

**AUDITORS' REPORT TO THE SHAREHOLDERS  
OF EVERGREEN FORESTS LIMITED**

We have audited the financial statements on pages 20 to 32. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the year ended 30 June 1998 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 23 to 25.

**Directors' responsibilities**

The Company's directors are responsible for the preparation and presentation of financial statements which give a true and fair view of the financial position of the Company and Group as at 30 June 1998 and their financial performance and cash flows for the year ended on that date.

**Auditors' responsibilities**

We are responsible for expressing an independent opinion on the financial statements presented by the directors and reporting our opinion to you.

**Basis of opinion**

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- a) the significant estimates and judgements made by the directors in the preparation of the financial statements; and
- b) whether the accounting policies used and described on pages 23 to 25 are appropriate to the circumstances of the Company and Group, consistently applied and adequately disclosed.

We have conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of the information in the financial statements.

We have no relationship with or interests in the Company and Group other than in our capacity as auditors and tax advisers.

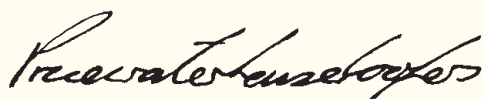
**Unqualified opinion**

We have obtained all the information and explanations we have required.

In our opinion:

- a) proper accounting records have been kept by the Company and Group as far as appears from our examination of those records; and
- b) the financial statements on pages 20 to 32;
  - (i) comply with generally accepted accounting practice; and
  - (ii) give a true and fair view of the financial position of the Company and Group as at 30 June 1998 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 5 August 1998 and our unqualified opinion is expressed as at that date.



Chartered Accountants Auckland

# 1998 FINANCIAL STATEMENTS



## DIRECTORS' RESPONSIBILITY STATEMENT

The directors are responsible for ensuring that the financial statements give a true and fair view of the financial position of the holding Company and the Group as at 30 June 1998 and their financial performance and cash flows for that year.

The directors consider that the financial statements of the Company and Group have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgements and estimates and all relevant reporting and accounting standards have been followed.

The directors believe that they have ensured that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and the Group and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

The directors consider that they have taken adequate steps to safeguard the assets of the Company and the Group and to prevent and detect fraud and other irregularities.

The directors are pleased to present the financial statements of Evergreen Forests Limited for the year ended 30 June 1998.

For and on behalf of the Board of Directors:

P. D. Wilson  
*Director*

5 August 1998

S. N. Hurley  
*Director*



EVERGREEN FORESTS LIMITED

## STATEMENTS OF FINANCIAL PERFORMANCE

For the year ended 30 June 1998

<i>In \$NZ 000's</i>	Notes	Group		Company	
		1998	1997	1998	1997
<b>Continuing activities</b>					
Operating revenue	1	591	1,145	19,341	1,145
Operating expenses	1	(738)	(1,347)	(16,601)	(1,347)
<b>Net operating surplus (deficit) before taxation</b>		<b>(147)</b>	<b>(202)</b>	<b>2,740</b>	<b>(202)</b>
Taxation	2	–	–	–	–
<b>Net surplus (deficit) for the year</b>		<b>(147)</b>	<b>(202)</b>	<b>2,740</b>	<b>(202)</b>

EVERGREEN FORESTS LIMITED

## STATEMENTS OF MOVEMENTS IN EQUITY

For the year ended 30 June 1998

<i>In \$NZ 000's</i>	Group		Company	
	1998	1997	1998	1997
Equity at the beginning of the year	96,337	79,606	96,337	79,606
Total recognised revenue and expenses for the year – net surplus (deficit)	(147)	(202)	2,740	(202)
Equity issued during the year	–	16,933	–	16,933
<b>Equity at end of the year</b>	<b>96,190</b>	<b>96,337</b>	<b>99,077</b>	<b>96,337</b>

