



**James Hardie**

**James Hardie Industries N.V.**

ARBN 097 829 895

Incorporated in The Netherlands  
with corporate seat in Amsterdam.  
The liability of members is limited.

## Notice of Meetings

**The 2002 Annual Information Meeting of CUFS holders of James Hardie Industries N.V. will be held in the Ballroom at the Four Seasons Hotel, 199 George Street, Sydney NSW, Australia at 11am Australian Eastern Standard Time (AEST) on 16 July 2002.**

The Annual Information Meeting of James Hardie Industries N.V. (the Company) has been called to enable CUFS holders to attend a meeting together in Australia to review items of business and other matters that will be considered and voted on at the subsequent Annual General Meeting in The Netherlands. There will be an address by the Chairman on behalf of the Joint Board to the Information Meeting and CUFS holders will be entitled to question the Chairman and the Joint Board in a manner consistent with the conduct of an Annual General Meeting.

At the Information Meeting in Sydney, CUFS holders will be able to lodge Direction Forms specifying the manner in which the legal owner of the underlying shares shall vote on their behalf at the Annual General Meeting.

The Annual General Meeting of Shareholders of the Company will be held in Orange Room 5, Amsterdam Hilton Hotel, Apollolaan 138, 1077 BG Amsterdam, The Netherlands at 8am Central Europe Time (CET) on 19 July 2002.

## BUSINESS OF ANNUAL GENERAL MEETING

### 1. Reports and accounts for the year ended 31 March 2002

To receive and consider the annual report prepared by the Managing Board.

To receive and consider the annual accounts for the year ended 31 March 2002 and, if thought fit, pass the following resolution as an ordinary resolution:

**That** the annual accounts of the Company for the financial year ended 31 March 2002 be received and adopted and published in the English language.

The attached Explanatory Notes set out details of where copies of the annual accounts are available for inspection.

### 2. Election of members of the Supervisory Board

To consider and, if thought fit, pass the following resolutions as ordinary resolutions:

- a) **That** Mr MR Brown, being a member of the Supervisory Board, who would otherwise retire immediately following this Annual General Meeting, and having been nominated for re-election by the Joint Board in accordance with Article 22.4 of the Company's Articles of Association, be appointed as a member of the Supervisory Board of the Company.
- b) **That** Dr GJ Clark, having been nominated by the Joint Board in accordance with Article 22.4 of the Company's Articles of Association be appointed as a member of the Supervisory Board of the Company.
- c) **That** Mr JRH Loudon, having been nominated by the Joint Board in accordance with Article 22.4 of the Company's Articles of Association be appointed as a member of the Supervisory Board of the Company.

Brief resumes of Mr Brown, Dr Clark and Mr Loudon are set out in the attached Explanatory Notes.

### 3. Remuneration of members of the Supervisory Board

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

**That** the maximum remuneration payable to members of the Supervisory Board pursuant to Article 25 of the Company's Articles of Association be increased to an aggregate amount of USD 650,000 per annum.

An explanation of the background and reasons for the proposed resolution is set out in the attached Explanatory Notes.

### 4. Peter Donald Macdonald 2002 Share Option Plan

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

**That** the Annual General Meeting approves the issue of 1,950,000 options over unissued ordinary shares in the Company to the Chief Executive Officer, Mr Peter Donald Macdonald, on the terms set out in the Explanatory Notes accompanying the Notice of Meetings convening this meeting.

An explanation of the background and reasons for the proposed resolution is set out in the attached Explanatory Notes.

### 5. Supervisory Board Share Plan

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

**That** the Annual General Meeting approves the issue of ordinary shares in the Company to the members of the Supervisory Board on the terms set out in the Explanatory Notes accompanying the Notice of Meetings convening this meeting.

An explanation of the background and reasons for the proposed resolution is set out in the attached Explanatory Notes.

### 6. Amendments to the Articles of Association

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

**That** the Articles of Association be amended to have the effect as set out in the Explanatory Notes accompanying this Notice of Meetings:

- (i) by the insertion of substantial holding disclosure provisions;
- (ii) to allow a single member of the Company's Managing, Joint or Supervisory Boards to convene a General Meeting;
- (iii) to allocate certain powers of the Joint Board to the Supervisory Board; and
- (iv) to authorise the Managing Board to fix a record date for determining who shall be authorised to exercise voting rights on shares or have the right to attend Shareholders' meetings.

The attached Explanatory Notes explain the proposed changes to the Articles of Association, and set out details as to where copies of the proposed revised Articles (both the official Dutch version and unofficial English translation) are available for inspection.

## 7. Renewal of authority for acquisition by the Company of its own shares

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

**That** the Managing Board be irrevocably authorised to cause the Company to acquire shares in the capital of the Company for valuable consideration within the price range as set out in the Explanatory Notes for an eighteen (18) month period, whether as an on or off financial market purchase and up to the maximum number of shares as permitted by Dutch law.

An explanation of the background and reasons for the proposed resolution and the applicable price range in relation to the repurchase are set out in the attached Explanatory Notes.

## 8. Increase in nominal value of shares and conversion of share premium; amendment to Articles of Association

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

**That** subject to the passing of resolution 9 to be considered at this Annual General Meeting:

- (a) the Articles of Association be amended to increase the nominal value of each share comprised in the Company's share capital on the terms set out in the Explanatory Notes accompanying this Notice of Meetings; and
- (b) the share premium reserve of the Company be debited with the aggregate amount of such increase on the terms set out in the Explanatory Notes accompanying this Notice of Meetings,

with both paragraphs to take effect, following the receipt of approval of the Dutch Ministry of Justice in respect of the amendment to the Articles of Association as referred to under (a) above, when the amendment is executed before a Dutch notary.

