



investing in the forests of the future

REPORT FOR THE SIX MONTHS ENDED 31 DECEMBER 1999



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Evergreen Forests Limited is a pure play, plantation forestry investment company, with no downstream processing. Evergreen's objective is to provide superior shareholder returns through a progressive listed company managing a portfolio of high quality radiata plantation forestry assets that meet clearly defined investment criteria. Harvesting commenced in the company's Northland forests in September 1998.

As at 31 December 1999, it owns or has cutting rights over 21,100 net stocked hectares (52,000 acres) planted in fast-growing radiata pine. The company is run by a small Auckland-based executive team. Forest development, harvesting and marketing are managed by specialists on contract.

Evergreen is a public company with 2,400 shareholders listed on both the Australian and the New Zealand Stock Exchanges. The code of the ordinary shares is EVF and the code of the ten-year zero coupon convertible notes is EVFGA (EVFG on the Australian Stock Exchange). The company is also traded in the USA by way of a sponsored Level 1 American Depositary Receipt (ADR) programme (issuer code: EVFSY).

- Evergreen recorded a six month operating surplus of \$2.107 million, compared with \$0.890 million for the corresponding period last year.
- Evergreen harvested 63,817 m³ of timber in the six months to 31 December 1999, compared with 82,337 m³ in the full year ended 30 June 1999.

Growth

- Evergreen purchased 3,204 stocked hectares of established East Coast forests in late 1999. These mid-rotation forests are synergistic with the existing estate in terms of age class profile, and complementary in terms of location. East Coast holdings are now 9,531 stocked hectares.

Market Development

- Evergreen has been directly involved in the development of an export market for high quality pruned logs to Korea.
- In February 2000 Evergreen invested in a forestry marketing subsidiary, Forestry New Zealand Limited. The intention is to both maximise the value recovered from the existing estate and create a secondary income stream trading third-party resource.

Report to Shareholders

Dear Shareholder

Evergreen is pleased to report another half year of improving profits generated by a moderate increase in our harvesting volumes. In addition we have made steady progress towards our growth objectives through our recent acquisition. This has increased the size of our stocked estate by over one sixth.

Over the last six months, log demand has stabilised at levels at which the company can achieve continued profit growth. Prices are still below historical trend levels for many log grades, but the company has received satisfactory returns by providing a targeted source of wood to both domestic customers and overseas markets.

The market outlook in a number of Asian economies has improved and we are now well placed to step up production, should log prices increase (see harvest profile graphs on pages 4 and 5).

The company is keen to proactively seek markets for its wood, and the establishment of a subsidiary procurement and marketing venture is a logical business progression.



Peter Wilson
Chairman



Mark Bogle
Chief Executive

Operating Result

A surplus of \$2.1 million was recorded for the six month period ended 31 December 1999. This surplus is in line with expectations, and is considerably higher than the corresponding period last year.

Financial Outlook

The Board expects to record another satisfactory result on similar volume for the next six months, if log prices remain at current levels.

FINANCIAL SUMMARY

| | 6 MONTHS ENDED 31 DEC 99 UN-AUDITED | 6 MONTHS ENDED 31 DEC 98 UN-AUDITED | 12 MONTHS ENDED 30 JUN 99 AUDITED |
|-------------------------------------------------------|-------------------------------------------|-------------------------------------------|-----------------------------------------|
| Operating revenue | 5,973 | 2,393 | 8,811 |
| Net operating surplus | 2,107 | 890 | 3,091 |
| Equity | 101,388 | 97,080 | 99,281 |
| Shares on issue (number in 000's) | 131,434 | 131,434 | 131,434 |
| Convertible notes on issue (number in 000's) | 28,500 | – | 22,380 |
| Land at cost | 27,090 | 24,247 | 24,082 |
| Forest at cost | 137,034 | 112,163 | 116,063 |
| Net asset backing per share at historical cost | \$0.77 | \$0.74 | \$0.76 |

Acquisition and Growth

In October last year, the company acquired 3,204 stocked hectares of established forests for \$20.93 million from Carter Holt Harvey Forests Limited. The harvest profile of the acquisition complements the company's existing estate (see harvest profile graph

on page 4), and our East Coast holdings are now 9,531 stocked hectares.

