served as Senior Company Solicitor from June 1995 before being appointed General Counsel in 1997. Prior to joining James Hardie, Mr Shafron was an associate with the Australian law firm Allen Allen & Hemsley. Mr Shafron received a Bachelor of Arts from the Australian National University and a Bachelor and Master of Laws from the University of Sydney, Australia. Mr Shafron is admitted to practise law in Australia and the US.

4.18 Corporate governance

Pursuant to JHI NV's Articles of Association, the Joint Board may adopt written policies governing the internal organisation of the Managing Board, including directions to the Managing Board concerning general financial, economic, personnel and social policies. In addition, the Supervisory Board may specify by resolution that certain actions of the Managing Board require the prior approval of the Supervisory Board. Further, the general meeting of Shareholders of JHI NV may also from time to time by resolution determine that certain decisions of the Managing Board require the approval of the general meeting of Shareholders of JHI NV.

JHI NV Supervisory Board and Managing Board Directors may be nominated by the Joint Board and the Shareholders and will be elected by JHI NV's general meeting of Shareholders. However, up to a third of the members of the Supervisory Board may be appointed by the Joint Board for a term ending at the conclusion of the first general meeting of Shareholders after such appointment. At that meeting the Joint Board may nominate those persons or persons previously appointed by it as Supervisory Board Directors, for election by JHI NV Shareholders.

Supervisory Board Directors who are elected by JHI NV Shareholders and Directors of the Managing Board will generally be elected for a three year term. In each case, such terms begin at the end of the annual general meeting of Shareholders at which such persons are elected. It is intended that the initial Directors will be elected for varying periods with up to a third of the Supervisory Board members retiring in any given year, with the initial rotations being reflective of the outstanding terms that Directors are yet to serve on the JHIL Board. This is also in accordance with ASX Listing Rules.

The Joint Board and Shareholders will have the power to make non-binding nominations for the election of Directors to the Supervisory Board not appointed by it, and for election of Directors to the Managing Board.

Each Managing Director or Supervisory Director of JHI NV will hold office until the expiration of such Director's term of office or such Director's resignation, retirement or removal. Unless otherwise permitted under Dutch law, Supervisory Board Directors must retire no later than the day of the annual meeting of Shareholders of JHI NV held in the year in which such Director reaches the age of 72.

Supervisory Board and Managing Board members may be suspended or removed by a resolution passed by an absolute majority at a general meeting of Shareholders at which at least 5% of the issued and outstanding share capital of JHI NV is present or represented. The Supervisory Board may suspend members of the Managing Board and the Joint Board may suspend and remove Supervisory Board members appointed by it. Executive officers (other than members of the Managing Board) are appointed as such, and may be removed as such, by the Joint Board.

4.19 Annual general meeting and other general meetings

JHI NV is required by Dutch law to hold its general meetings (including AGMs) in The Netherlands. The AGM must be held within six months of the close of the fiscal year. It is intended that JHI NV's AGM occur during July each year as is presently the case with JHIL.

JHI NV Shareholders and JHI NV CUFS Holders will be entitled to attend any general meeting of JHI NV and to address the meeting. Voting by JHI NV CUFS Holders and JHI NV ADR Holders can occur in the manner described in Section 5.2(b) of Appendix I and Section 2 of Appendix VI respectively. All voting at general meetings will be conducted by written poll.

As referred to in Section 4.20 below, an information meeting will be held in Australia prior to each JHI NV general meeting (including prior to each AGM) to provide Australian-based investors with an opportunity to question members of the JHI NV Joint Board face-to-face regarding JHI NV's performance.

The Joint Board, Managing Board or Supervisory Board may decide to broadcast its general meetings through telephone or video conferences to allow Australian-based investors the opportunity to put questions to the Joint Board and to listen to the business conducted at the meeting.

JHI NV's Articles of Association provide that additional meetings of Shareholders may be held as often as the Joint Board, Managing Board or Supervisory Board deems necessary or upon the request of:

(a) JHI NV Shareholders representing at least 5% of the issued share capital of JHI NV: or

(b) at least 100 JHI NV Shareholders, or one JHI NV Shareholder representing at least 100 JHI NV CUFS Holders, or any relevant combination of the foregoing so that the request of at least 100 persons is taken into account.

JHI NV's Articles of Association require that at least 28 days' notice be given of all general meetings as is required under Australian law for publicly listed companies. The notice must include the business to be covered at that meeting.

4.20 Information meeting

JHI NV's Articles of Association will require it to hold an information meeting in Australia prior to each JHI NV general meeting. All holders of JHI NV CUFS will be entitled to attend and address that meeting. The Joint Board will be represented at that meeting and will be able to report on the performance of JHI NV and to respond to questions from the floor in the same way as is currently the case at general meetings of JHIL.

No voting will occur at the information meeting. Proxy forms will be able to be deposited at the information meeting or mailed following its conclusion for inclusion at the JHI NV general meeting.

It is envisaged that quarterly results announcements will continue to be made in Australia in the same manner as presently occurs.

4.21 Equity Incentive Plan

Designated employees of the James Hardie Group, but not any member of JHI NV's Managing Board or Supervisory Board, will be eligible to receive awards under an Equity Incentive Plan. Awards may take the form of share options, performance awards, restricted share grants, share appreciation rights, dividend-equivalent rights, phantom shares or other share-based benefits (described further below). The Equity Incentive Plan is intended to promote JHI NV's long-term financial interests by encouraging its management and other employees to acquire an ownership position in JHI NV, aligning the interests of participants with those of JHI NV's Shareholders and encouraging and rewarding their performance.

An aggregate of up to 45,077,100 JHI NV Shares will be available for issue under the Equity Incentive Plan, subject to the ASX Listing Rules and other applicable legal requirements. The maximum number of JHI NV Shares (or options to acquire such shares) that may be offered in Australia is such amount that may be offered without the need for an Australian prospectus. The number available will be subject to adjustment if there is a share split, share dividend or other changes in the JHI NV capital structure or if JHI NV undertakes a restructure. Options covering a total of approximately 5,471,770 JHI NV Shares will be issued to employees of the James Hardie Group at the time of the restructuring in exchange for the cancellation of JHIL's shadow share awards under the Key Management Equity Incentive Plan of a United States Subsidiary of JHIL.

The Equity Incentive Plan will be administered by the Joint Board or a committee of the Joint Board appointed to administer it (Remuneration Committee). Subject to the provisions of the Equity Incentive Plan, the Joint Board or the Remuneration Committee will be authorised to determine who may participate in the Equity Incentive Plan, the number and types of awards made to each participant and the terms, conditions and limitations applicable to each award. In addition, the Joint Board or the Remuneration Committee will have the exclusive power to interpret the Equity Incentive Plan and to adopt such rules and regulations as it deems necessary or appropriate for the purposes of administering the Plan. Subject to certain limitations, the Joint Board or the Remuneration Committee will be authorised to amend, suspend or discontinue awards granted or the Equity Incentive Plan, including to meet any changes in applicable legal requirements or for any other purpose permitted by law.

The purchase or exercise price of any award granted under the Equity Incentive Plan may be paid in cash or other consideration at the discretion of the Joint Board or the Remuneration Committee. The Joint Board or the Remuneration Committee, in its discretion, may allow cashless exercise of awards or may permit JHI NV to financially assist the participant in the exercise of options.