An explanation of the background and reasons for the proposed resolution is set out in the attached Explanatory Notes. The Explanatory Notes also provide details as to where copies of the proposed amendments to the Articles of Association (both the official Dutch version and unofficial English translation) are available for inspection.

## 9. Reduction of capital; amendment to Articles of Association

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

**That** subject to the passing of resolution 8 to be considered at this Annual General Meeting:

- (a) the capital of the Company be reduced under a cash return of capital by reducing the nominal value of each share comprised in the Company's capital on the terms set out in the Explanatory Notes accompanying this Notice of Meetings; and
- (b) the Articles of Association be amended to decrease the nominal value of each share comprised in the Company's share capital on the terms set out in the Explanatory Notes accompanying this Notice of Meetings,

with both paragraphs to take effect, following the receipt of approval of the Dutch Ministry of Justice in respect of the amendment to the Articles of Association as referred to under (b) above, after resolution 8 becomes effective and when the amendment is executed before a Dutch notary.

An explanation of the background and reasons for the proposed resolution is set out in the attached Explanatory Notes. The Explanatory Notes also provide details as to where copies of the proposed amendments to the Articles of Association (both the official Dutch version and unofficial English translation) are available for inspection.

## 10. Procedural authorisations

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

**That** in connection with any amendment to the Articles of Association approved at this meeting, the members of the Joint or Managing Boards of the Company or any lawyers of the Company's Dutch solicitors, De Brauw Blackstone Westbroek N.V., be authorised to apply for the required ministerial declaration of no-objection of the Dutch Ministry of Justice as to the amendments to the Articles of Association, to amend the draft notarial deed of amendments to the Articles of Association as may appear necessary to obtain such declaration of no-objection and to execute the notarial deed of amendments to the Articles of Association as required under Dutch law.

An explanation of the background and reasons for the proposed resolution is set out in the attached Explanatory Notes.

Notes on voting are attached.

By order of the Joint Board



D E Cameron  
Secretary  
11 June 2002

## Voting Exclusion Statement

The Listing Rules specify the persons whose votes must be disregarded on resolutions 3, 4 and 5 of this Notice of Meetings.

Votes will be disregarded if cast:

- on resolution 3, by a member of the Supervisory Board of the Company or an associate of a member of the Supervisory Board of the Company.
- on resolution 4, by Mr Macdonald or an associate of Mr Macdonald.
- on resolution 5, by a member of the Supervisory Board of the Company or an associate of a member of the Supervisory Board of the Company.
- on resolutions 3, 4 and 5, by a person whose votes in the opinion of the Australian Stock Exchange Limited (**ASX**) should be disregarded. As at the date of this notice, the ASX has not notified the Company of persons whose votes, in the ASX's opinion, ought to be disregarded on resolutions 3, 4 or 5.

Votes will not be disregarded if cast by any person falling into the categories above where:

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

## Notes on voting

### CUFS holders

CUFS holders who wish to vote on the resolutions to be considered at the Annual General Meeting have the following three options available to them:

**Option A** CUFS holders who wish to vote at the Annual General Meeting in Amsterdam but do not wish to attend that meeting may instead attend the Annual Information Meeting in Sydney. At or following the conclusion of the Information Meeting, CUFS holders may lodge a Direction Form directing CHES Depositary Nominees Pty Limited (CDN), being the legal holder of the shares in the Company for the purposes of the SCH Business Rules and the issuer of CUFS, to vote the shares in the Company held by it on their behalf.

In order to be eligible to direct CDN to vote the shares underlying their relevant CUFS holding at the Annual General Meeting, CUFS holders must be registered at the close of the business day on 12 July 2002 (AEST).

**CUFS holders wishing to follow Option A should complete the Direction Form accompanying this Notice of Meetings and:**

- lodge it at the Information Meeting; or**
- return it by post to Computershare Investor Services Pty Limited at GPO Box 7045, Sydney NSW 1115, Australia or deliver it to Level 3, 60 Carrington Street, Sydney NSW, Australia; or**
- return it by facsimile to (02) 8234 5180 inside Australia or +612 8234 5180 outside Australia.**

Completed Direction Forms must be received by Computershare Investor Services Pty Limited no later than noon on 17 July 2002 (AEST).

**Option B** CUFS holders who wish to attend and vote at the Annual General Meeting in Amsterdam may request CHES Depositary Nominees Pty Limited (CDN), being the holder of the shares in the Company for the purposes of the SCH Business Rules and the issuer of CUFS, to appoint them as proxy for the purposes of voting the shares underlying their holding of CUFS on behalf of CDN.

**CUFS holders wishing to follow Option B should not complete the Direction Form but should send a written request to Computershare Investor Services Pty Limited at GPO Box 7045, Sydney NSW 1115, Australia or Level 3, 60 Carrington Street, Sydney NSW, Australia or by facsimile to (02) 8234 5180 inside Australia or +612 8234 5180 outside Australia asking that a Proxy Request Form be sent to them. The Proxy Request Form must then be completed and forwarded to Computershare Investor Services Pty Limited using the address or fax details given above.**

Completed Proxy Request Forms for the purposes of attending and voting at the AGM in Amsterdam must be received by Computershare Investor Services Pty Limited no later than the close of the business day on 10 July 2002 (AEST).