Harvesting of these new forests is expected to begin in about five years. The purchase incorporates flexible funding provisions (mainly five-year, zero coupon vendor finance on normal commercial terms).

LAND AND FOREST HOLDINGS

Net stocked area as at 31 December 1999

NORTHLAND 5,849 HA

SOUTH AUCKLAND 3,923 HA

EAST COAST 9,531 HA

WEST COAST 1,843 HA

**LAND AND FOREST HOLDINGS**

| AS AT 31 DECEMBER 1999, IN HECTARES | LEGAL AREA | PLANTABLE AREA | NET STOCKED AREA |
|-------------------------------------|---------------|-------------------|---------------------|
| Owned land | | | |
| Northland | 7,257 | 6,158 | 5,849 |
| South Auckland | 5,577 | 3,927 | 3,923 |
| East Coast | 13,359 | 9,531 | 9,531 |
| Total owned | 26,193 | 19,616 | 19,303 |
| Forestry rights | | | |
| West Coast | 2,326 | 2,106 | 1,843 |
| Total all properties | 28,519 | 21,722 | 21,146 |

Harvesting and Marketing

Evergreen has been directly involved in the development of an export market for high quality pruned logs to Korea. Previously, the New Zealand forest industry mainly supplied the Asian region with lower value industrial grade logs. However, as the supply of tropical hardwood from natural forests continues to decrease, Asian sawmills and manufacturers have switched to using alternative species of wood, such as radiata pine, for their premium products. It is particularly encouraging to note the growing acceptance of New Zealand radiata pine in Korean plywood and furniture manufacturing industries.

The largest export destination for Evergreen sawlogs is Korea, with India and the Philippines being significant markets. Japan is the destination for the company's pulp logs (which are exported as wood chips).

The company continues to maintain a strong focus on market development, and in February 2000 announced an investment in a procurement and marketing subsidiary called Forestry New Zealand Limited.

The new venture enables the company to leverage off its independent, uncommitted resource in order to access new customers, broaden the range of markets we supply and strengthen our existing customer relationships. It provides Evergreen with a secondary income stream from log trading activities, and also brings additional log marketing expertise to the company.

Capital and Board Structure

During the half year, the company raised \$6.4 million through the placement of a further 6.1 million convertible notes to mainly U.S. institutional and accredited investors. The notes have the same terms and conditions as the notes issued in the offer to

shareholders of ten-year zero coupon convertible notes in early 1999. There are now 131.4 million ordinary shares and 28.5 million convertible notes on issue.

At our Annual General Meeting in October 1999, Robbie Dyce, a founding director of the company, retired. Subsequently, John Parker, formerly Senior Vice President at Xylem Investments, Inc., left Xylem and has resigned from the Board. We would like to thank both Robbie and John for their contribution to the company.

In December 1999 the Board appointed Roy McCluskey, Vice President of Investments at Xylem Investments, Inc., as a director. Mr. McCluskey has an AB Economics from Stanford University, and brings investment analysis and strategic consulting experience to the Board.

Outlook

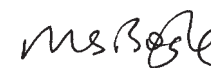
The acquisition of the forest properties on the East Coast represents another significant step forward

for Evergreen. It is consistent with our commitment to grow the company in a way which enhances the existing estate in terms of value, geographic location and age class profile.

At a wider level, recovery in both the domestic economy and the main export markets for New Zealand wood products is continuing. New Zealand radiata pine is a versatile, environmentally-friendly product that can command attractive prices for wood grades of high quality. Your Board is committed to growing and marketing quality wood products and will continue to invest to achieve this goal.