*The accompanying notes form part of these financial statements.*



EVERGREEN FORESTS LIMITED

## STATEMENTS OF FINANCIAL POSITION

As at 30 June 1998

In \$NZ 000's	Notes	Group		Company	
		1998	1997	1998	1997
<b>Equity</b>					
Attributable to shareholders	3	96,190	96,337	99,077	96,337
<b>Non current liabilities</b>					
Borrowings	4	46,956	31,974	46,956	31,974
<b>Current liabilities</b>					
Creditors and accruals	5	434	9,067	434	9,067
<b>Total liabilities and equity</b>		<b>143,580</b>	<b>137,378</b>	<b>146,467</b>	<b>137,378</b>
<b>Non current assets</b>					
Land	6	24,247	24,180	24,247	24,180
Roading and land improvements	6	2,158	2,338	2,158	2,338
Forests	6	108,890	101,512	93,027	101,512
Fixed assets	7	423	582	423	582
Investments	8	5,433	5,345	5,433	5,345
		<b>141,151</b>	<b>133,957</b>	<b>125,288</b>	<b>133,957</b>
<b>Current assets</b>					
Cash and short term deposits		1,879	2,720	1,879	2,720
Receivables and prepayments	9	550	701	19,300	701
		<b>2,429</b>	<b>3,421</b>	<b>21,179</b>	<b>3,421</b>
<b>Total assets</b>		<b>143,580</b>	<b>137,378</b>	<b>146,467</b>	<b>137,378</b>

The accompanying notes form part of these financial statements.



EVERGREEN FORESTS LIMITED

## STATEMENTS OF CASH FLOWS

For the year ended 30 June 1998

In \$NZ 000's	Notes	Group		Company	
		1998	1997	1998	1997
<b>Cash flows from operating activities</b>					
<b>Cash was provided by (applied to):</b>					
Receipts from customers		192	554	192	554
Payments to suppliers and employees		(1,114)	(1,612)	(1,114)	(1,612)
Interest received		111	360	111	360
Net Goods & Services Tax		545	487	545	487
<b>Net cash flows applied to operating activities</b>	10	<b>(266)</b>	<b>(211)</b>	<b>(266)</b>	<b>(211)</b>
<b>Cash flows from investing activities</b>					
<b>Cash was provided by (applied to):</b>					
Proceeds from sale of assets		502	–	502	–
Acquisition of fixed assets		(130)	(2,085)	(130)	(2,085)
Proceeds from loans and advances		–	573	–	573
Acquisition and development of forests		(12,409)	(37,416)	(12,409)	(37,416)
GST refund from acquisitions		–	1,754	–	1,754
Acquisition of units in Nuhaka Farm Forestry Fund		(88)	(187)	(88)	(187)
<b>Net cash flows applied to investing activities</b>		<b>(12,125)</b>	<b>(37,361)</b>	<b>(12,125)</b>	<b>(37,361)</b>
<b>Cash flows from financing activities</b>					
<b>Cash was provided by (applied to):</b>					
Proceeds from term borrowings		11,550	30,679	11,550	30,679
Proceeds from share issue		–	17,038	–	17,038
Issue expenses		–	(315)	–	(315)
Repayment of short term borrowings		–	(9,536)	–	(9,536)
<b>Net cash flows from financing activities</b>		<b>11,550</b>	<b>37,866</b>	<b>11,550</b>	<b>37,866</b>
<b>Net increase (decrease) in cash held</b>		<b>(841)</b>	<b>294</b>	<b>(841)</b>	<b>294</b>
Add cash at beginning of year		2,720	2,426	2,720	2,426
<b>Total cash at the end of the year</b>		<b>1,879</b>	<b>2,720</b>	<b>1,879</b>	<b>2,720</b>

The accompanying notes form part of these financial statements.



EVERGREEN FORESTS LIMITED

## STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

For the year ended 30 June 1998

### BASIS OF PREPARATION

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#### REPORTING ENTITY

Evergreen Forests Limited, registered under the New Zealand Companies Act 1993, is listed on the New Zealand Stock Exchange. Evergreen Forests Limited is an issuer for the purposes of the New Zealand Financial Reporting Act 1993. The financial statements are prepared in accordance with the Financial Reporting Act 1993. The financial statements presented are those for Evergreen Forests Limited (the Company) and the Evergreen Forests Group (the Group). The Group consists of the Company and its subsidiary (Evergreen Forests Marketing Limited).

#### MEASUREMENT BASE

The financial statements are prepared on the basis of historical cost.

#### CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies. All policies have been applied on bases consistent with those used in the previous year.

### BASIS OF RECOGNISING COMPONENTS OF THE FINANCIAL STATEMENTS

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The following general accounting policies are adopted:

#### Assets

A transaction results in an asset being recognised in the statement of financial position when it will probably give rise to ongoing benefits for the Company and Group, and those benefits can be measured with reliability.

#### Liabilities

A transaction results in a liability being recognised in the statement of financial position when it will probably give rise to the need for the Company and Group to realise assets in the future, and those realisations can be measured with reliability.