**Option C** CUFS holders who wish to attend and vote at the Annual General Meeting may also do so by converting their CUFS to shares. Although once converted, the shares cannot be traded on the ASX, the owner of the shares will be eligible to vote those shares at the Annual General Meeting either in person or by proxy. Shareholders who have converted their CUFS will also receive distributions in US dollars. Shares can be converted back into CUFS following the conclusion of the meeting.

Transfers of Company shares must be recorded in a written instrument signed by the transferor and the transferee. The transfer will have effect, if the Company is a party to the deed, when the deed of transfer is executed, and otherwise, when the deed of transfer is served upon the Company or when the transaction is otherwise acknowledged by the Company.

The conversion of CUFS into shares must be effected before close of business on 12 July 2002 (AEST). The Company will not acknowledge any transfer of shares pursuant to a request for conversion received between 13 July 2002 (AEST) and the date of the Annual General Meeting. The ability of CUFS holders to convert their holding to shares will recommence on 20 July 2002.

**CUFS holders may convert their holding to a shareholding at any time before the close of business on 12 July 2002 (AEST) by:**

- (i) in the case of issuer-sponsored CUFS, obtaining a transfer form, executing it and returning it to Computershare Investor Services Pty Limited at GPO Box 7045, Sydney NSW 1115, Australia or Level 3, 60 Carrington Street, Sydney NSW, Australia or by facsimile to (02) 8234 5180 inside Australia or +612 8234 5180 outside Australia; or**
- (ii) in the case of CUFS sponsored on the CHESS sub-register, directing their CHESS participant to convert their holding.**

**CUFS holders wishing to follow Option C should follow the voting instructions for Shareholders set out below.**

## **Shareholders**

Shareholders registered at the date of, and immediately preceding, the Annual General Meeting are eligible to vote at the Annual General Meeting.

A Shareholder who is entitled to attend and cast a vote at the Annual General Meeting and is unable to attend the meeting is entitled to appoint one or more proxies. Where more than one proxy is appointed the proportion or number of votes each proxy may exercise must be specified. Where more than one proxy is appointed a separate form should be used for each. Proxies need not be Shareholders of the Company.

If you wish to appoint a proxy, please complete the Proxy Form provided to Shareholders and return it to Computershare Investor Services Pty Limited by fax to (02) 8234 5180 inside Australia or +612 8234 5180 outside Australia or deliver it to Level 3, 60 Carrington Street, Sydney NSW or by post to GPO Box 7045, Sydney NSW 1115, Australia. Proxy Forms must be received no later than close of business on 17 July 2002 (AEST).

## **Explanatory Notes:**

### **Resolution 1 - Annual accounts for the year ended 31 March 2002**

The annual accounts which are the subject of resolution 1 are those of the Company as a stand-alone entity, as distinguished from the consolidated accounts of the James Hardie group as set out in the Annual Report distributed to Shareholders.

Under this resolution, it is proposed that Shareholders receive and adopt the annual accounts of the Company for the year ended 31 March 2002. In order to comply with Dutch law requirements, Shareholders are also being asked to confirm their approval that the annual accounts of the Company be prepared and published in the English language (as opposed to in the Dutch language).

A brief overview of the financial and operating performance of the James Hardie group during the past financial year will be provided during the Annual Information Meeting and the Annual General Meeting.

**Copies of the annual accounts of the Company for the year ended 31 March 2002 are freely available to Shareholders, CUFS holders and other persons entitled to attend the Annual Information Meeting and the Annual General Meeting either:**

**(a) at the Annual Information Meeting or Annual General Meeting; or**

**(b) at the Company's registered office at Level 3, 22 Pitt Street, Sydney NSW, Australia and at 4th floor, Atrium, Unit 04-07, Strawinskyiaan 3077, 1077 ZX Amsterdam, The Netherlands; or**

**(c) on the Company's website at [www.jameshardie.com](http://www.jameshardie.com)**

### **Resolution 2 – Election of members to the Supervisory Board**

Under resolution 2, Shareholders are being asked to consider the election of members to the Supervisory Board. A brief resume of each is provided below.

For Dutch law disclosure purposes, it is noted that no nominations in respect of the proposed appointments of Mr Brown, Dr Clark and Mr Loudon, have been made by Shareholders.

#### Mr MR Brown

Mr Brown, aged 56, joined James Hardie Industries Limited as a non-executive Director in September 1992 and was appointed to the Company's Supervisory Board in October 2001. He is Chairman of Automotive Parts Group Holdings Limited, Director of Energy Developments Limited, a Councillor of the Royal Blind Society of New South Wales and was Group Finance Director of Brambles Industries Limited until retiring in 2000. Mr Brown is a member of the Company's Joint and Supervisory Boards, Audit Committee (Chairman) and Governance Committee.

As at 11 June 2002, Mr Brown holds 10,000 CUFS in the Company.

#### Dr GJ Clark

Dr Clark, aged 59, joined the Company as a consultant to the Joint and Supervisory Boards in December 2001. Dr Clark is currently Vice Chairman of Knowledge Universe and is a technology adviser to a number of financial institutions. He is also a director of Nextera Enterprises, Inc. and Digex, Inc., two US public companies. He is the former President and Chief Operating Officer of US-based Loral Space and Communications LLC, former President of News Corporation's News Technology Group and was a member of News Corporation's Executive Committee.

Dr Clark also holds a PhD in Physics from the Australian National University and is the recipient of a number of international awards in science and technology.

As at 11 June 2002, Mr Clark does not hold any CUFS or shares in the Company.

