

Chairman's Report



“We see a strong future for the focussed fibre cement business into which we have evolved.”

ALAN MCGREGOR AO, CHAIRMAN

Focussed on fibre cement

This year has been one of considerable achievement for James Hardie, culminating in the successful transformation of the company into one of the world's leading fibre cement businesses.

The final step in this process came in April 2002, when we completed the sale of our US-based gypsum operations to the British group, BPB plc for US\$345 million in cash.

As a result of the sale, we will pay a dividend of US 5 cents per share, and make a tax-free return of capital to shareholders of US 20 cents a share. Including the capital return of US 5 cents a share paid in December 2001, shareholders will receive a total return of US 30 cents a share.

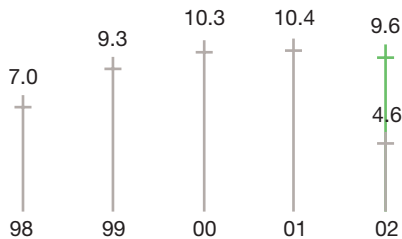
Our aim now is to achieve market leadership in fibre cement in countries where we operate to sustain high rates of growth and attractive returns from our current investments, and to expand geographically.

James Hardie will now seek further international development of its fibre cement business, where it believes it can maintain a significant competitive advantage. This competitive advantage emanates from our technology, much of which is unique and proprietary to James Hardie.

Structured for success

During the year - and with overwhelming shareholder approval - the company completed a corporate restructuring.

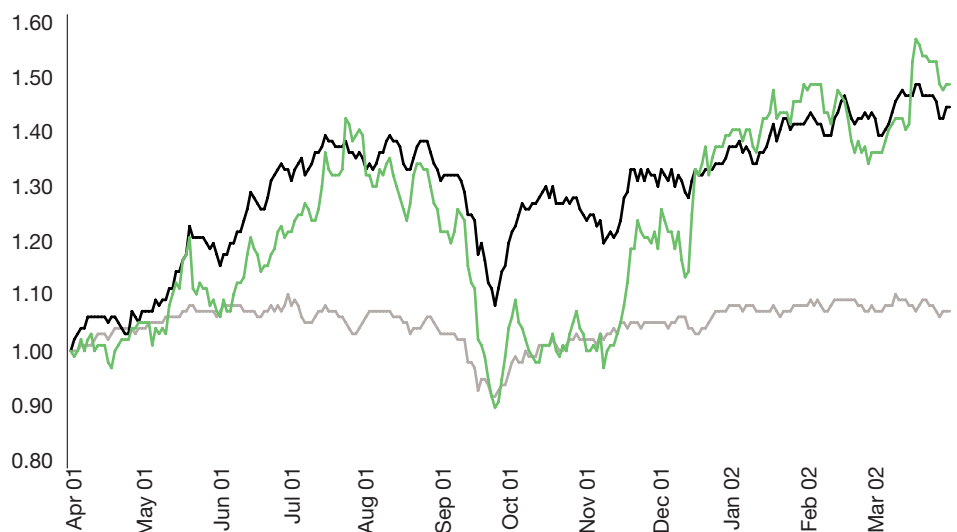
The new structure will ensure that, regardless of where they live, shareholders can receive higher after-tax returns from the company's continuing international expansion than were possible under the old structure.



Dividends and Capital Returns Paid Per Share (US cents)

■ Capital Return ■ Dividend

A tax free capital return of US 20 cents a share will be made and is subject to shareholder approvals at the AGM in July 2002.



James Hardie's relative performance during the 2002 financial year (%)

■ James Hardie ■ S&P/ASX 100 Index ■ Building Materials Index



Products for the future

James Hardie already manufactures a wide range of differentiated products that offer benefits in terms of their performance and value. Significant work to develop new and improved products is continuing. Over the coming year, our investment in Research & Development is expected to increase to almost US\$21 million.

The success of James Hardie's R&D is evident in the new products that were released in the past year, and that helped to increase sales and market share.

Almost 30% of our sales in the USA are now derived from products that have been developed and launched in the past five years.

This year, we will start production trials of a new generation of roofing products for the USA, using new technology that is proprietary to James Hardie. If successful, the company will enter the large USA market for roofing materials. The roofing market is substantially bigger than the market for siding in which we compete today.

Markets for the future

The company intends to continue to pursue new markets for its fibre cement products, both in countries where we already compete and in other countries where we can see good market opportunities.

Already, our re-organised Asia Pacific business is increasing exports to countries throughout the region and wider participation in Asia is being evaluated. Our Chilean business is being established as a platform for future growth in South America, and detailed assessments of other markets, such as in Europe are underway.

Opportunities for the future

There are opportunities for James Hardie's fibre cement products as safe, suitable substitutes for the asbestos cement products that are being progressively banned throughout the world. Asbestos containing products still account for more than half of the cement boards that are sold worldwide but this share is declining. Fibre cement could be a major driver and beneficiary of this change.

We also stand to benefit from the increasing move to lightweight construction methods that use steel or timber frames and sheet cladding systems, such as those using fibre cement, to create the interior and exterior walls of homes and commercial buildings.

Changes to the Board

I would like to thank Peter Willcox, who has retired from the Board after 10 years' service. Peter has been an enthusiastic and dedicated member of our Board and his advice and support have been invaluable.

In recent months we have appointed two consultants to the Board, strengthening our expertise in two specialised and strategically-important areas. They are both standing for election as directors at the Annual General Meeting in July. Their presence will enhance the increasingly international focus of the Board, and the company.

James Loudon has a distinguished background in finance and the construction industry, and his experience will be of great benefit to us as we continue to capitalise on the significant growth opportunities we see for fibre cement, particularly in Europe.

Dr Gregory Clark is a distinguished Australian scientist who has been highly successful working in the USA in the development and commercialisation of new technologies. These skills are highly relevant to James Hardie because the company's future success depends on its capacity to deploy new and innovative technologies in a traditional industry.

During the year, the Board established a Nominating and Governance Committee to assist us to ensure the governance of the company is an example of best practice in Australia, the USA, and the Netherlands, as set out in the recently adopted charter which forms part of this report.

Fibre cement for the future

James Hardie is well-equipped to face the future with confidence. In its major markets, the company's operations are the largest, lowest-cost manufacturers of fibre cement.

James Hardie's proprietary plant engineering, process technology and product formulations already enable the company to make and sell genuinely differentiated products at lower cost than competitors.

The company now has the corporate structure and financial strength to pursue its growth strategy.

On behalf of the Board I would like to thank James Hardie's employees. Whenever Board members visit the company's facilities and meet staff, we are reminded of the high calibre of the company's people, their passionate conviction in what they do each day and their drive to be the best they can be. The company is imbued with a culture that thrives on competition and highly prizes winning.

The emphasis on strategic and well-planned activities and the new initiatives, as seen by the various moves the company has made over recent times, is a hallmark of this culture. The company is well-served by its management team.

Alan McGregor AO
Chairman

Images left to right – More than three million American homes now feature James Hardie's fibre cement products. The award-winning CMX™ Compact Masonry Walling System creates low-maintenance, rendered and textured walls. Production trials of our new generation roofing product start this year.