#### Revenue

Revenue is recognised in the statement of financial performance when a transaction gives rise to an increase in the value of the Company's and Group's net assets, and the increase can be measured with reliability.

#### Expenses

An expense is recognised in the statement of financial performance when a transaction results in a decrease in the value of the Company's and Group's net assets, and that decrease can be measured with reliability.

#### Classification of assets and liabilities between current and non-current

An amount is classified as current when it is expected to be settled or extinguished within one year of the date of the financial statements. All other amounts are classified as non-current.

### BASIS OF PREPARING GROUP FINANCIAL STATEMENTS

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#### Subsidiary

The financial statements of the Group consist of Evergreen Forests Limited (the Company) and its wholly owned subsidiary Evergreen Forests Marketing Limited using the purchase method of consolidation.

Evergreen Forests Marketing Limited was formed to conduct the business of marketing and procurement of wood supply.



EVERGREEN FORESTS LIMITED

## STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For the year ended 30 June 1998

### VALUATION OF ASSETS

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#### Property, buildings, plant and other fixed assets

Land is recorded at cost. Buildings, plant and other fixed assets are recorded at cost less depreciation.

#### Forest assets

Forest assets are recorded in the financial statements at the cost of acquisition, plus the cost of development. The basis of accounting for forest assets is as follows:

##### *Production forests*

Production forests are managed on a sustainable yield basis.

- Income from harvesting operations net of direct costs of production is recognised in the statement of financial performance.
- All direct costs including fertiliser, disease control, restocking, weed control, thinning and pruning plus forest maintenance, depreciation on permanent roads and land improvements and administration overheads are expensed through the statement of financial performance.
- At the end of each financial year the impact of harvesting levels on the forest value is measured. Where the measurement identifies that the forest value has fallen below the cost of acquisition and development, the corresponding depletion is recognised as a charge against earnings for the year.

##### *Development forests*

All costs incurred in acquiring and developing additional forests are capitalised until the first substantial harvest. These costs are held as part of the forest asset but all subsequent rotation costs are expensed through the statement of financial performance in the year the costs are incurred.

#### Depreciation

Depreciation is provided on a straight line basis on fixed assets other than forests and freehold land, at rates calculated to allocate the assets' cost less estimated residual value, over their estimated useful lives.

The major classes of fixed assets and estimated useful lives are:

- |                                 |               |
|---------------------------------|---------------|
| • Rooding and land improvements | 5 – 25 years  |
| • Buildings                     | 50 years      |
| • Plant and machinery           | 10 – 25 years |
| • Office equipment              | 5 – 15 years  |

#### Disposal of fixed assets

Where a fixed asset is disposed of, the profit recognised in the statement of financial performance is calculated as the difference between the sale price and the carrying value of the fixed asset adjusted for depreciation.

#### Accounts receivable

Accounts receivable are valued at estimated realisable value, which is considered to be fair value.

#### Investments

Non-current investments are stated at cost, which is considered to be fair value.

### TAXATION

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The tax expense charged against profit for the year is the estimated total liability including both current and deferred tax. Deferred tax is accounted for in respect of those timing differences expected to reverse in the foreseeable future. A deferred tax benefit relating to tax losses is recognised only if there is virtual certainty of realisation.



EVERGREEN FORESTS LIMITED

## **STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*For the year ended 30 June 1998*

### **LEASE COSTS**

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Payments made under operating leases are recognised in the statement of financial performance on a basis representative of the pattern of benefits expected to be derived from the leased asset.

### **FINANCIAL INSTRUMENTS**

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The Company is party to financial instruments with off-balance sheet risk to reduce exposure to fluctuations in interest rates. The Company enters interest rate forward rate agreements to hedge interest rate movement. Any exposure to gains or losses on these contracts is generally offset by a related loss or gain on the item being hedged.

### **EMPLOYEE BENEFITS**

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A liability for annual leave accruing to employees is recognised in the statement of financial position. The liability is stated at the present value of the estimated future cash outflows to be incurred resulting from employees' services provided up to balance date.

### **GRANTS**

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Grants received in respect of the East Coast Forestry Project are recognised in the statement of financial performance only to the extent of any surplus after providing for any additional costs associated with complying with the grant requirements. The surplus is recognised when the requirements under the grant have been met.