#### Mr JRH Loudon

Mr Loudon, aged 59, joined the Company as a consultant to the Joint and Supervisory Boards in March 2002. He is currently Deputy Chairman of Caledonia Investments Plc and a non-executive Director of Malayan Cement Berhad. Mr Loudon also chairs the Blue Circle Pension Fund Investment Committee and is a Governor of the University of Greenwich. He served as Group Finance Director of Blue Circle Industries Plc from 1987 to 2001 and prior to that was Vice President Finance for Blue Circle's companies in the United States.

Mr Loudon was educated at Cambridge University and holds an MBA from the Stanford Graduate School of Business in California.

As at 11 June 2002, Mr Loudon does not hold any CUFS or shares in the Company.

### **Resolution 3 – Remuneration of members of the Supervisory Board**

This resolution seeks shareholder approval for an increase in the total amount available for the remuneration of the members of the Supervisory Board. All members of the Supervisory Board also sit on the Joint Board. The increase being sought is from the current amount, which is capped at AUD 800,000 a year, to a new amount capped at USD 650,000 a year, inclusive of the annual mandatory share plan participation to be considered under resolution 5. This is an increase of approximately AUD 360,000.

A separate resolution, resolution 5, seeks shareholder approval for the introduction of a share plan for members of the Supervisory Board that would make it mandatory for such members to accept USD 10,000 of their annual fee in the form of ordinary shares in the Company (see explanatory note to resolution 5 for further details).

Last year, a new corporate structure was established to generate higher after-tax returns for Shareholders from the group's continuing international expansion. The group's largest business is in North America where most of its senior management is located and the largest growth markets for the group's products are in the northern hemisphere.

As a result, the composition and role of the Company's Supervisory Board changed, as did the way that it operated, to reflect the continuing internationalisation of the Company.

The Joint and Supervisory Boards have two non-executive US resident members (or Directors) and three Australian non-executive resident members. If Shareholders approve the election of two new members to the Supervisory Board at this Annual General Meeting, the Joint and Supervisory Boards will have three non-executive US resident members, three Australian non-executive resident members and a UK resident member. The Joint and Supervisory Boards also believe that it could be beneficial to recruit additional members for the Joint and Supervisory Boards with international experience who, in all likelihood, are expected to be residents of countries other than Australia. The proposed increase in the total maximum remuneration is designed to accommodate this option and would allow the Company to recruit up to two additional members to the Supervisory Board.

The Supervisory Board's program now includes meetings on three continents each year, with two meetings a year in the United States, two in Europe and two in Australia. At the time of each board meeting there are also board committee meetings, notably those of the Audit Committee, Remuneration Committee and the recently established Nominating and Governance Committee.

In addition to these board and committee meetings, the Supervisory Board also meets at other times as required, using videoconference and teleconference facilities, to discuss and agree on other major items of business.

Members of the Supervisory Board are also involved, on at least one occasion each year, in additional meetings with line management, visits to Company facilities and the major markets for the Company's products.

The Supervisory Board's program therefore involves extensive travel for all members and the work of the Board extends over several days on each occasion that it meets. Supervisory Board members do not receive extra remuneration for their service on board committees and their remuneration, to date, has not been adjusted to take account of the modifications to the Board's extended international program.

There is also a need to modify fee arrangements to reflect market competitive rates in the countries where the Company operates and in countries in which it is expected that additional members of the Supervisory Board are resident. This will ensure that the Supervisory Board is able to attract, recruit and retain the services of Directors of the desired calibre, capabilities and international experience.

It is proposed that non-executive members of the Supervisory Board will receive an annual fee equivalent to USD 50,000 with the Chairman receiving a three times multiple of that. The fees will be a combination of cash and shares (see resolution 5) and will represent the entire remuneration of members of the Supervisory Board and, subject to the passing of resolution 5, the existing members' retirement plan will be terminated. Members of the Supervisory Board with entitlements under the existing retirement plan will receive those benefits when they retire, based on the termination in July 2002 of the retirement plan. This means that members' future total emoluments will be represented by their fees.

In preparing the proposed changes to fee arrangements for Supervisory Board members, the Joint Board sought and received independent advice from respected remuneration consultants, Mr George Paulin of Frederick W Cook and Co Inc in Los Angeles, USA and Mr John Egan of Egan Associates in Sydney, Australia. The proposal is fully consistent with their advice.

#### **Resolution 4 – Peter Donald Macdonald 2002 Share Option Plan (the 2002 Share Option Plan)**

Under resolution 4, Shareholders are being asked to consider a share option plan for Peter Donald Macdonald, Chief Executive Officer, under which Mr Macdonald would be granted 1,950,000 stock options. Mr Macdonald has been Managing Director and Chief Executive Officer of James Hardie Industries Limited since November 1999 and of James Hardie Industries N.V. since August 2001. Mr Macdonald's existing service contract with the Company expires on 31 October 2002 and he and the Company have executed a new three year agreement which will take effect on 1 November 2002. The 2002 Share Option Plan is a term of Mr Macdonald's new service agreement, subject to shareholder approval.

ASX Listing Rule 7.1 provides that a company must not issue more than 15% in number of its existing securities in a 12 month period in the absence of shareholder approval. The resolution is proposed for the purposes of ASX Listing Rule 10.11, which provides that an entity must not agree to issue equity securities to persons with certain relationships to related parties where this would, in ASX's opinion, warrant shareholder approval. If approval is given under ASX Listing Rule 10.11, approval is not required under ASX Listing Rule 7.1.