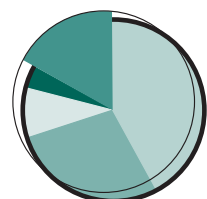
Peter D. Wilson
Chairman
29 February 2000



Mark S. Bogle
Chief Executive

FINAL DESTINATION OF EVERGREEN WOOD

By volume



| | |
|------------------------|-----|
| Korea | 42% |
| India | 28% |
| Domestic | 9% |
| Philippines | 4% |
| Japan (pulp logs only) | 17% |

Source: Actual, six months ended 31 December 1999.

HARVEST PROFILE (CLEARFALL VOLUME) 1999–2020

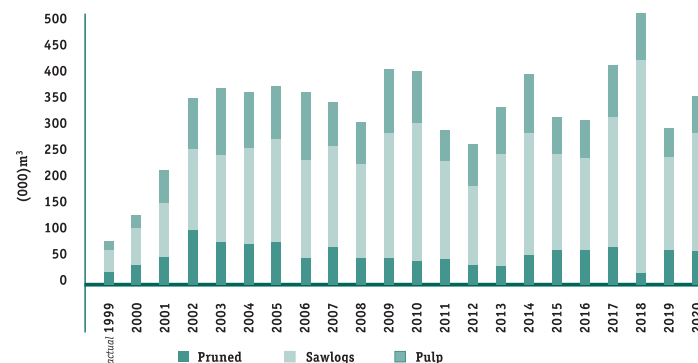
Years ended 30 June



Source: 1999 valuation reports plus company estimates for October 1999 East Coast acquisition. Figures include share of Nuhaka harvest.

HARVEST PROFILE (CLEARFALL VOLUME) 1999–2020

Years ended 30 June



Source: 1999 valuation reports plus company estimates for October 1999 East Coast acquisition. Figures include share of Nuhaka harvest.

Statements of Financial Performance

For the periods ended

| IN \$NZ 000'S | NOTES | GROUP | | |
|---------------------------------------|-------|--------------------------------|--------------------------------|-----------------------------|
| | | 31 DECEMBER 1999 (6 MONTHS) | 31 DECEMBER 1998 (6 MONTHS) | 30 JUNE 1999 (12 MONTHS) |
| CONTINUING ACTIVITIES | | | | |
| Operating revenue | 3 | 5,973 | 2,393 | 8,811 |
| Operating expenses | 3 | (3,866) | (1,503) | (5,720) |
| Net operating surplus before taxation | | 2,107 | 890 | 3,091 |
| Taxation | | - | - | - |
| Net surplus for the period | | 2,107 | 890 | 3,091 |

Statements of Movements In Equity

For the periods ended

| IN \$NZ 000'S | 31 DECEMBER 1999 (6 MONTHS) | 31 DECEMBER 1998 (6 MONTHS) | 30 JUNE 1999 (12 MONTHS) |
|--------------------------------------------------------------------|--------------------------------|--------------------------------|-----------------------------|
| | | | |
| Equity at the beginning of the period | 99,281 | 96,190 | 96,190 |
| Total recognised revenue and expenses for the period – net surplus | 2,107 | 890 | 3,091 |
| Equity at end of the period | 101,388 | 97,080 | 99,281 |

Statements of Financial Position

As at

| IN \$NZ 000'S | NOTES | GROUP | | |
|----------------------------------------|-------|--------------------------------|--------------------------------|-----------------------------|
| | | 31 DECEMBER 1999 (6 MONTHS) | 31 DECEMBER 1998 (6 MONTHS) | 30 JUNE 1999 (12 MONTHS) |
| EQUITY | | | | |
| Share capital | 4 | 97,254 | 97,254 | 97,254 |
| Retained earnings | | 4,134 | (174) | 2,027 |
| | | 101,388 | 97,080 | 99,281 |
| CONVERTIBLE NOTES | | | | |
| Ten-year zero coupon convertible notes | 5 | 28,957 | - | 21,723 |
| NON CURRENT LIABILITIES | | | | |
| Borrowings | 6 | 47,856 | 49,025 | 30,126 |
| CURRENT LIABILITIES | | | | |
| Creditors and accruals | | 1,166 | 404 | 1,535 |
| Total liabilities and equity | | 179,367 | 146,509 | 152,665 |
| NON CURRENT ASSETS | | | | |
| Land | | 27,090 | 24,247 | 24,082 |
| Roading and land improvements | | 2,181 | 2,208 | 2,232 |
| Forests | 7 | 137,034 | 112,163 | 116,063 |
| Fixed assets | | 338 | 356 | 321 |
| Investments | 8 | 6,563 | 5,678 | 5,880 |
| Advances | | 442 | - | 469 |
| | | 173,648 | 144,652 | 149,047 |
| CURRENT ASSETS | | | | |
| Cash and short-term deposits | | 4,467 | 1,284 | 2,348 |
| Receivables and prepayments | | 1,252 | 573 | 1,270 |
| | | 5,719 | 1,857 | 3,618 |
| Total assets | | 179,367 | 146,509 | 152,665 |