EVERGREEN FORESTS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 1998

### 1. OPERATING REVENUE AND EXPENSES *In \$NZ 000's*

	Group		Company	
	1998	1997	1998	1997
<b>Operating revenue includes:</b>				
Forest revenue	274	522	274	522
Interest income	111	360	111	360
Net surplus on sale of assets	206	123	206	123
Net surplus from East Coast Forestry Project grant	–	140	–	140
Sale of forestry rights	–	–	18,750	–
	<b>591</b>	<b>1,145</b>	<b>19,341</b>	<b>1,145</b>
<b>Operating expenses includes:</b>				
Cost of forests sold	–	–	15,863	–
Depreciation on fixed assets	75	38	75	38
Rental expenses	81	102	81	102
Operating lease expenses	43	43	43	43
Amounts paid to auditors:				
• For audit services	17	17	17	17
• Other services	3	41	3	41
Directors fees	112	112	112	112
Other operating expenses	407	994	407	994
	<b>738</b>	<b>1,347</b>	<b>16,601</b>	<b>1,347</b>

During the year the Company sold a Forestry Right at an assessed value of \$18.7 million to Evergreen Forests Marketing Limited, its wholly owned subsidiary. The forests sold had a book value of \$15.9 million generating an intra-Group profit of \$2.8 million.



EVERGREEN FORESTS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 30 June 1998

**2. TAXATION** *In \$NZ 000's*

	Group		Company	
	1998	1997	1998	1997
<b>Income tax expense</b>				
Prima facie income tax expense calculated at 33% (1997: 33%) on the (deficit) surplus before taxation	(48)	(67)	904	(67)
Adjusted for the tax effect of:				
Cost of timber	4,188	(90)	3,236	(90)
Development costs	(2,458)	(1,547)	(2,458)	(1,547)
Permanent differences	–	(196)	–	(196)
Timing differences not recognised	141	1	141	1
Prior year adjustments	(44)	–	(44)	–
Tax losses not recognised/(utilised)	(1,779)	1,899	(1,779)	1,899
	–	–	–	–
<b>Imputation credits</b>				
Balance at beginning of year	–	5	–	5
Income tax refunds	–	(5)	–	(5)
Balance at end of year	–	–	–	–
<b>Tax losses</b>				
Unrecognised tax losses available for set off against future assessable income:				
Tax losses	6,560	11,947	6,560	11,947
Tax savings thereon	2,164	3,943	2,164	3,943

The ability to utilise these tax losses depends on the generation of sufficient assessable income in future years and shareholder continuity.



EVERGREEN FORESTS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 30 June 1998

**3. EQUITY**

Equity comprises 131,434,372 fully paid ordinary shares (1997: 131,434,372).

**Options**

During the year the Company issued a total of 1,065,000 ordinary share options pursuant to the management share option scheme and cancelled 120,000 ordinary share options. The number of options that may be exercised will vary depending on the performance of the Company. The exercise price is \$0.75. The options do not carry dividend or voting rights, or rights to attend meetings of the Company. Entitlements to bonus and rights issue accumulate during the option period. The number of options on issue at 30 June is as follows:

	Group		Company	
	1998	1997	1998	1997
<b>Number of options (In 000's)</b>				
Balance at beginning of year	1,350	600	1,350	600
Issued during the year	1,065	900	1,065	900
Cancelled during the year	(120)	(150)	(120)	(150)
Balance at end of year	2,295	1,350	2,295	1,350
<b>Exercise period (In 000's)</b>				
30 June 1998 to 30 June 2000	525	525	525	525
30 June 1999 to 30 June 2001	780	825	780	825
30 June 2000 to 30 June 2002	990	–	990	–
Balance at end of year	2,295	1,350	2,295	1,350

**4. NON CURRENT LIABILITIES In \$NZ 000's**

Borrowings	46,956	31,974	46,956	31,974
Less current portion	–	–	–	–
Term borrowings	46,956	31,974	46,956	31,974

The borrowings are secured by way of a debenture trust deed over the assets of the Company and its subsidiary.

The Company has a compounding interest facility agreement with Westpac Banking Corporation to a maximum level of \$56 million (including capitalised interest). The undrawn portion at year end was \$3.6 million. Interest only payments commence on 1 August 1999. Principal repayments are due 31 December 2001.