The proposed 2002 Share Option Plan is very similar in most respects to the existing Peter Donald Macdonald 2001 Share Option Plan which was approved by Shareholders of James Hardie Industries Limited on 12 July 2001. The number of options granted under the 2002 Share Option Plan has increased and is intended to cover the period of Mr Macdonald's new service agreement with the Company over the next three years.

The 2002 Share Option Plan is designed to reward Mr Macdonald if there is a sustained improvement in the James Hardie share price over the longer term. The 2002 Share Option Plan is part of a remuneration package for Mr Macdonald which, based on independent advice from remuneration specialists in both the United States and Australia, will continue to provide a competitive package for Mr Macdonald relative to the United States employment market. The 2002 Share Option Plan incorporates a performance hurdle which ensures that the options granted to Mr Macdonald will not be exercisable unless the Company meets certain performance criteria.

The performance conditions attached to the grant of options under the 2002 Share Option Plan are reflective of best practice in Australia, and are more restrictive than are normally adopted in the United States.

The options to be granted under the 2002 Share Option Plan will be granted on the following terms and conditions:

- 1,950,000 options will be granted.
- The options will be granted in a single tranche that vest no sooner than three years.
- The options will not be exercisable unless the Company's Total Shareholder Return (**TSR**) outperforms the majority of its peer group.
- The options will be granted to Mr Macdonald within one month of the date of the Annual General Meeting.
- Each option confers the right to subscribe for one share of the Company.
- The exercise price per option is equal to the average closing price of CUFS sold on the ASX on the five trading days immediately before the date of this Annual General Meeting as adjusted for corporate actions.
- The exercise price is payable by Mr Macdonald at the time of exercise.
- Options not exercised will lapse on the first to occur of:
  - i. 10 years from the date of issue; or
  - ii. The expiry of 18 months after the date of which Mr Macdonald dies or eighteen months after he ceases to be employed by the Company or a subsidiary.
- These options are subject to anti-dilution provisions for corporate actions like bonus issues.
- The options do not confer the right to participate in new issues without exercising the options.

### **Key Features of the 2002 Share Option Plan**

#### **1. Basic Principles**

The Company believes in an option plan for the Chief Executive Officer which is based on some important guiding principles. These principles are as follows:

- remuneration should be linked to the economic value created for Shareholders; and
- incentives should:
  - encourage the CEO to work in ways which optimise shareholder value over the long term;
  - ensure any benefits provided to the CEO correlate with benefits enjoyed by Shareholders; and
  - focus on long term growth and shareholder value creation.

#### **2. Performance Hurdle**

Mr Macdonald can only exercise 2002 Share Option Plan options if the Company's TSR (essentially share price improvement and dividend yield) are among the best returns achieved relative to companies that make up the ASX/S&P200 index, exclusive of the Financials and Property Trust indices (**Peer Group**).

Mr Macdonald's options are not exercisable until three years after they are issued and only if the TSR performance hurdle is satisfied.

Mr Macdonald will be entitled to exercise 75% of the options if the Company's TSR is greater than the majority of the companies in the Peer Group i.e. if the Company's returns are at the 50th percentile or better. The exercisable percentage will increase on a pro-rata basis to 100% where the Company's TSR outperforms three quarters of its Peer Group (ie a further 1% of the options become exercisable for every 1% increase in TSR relative to the Company's Peer Group). Once the Company's TSR is at the 75th percentile or better, 100% of the options are exercisable.

If the TSR hurdles are not achieved three years from the issue of the options, the TSR test will be re-applied over the next two years. If the TSR test remains unsatisfied during these two years (ie until five years after the issue of the options) then the options never become exercisable and lapse. The options may become exercisable before the 3 year vesting period upon a change of control, dismissal of Mr Macdonald without cause, his death during the term of his service contract or upon expiry of his service contract if at any such time the TSR hurdle is satisfied.

#### **3. Numbers of Options**

The total number of options available to Mr Macdonald under the 2002 Share Option Plan is 1,950,000. The Company believes that the TSR performance hurdles will ensure that Mr Macdonald will be rewarded with his full entitlement of options if the Company significantly outperforms the majority of companies in the Peer Group.

#### **4. Long Term Focus**

The Plan is designed to encourage superior performance, measured after three years and up to a maximum five years.



## 5. Other Information

The 2002 Share Option Plan has been developed with reference to a number of publicly available guidelines on corporate governance practices, including the Executive Share and Option Scheme Guidelines. These guidelines are endorsed by the Investment & Financial Services Association, the Australian Institute of Company Directors, the Australian Shareholders' Association and the Australian Employee Ownership Association.

The members of the Supervisory Board believe the 2002 Share Option Plan reflects Australian best practice in the area of share option schemes. It provides for appropriate rewards to be provided to the Company's CEO if challenging performance hurdles are met and if the Company's returns to Shareholders are among the best achieved by Australian industrial companies.

The Joint Board members other than Mr Macdonald, commend the 2002 Share Option Plan to Shareholders and seek endorsement for the 2002 Share Option Plan from Shareholders.

**A copy of the terms of the 2002 Share Option Plan may be inspected at Level 3, 22 Pitt Street, Sydney NSW, Australia or at the Annual Information Meeting or the Annual General Meeting.**

### Resolution 5 – Supervisory Board Share Plan (SBSP)

Under resolution 5, Shareholders are being asked to consider the introduction of a Share Acquisition Plan for members of the Supervisory Board. Under the SBSP, members of the Supervisory Board, including the Chairman, would be required to accept at least USD 10,000 of their annual fees in ordinary shares of the Company.