Under the Equity Incentive Plan, the Joint Board will execute a framework resolution pursuant to which all awards under the Equity Incentive Plan are granted. Thereafter the Joint Board or the Remuneration Committee will be authorised to allocate awards to eligible participants from time to time subject to the Scheme becoming effective. The Joint Board or the Remuneration Committee will be authorised to allocate the following types of awards:

(a) Share options

Options to purchase or subscribe for JHI NV Shares. The Equity Incentive Plan will not allow JHI NV to grant options qualified as 'incentive share options' under section 422 of the US Internal Revenue Code of 1986, as amended. The exercise price of the options will be set at the time they are granted and may be more or less than the fair market value. Options will be exercisable over such periods as may be determined by the Joint Board or the Remuneration Committee, but no share option may be exercised after 10 years from the date of grant. Options may be exercisable in instalments and upon such other terms as determined by the Joint Board or the Remuneration Committee. Options will be evidenced by notices of option grants authorised by the Joint Board or the Remuneration Committee. No option may be transferable other than by will or by the laws of descent and distribution or pursuant to certain domestic relations orders.

(b) Performance awards

Performance awards, being awards payable contingent on the attainment of specified criteria. Performance awards will be paid in the form of cash, JHI NV Shares, or a combination of both. The Joint Board or the Remuneration Committee will determine the total number of shares subject to a performance awards, their terms and the time at which they will be issued.

(c) Restricted share awards

Restricted shares, being shares which are subject to forfeiture under such conditions and for such periods of time as the Joint Board or the Remuneration Committee may determine. Restricted shares may not be sold, transferred, assigned, pledged or otherwise encumbered so long as they remain restricted. The Joint Board or the Remuneration Committee shall determine the conditions or restrictions of any restricted share awards, which may include restrictions or requirements of continued employment, individual performance or James Hardie's financial performance.

(d) Share appreciation rights

Share appreciation rights can be awarded either in tandem with an option, a dividend-equivalent right or alone. A share appreciation right will entitle the participant to receive from JHI NV a cash payment, shares, or a combination of cash and shares. The amount of the cash payment is equal to the positive difference between the fair market value of a JHI NV Share on the date of exercise and the grant price (subject to any maximum amount imposed by the Joint Board or the Remuneration Committee).

(e) Dividend-equivalent rights

Dividend-equivalent rights, being rights to receive amounts equal to all or some portion of the cash dividends that are or would be payable upon JHI NV Shares. Dividend equivalent rights may be awarded in tandem with options, share appreciation rights or other awards under the Equity Incentive Plan. The Joint Board or the Remuneration Committee will determine the terms and conditions of these rights. The rights may be paid in cash, JHI NV Shares or other awards.

(f) Phantom shares

A designated number of phantom shares may be awarded to eligible persons. Phantom shares can result in a cash payment measured by the fair market value of an equivalent number of JHI NV Shares on a certain date, or measured by the excess of fair market value over a specified minimum. Phantom share awards may include a payment equal to the dividends paid for an equivalent number of designated JHI NV Shares during the time the phantom shares are held.

(g) Other share-based benefits

Other awards may be allocated which might involve the issue or sale of JHI NV Shares or other securities of JHI NV, or involve a benefit that is measured by the value, appreciation, dividend yield or other features attributable to a specified number of JHI NV Shares or other securities, including but not limited to share payments, share bonuses and share sales.

(h) Termination

Subject to the terms of any award of share options, if an employee's employment within the James Hardie Group is terminated:

(i) for just cause, then that employee's options, whether vested or unvested, are terminated;

(ii) by the James Hardie Group (other than for just cause) or by the employee for death, permanent disability or retirement, then the employee's unvested options will vest in full; or

(iii) by the employee (other than for death, permanent disability or retirement or in a circumstance involving just cause), then the employee's unvested options are terminated.

Subject to Dutch law and the terms of any award of restricted shares, if an employee's employment within the James Hardie Group is terminated:

(i) for just cause or by the employee (other than for death, permanent disability or retirement), all of the employee's restricted shares remaining subject to restrictions on the date of termination of employment will be repurchased by JHI NV at the purchase price (if any) paid by the employee, without interest or premium and otherwise returned to JHI NV without consideration; or

(ii) by the James Hardie Group (other than for just cause) or due to the employee's death, retirement or permanent disability, all of the employee's restricted shares remaining subject to restrictions on the date of termination of employment will vest in full.

For all other awards, except as set forth in an award document or otherwise determined by the Joint Board or Remuneration Committee, all awards granted to an employee, and all of the employee's rights thereunder, will terminate upon termination for any reason of the employee's employment with the James Hardie Group.

In addition, the Joint Board or the Remuneration Committee may designate shorter or longer periods for the vesting or exercise of awards or accelerate the vesting of awards by increasing the number of shares purchasable at any time.

(i) Effect of change in control

Unless an award document states otherwise or the rights of participants are otherwise preserved either in the agreement governing the change in control or by the Joint Board, the Equity Incentive Plan will provide, in the case of a "change in control" of JHI NV, for the automatic acceleration of certain benefits and the termination of the Plan. A "change in control" is deemed to occur if (i) any person or group acquires beneficial ownership equivalent to 30% of JHI NV's voting securities, (ii) individuals who are members of the Joint Board as of the effective date of the Equity Incentive Plan, or individuals who became members of the Joint Board after the effective date of the Equity Incentive Plan whose election or nomination for election was approved by a majority of such individuals (or, in the case of directors nominated by a person, entity or group with 20% of JHI NV's voting securities, by two-thirds of such individuals) cease to constitute at least a majority of the members of the Joint Board, or (iii) there occurs the consummation of certain mergers, the sale of substantially all of JHI NV's assets or JHI NV's complete liquidation or dissolution.

4.22 Transition arrangements for existing employee share plans

JHIL has various employee share plans in place that must be transitioned as a consequence of the Scheme. Each plan, and the transition arrangements for it, are described below.

(a) Plans that transition and result in JHI NV issuing options

1999 Peter Macdonald Option Plan (Australia)

JHIL granted Mr Macdonald an option to purchase 1,200,000 shares on 17 November 1999 under the Peter Donald Macdonald Share Option Plan (***1999 PDM Plan***). The 1999 PDM Plan was approved by JHIL Shareholders on 15 July 1999 at its annual general meeting.

JHIL, JHI NV and Mr Macdonald have executed a deed under which, subject to the Scheme becoming effective:

(a) JHI NV agreed to issue to Mr Macdonald and Mr Macdonald agreed to accept replacement options to purchase 1,200,000 JHI NV Shares (at no purchase price for the options). The exercise price of these options is equal to the exercise price of Mr Macdonald's original options issued under the 1999 PDM Plan. The replacement options will vest and expire on the same dates as the original options and are otherwise on the same terms as the original options set out in the 1999 PDM Plan; and

(b) JHIL and Mr Macdonald agreed to terminate the existing options.

ASX has indicated that it is likely to grant a waiver of Listing Rule 10.11 in favour of JHI NV. Assuming the waiver is granted, JHI NV will not be required to seek approval of its Shareholders to issue these replacement options.

2001 Peter Macdonald Option Plan (Australia)

JHIL granted Mr Macdonald options to purchase 624,000 JHIL Shares on 12 July 2001 under the Peter Macdonald Share Option Plan 2001 (***2001 PDM Plan***). The 2001 PDM Plan was approved by JHIL Shareholders on 12 July 2001 at its annual general meeting.

JHIL, JHI NV and Mr Macdonald have executed a deed under which, subject to the Scheme becoming effective, JHI NV agreed to issue 624,000 options to Mr Peter Macdonald in substitution for the options granted to him under the 2001 PDM Plan, on the same terms.

ASX has indicated, in "in principle" advice, that it would be likely to grant a waiver of Listing Rule 10.11 in favour of JHI NV. Assuming a waiver is granted, JHI NV will not be required to seek approval of its Shareholders to issue these replacement options.