The interest rate is fixed for the period of compounding interest. The average fixed interest rate is 8.67%. The term borrowings are repayable as follows:

Later than one, not later than two years	–	–	–	–
Later than two, not later than five years	46,956	31,974	46,956	31,974
	46,956	31,974	46,956	31,974



EVERGREEN FORESTS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 30 June 1998

**5. CREDITORS AND ACCRUALS** *In \$NZ 000's*

	Group		Company	
	1998	1997	1998	1997
Creditors and accruals	423	678	423	678
Employee benefits	11	9	11	9
Settlement of forest acquisition	–	8,380	–	8,380
	<b>434</b>	<b>9,067</b>	<b>434</b>	<b>9,067</b>

**6. LAND AND FORESTS** *In \$NZ 000's*

**Freehold land**

At cost	24,247	24,180	24,247	24,180
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**Roading and land improvements**

At cost	2,635	2,537	2,635	2,537
Accumulated depreciation	477	199	477	199
	<b>2,158</b>	<b>2,338</b>	<b>2,158</b>	<b>2,338</b>

**Forests**

At beginning of year	101,512	62,646	101,512	62,646
Development costs capitalised during the year	3,961	3,391	3,961	3,391
Interest costs capitalised during the year	3,487	1,295	3,487	1,295
Forests acquired/(sold) during the year	–	34,274	(15,863)	34,274
Amortisation of prepaid rental costs	(70)	(94)	(70)	(94)
At end of year (at cost)	<b>108,890</b>	<b>101,512</b>	<b>93,027</b>	<b>101,512</b>
<b>Total land and forest assets</b>	<b>135,295</b>	<b>128,030</b>	<b>119,432</b>	<b>128,030</b>

Based on the most recent government valuations, the value of land and improvements is \$26,044,00. Valuation dates range from 1 September 1995 to 1 September 1997. Details of the latest independent valuation of forests is shown on page 10.

Comprehensive forest fire insurance is carried for all forests, with a first loss cover of \$10 million for wind damage.



EVERGREEN FORESTS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 30 June 1998

**7. FIXED ASSETS** *In \$NZ 000's*

	Group		Company	
	1998	1997	1998	1997
<b>Buildings</b>				
At cost	519	759	519	759
Accumulated depreciation	191	254	191	254
	<b>328</b>	<b>505</b>	<b>328</b>	<b>505</b>
<b>Plant and machinery</b>				
At cost	98	56	98	56
Accumulated depreciation	33	20	33	20
	<b>65</b>	<b>36</b>	<b>65</b>	<b>36</b>
<b>Office equipment</b>				
At cost	73	75	73	75
Accumulated depreciation	43	34	43	34
	<b>30</b>	<b>41</b>	<b>30</b>	<b>41</b>
Total fixed assets	<b>423</b>	<b>582</b>	<b>423</b>	<b>582</b>

**8. INVESTMENTS** *In \$NZ 000's*

Nuhaka Farm Forestry Fund (market value at 30 June 1998 \$2,963,939)	5,433	5,345	5,433	5,345
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During the year the Company acquired further units in the Nuhaka Farm Forestry Fund, a group investment fund listed on the New Zealand Stock Exchange. The total holding at 30 June was 18.55%, represented by 328,961 units (1997: 18.04%; 319,861 units).

During the year the Company formed a wholly owned subsidiary Evergreen Forests Marketing Limited (with fully paid up capital of \$100) to conduct the business of marketing and procurement of wood supply. Its balance date is 30 June.

**9. RECEIVABLES AND PREPAYMENTS** *In \$NZ 000's*

Loan to wholly owned subsidiary	–	–	18,750	–
Receivables and prepayments	550	701	550	701
	<b>550</b>	<b>701</b>	<b>19,300</b>	<b>701</b>



EVERGREEN FORESTS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 30 June 1998

**10. NET CASH FLOW FROM OPERATING ACTIVITIES** *In \$NZ 000's*

The following is a reconciliation between the surplus (deficit) after taxation shown in the statement of financial performance and the net cash flow from operating activities.

	Group		Company	
	1998	1997	1998	1997
Operating surplus (deficit) after tax	(147)	(202)	2,740	(202)
<b>Less items classified as investing activities:</b>				
Gain on sale of assets	(206)	(123)	(206)	(123)
<b>Add/(less) non-cash items:</b>				
Depreciation	75	38	75	38
Amortisation of prepaid rent	70	94	70	94
Gain on sale of forestry right to wholly owned subsidiary	–	–	(2,887)	–
<b>Add/(less) movements in working capital:</b>				
Accounts receivable	(76)	(35)	(76)	(35)
Accounts payable	18	17	18	17
<b>Net cash provided by operating activities</b>	<b>(266)</b>	<b>(211)</b>	<b>(266)</b>	<b>(211)</b>

**11. RELATED PARTIES**

The Company contracted with Macquarie New Zealand Limited which is associated with a director (J. K. McLay) for corporate banking consulting services. All transactions were at normal commercial rates and amounted to \$11,000 during the year.