ASX Listing Rule 7.1 provides that a company must not issue more than 15% in number of its existing securities in a 12 month period in the absence of shareholder approval. The resolution is also proposed for the purposes of ASX Listing Rule 10.11, which provides that an entity must not agree to issue equity securities to persons with certain relationships to related parties where this would, in ASX's opinion, warrant shareholder approval. If approval is given under ASX Listing Rule 10.11, approval is not required under ASX Listing Rule 7.1.

If resolution 5 is passed, shareholder approval for the issue of securities under the SBSP for the purpose of ASX Listing Rules 7.1 and 10.11 will be effective for a period of 3 years from the date of the Annual General Meeting.

It is proposed that, subject to shareholder approval, in each of the next three years and, in any event, no later than 19 July 2005, awards of shares will be granted under the SBSP. If resolutions 4 and 5 are approved, the participating members of the Supervisory Board will be Messrs McGregor, Brown, Gillfillan, Koffel, Loudon, Dr Clark and Ms Hellicar as well as any future members appointed to the Supervisory Board.

The issue of shares under the SBSP is to constitute part of the remuneration of the members of the Supervisory Board and is not an additional benefit.

If resolution 5 is approved, the existing retirement plan of members of the Supervisory Board under which retiring members receive a multiple of their annual fee after three years of service, will be discontinued, although that will not affect benefits which have accrued for individual members up to July 2002. That plan was approved by James Hardie Industries Limited Shareholders at the Annual General Meeting in August 1990.

Shares issued under the USD 10,000 compulsory component of the SBSP will be subject to a two year holding lock, meaning that members of the Supervisory Board must retain those shares for at least two years following issue. Trading in the shares following the conclusion of the two year restricted period will be a matter for each Director, subject to the Company's insider trading policy and laws in the appropriate jurisdictions that govern the conduct of share trading.

Under the SBSP, members of the Supervisory Board will also be entitled to receive a greater proportion of their remuneration in Company shares if they so elect. No holding lock will apply to these shares.

The introduction of a requirement that members of the Supervisory Board accept USD 10,000 of their remuneration in Company shares reflects the desire of the Company to align the interests of Shareholders and Directors more closely. It is considered that both the retention of high calibre Directors and the continued growth of the Company are assisted by mandatory share ownership by Directors.

The maximum number of shares that may be issued under the SBSP in any one year is equal to the number of participating members of the Supervisory Board multiplied by USD 10,000 (or such higher amount elected by the members of the Supervisory Board, up to the amount of their annual fee) all divided by the issue price of the shares at the time of issue.

The issue price for the shares will be at market value at the time of issue. "Market value" is the average of the closing prices at which the CUFS were quoted on the ASX during the period of five business days preceding the day of the issue of shares to the relevant member.

Shares will be issued annually in advance in accordance with the SBSP rules.

Details of shares issued under the SBSP in any year will be published in the Company's annual report. The report will contain a statement that shareholder approval for the share issues was obtained under ASX Listing Rule 10.14.

Only the Supervisory Board members referred to above and any new member of the Supervisory Board will be entitled to participate in the SBSP. Any such new member of the Supervisory Board will not participate until further shareholder approval is obtained under ASX Listing Rule 10.14.

No loans will be entered into by the Company in relation to the grant of shares pursuant to the SBSP.

**A copy of the terms of the SBSP may be inspected at Level 3, 22 Pitt Street, Sydney NSW, Australia or at the Annual Information Meeting or the Annual General Meeting.**

## **Resolution 6 – Amendments to the Articles of Association**

Under resolution 6, Shareholders are being asked to consider various amendments to the current Articles of Association of the Company. The effect of these amendments are discussed below.

This resolution is being proposed following a review of the Articles of Association conducted at the request of the Joint Board following the successful scheme of arrangement of the Company's predecessor in October 2001. Resolution 6, being a special resolution, requires a majority of at least 75% of votes cast at the Annual General Meeting in order to be adopted.

**A copy of the proposed revised Articles of Association (both the official Dutch version and an English translation) will be freely available to Shareholders, CUFS holders and other persons entitled to attend the Annual Information Meeting and the Annual General Meeting either:**

**(a) at the Annual Information Meeting or Annual General Meeting; or**

**(b) at the Company's registered office at Level 3, 22 Pitt Street, Sydney NSW, Australia and at 4th floor, Atrium, Unit 04-07, Strawinskyiaan 3077, 1077 ZX Amsterdam, The Netherlands.**

### **(i) Disclosure of substantial holding information**

The Australian Corporations Act contains provisions which require persons to notify the company and the ASX of acquisitions of 5% or more in an Australian company and of any further movement of 1% or more in that holding. Given that the Company is Dutch incorporated, however, Shareholders are not subject to the Australian substantial holding regime.

Under the current Articles of Association, the Company can require a Shareholder or CUFS holder (the latter only insofar as bound by the Company's Articles under the modifications to the Corporations Act as granted to the Company by the Australian Securities and Investments Commission) to disclose information about their relevant interests in shares in the Company. In addition, Shareholders, CUFS holders and ADR holders are subject to certain Dutch law notification obligations as well as separate beneficial ownership reporting obligations under the rules of the US Securities Exchange Commission.

However, the current Articles of Association of the Company do not contain substantial holding requirements which reflect the provisions in the Australian Corporations Act.

The Board believes it is in the interests of Shareholders to amend the Articles to incorporate a regime similar to that which exists under Australian law.