Statements of Cash Flows

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For the periods ended

| IN \$NZ 000'S | NOTES | GROUP | | |
|-------------------------------------------------------|-------|--------------------------------|--------------------------------|-----------------------------|
| | | 31 DECEMBER 1999 (6 MONTHS) | 31 DECEMBER 1998 (6 MONTHS) | 30 JUNE 1999 (12 MONTHS) |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Cash was provided by (applied to): | | | | |
| Receipts from customers | | 6,616 | 2,258 | 7,492 |
| Payments to suppliers and employees | | (4,526) | (1,559) | (4,130) |
| Interest received | | 32 | 34 | 76 |
| Net goods & services tax | | (278) | 119 | (17) |
| Net cash flows from operating activities | 9 | 1,844 | 852 | 3,421 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Cash was provided by (applied to): | | | | |
| Proceeds from sale of assets | | – | 283 | 467 |
| Acquisition of fixed assets | | (126) | (220) | (403) |
| Interest paid – capitalised | | (25) | – | – |
| Acquisition and development of forests | | (22,228) | (1,107) | (2,141) |
| Acquisition of units in Nuhaka Farm | | – | – | – |
| Forestry Fund | | (683) | (244) | (447) |
| Loans & advances | | 40 | – | (469) |
| Net cash flows applied to investing activities | | (23,022) | (1,288) | (2,993) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Cash was provided by (applied to): | | | | |
| Proceeds from term borrowings | | 16,933 | – | – |
| Proceeds from convertible note issue | | 6,429 | – | 22,380 |
| Issue costs | | (65) | (159) | (1,120) |
| Repayment of term borrowings | | – | – | (21,219) |
| Net cash flows from financing activities | | 23,297 | (159) | 41 |
| NET INCREASE (DECREASE) IN CASH HELD | | 2,119 | (595) | 469 |
| Add cash at beginning of period | | 2,348 | 1,879 | 1,879 |
| Total cash at the end of the period | | 4,467 | 1,284 | 2,348 |

Notes to the Financial Statements

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For the period ended 31 December 1999

1 STATEMENT OF ACCOUNTING POLICIES

The accounting policies used for the six months ended 31 December 1999 are consistent with those used in the published half year financial statements for the six months ended 31 December 1998 and the published annual financial statements for the year ended 30 June 1999.

2 AUDIT

Figures for the six months ended 31 December 1999 and 31 December 1998 are unaudited. Figures for the twelve months ended 30 June 1999 have been extracted from audited financial statements.

| IN \$NZ 000'S | NOTES | GROUP | | |
|-----------------------------------------|-------|--------------------------------|--------------------------------|-----------------------------|
| | | 31 DECEMBER 1999 (6 MONTHS) | 31 DECEMBER 1998 (6 MONTHS) | 30 JUNE 1999 (12 MONTHS) |
| 3 OPERATING REVENUE AND EXPENSES | | | | |
| Operating revenue includes: | | | | |
| Forest revenue | | 5,836 | 2,284 | 8,539 |
| Interest income | | 107 | 34 | 76 |
| Net surplus on sale of assets | | – | 43 | 139 |
| Other revenue | | 30 | 32 | 57 |
| | | 5,973 | 2,393 | 8,811 |
| Operating expenses includes: | | | | |
| Depreciation on assets | | 70 | 41 | 112 |
| Rental expenses | | 35 | 43 | 160 |
| Operating lease expenses | | 27 | 17 | 39 |
| Other operating expenses | | 3,734 | 1,402 | 5,409 |
| | | 3,866 | 1,503 | 5,720 |

4 EQUITY

During the period the company issued a total of 1,905,000 ordinary share options pursuant to the executive share option scheme. The number of options that may be exercised will vary depending on the performance of the company. 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.