**Intra-Group transactions**

During the year the Company sold a Forestry Right at an assessed value of \$18.7 million to its wholly owned subsidiary Evergreen Forests Marketing Limited. This transaction was financed by an intercompany loan.

There have been no other significant related party transactions during the year. No related party debts have been written off or forgiven during the year.

**12. FINANCIAL INSTRUMENTS**

Exposure to currency, interest rate and credit risk arises in the normal course of the Company's business. Off-balance sheet instruments are available to be used as a means of reducing exposure to fluctuations in interest rates. While these financial instruments are subject to the risk of market rates changing subsequent to acquisition, such changes would generally be offset by opposite effects on the items hedged. No such instruments were outstanding at balance date.

**Currency risk**

The Company does not incur any direct currency risk.

**Interest rate risk**

The borrowings of the Company as set out in note 4 are sensitive to changes in interest rates. The effective interest rate over the year on borrowing's was 8.3% (1997 8.8%).



EVERGREEN FORESTS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the year ended 30 June 1998

**12. FINANCIAL INSTRUMENTS (CONTINUED)**

**Credit risk**

Financial instruments which potentially subject the Company to credit risk principally consist of bank balances and receivables. Funds are deposited with registered banks.

At balance date there were no significant concentrations of credit risk.

The maximum exposure to credit risk is represented by the carrying value of each financial asset in the statement of financial position.

**Fair values**

The carrying amount is considered to be the fair value of each class of the following financial instruments: bank balances, receivables, borrowings and creditors.

**13. COMMITMENTS** *In \$NZ 000's*

	Group		Company	
	1998	1997	1998	1997
Non-cancellable operating lease rentals are payable as follows:				
Not later than one year	34	43	34	43
Later than one, but not later than two years	61	34	61	34
Later than two, but not later than five years	77	138	77	138
Later than five years	–	–	–	–
	<b>172</b>	<b>215</b>	<b>172</b>	<b>215</b>
Commitments under forestry right arrangements – per annum	11	8	11	8

The Company has entered into certain purchase and sale agreements for property which are waiting on the necessary regulatory approvals amounting to net proceeds of \$640,000.

**14. OTHER MATTERS**

The Company operates only in the forestry industry and all operations are carried out within New Zealand. No capital commitments or contingencies exist at balance date.



EVERGREEN FORESTS LIMITED

## STATUTORY INFORMATION

For the year ended 30 June 1998

### Directors' interests

The following directors have declared that they are to be regarded as having an interest in any contract that may be made with the entities listed below by virtue of their membership or directorship of those entities:

Director	Entity
P. D. Wilson	WestpacTrust, advisory board member. Health Care Hawkes Bay Limited, director. Port of Napier Limited, director. Health Benefits Limited, director.
R. G. V. Dyce	Crown Forestry Management Limited, secretary. Tarawera Forests Limited, alternate director.
W. J. Falconer	Accident Rehabilitation & Compensation Insurance Corp, director. Hellaby Holdings Limited, director. St Lukes Group Limited, director. Westgate Transport Limited, director. Opera New Zealand Limited, director. Restaurant Brands Limited, director. Environmental Risk Management Authority, member.
S. N. Hurley	The Xylem Group, Inc., director and partner. Xylem Investments, Inc., director and partner. Xylem Fund I, L.P., shareholder. Xylem Fund II, L.P., shareholder. Resource Investment Advisors, Inc., partner. Forestal Tornagaleones S.A. (Chile), director. Forestal Argentina, S.A., director. Britannic Group PLC, director. Plantaciones Forestales Plantasol, C.A, director. Industrias Forestales Inforsa, C.A, director. Transporte Solyeste, C.A, director. Procesadora de Maderas Soledad Promaso, C.A, director. Productora de Pilpas Soledad Propulso, C.A, director.
J. K. McLay	J.K. McLay Limited, director. RiskCorp New Zealand Limited, director. Omniport Napier Limited, director. Macquarie New Zealand Limited, director. Motor Sport New Zealand Limited, director. Tip Top Ice Cream Company Limited, alternate director.
J. O. Parker	Xylem Investments, Inc., partner. Xylem Fund I, L.P., shareholder. Xylem Fund II, L.P., shareholder. Forestal Tornagaleones S.A. (Chile), alternate director. Forestal Argentina S.A., director. Britannic Group PLC, director. Plantaciones Forestales Plantasol, C.A, director. Industrias Forestales Inforsa, C.A, director. Transporte Solyeste, C.A, director. Procesadora de Maderas Soledad Promaso, C.A, director. Productora de Pilpas Soledad Propulso, C.A, director.