In case of a breach of the substantial holding disclosure provisions, the Company will have the power to enforce similar remedies as if there had been a breach of the 20% acquisition threshold. Thus the Supervisory Board may require the disposal of shares or CUFS, and may disregard the exercise of voting rights or may suspend dividend payments and other distributions in respect of such shares.

The Supervisory Board may cause the Company to exercise those remedies if it has first obtained a ruling from a Court of competent jurisdiction or if the Company receives independent advice to that effect from Senior Counsel or a senior corporate lawyer. While the Company is seeking but has not received this advice, the Company can also exercise these powers (other than the power to require disposal of securities) for an interim period by giving notice in writing to the holder.

### **(ii) Ability of single Director to convene General Meeting**

Article 30 of the Company's Articles of Association provides that each of the Joint Board, Managing Board and Supervisory Board may convene a General Meeting of Shareholders on request of Shareholders. However, an individual member of these Boards does not have such a right.

Section 249CA of the Corporations Act provides that a single director of a listed company may call a meeting of the company's directors, despite anything to the contrary in the company's Articles of Association. Shareholder request is not required for a sole director to convene a meeting in accordance with section 249CA.

Because the Company is incorporated outside Australia, section 249CA does not apply to it. However, the Joint Board believes it is appropriate to amend the Company's Articles of Association to reflect section 249CA of the Corporations Act, and proposes to amend article 30 to allow a sole member of either the Managing Board, Joint Board or Supervisory Board of the Company to convene a General Meeting.

### **(iii) Allocation of certain powers of the Joint Board to the Supervisory Board**

The following powers are currently allocated to the Joint Board:

- (a) the authority to issue shares (and rights to subscribe for shares (such as options, warrants etc)) and to determine the terms for such issue;
- (b) the authority to limit or exclude any pre-emptive rights in relation to any issue of shares; and
- (c) the authority to determine which part of the profits shall be allocated for reservation and to determine as to the attribution of losses.

The authorities referred to in paragraphs (a) and (b) above operate for:

- (i) a period commencing on 7 September 2001 and ending on 15 April 2006; and
- (ii) up to the maximum number of shares that may be issued under the authorised share capital as set forth in the Company's Articles of Association from time to time.

In order to comply with recent amendments to Dutch corporate law, it is appropriate to amend the Articles of Association of the Company to reflect each of the authorities referred to above will be allocated to the Supervisory Board on identical terms on and from the passing of this resolution.

**(iv) Authorisation of the Managing Board to fix a record date for determining who shall be authorised to exercise voting rights on shares or have the right to attend Shareholders' meetings**

Under Dutch law, the Managing Board is only empowered to fix a record date for determining who shall be authorised to exercise voting rights on shares or the right to attend and address Shareholders' meetings if so authorised by the Shareholders. In case of a fixed record date, such date prevails regardless of who shall be entitled to such rights at the date of the Shareholders' meeting.

Due to the fact that the Company's shares are in registered form and that there is at present no trade effected in the Company's shares (such trade is presently effected either in the form of CUFs or ADRs), the absence of such record date in respect of the shares in the Company may in practice not be insuperable. However for future purposes, it is proposed that the Articles of Association be amended to allow the Managing Board to fix a record date.

**Resolution 7 — Renewal of authority for acquisition by the Company of its own shares**

The Articles of Association permit the Managing Board to acquire shares in the Company for valuable consideration (subject to any additional restrictions under Dutch law) on the condition that the Managing Board has been authorised to do so by the Shareholders, which authorisation shall be valid for a maximum period of 18 months.

Additional Dutch law restrictions are that (i) the shares must be fully paid, (ii) the Company's equity less the purchase price of the buy back shares must be not less than the aggregate amount of the issued share capital and the reserves which must be maintained pursuant to the law, and (iii) the aggregate par value of the buy back shares in its share capital to be acquired and already held by the Company and its subsidiary companies must not exceed one-tenth of the issued share capital of the Company.

On 7 September 2001, the Shareholders of the Company resolved to authorise the Managing Board to cause the Company to enter into share buy-backs, whether as on or off financial market purchase, for an 18 month period and up to the maximum amount permitted by Dutch law, for a consideration per share of not less than EUR 0.01 and not more than 105% of the average closing share price per share in the Company on the ASX in the 5 business days preceding the acquisition. The maximum price of 105% is in keeping with ASX Listing Rule 7.33 which imposes such a limit in respect of on-market buy-backs.

The Joint Board believes that it is in the interests of Shareholders that approval of the buy-back power under Article 6.1(c) be renewed on identical terms as the September 2001 conditions and recommends that you vote in favour of the resolution.

**Resolution 8 – Increase in nominal value of shares and conversion of share premium; amendment to Articles of Association**

In April 2002, the Company sold its Gypsum business for an amount of USD 345 million. The Joint Board proposes that part of these proceeds be returned to Shareholders. On 16 May 2002, the Company announced that part of this return will take the form of a return of capital which, subject to certain conditions which the Company expects will be satisfied, will be paid free from Dutch withholding tax. In addition, the Company will return part of the Gypsum proceeds as an interim dividend distribution, that will be subject to Dutch dividend withholding tax.

Resolutions 8 and 9 are necessary for the capital return announced by the Company on 16 May 2002 and are preconditions to that capital return.

In order for the Company to make the capital return, part of the share premium reserve will be converted into share capital. This will be effected by increasing the nominal (or par) value of each share by debiting the share premium reserve with an amount equal to the aggregate amount of the increase for each share on issue. This will be followed by a reduction of capital effected by decreasing the nominal value of each share as proposed in resolution 9 and distributing such amount to Shareholders.