Key Management Equity Incentive Plan (United States)

In November 1999 and November 2000, certain US Subsidiaries of JHIL issued awards of shadow shares under a Key Management Equity Incentive Plan (***Key Plan***) of which 98 awards covering a total of 5,471,770 shadow shares are currently outstanding. "Shadow shares" are not awards of shares or options over shares as such, but provide that participants will be entitled to cash payments, on specified vesting dates, depending on the performance of specified shares, such performance being judged by reference to factors such as the share price of those shares and the amount of any capital returns.

The Directors of the US Subsidiaries referred to above have resolved to terminate the Key Plan and all outstanding awards of shadow shares granted under the Key Plan, subject to the Scheme becoming effective and the participants receiving replacement stock options, as described below.

Awards of shadow shares made under the Key Plan will be replaced by awards of nonqualified stock options to purchase JHI NV Shares under the Equity Incentive Plan. The number of JHI NV Shares underlying each replacement option will equal the number of JHIL Shares underlying the award of shadow shares that is being terminated and replaced. The exercise price of each replacement option will equal the fair market value of a single JHIL Share on the issue date of the award of shadow shares that is being terminated. The replacement options will expire on what would have been the expiry date of the terminated shadow share awards that they are replacing.

(b) Plans that will be cashed out in due course

1998 Executive Stock Option Plan (Australia)

In December 1998, an Australian subsidiary of JHIL issued awards of shadow shares under the 1998 Executive Stock Option Plan (Australia) (***1998 Plan***) of which 66 awards covering a total of 1,226,000 shadow shares remain outstanding. These shadow shares provide that at a certain specified vesting date (31 December 2001) participants will be entitled to a per-share cash payment calculated by adding (i) the final sales price of JHIL's shares at the vesting date (average over 5 preceding days) minus JHIL's average final share price between 7 and 11 December 1998, and (ii) the amount of any cash dividends or capital returns during that time.

The 1998 Plan is to be amended so that, subject to the Scheme becoming effective:

(a) the final sales price is calculable by reference to JHI NV's share price at that vesting dated; and

(b) from the date the Scheme becomes effective until the end of the relevant period, dividends and capital returns are those of JHI NV.

2000 Executive Stock Incentive Plan (Australia)

In December 2000, an Australian subsidiary of JHIL issued awards of shadow shares under the 2000 Executive Stock Incentive Plan (***2000 Plan***) of which 63 awards vesting in 2 years covering a total of 964,840 shares remain outstanding and 68 awards vesting in 3 years covering a total of 1,696,171 shares remain outstanding. At these vesting dates, participants will be entitled to a per-share cash payment calculated by adding (i) the final sale price of JHIL Shares at the vesting date (average over 5 preceding days) from JHIL's share price at or about the date of the grant of the award (average over 5 days) and (ii) the amount of any cash dividends or capital returns during that time.

The 2000 Plan is to be amended so that, subject to the Scheme becoming effective:

(a) the final sales price is calculable by reference to JHI NV's share price at that vesting dated; and

(b) from the date the Scheme becomes effective until the end of the relevant period, dividends and capital returns are those of JHI NV.

Shadow Stock Plan

On various dates from October 1995 to April 1999, a United States Subsidiary of JHIL, James Hardie Inc., issued awards of shadow shares under the James Hardie Inc. Shadow Stock Plan (***Shadow Plan***) of which 497 awards covering a total of 1,781,600 shadow shares remain outstanding. These shadow shares generally vest and, subject to the participant's election to extend maturity, mature when the participant has been employed by James Hardie Inc. or JHIL for five consecutive years if, at such time, the participant is still so employed, or if the participant's employment has been terminated due to death, permanent medical disability, without cause, or due to retirement. At the maturity date, participants will be entitled to a per-share cash payment equal to the sum (if such sum is positive) of (i) the difference between the market price of JHIL Shares at the maturity date and JHIL's share price at the date of the grant of the award, and (ii) the amount of any cash dividends during that time, taking into account any adjustment in JHIL Shares by reason of certain capital adjustments.

The Shadow Plan is to be amended so that, subject to the Scheme becoming effective:

(a) the final sales price is calculable by reference to JHI NV's share price at that vesting dated; and

(b) from the date the Scheme becomes effective until the end of the relevant period, dividends are those of JHI NV.

Economic Profit Incentive Plan

JHIL currently maintains an Economic Profit Incentive Plan which provides incentive compensation, in the form of year-end bonus payments, to certain of its officers and key employees. Bonus payments are based upon the participant achieving mutually agreed individual performance objectives and the participant's economic profit centre or centres achieving certain target profit levels. Following the restructuring, JHI NV will assume JHIL's obligations under the Economic Profit Incentive Plan and all contributions and income derived thereon relating to the Economic Profit Incentive Plan.

4.23 Share Purchase Plan

In conjunction with the placement of shares announced and effected by JHIL on 1 August 2001, JHIL also announced its intention to establish a share purchase plan pursuant to ASIC Class Order 00/194 which permits small security issues to existing security holders. The share purchase plan will enable qualifying investors to subscribe for up to A$3,000 worth of ordinary shares without incurring brokerage or stamp duty. The Directors have announced their intention for the offer to be made at a 5% discount to the prevailing market price when the offer is made. This is in line with the discount at which the placement to institutions on 1 August 2001 was completed. The offer is expected to be made following the completion of the Proposal, though it is not conditional on its completion. Accordingly, the offer may relate to shares in JHIL or JHI NV, depending on whether the Proposal is completed.

In respect of the above proposed offer, no securities are or will be offered to persons who are established, domiciled or have their residence ("are resident") in The Netherlands. Any offer of securities, any announcements thereof and any offer document has complied, complies and will comply with the laws and regulations of any State where persons to whom the offer is made are resident.

4.24 Description of JHI NV Shares and JHI NV CUFS and principal differences between Dutch and Australian company laws

A description of JHI NV Shares and JHI NV CUFS, and of the principal differences between Dutch and Australian company laws, is set out in Appendix I.

4.25 Description of JHI NV ADRs

A description of the JHI NV ADRs which will be exchanged for JHIL ADRs pursuant to the Scheme, and the rights and obligations attaching thereto, is set out in Appendix VI.

5. FINANCIAL IMPACT OF THE PROPOSAL

5.1 Introduction

This Section highlights the pro forma financial impact of the Proposal. The analysis has been undertaken on a historical pro forma basis only, highlighting the historic performance of James Hardie pre and post implementation of the Proposal. This Section should be read in conjunction with the rest of the Information Memorandum, particularly the discussion of risks and disadvantages in Section 3 of this Part B.

5.2 Basis of preparation

The JHI NV financial information presented in Section 5.3 below has been prepared adopting US GAAP, being the basis to be adopted by JHI NV for its future financial reporting. The financial information below has been expressed in Australian dollars. Earnings have been translated into Australian dollars using the average exchange rate of A$1.00:US$0.5559 that applied for the year to 31 March 2001. The balance sheet has been presented as at 31 March 2001, using the spot exchange rate applicable at that date of A$1.00:US$0.4900.

In order to arrive at the JHI NV pro forma financial information:

(a) historic JHIL A GAAP financial information for the year ended 31 March 2001 and as at 31 March 2001 (column 1 below) has been restated adopting US GAAP (column 2 below). Adjustments between JHIL A GAAP and US GAAP are described in Appendix III.

(b) the JHIL US GAAP financial information has also been normalised to exclude those discontinued businesses disposed of prior to 31 March 2001, and to reflect items which would impact the financial statements in a normal year were the Proposal not to be implemented (column 3 below). These adjustments are detailed in Appendix IV.