### Disclosure of interests by directors

Since the date of the last report the following are particulars of transactions in which a director has an interest (as that term is defined in section 139 of the Companies Act 1993):

Director	Nature of interest
J. K. McLay	Director of Macquarie New Zealand Limited which provides corporate financing advice to the Company.

### Share dealings by directors

The following dealings by directors in shares of the Company were disclosed to the board:

Director	Number of shares acquired (disposed)	Class of shares	Consideration paid (received)	Date of acquisition or disposal
W. J. Falconer	25,000	Ordinary	\$14,250	11 August 1997
W. J. Falconer	25,000	Ordinary	\$15,000	27 August 1997
W. J. Falconer	13,000	Ordinary	\$7,930	24 September 1997
W. J. Falconer	2,000	Ordinary	\$1,220	25 September 1997
R.G.V. Dyce	10,000	Ordinary	\$3,860	20 April 1998

### Remuneration of directors

The following remuneration was paid to directors for time based services to the Company in the year ended 30 June 1998:

P. D. Wilson	\$25,000	(for management services provided in a personal capacity)
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EVERGREEN FORESTS LIMITED

**STATUTORY INFORMATION (CONTINUED)**

For the year ended 30 June 1998

**Directors' remuneration**

Directors' fees totalling \$87,500 were paid in the year ended 30 June 1998 as follows:

P. D. Wilson	35,000	S. N. Hurley	–
R. G. V. Dyce	17,500	J. K. McLay	17,500
W. J. Falconer	17,500	J. O. Parker	–

Directors are reimbursed all travelling, accommodation and other expenses properly incurred by them in connection with the business of the Company.

**Directors' indemnity and insurance**

In accordance with the Company's constitution, the Company may grant indemnities and effect insurance for directors and employees to the extent permitted by the Companies Act 1993. The Company has granted indemnities to directors in respect of costs and liabilities arising from acts or omissions in their capacity as directors, and has effected directors and officers' liability insurance to cover risks normally covered by such policies arising out of acts and omissions of directors and officers in their capacity as such.

**Options**

During the year the Company issued a total of 1,065,000 ordinary share options and cancelled 120,000 ordinary share options pursuant to the Company's management share option scheme to certain senior executives and the chairman, P. D. Wilson, as follows:–

Chairman	240,000
Senior executives	825,000

The number of options that may be exercised will vary depending on the performance of the Company. The exercise price is \$0.75. The options do not carry dividend or voting rights, or rights to attend meetings of the Company. Entitlements to bonus and rights issue accumulate during the option period.

**Information used by directors**

During the year the Board received no notices from directors of the Company requesting to use Company information received in their capacity as directors which would not otherwise have been available to them.

**Executive employees' remuneration**

During the year the number of employees or former employees of the Company who received remuneration and other benefits in their capacity as employees, the value of which was or exceeded \$100,000 per annum was as follows:

Remuneration (including share options):	Number of employees
\$100,000 – \$110,000	1
\$200,000 – \$210,000	1

**Auditors' remuneration**

During the year the following amounts were payable to the auditors of the Company:

<i>In \$NZ 000's</i>	1998	1997
Audit	17	17
Taxation	3	15
Other services	–	26

**Donations**

During the year the Company made donations to Westpac Rescue Helicopter of \$500 and 'UBY's' Road Safety Programme of \$295.



This statement gives readers an overview of the Company’s main corporate governance practices.

**Role of the Board of Directors**

The directors are responsible for the proper direction and control of the Company’s activities. This responsibility includes such areas of stewardship as the identification and control of the Company’s business risks, the integrity of management information systems and reporting to shareholders.

**Board committees**

The Board has a formally constituted Audit Committee and Executive Committee.

The role of the Audit Committee is to review the Company’s financial statements and announcements, to liaise with the external auditors on behalf of the board of directors and to review the Company’s accounting policies, internal controls and related matters.

The role of the Executive Committee is to review business proposals, monthly management information and the remuneration of the Company’s senior executives, and make recommendations thereon to the Board.