The Company wishes to convert from the share premium reserve into share capital an amount in Euro equivalent to USD 160,000,000.

The nominal value of shares must be stated in the Company's Articles of Association and accordingly, the Articles must be amended to reflect the increase of the nominal value of shares.

If resolutions 8 and 9 are approved at the meeting, the Articles of Association will be amended to reflect the increase in the nominal value in an amount per share equal to the Euro equivalent of USD 160,000,000 (using the spot rate prevailing on the date of the increase) divided by the number of shares on issue at the date of the increase, rounded downwards to the nearest whole Euro cent.

This resolution 8, being a special resolution, requires a majority of at least 75% of the votes cast at the Annual General Meeting.

**A copy of the proposed amendments to the Articles of Association (both the official Dutch version and an English translation) will be freely available to Shareholders, CUFS holders and other persons entitled to attend the Annual Information Meeting and the Annual General Meeting either:**

**(a) at the Annual Information Meeting or Annual General Meeting; or**

**(b) at the Company's registered office at Level 3, 22 Pitt Street, Sydney NSW, Australia and at 4th floor, Atrium, Unit 04-07, Strawinskyiaan 3077, 1077 ZX Amsterdam, The Netherlands.**

#### **Resolution 9 — Reduction of capital; amendment to Articles of Association**

As stated above, resolutions 8 and 9 are necessary to effect the capital return announced by the Company on 16 May 2002, and must be read in conjunction with one another along with the Explanatory Notes on both resolutions.

In order to effect the proposed capital return, the nominal value of the shares must be decreased. Again, as the nominal value of shares must be stated in the Company's Articles of Association, the Articles must be amended to reflect this decrease. The increase and the decrease in capital proposed in resolutions 8 and 9 will be effected in that order and on the same day.

The reduction of the nominal value will be in Euro in an amount equivalent to USD 0.20 per share. The capital return amount received by CUFS Holders will be the same amount paid in AUD. The actual amount received by CUFS Holders will depend upon prevailing exchange rates at the time of the reduction of capital.

If resolutions 8 and 9 are approved at the meeting, the Articles of Association will be amended to reflect the decrease in nominal value of each share. This decrease will be in an amount equal to the Euro equivalent of USD 0.20 (using the spot rate prevailing on the date of the decrease), rounded upwards to the nearest whole Euro cent, provided that the amount of the decrease shall in any event not exceed EUR 0.30 per share.

In addition to amending the Articles of Association, the reduction of the nominal value must be effected taking into account a detailed Dutch law procedure aimed at protecting the creditors of the Company. This procedure may be summarised as follows.

First, the resolution to effect a reduction of the nominal value of shares must be adopted by the Annual General Meeting. The draft of the proposed revised Articles of Association must then be submitted to the Ministry of Justice in order to obtain the Ministry's so called "Declaration of Non-Objection", and the Minutes of the Annual General Meeting (or an extract thereof) must be filed with the trade register of the Amsterdam Chamber of Commerce and Industries. Following such filing an advertisement must be made in a nationally distributed newspaper to announce that the minutes of the Annual General Meeting are available for public inspection by the Company's creditors at the Amsterdam trade register of the Chamber of Commerce and Industries. After a two month period following the announcement in a nationally distributed newspaper, a request must be made to the competent District Court to verify and confirm whether or not creditors of the Company have opposed the proposed reduction of share capital. If no opposition has been made (or, if opposition has been made, it was subsequently revoked or lifted) the proposed revised Articles of Association may be executed. Finally, the return of capital may be effected.

The capital return to Shareholders will be paid on such date as notified to Shareholders by the Joint Board as soon as practically possible after the return of capital shall have been sanctioned by the competent District Court.

The Company currently expects to be making the capital return payment to CUFS Holders in November 2002. The exact date is subject to the Dutch law procedure discussed above.

The interim dividend referred to in the Explanatory Notes to resolution 8 above will be in an amount equal to US 0.05 cents per share and will be paid at the same time as the capital return.

The Joint Board has approved to proceed with the capital reduction as, in their opinion, it does not prejudice the ability of the Company to pay its creditors. The proposed capital return and dividend enable the Company to return excess funds to Shareholders; both relate only to the proceeds of the Gypsum assets and will not affect the ultimate control of the Company.

**A copy of the proposed revised Articles of Association (both the official Dutch version and an English translation) will be freely available to Shareholders, CUFS holders and other persons entitled to attend the Annual Information Meeting and the Annual General Meeting either:**

**(a) at the Annual Information Meeting or Annual General Meeting; or**

**(b) at the Company's registered office at Level 3, 22 Pitt Street, Sydney NSW, Australia and at 4th floor, Atrium, Unit 04-07, Strawinskyiaan 3077, 1077 ZX Amsterdam, The Netherlands.**

#### **Resolution 10 — Procedural authorisations**

Under Dutch law, a ministerial declaration of no-objection must be obtained in relation to any amendment to the Articles of Association of the Company, and the amendments must then subsequently be effected by execution of a notarial deed. Authorisation to obtain the ministerial declaration and execute the notarial deed must be specifically provided by Shareholders.

If resolution 10 is passed, it will provide the necessary authorisation to members of the Joint and Managing Board of the Company and De Brauw Blackstone Westbroek N.V., Amsterdam (solicitors for the Company in The Netherlands) to take such action so as to allow the amendments to the Articles of Association which are authorised by Shareholders at the meeting to go ahead.