(c) the JHIL Normalised financial information has been adjusted for the expected full year financial effects of the Proposal as if the Proposal was implemented on 31 March 2000, to present the JHI NV US GAAP pro forma financial information (column 4 below). These adjustments are detailed in Appendix V and comprise:

   (i) an annual reduction of A$13.2 million in withholding tax on the internal distribution of profits from the US businesses to the listed parent, prior to distribution to Shareholders. In the past, JHIL had sufficient retained earnings to pay dividends without having to access profits from the US businesses. However, given limited capacity to service dividends, future distributions to Shareholders will have to be funded out of US profits, resulting in a dividend withholding tax of 15%, unless the Proposal is implemented;

   (ii) an annual reduction of A$17.4 million (being US$9.7 million at an exchange rate of A$1.00:US$0.5559) in worldwide tax expenses due to the application of the legislated Financial Risk Reserve regime to the activities of the Dutch finance company to be established under the Proposal; and

   (iii) an increase of A$1.0 million in ongoing expenses of the new corporate structure, primarily relating to the requirement to establish an office in The Netherlands to control company treasury, insurance and secretarial operations and to cover compliance costs.

The JHI NV modified A GAAP pro forma financial information (column 5 below) has been calculated by adjusting the JHI NV pro forma financial information (column 4 below):

(a) by excluding from column 4 those A GAAP to US GAAP adjustments to NPAT pre-abnormals described in Appendix III, other than the adjustment described in note 1 to that Appendix which relates to operations discontinued in 2001; and

(b) by increasing pro forma interest expense by an amount of A$4.2 million to allow for annual interest on provisions discounted to present value at 31 March 2001 for A GAAP purposes but which are not discounted under US GAAP.

The JHI NV modified A GAAP pro forma financial information presented below does not include the adjustments required under A GAAP to reflect the internal reconstruction resulting from the Proposal. Under A GAAP, the Proposal would constitute an acquisition by JHI NV of JHIL at fair market value resulting in the recognition of goodwill and other intangible assets.

If the internal reconstruction resulting from the Proposal had been accounted for under A GAAP without modification, net assets would increase by approximately A$825 million, being the value of goodwill and other intangible assets acquired by JHI NV from JHIL determined as at 31 March 2000 as a result of the Proposal. EBIT, EBT and NPAT would also reduce by approximately A$41 million from the modified A GAAP pro forma financial information shown in column 5, representing the expense associated with the amortisation of such intangible assets, over a period of 20 years.

It should be noted that the relevant accounts to be considered by the Directors when determining whether to pay dividends are those prepared in accordance with Dutch law. Dutch law does not contain any requirement which would have the effect of requiring the annual A$41 million amortisation expense described above.

One-off costs and expenses involved in implementing the Proposal have not been reflected in the pro forma financial information. Such expenses are estimated to be between A$17.0 million and A$19.0 million, of which Dutch capital duty is estimated at A$12.3 million. This excludes costs in developing the Proposal amounting to A$5.8 million which were expensed in the year to 31 March 2001 as incurred.

There are a number of other benefits that cannot be financially quantified, though these are expected to accrue to JHI NV in the long term. These benefits relate to repositioning James Hardie for the continued growth of its international fibre cement business via improved access to international capital markets, providing NYSE listed stock which may be used for a range of purposes and aligning James Hardie's structure more closely with its underlying business. These benefits are outlined in Section 3 of this Part B.

5.3 Pro forma financial information

In A$ million	JHIL A GAAP actual (1)	JHIL US GAAP actual (2)	JHIL US GAAP normalised (3)	JHI NV US GAAP pro forma (4)	JHI NV modified A GAAP pro forma (5)
Profit and loss statement for the year ended 31 March 2001					
Sales	1,548.6	1,557.4	1,557.4	1,557.4	1,548.6
EBITDA	219.4	245.0	246.5	245.5	240.5
EBIT	142.6	177.3	180.1	179.1	165.0
Interest	(23.8)	(23.8)	(28.8)	(28.8)	(33.0)
EBT	118.8	153.5	151.3	150.3	132.0
Tax	(26.8)	(38.3)	(72.1)	(41.2)	(36.7)
Operating Profit before abnormal and extraordinary items	92.0	115.2	79.2	109.1	95.3
Abnormal items, net of tax	(53.6)	(47.9)	-	-	-
Extraordinary items, net of tax	(237.9)	1.8	-	-	-
NPAT	(199.5)	69.1	79.2	109.1	95.3
Balance sheet as at 31 March 2001					
Cash	153.2	153.2			
Receivables	219.0	208.7			
Inventories	178.9	178.9			
Fixed assets	1,171.8	1,144.3			
Investments	20.7	20.7			
Intangibles	66.3	69.4			
Other	120.0	137.8			
Total assets	1,929.9	1,913.0			
Creditors	168.1	168.1			
Borrowings	885.9	885.9			
Provisions	298.3	285.5			
Total liabilities	1,352.3	1,339.5			
Net assets	577.6	573.5			
Key ratios					
EPS	9.4¢	16.4¢	19.3¢	26.6¢	23.3¢
EPS (pre-abnormals)	22.5¢	28.1¢	19.3¢	26.6¢	23.3¢
EPS increment (pre-abnormals)				7.3¢	
Effective tax rate	22.5%	25.0%	47.7%	27.4%	27.8%

5.4 Discussion of the pro forma impact of the Proposal

The improved financial position reflected in JHI NV's US GAAP pro forma NPAT, relative to US GAAP Normalised NPAT, is primarily a result of the expected tax benefits to be achieved from the implementation of the Proposal. This is evident in the tax expense and effective tax rate illustrated above. These increased returns are available as a result of reduced US withholding taxes and corporate taxes through the use of a Dutch listed parent and the use of a Dutch finance subsidiary to fund operations.

There are two components to the expected tax benefits:

> the low 5% dividend withholding tax rate on internal dividends paid by the US businesses to a Dutch listed parent, compared to the rate of 15% that would apply on internal dividends to an Australian parent. Withholding taxes on internal dividends are a cost to James Hardie and reduce the profits available for distribution by the listed parent to Shareholders; and

> the low rate of tax imposed on a Dutch finance company operating under the FRR regime. A rate of 15% has been used in the pro forma calculations, being the standard rate applying under the FRR regime. Lower rates can apply, if finance company profits are reinvested in qualifying capital projects. The Dutch finance company can distribute its profits to the Dutch listed parent without any withholding tax cost, and such profits will therefore be used as the primary source of internal dividends to the Dutch listed parent.

5.5 Financial impact on Shareholders

If the Proposal is approved, it is expected that returns available to Shareholders will be improved relative to what they would have been had the Proposal not been implemented. This is evident in the 37.8% improvement in EPS (from 19.3 cents to 26.6 cents) between the US GAAP Normalised NPAT and the US GAAP pro forma NPAT illustrated in Section 5.3 above.

6. AUSTRALIAN AND DUTCH TAX IMPLICATIONS

This summary of the Australian and Dutch tax considerations in relation to the Scheme is neither exhaustive nor definitive. It is not intended as advice and should not be relied on as advice. It is provided as a guide only and is based on Australian income tax laws as at 15 August 2001, and Dutch corporate income tax, personal tax and withholding tax laws as at 15 August 2001.

This summary does not apply to Shareholders who hold their shares on revenue account or who are share traders. In this summary, a reference to an Australian resident is a reference to a person who is resident in Australia for tax purposes and subject to Australian tax on their worldwide income.

If you are in any doubt about your taxation position, you should consult your own professional adviser about the tax considerations of participating in the Scheme in your particular circumstances.