Notes to the Financial Statements

For the period ended 31 December 1999

| IN \$NZ 000'S | NOTES | GROUP | | |
|-------------------------------------|-------|--------------------------------|--------------------------------|-----------------------------|
| | | 31 DECEMBER 1999 (6 MONTHS) | 31 DECEMBER 1998 (6 MONTHS) | 30 JUNE 1999 (12 MONTHS) |
| 5 CONVERTIBLE NOTES | | | | |
| Notes at \$1.00 | | 28,500 | – | 22,380 |
| Interest accrued at 7.18% | | 1,609 | – | 453 |
| Convertible value of notes on issue | | 30,109 | – | 22,833 |
| Issue costs – net of amortisation | | (1,152) | – | (1,110) |
| | | 28,957 | – | 21,723 |

The Ten-Year Zero Coupon Convertible Notes are secured by a second ranking floating charge and accrue interest at the rate of 7.18% per annum. Each convertible note is redeemable in cash after ten years (19 March 2009) for \$2.00 each. Noteholders can elect to convert the notes (principal plus accrued interest less any withholding taxes) into shares at any time prior to redemption at a fixed conversion price of \$0.55. Noteholders may reimburse the Company for withholding taxes, enabling the noteholders to obtain full conversion. The Company has the right to give twenty days notice of early redemption at any time, if after 19 March 2002 the share price is above \$1.10.

The notes are constituted under a trust deed dated 2 February 1999. Incorporated in this Trust Deed are a number of covenants including the following summarised covenants:

- The Company will not allow total secured liabilities (which includes the convertible notes, but based on a sliding scale if the ordinary share price is greater than \$0.55) to exceed 60% of freehold land plus 40% of forestry assets.
- The Company will not allow its secured liabilities falling due for payment within 12, 24 and 36 months to exceed the value of its forest trees which are, respectively, at least 25, 24 and 23 years of age.

The notes do not carry voting rights in the meetings of shareholders.

Notes to the Financial Statements

For the period ended 31 December 1999

| IN \$NZ 000'S | NOTES | GROUP | | |
|----------------------------------|-------|--------------------------------|--------------------------------|-----------------------------|
| | | 31 DECEMBER 1999 (6 MONTHS) | 31 DECEMBER 1998 (6 MONTHS) | 30 JUNE 1999 (12 MONTHS) |
| 6 NON CURRENT LIABILITIES | | | | |
| Bank | | 32,900 | 49,025 | 30,126 |
| Other | | 14,956 | – | – |
| Term borrowings | | 47,856 | 49,025 | 30,126 |

Bank Borrowings

The bank borrowings are secured by way of a debenture trust deed over the assets of the company and its subsidiaries. The company has a facility agreement with Westpac Banking Corporation to a maximum level of \$44.9 million. Interest capitalisation ceased in December 1999. The interest rate at 31 December 1999 was 6.4%. The Company has a quarterly interest rate cap of 6.4% for \$30 million expiring on 30 June 2000.

Other Borrowings

Vendor finance was obtained for the purchase of two forest properties, during the period. These borrowings are secured by a first mortgage over the properties. Interest is capitalised for five years at 6.25%.