**Legislative compliance**

The Board has policies in place requiring the quarterly reporting of legislative compliance. This includes compliance with securities, environmental, resource management and human resources related legislation.

**Meeting attendance**

During the year there have been five Board meetings, two Audit Committee meetings and six Executive Committee meetings. The table of attendance for these meetings is shown below:

	Board		Audit Committee		Executive Committee	
	Held	Attended	Held	Attended	Held	Attended
P. D. Wilson	5	5	*	*	6	6
R. G. V. Dyce	5	5	2	2	*	*
S. N. Hurley	5	3	*	*	6	6
J. O. Parker	5	4	*	*	6	6
J. K. McLay	5	5	*	*	*	*
W. J. Falconer	5	5	2	2	*	*

\* Not a committee member.



## SHAREHOLDER INFORMATION

### DIRECTORS' SHAREHOLDING

	As at 30 June 1998		As at 30 June 1997	
	Beneficially held	Held by associated persons	Beneficially held	Held by associated persons
P. D. Wilson	60,000	15,000	60,000	15,000
R. G. V. Dyce	30,000	–	20,000	–
W. J. Falconer	85,000	–	20,000	–
S. N. Hurley*	–	607,938	–	–
J. K. McLay	8,000	–	8,000	–
J. O. Parker*	–	607,938	–	–

\* S. N. Hurley and J. O. Parker are owners and officers of Xylem Investments Inc., which is the sole owner of Xylem Investments, G.P., Inc. Xylem Investments, G.P., Inc. holds a 1% interest in Xylem Fund I, L.P., representing 607,938 Evergreen Forests Limited ordinary shares.

### TWENTY LARGEST SHAREHOLDERS

As at 14 August 1998

	Shares	Per cent
ANZ Nominees Limited	67,670,827	51.49
National Nominees New Zealand Limited	17,684,761	13.46
La Grouw Corporation Limited	6,022,000	4.58
Hendry Nominees Limited	5,869,700	4.47
Palliser Nominees Limited	4,316,600	3.28
Ingalls & Snyder LLC	2,000,000	1.52
Sterling Nominees Limited	1,290,500	0.98
Citibank Nominees (New Zealand) Limited	968,501	0.74
Pakihi Investments Limited	700,000	0.53
Hambrech & Quist Guaranty Finance	611,000	0.46
Daniel H Case	500,000	0.38
Chiu-Hing Chan	424,400	0.32
Westpac Nominees – NZ – Limited	405,000	0.31
David Blair Limited	387,356	0.29
Clement Elliott Lawford	300,000	0.23
The Trustees Executors and Agency Company of New Zealand Ltd	300,000	0.23
Wai Chun So	300,000	0.23
Mark Stafford Bogle	200,000	0.15
Donald M Campbell	198,800	0.15
David Dove Family Trust	180,000	0.14
<b>Total</b>	<b>110,329,445</b>	<b>83.94</b>



## SHAREHOLDER INFORMATION (CONTINUED)

### SUBSTANTIAL SECURITY HOLDERS

The following information is given pursuant to Section 26 of the Securities Amendment Act 1988:

The following were registered by the Company as at 14 August 1998 as Substantial Security Holders, having declared the following relevant interest in voting securities in terms of section 25 of the Securities Amendment Act 1988:

Name	Number
Xylem Fund I, L.P. (Registered in the name of the nominee Company, ANZ Nominees Limited)	60,793,827 ords
Société Générale Asset Management Corp (Registered in the name of the nominee Company, National Nominees New Zealand Limited)	16,953,338 ords

As at 14 August 1998, the Company had on issue 131,434,372 voting securities (as defined by the Securities Amendment Act 1988) being fully paid ordinary shares.

### SPREAD OF SHAREHOLDING BY SIZE

As at 14 August 1998

Size of holding	No. of shareholders	% holders	No. of shares	% holding
1 to 999	144	5.92%	61,382	0.05%
1,000 to 4,999	1,060	43.57%	2,515,033	1.92%
5,000 to 9,999	511	21.00%	3,000,695	2.28%
10,000 to 49,999	629	25.85%	9,998,709	7.61%
50,000 to 99,999	46	1.89%	2,913,029	2.22%
100,000 to 499,999	34	1.40%	5,924,535	4.51%
500,000 to 999,999	3	0.12%	1,811,000	1.38%
1,000,000 and over	6	0.25%	105,209,989	80.03%
<b>Total</b>	<b>2,433</b>	<b>100.0%</b>	<b>131,434,372</b>	<b>100.00%</b>