If you are:	Go to Section:
an Australian resident individual	6.1
an Australian resident complying superannuation fund	6.2
an Australian resident company	
– holding less than 10% of James Hardie	6.3
an Australian resident company	
– holding 10% or more of James Hardie	6.4
a Foreign Shareholder	6.5

Each Section listed above contains information relating to the:

(a) tax implications of the exchange of JHIL Shares for JHI NV CUFS under the Scheme;

(b) tax on future dividends received from JHI NV; and

(c) tax on a future disposal of the JHI NV CUFS that you receive under the Scheme.

If you, together with your associates, hold 10% or more of the JHIL Shares and will therefore hold 10% or more of the JHI NV CUFS on issue after the Scheme is implemented, Section 6.6 outlines the potential application of the Australian Controlled Foreign Company (CFC) regime to you.

6.1 Australian resident individuals

This Section sets out the tax implications for natural persons resident in Australia.

(a) Tax implications on implementation of the Scheme

The Australian tax implications on implementation of the Scheme will depend on whether you acquired your JHIL Shares after 19 September 1985 (post-CGT) or on or before 19 September 1985 (pre-CGT).

(i) Post-CGT shares

The exchange of JHIL Shares for JHI NV CUFS is a disposal of JHIL Shares for CGT purposes. If you will make a capital gain from this disposal, you can choose to claim scrip-for-scrip rollover relief and not pay tax as a result of the exchange. You do not have to choose whether to claim scrip-for-scrip rollover relief until you lodge your tax return for the 2002 tax year.

If you would make a capital loss from that disposal, you cannot claim rollover relief, but you will not pay any tax as a result of the disposal.

What happens if you claim scrip-for-scrip rollover relief?

You do not have to do anything to claim scrip-for-scrip rollover relief other than to exclude any capital gain upon the disposal of your JHIL Shares from your assessable income in your tax return. If you do claim scrip-for-scrip rollover relief, the CGT cost base or indexed cost base that you have in your JHIL Shares will be transferred to your JHI NV CUFS. For the purposes of the discount concession, you will have a deemed acquisition date for your JHI NV CUFS. This is described further in Section 6.1(c) of this Part B.

What happens if you don't claim rollover relief?

If you will make a capital gain on the exchange, you can choose not to claim rollover relief and you will be subject to tax on the gain. If you have held your JHIL Shares for at least 12 months as at the Implementation Date, you can choose to claim the "discount concession" to reduce your taxable capital gain by half (but in that case you will not be entitled to indexation of your cost base).

Your cost base in the JHI NV CUFS that you receive will be equal to the last sale price of a JHI NV CUFS on the Scheme Record Date. You will be taken to have acquired the JHI NV CUFS on the Implementation Date.

(ii) Pre-CGT Shareholders

The exchange of your JHIL Shares for JHI NV CUFS will be a disposal of your JHIL Shares for CGT purposes. You will not pay tax on any gain arising from this disposal nor be able to claim any capital loss. A gain upon a future disposal of the JHI NV CUFS that you receive in the exchange will, however, be subject to tax.

For CGT purposes, you will have a cost base in your JHI NV CUFS equal to the last sale price of JHI NV CUFS on the first day of trading on the ASX after the Implementation Date. For the purposes of the discount concession (described further below in Section 6.1(c) of this Part B), you will be taken to have acquired your JHI NV CUFS on the Implementation Date.

(b) Tax on future dividends from JHI NV

Your assessable income will include dividend income received from JHI NV.

Upon payment of a dividend to you, JHI NV will usually remit 15% of the gross dividend to the tax authorities in The Netherlands as dividend withholding tax. You will, therefore, receive the dividend net of this withholding tax. Your assessable income will include the gross dividend (i.e. the dividend before withholding tax has been deducted). However, the Dutch withholding tax can be offset against the Australian tax payable by you on the dividend. This offset is called a "foreign tax credit".

You may need to provide information to JHI NV confirming that you are an Australian resident for tax purposes so that the 15% dividend withholding tax rate applies to your dividend. JHI NV may need to pass this information to the Dutch tax authorities. This is similar to providing JHIL with your tax file number (TFN). Discussions with the Dutch tax authorities are underway to agree the exact nature of the information to be provided and details will be provided to you as soon as available.

If you do not have any other foreign source income, the foreign tax credit that you can claim will be equal to the lesser of:

> the actual withholding tax remitted (that is 15% of the gross dividend); or

> the Australian tax payable upon your net dividend income. Your net dividend income is equal to your gross dividend income less your deductions that relate to the dividend, for example, interest expenses on a loan to purchase the JHIL Shares that were exchanged for JHI NV CUFS.

If the withholding tax on your dividend exceeds the foreign tax credit that you can claim in any year, you can offset this excess against certain types of other foreign income derived by you in either the year in which the excess arises or any of the following 5 years.

Example

The discussion above is illustrated in the following example. In this example, a dividend from JHI NV is compared to receiving an unfranked dividend of the same amount from JHIL. Dividends from JHIL have been unfranked in recent years. These examples assume that you do not have any deductions in relation to the dividend from JHI NV and are on the top marginal tax rate of 48.5%.

Individual on the top marginal tax rate (48.5%)

	Dividend from JHI NV	**Unfranked dividend from JHIL (1)**
Dividend paid	$100.00	$100.00
Less: 15% dividend withholding tax	(15.00)	-
Cash received by you	$85.00	$100.00
Your assessable dividend income	$100.00	$100.00
Prima facie tax payable at 48.5%	$48.50	$48.50
Less: foreign tax credit	(15.00)	-
Actual tax payable by you on the dividend	$33.50	$48.50
Net cash received after tax	$51.50	$51.50

1. *The column headed "Unfranked dividend from JHIL" assumes that the changes to the dividend franking system discussed in Section 3.4(c) of this Part B will not be implemented and therefore JHIL will not have any franking credits to distribute to Shareholders.*

This example demonstrates that for taxpayers with a marginal tax rate of 15% or higher, the impact of Dutch withholding tax on your total tax payable on the dividend is minimal.

(c) Tax on a future disposal of JHI NV CUFS

(i) Australian Tax Implications

The Australian tax implications of any capital gain or loss that you make upon the disposal of your JHI NV CUFS are the same as if you disposed of your JHIL Shares with one exception.

The exception relates to the "discount concession" that you may be able to claim in relation to the future disposal of your JHI NV CUFS. If you can claim this concession, your taxable gain upon the disposal of your JHI NV CUFS will be reduced by half.

If you claim scrip-for-scrip rollover relief in relation to the exchange of your JHIL Shares for JHI NV CUFS, you will be deemed to have acquired your JHI NV CUFS at the time you acquired your JHIL Shares for the purposes of this discount concession. If you dispose of your JHI NV CUFS more than 12 months after this deemed acquisition date, you can choose to claim the discount concession. If you dispose of your JHI NV CUFS within 12 months of this deemed acquisition date, the discount concession will not be available.

If you do not or cannot claim scrip-for-scrip rollover relief, for the purposes of the discount concession, you will be taken to have acquired your JHI NV CUFS on the Implementation Date.

(ii) Dutch Tax Implications

Generally, you should not be subject to Dutch tax on capital gains arising from the disposal of your JHI NV CUFS.

You will, however, be subject to Dutch tax if you (together with your spouse, adult partner or other member of your family) directly or indirectly hold an interest in 5% or more of JHI NV.

Members of your family include your spouse, the great grandparents, grandparents and parents of both yourself and of your spouse and your children, grandchildren and great grandchildren.

If you are subject to Dutch tax upon the disposal of your JHI NV CUFS, your taxable gain in The Netherlands will be equal to the sale proceeds that you receive less the market value of the JHI NV CUFS on the Implementation Date.