The term borrowings are repayable as follows:

| | | | |
|-------------------------------------------|---------------|--------|--------|
| Later than one, not later than two years | – | – | – |
| Later than two, not later than five years | 47,856 | 49,025 | 30,126 |
| | 47,856 | 49,025 | 30,126 |

Notes to the Financial Statements

For the period ended 31 December 1999

| IN \$NZ 000'S | NOTES | GROUP | | |
|-------------------------------------------------|-------|--------------------------------|--------------------------------|-----------------------------|
| | | 31 DECEMBER 1999 (6 MONTHS) | 31 DECEMBER 1998 (6 MONTHS) | 30 JUNE 1999 (12 MONTHS) |
| 7 FORESTS | | | | |
| At beginning of period | | 116,063 | 108,890 | 108,890 |
| Development costs capitalised during the period | | 1,177 | 1,229 | 2,483 |
| Interest costs capitalised during the period | | 1,813 | 2,078 | 4,836 |
| Forests acquired during the period | | 18,007 | – | – |
| Amortisation of prepaid rental costs | | (26) | (34) | (146) |
| At end of period (at cost) | | 137,034 | 112,163 | 116,063 |

8 INVESTMENTS

Nuhaka Farm Forestry Fund **6,563** 5,678 5,880

During the half 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 31 December 1999 was 24.1%, represented by 425,715 units (value based on market price as at 31 December 1999 was \$6,385,725).

9 NET CASH FLOW FROM OPERATING ACTIVITIES

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

| | | | |
|-------------------------------------------------------|--------------|------|-------|
| Operating surplus after tax | 2,107 | 890 | 3,091 |
| Less items classified as investing activities: | | | |
| Gain on sale of assets | – | (43) | (139) |
| Add non-cash items: | | | |
| Depreciation | 70 | 41 | 112 |
| Amortisation of prepaid rent | 26 | 34 | 146 |
| Add/(less) movements in working capital: | | | |
| Accounts receivable | 63 | (4) | (890) |
| Accounts payable | (422) | (66) | 1,101 |
| Net cash provided by operating activities | 1,844 | 852 | 3,421 |

Corporate Directory

As at 31 December 1999

Directors

Peter D. Wilson, CA, Chairman
Resident: Napier, New Zealand

Donald M. Campbell, BSc (Highest Distinction) (Nebraska),
MBA (Stanford)
Resident: San Francisco, California

William J. Falconer, CNZM, LLB
Resident: Auckland, New Zealand

Stephen N. Hurley, AB (Amherst College),
MBA(Hons) (Harvard University)
Resident: Brookline, Massachusetts

Roy M. McCluskey, AB Economics (Stanford)
Resident: Charlestown, Massachusetts

The Hon. James K. McLay, QSO, LLB
Resident: Auckland, New Zealand

Management

Mark S. Bogle, MPP, ACA
Chief Executive

David E. Sayer, BSc(For), MNZIF
General Manager

Barry G. Herbison, BCom, CA, CTP
Chief Financial Officer and Company Secretary

Ashley Q. Chan, BCom(Hons), ASIA, AAIIBF(Snr)
Business Analyst

Directory**Registered Office**

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E-mail info@evergreen.co.nz

Internet Address

This and previous annual and half year reports can be accessed on the website: www.evergreen.co.nz

Share Registrar

Computershare Registry Services Limited
Private Bag 92 119, Auckland 1020, New Zealand
Tel 64-9-522 0022 Fax 64-9-522 0058

Auditors

PricewaterhouseCoopers, Auckland

ADR Depository Bank

Bankers Trust Company
4 Albany Street
New York, New York 10006
Tel 1-212 250 8500 Fax 1-212 250 5644

Bankers

Westpac Banking Corporation

Solicitors

Russell McVeagh McKenzie Bartleet & Co

Trustee

Perpetual Trust Limited

Listings

The Ordinary Shares and Convertible Notes are traded on the New Zealand Stock Exchange ("NZSE") and the Australian Stock Exchange ("ASX"). The American Depositary Receipts (ADRs) are traded on the "Pink Sheets" in the United States of America (20 Ordinary Shares comprise one ADR).

| Codes | New Zealand | Australia | USA |
|-------------------|-------------|-----------|-------|
| Ordinary Shares | EVF | EVF | – |
| Convertible Notes | EVFGA | EVFG | – |
| ADRs | – | – | EVFSY |

www.evergreen.co.nz