This taxable gain will be taxed at a rate of 25%. You will be able to claim a foreign tax credit for the Dutch tax equal to the Australian tax payable on the disposal of your JHI NV CUFS. If the Dutch tax paid exceeds your Australian tax payable on the disposal, you can offset this excess against Australian tax payable on certain types of other foreign income that you derive in either the year in which you dispose of your JHI NV CUFS or any of the following 5 years.

6.2 Australian complying superannuation funds

This Section sets out the implications for Complying Superannuation Funds resident in Australia.

(a) Tax implications of the Scheme

The Australian tax implications of the Scheme for you are the same as for an Australian resident individual (outlined in Section 6.1(a)), except that, if you do not claim scrip-for-scrip rollover relief, the 'discount concession' referred to in the previous Section reduces the taxable capital gain by one third (instead of by one half for individuals).

(b) Tax on future dividends from JHI NV

Again, the Australian tax implications for you of receiving dividends from JHI NV will be the same as for an Australian resident individual, with the exception that the tax rate for Complying Superannuation Funds is 15%. These are outlined in Section 6.1(b).

Example

The example below compares the tax payable by a Complying Superannuation Fund on a dividend from JHI NV to that payable on an unfranked dividend of the same amount from JHIL. Dividends from JHIL have been unfranked in recent years. These examples assume that the fund does not have any deductions in relation to the dividend from JHI NV.

Complying Superannuation Fund

	Dividend from JHI NV	Unfranked dividend from JHIL (1)
Dividend paid	$100.00	$100.00
Less: 15% dividend withholding tax	(15.00)	-
Cash received by you	$85.00	$100.00
Your assessable dividend income	$100.00	$100.00
Prima facie tax payable at 15%	$15.00	$15.00
Less: foreign tax credit	(15.00)	-
Actual tax payable by you on the dividend	-	$15.00
Net cash received after tax	$85.00	$85.00

1. *This assumes that the changes to the dividend franking system discussed in Section 3.4(c) of this Part B wil not be implemented and therefore JHIL will not have any franking credits to distribute to Shareholders.*

This example demonstrates that for Complying Superannuation Funds, the impact of Dutch withholding tax on the total tax payable by you on the dividend is minimal.

(c) Tax on a future disposal of JHI NV CUFS

(i) Australian Tax Implications

Again, the Australian tax implications for you of disposing of your JHI NV CUFS will, with one exception, be the same as for an Australian resident individual as outlined in Section 6.1(c). The exception is that the discount concession will only reduce your taxable gain upon the disposal of your JHI NV CUFS by one third (rather than by a half as for individuals).

(ii) Dutch Tax Implications

You will only be subject to Dutch tax on disposal of your JHI NV CUFS where:

> you hold your JHI NV CUFS as part of a business that you carry on through a fixed place of business in The Netherlands (called a "permanent establishment"); or

> you (together with your associates or related parties) hold an interest in 5% or more of JHI NV and your interest is not an asset of the business that you carry on.

If you are subject to Dutch tax upon the disposal of your JHI NV CUFS, your taxable gain in The Netherlands will be equal to the sale proceeds that you receive less the market value of the JHI NV CUFS on the Implementation Date.

This taxable gain will be taxed at a rate of 35%. You will be able to claim a foreign tax credit for the Dutch tax equal to the Australian tax payable on the disposal of your JHI NV CUFS. If the Dutch tax paid exceeds the Australian tax payable by you on the disposal, you can offset this excess against Australian tax payable on certain types of other foreign income of the fund in either the year in which you dispose of your JHI NV CUFS or any of the following 5 years.

6.3 Australian company holding less than 10% of James Hardie

The following summary is relevant for any Australian company which will hold a voting interest in less than 10% of JHI NV after the implementation of the Scheme.

(a) Tax implications of the Scheme

The Australian tax implications of the Scheme for you are the same as for an Australian resident individual (outlined in Section 6.1(a)), except that the 'discount concession' is not available to you.

(b) Tax on future dividends from JHI NV

The Australian tax implications for you of receiving dividends from JHI NV will be the same as for an Australian resident individual, as outlined in Section 6.1(b), except that the tax rate for companies will be 30%.

(c) Tax on a future disposal of JHI NV CUFS

(i) Australian Tax Implications

The Australian tax implications of any capital gain or loss that you make upon the disposal of your JHI NV CUFS are the same as if you disposed of your JHIL Shares.

(ii) Dutch Tax Implications

The Dutch tax implications on the disposal of your JHI NV CUFS will be the same as those outlined in Section 6.2 (c) (ii) in relation to Complying Superannuation Funds.

6.4 Australian company that holds 10% or more of James Hardie

The following summary is relevant for any Australian company which will hold a voting interest in 10% or more of JHI NV after the implementation of the Scheme. If this is not the case, please refer to Section 6.3. You should also refer to Section 6.6 which discusses the circumstances where 5 or fewer Shareholders hold a combined interest of 50% or more in JHI NV. In these circumstances there may be Australian CFC implications for you to consider.

(a) Tax implications of the Scheme

The Australian tax implications of the Scheme for you are the same as for an Australian resident individual (outlined in Section 6.1(a)), except that the 'discount concession' is not available to you.

(b) Tax on future dividends from JHI NV

As set out for individuals in Section 6.1(b), upon payment of a dividend to you, JHI NV will generally remit 15% of the gross dividend to the tax authorities in The Netherlands as dividend withholding tax.

If you are a company and you hold 10% or more of the voting interests in JHI NV, the dividend will be exempt income to you for Australian tax purposes and a foreign tax credit will not be available to you.

(c) Tax on a future disposal of JHI NV CUFS

The Australian and Dutch tax implications of any capital gain or loss that you make upon the disposal of your JHI NV CUFS will be the same as outlined in Section 6.3(c) in relation to Australian resident companies with less than a 10% interest in JHI NV.

6.5 Foreign Shareholders

For the purposes of this Section 6.5, a "foreign shareholder" is a Shareholder that is not a resident of Australia or of The Netherlands for tax purposes.

If you are a US resident Shareholder in JHIL, a summary of the US tax implications for you is contained in Appendix VI.

(a) Australian and Dutch tax implications of the scheme

If you are not an Australian resident for tax purposes and you will make a capital gain upon the exchange of your JHIL Shares for a JHI NV CUFS, this gain will only be taxable in Australia where you (together with your associates) have, at any time in the 5 years before you exchange your JHIL Shares, held 10% or more of the issued capital of JHIL. If a capital loss would arise to you upon the exchange, you will not be able to claim this loss in Australia unless the same conditions as for the capital gain are met.

If a capital gain arises upon the exchange and it is taxable in Australia, scrip-for-scrip rollover relief will not be available to you.

(b) Australian and Dutch tax on future dividends from JHI NV

If you are not an Australian resident for tax purposes, you will not be subject to Australian tax on any dividends paid by JHI NV.

Upon payment of a dividend to you, JHI NV will generally withhold dividend withholding tax at the rates prescribed by law, which depend upon your country of residence.

(c) Australian and Dutch tax on a future disposal of JHI NV CUFS

If you are not an Australian resident for tax purposes, you will not be subject to Australian tax upon any capital gain arising from the disposal of your JHI NV CUFS.

If you are not a resident of The Netherlands and you (together with your associates or related parties) hold an interest of 5% or more in JHI NV, you may be subject to Dutch tax upon the gain. Whether you are subject to Dutch tax on the gain will depend on whether the country in which you are resident has a treaty with The Netherlands and, if so, the terms of that treaty.

If you are subject to Dutch tax and you are an individual, you will be taxed at a rate of 25% and if you are not an individual you will be taxed at 35%.

6.6 Controlled Foreign Company (CFC) and Foreign Investment Fund (FIF) regimes

If you are an Australian resident Shareholder, there are two Australian tax regimes which can include undistributed profits of JHI NV and its foreign subsidiaries in your assessable income. These regimes are the CFC and FIF regimes.

If you, together with your associates, hold 10% or more of the shares in JHI NV, you should consult your tax adviser in relation to the application of the Australian CFC regime to your holding of JHI NV CUFS. There may be implications if 5 or fewer Shareholders control 50% or more of JHI NV Shares on issue. If you, together with your associates, hold less than 10% of JHI NV, the CFC regime should not apply to you.

As each of your JHI NV CUFS represents an interest in a foreign company, it will be a FIF for Australian income tax purposes. However, based on the expected classification of JHI NV CUFS on the ASX, the FIF regime should not operate to include amounts in your assessable income.

7. ADDITIONAL INFORMATION

7.1 Conditions precedent

The Scheme is subject to the following principal conditions precedent:

> JHI NV Shares being approved for official quotation by ASX (conditional only on JHI NV providing to the ASX the information contained in Appendix 1A of the Listing Rules);

> JHI NV ADRs, representing JHI NV CUFS to be issued to the Depositary or its nominee under the Scheme, being approved for listing on the NYSE or, if approval for listing on the NYSE is not granted, on any other stock exchange registered with the SEC as a national securities exchange for the purpose of the Securities Exchange Act of 1934, with such approval to be unconditional or subject only to the following conditions: the Court making an order approving the Scheme; JHIL lodging the Court order with ASIC; and such other conditions as are acceptable to the Court.

> JHI NV's registration statements on Form 20-F and Form F-6 being declared effective by the SEC, with such declaration to be unconditional or subject only to the following conditions: the Court making an order approving the Scheme; JHIL lodging the Court order with ASIC; and such other conditions as are acceptable to the Court;

> JHI NV and the Depositary executing the JHI NV Deposit Agreement;

> the Nominee executing a deed under which it agrees to sell JHI NV CUFS as contemplated in clause 3.4 of the Implementation Deed;

> CDN formally agreeing to act as depositary nominee in respect of the JHI NV CUFS and to the allotment to it of JHI NV Shares under the Scheme; and

> the Implementation Deed not being terminated in accordance with its terms.

The Board will inform Shareholders of the status of the satisfaction of these conditions precedent at the commencement of the Scheme Meeting.

If any of the conditions precedent to the Scheme have not been satisfied or waived (as the case may be) prior to 5pm on 30 November 2001, the Board will not seek a second Court hearing to approve the Scheme and, consequently, the Scheme will not become Effective and the obligations of JHI NV and JHIL under the Implementation Deed will terminate in accordance with its terms.

7.2 Scheme Meeting and Voting

(a) The notice convening the Scheme Meeting is included with this Information Memorandum.

(b) The order of the Court convening the Scheme Meeting is not and should not be treated as an endorsement by the Court of, or any other expression of opinion by the Court on, the Scheme.

(c) Each JHIL Shareholder who is registered on the JHIL Register at the Meeting Record Date is entitled to attend and vote at the Scheme Meeting, either in person or by proxy or attorney or, in the case of a corporation which is a member, by its representative appointed in accordance with the Corporations Act 2001.

(d) A JHIL Shareholder (as at the Meeting Record Date) who wishes to appoint a proxy must sign and return to JHIL the form of proxy which accompanies this document, in accordance with the directions on the proxy form. JHIL Shareholders are requested to lodge the proxy form at the registered office of JHIL, or fax it by 11:00 am on Wednesday, 26 September 2001.

(e) Voting at the Scheme Meeting will be by poll.

(f) Further instructions on how to attend and vote at the Scheme Meeting, or how to appoint a proxy, attorney or representative to attend and vote on your behalf are set out in the Notice of Meeting enclosed with this document.

(g) Appendix VI contains details of how JHIL ADR Holders may vote on the Scheme.

7.3 Effective date

(a) The Scheme will become effective on the date upon which office copies of the orders of the Court under section 411 of the Corporations Act 2001 approving the Scheme are lodged with the ASIC.

(b) If the Scheme becomes effective, JHIL will give notice of that event to the ASX.

(c) On the Effective Date, JHIL and JHI NV will be bound to take the steps required for JHI NV to become the holder of all of the JHIL Shares and for Scheme Participants to become the indirect holders of JHI NV Shares in accordance with the provisions of the Scheme.

7.4 Implementation Date

(a) On the Implementation Date, the JHIL Shares will be transferred to JHI NV and JHI NV will issue JHI NV Shares to CDN.

(b) Shortly after the issue of JHI NV Shares to CDN, JHI NV CUFS will be issued to Scheme Participants in accordance with the SCH Business Rules.

7.5 Basis of formula for calculating number of JHI NV CUFS to be issued to all Scheme Participants

The consideration payable to each Scheme Participant and the basis for calculation of that consideration is set out in Section 2.4 of Part B.

7.6 Determination of persons entitled to consideration

For the purpose of calculating entitlements under the Scheme, any dealings in JHIL Shares will only be recognised if:

(a) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the JHIL Register as a holder of the relevant JHIL Shares by the Scheme Record Date; or

(b) in all other cases, if registrable transmission applications or transfers in respect of those dealings are received at or before the Scheme Record Date at the place where the JHIL Register is kept.

JHIL must register transmission applications or transfers of the kind referred to in paragraph (b) by the Scheme Record Date.

JHIL will not accept for registration or recognise for any purpose any transfer or transmission application in respect of JHIL Shares received after the Scheme Record Date.

For the purpose of determining entitlements to consideration, the JHIL Share Registry will, until payment of the consideration has been made, maintain the JHIL Register upon the basis that JHIL Shares have not been transferred and otherwise in accordance with the foregoing provisions set out above and the JHIL Register in this form will solely determine entitlements to consideration.

All holding statements for JHIL Shares shall cease to have any effect from the Effective Date as records of title in respect of such ordinary shares. As from the Effective Date, each entry current at that date on the JHIL Register relating to JHIL Shares will cease to be of any effect other than as evidence of entitlement to consideration pursuant to the Scheme.

JHIL must give to JHI NV, within two Business Days after the Scheme Record Date, details of the names, registered addresses and holdings of JHIL Shares of every Scheme Participant as shown in the JHIL Register at the Scheme Record Date, such details to be provided in such form as JHI NV may reasonably require.

7.7 Suspension of trading of JHIL Shares and listing of JHI NV Shares

(a) It is expected that suspension of quotation on ASX of JHIL Shares will be effective at the close of trading on the Effective Date.

(b) JHI NV Shares are expected to commence trading (with settlement in the form of CUFS) on the ASX, on a deferred settlement basis, on the first Business Day following the Effective Date.

(c) On or about the first Business Day after the Implementation Date, JHIL will apply for removal from the official list of the ASX and for the termination of the official quotation of JHIL Shares on the ASX.

7.8 JHIL Shares and options held by the Directors of JHIL

The number and description of JHIL Shares and options held by or on behalf of each Director as at 8 August 2001 are as follows:

Director	Beneficial	Non-beneficial	Total	JHIL options
AG McGregor	3,490,794	10,242,200	13,732,994	-
PD Macdonald	81,000	-	81,000	1,824,000
M Hellicar	2,261	-	2,261	-
PJ Willcox	25,000	-	25,000	-
MR Brown	10,000	-	10,000	-
MJ Gillfillan	50,000	-	50,000	-
MM Koffel	-	-	-	-

7.9 Payments or other benefits to Directors, secretaries or executive officers

It is not proposed under the terms of the Scheme that any payment or other benefit will be made or given to any Director, secretary or executive officer of JHIL or of any corporation related to JHIL as compensation for loss of, or as consideration for or in connection with, his retirement from office as Director, secretary or executive officer of JHIL or any corporation related to JHIL, save that Mr P Willcox intends to retire as a Director of JHIL with effect on or about the Implementation Date. On his retirement from office, he will receive recognition of his service with the Company by way of a payment of approximately A$242,000.

7.10 Agreements or arrangements with Directors of JHIL

There is no agreement or arrangement made between any Director of JHIL and any other person in connection with or conditional upon the outcome of the Scheme, save that the Directors of JHIL (other than Mr P Willcox) will, upon implementation of the Proposal, retire from the Board of JHIL and become Directors of JHI NV. As such, those Directors have agreed to take up their new positions as Directors of JHI NV on substantially the same terms as their current terms of engagement with JHIL, but also with provision for retirement benefits which recognise their respective number of years service with JHIL.

7.11 Interests of Directors of JHIL in contracts of JHI NV

No Director of JHIL has any interest in any contract which has been entered into by JHI NV, save as referred to in Section 7.10.

7.12 Capital structure of JHIL

The issued ordinary share capital of JHIL is, at the date of this Information Memorandum, 450,771,082 ordinary shares.

7.13 Material changes in the financial position of JHIL

To the knowledge of the Directors, there has not been a material change in the financial position of JHIL since the date of the last balance sheet laid before the Company in general meeting on 12 July 2001, other than as a result of the institutional placement on 1 August 2001 of JHIL Shares which resulted in 35 million JHIL Shares being issued, raising a net amount of approximately A$197 million of which $70 million has been used to retire debt with the remainder forming part of the cash reserves of JHIL.

7.14 JHI NV Shares held by Directors of JHIL

No JHI NV Shares are held by or on behalf of any Director of JHIL.

7.15 Particulars of JHI NV Directors' interests

No Director or proposed Director of JHI NV has now, or has had in the past 2 years, any interest (including without limitation as a member or partner in another entity) in the promotion of JHI NV or in the property acquired or proposed to be acquired by it.

7.16 Expert's interests

No expert named in this Information Memorandum has any interest (including without limitation as a member or partner in another entity) in the promotion of JHI NV or in the property acquired or proposed to be acquired by it.

7.17 Expert's consent

The Independent Expert, Grant Samuel, has given and has not withdrawn its consent to the issue of its report set out in Appendix II in the form and context in which it is included in this Information Memorandum.

7.18 Regulatory relief and approvals

(a) The ASIC has granted the following relief:

- (i) an exemption pursuant to section 259C(2) of the Corporations Act 2001 in connection with the transfer of JHIL Shares to JHI NV pursuant to the Scheme;
- (ii) relief from the prospectus regime in connection with the offer of shares and options under the JHI NV Equity Incentive Plan discussed at Section 4.21 of Part B of this Information Memorandum; and
- (iii) a modification to the Corporations Act 2001 by inserting a new s1109DA to provide that JHI NV CUFS Holders are bound by JHI NV's Articles of Association. A summary of the effect of this modification is set out in Section 3.4(e) of Part B of this Information Memorandum. A copy of this modification is set out at Appendix VII.

(b) The following relief has been sought from ASX:

- (i) agreement to the issue of an Information Memorandum under Listing Rule 1.1 condition 3;
- (ii) a waiver from Listing Rule 1.1 condition 3 to the extent necessary to permit this Information Memorandum not to include statements in accordance with items 108 and 116 of Appendix 1A of the Listing Rules;
- (iii) a waiver from Listing Rule 1.1 condition 8 to the extent necessary to permit JHI NV to be admitted to the official list without complying with Listing Rule 1.2 or 1.3;
- (iv) a waiver from Listing Rules 15.15, 6.10.5 and 6.12.3 to enable JHI NV's Articles of Association to include the takeover regime and the powers to enforce that regime described in Section 3.1, Appendix I;
- (v) a waiver from Listing Rule 10.11 to the extent necessary to enable JHI NV to issue the same number of options to Peter Macdonald on the terms outlined in his 1999 PDM Plan and 2001 PDM Plan (see Section 4.22(a) of this Part B) (subject to certain technical modifications, particularly those necessary under Dutch law).

ASX has indicated that it is likely to grant the relief sought, subject to the satisfaction of certain conditions (some of which can only be satisfied at the time JHI NV is admitted to the official list of ASX).

(c) The Treasurer of Australia has approved the acquisition by JHI NV of all the issued shares in JHIL, pursuant to the Foreign Acquisitions and Takeovers Act 1975.

7.19 Foreign regulatory matters

Netherlands

No JHI NV Shares, JHI NV CUFS or JHI NV ADRs will be offered to any person or entity (including Shareholders and JHIL ADR Holders) resident, established, domiciled or otherwise having residence in The Netherlands. The offer of JHI NV Shares, JHI NV CUFS and JHI NV ADRs pursuant to the Scheme, any announcement thereof and this Information Memorandum have each complied, complies and will comply with the law and regulations of any State where persons or entities to whom an offer is made are resident, established, domiciled or otherwise have residency.

New Zealand

JHI NV is relieved, by the Securities Act (James Hardie Industries N.V.) Exemption Notice 2001, from the requirement to prepare a New Zealand registered prospectus and investment statement in respect of the JHI NV CUFS to be acquired by Scheme Participants pursuant to the Scheme.

United States of America

Pursuant to the exemption from registration available under section 3(a)(10) of the US Securities Act of 1933 ("Securities Act"), the exchange of JHIL Shares for JHI NV CUFS as contemplated by the Scheme is exempt from registration under the US Securities Act of 1933.

The Company will advise the Court, prior to the Second Court Hearing, that if the terms and conditions of the Scheme are approved by the Court, the JHI NV Shares to be issued pursuant to the Scheme will not be required to be registered under the Securities Act in accordance with section 3(a)(10) of the Securities Act by virtue of the Court approval.

Other jurisdictions

Prescribed Foreign Shareholders and Prescribed Foreign ADR Holders will not receive JHI NV CUFS or JHI NV ADRs (as the case may be) under the Scheme, but will have their entitlement sold by the Nominee on ASX during the 14 days immediately after JHI NV Shares commence trading on ASX with the proceeds of sale remitted to them.

7.20 Supplementary Information Memorandum

A supplementary information memorandum will be issued if JHIL or JHI NV becomes aware of any of the following between the issue of this Information Memorandum and the date the JHI NV Shares are quoted by the ASX:

- (i) that a material statement in this Information Memorandum is false or misleading;
- (ii) that there is a material omission from this Information Memorandum;
- (iii) there has been a significant change affecting a matter included in this Information Memorandum; or
- (iv) that a significant new matter has arisen which would have been required to be included in this Information Memorandum.

However, the Company may not include an updated independent expert's report with any such supplementary information memorandum.

The Company will request the Court to make orders as to how any such supplementary information is to be provided to Shareholders.

7.21 No unacceptable circumstances

The Directors of JHIL do not believe that the Proposal involves any circumstances in relation to the affairs of any member of the James Hardie Group that could be reasonably characterised as constituting "unacceptable circumstances" for the purposes of section 657A of the Corporations Act 2001.

7.22 Other material information

Other than as contained in the Information Memorandum, there is no information material to the making of a decision in relation to the Scheme (being information that is within the knowledge of any Director of JHIL or a related company) which has not previously been disclosed to JHIL Shareholders.

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