



HALF YEAR REPORT

FOR THE SIX MONTHS ENDED
31 DECEMBER 1998

*First Operating Profit from
Harvesting Operations*

*Market Conditions
Improving*

*Innovative Convertible
Note Issue*



HIGHLIGHTS

Evergreen Forests Limited is a plantation forestry investment company listed on the New Zealand Stock Exchange (Issuer code: EVF). It is also traded in the USA by way of a sponsored Level 1 American Depositary Receipt (ADR) programme (Issuer code: EVFSY). Evergreen's objective is to provide superior shareholder returns through a progressive listed company managing a portfolio of high-quality plantation forestry assets that meet clearly-defined investment criteria. The company's strategy is to build an estate with a broad age-class distribution and an early dividend-paying capability. At 31 December 1998 it owned or had cutting rights over more than 23,000 hectares, of which 18,500 hectares are planted or planned for planting in fast-growing radiata pine. Forest development, harvesting and marketing are managed by specialists on contract. Evergreen has 2,400 shareholders, and is run by a four-person executive team in Auckland, New Zealand.

All financial information is in New Zealand dollars, unless otherwise stated. At 31 December 1998 the rounded conversion rate was NZ\$1 = US\$0.53.

First Operating Profit from Harvesting Operations

- *Harvesting commenced in late September*
- *Profit of \$890,000 for the six months*

Market Conditions Improving

- *Signs that the worst of the Asian crisis may be over, with demand recovery from the region*

Innovative Convertible Note Issue

- *Pro-rata issue to shareholders*
- *\$21.9 million fully underwritten*
- *Ten-year, zero coupon*
- *7.18% pre-tax return*
- *Conversion option at \$0.55 at any time*
- *Application closing date 19 March 1999*



REPORT TO SHAREHOLDERS

Dear Shareholder

The uncertainty resulting from difficulties in Asian economies has receded and evidence suggests that demand is returning in this important market region. There is still some way to go for prices to reach previous trend levels, but the renewed optimism in the forestry sector is pleasing. We are confident that demand will stabilise during 1999.

The New Zealand forest industry has recognised the importance of introducing and maintaining a diversity of markets and so a positive outcome of the Asian downturn is the degree to which new markets are being identified. Evergreen is supporting the establishment of a market development organisation, Wood New Zealand Limited, to further these initiatives.

On the 3 February 1999 the company announced a one for six pro-rata issue of ten-year zero coupon convertible notes. The issue is renounceable and has been underwritten by Hambrecht & Quist Guaranty Finance, LLC, a subsidiary of the San Francisco-based investment bank Hambrecht & Quist.

This is an innovative concept in the New Zealand market and provides our shareholders with an opportunity to participate in a secured investment which yields the equivalent of 7.18% per annum compounded over the ten-year term. It also provides an opportunity for equity upside through the conversion terms and reflects our confidence that the prospects for value growth are strong.

The funds raised through this issue will enable the company to reduce its bank debt, better manage the timing of its harvest, and make further forest acquisitions to complement our existing holdings, at a historically low point in the forestry cycle.

OPERATING RESULT

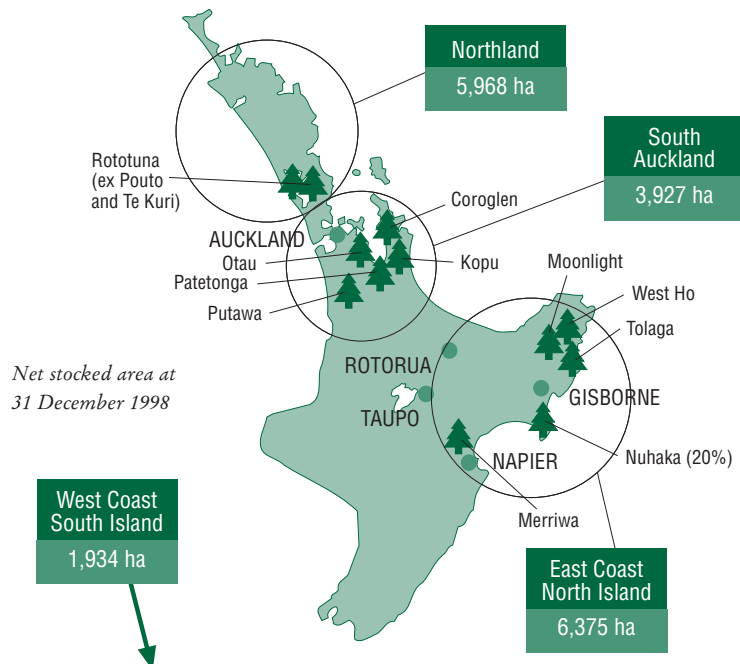
The company commenced harvesting agro-forestry pruned stands at its Rototuna forest in late September 1998 and we are presently harvesting at a rate of approximately 100,000 m³ per annum. A surplus of \$890,000 was recorded for the six month period ended 31 December 1998. This surplus is in line with expectations and compares favourably with a small deficit of \$186,000 for the corresponding period last year.



EVERGREEN FORESTS LIMITED

LOCATION OF FORESTS

As at 31 December 1998



LAND AND FOREST HOLDINGS

As at 31 December 1998 in hectares

	<i>Legal area</i>	<i>Plantable area</i>	<i>Net stocked area</i>
Owned land			
Northland	7,359	6,158	5,968
South Auckland	5,577	3,927	3,927
East Coast North Island	7,661	6,375	6,375
Total owned	20,597	16,460	16,270
Forestry rights			
West Coast South Island	2,326	2,106	1,934
Total all properties	22,923	18,566	18,204



While there was no significant investment in new planting during the 1998 season Evergreen has continued to invest in silviculture and the enhancement of its forests and infrastructural assets. We anticipate strong demand for clearwood products in the future and we will continue with our policy of managing appropriate sites for higher value markets.

FINANCIAL SUMMARY

\$NZ000's unless otherwise stated

	<i>6 mths ended 31 Dec 98 Un-audited</i>	<i>6 mths ended 31 Dec 97 Un-audited</i>	<i>12 mths ended 30 Jun 98 Audited</i>
Operating revenue	2,393	222	591
Net operating surplus (deficit)	890	(186)	(197)
Equity	97,080	96,151	96,170
Shares on issue (number in 000's)	131,434	131,434	131,434
Land at cost	24,247	24,180	24,247
Forests at cost	112,163	105,529	108,810
Net asset backing per share at historical cost	\$0.74	\$0.73	\$0.73

CONVERTIBLE NOTE ISSUE

We believe that the convertible note issue should appeal to investors looking for a longer term, low risk investment with a secured cash yield and equity upside. In summary the convertible note issue provides the following features:

- exposure to a simple, pure play, listed forestry company with a spread of forest maturities
- timely entry into the sector at a low point in the forestry cycle
- \$1 invested into the notes now and held for 10 years will grow to \$2 (pre-tax) at which point investors will either be paid in cash or can elect to convert into Evergreen ordinary shares at \$0.55 per share



- downside protection through the security covenants which restrict the level of future borrowing by the company
- significant upside potential through the option to convert principal and interest into Evergreen ordinary shares at \$0.55 at any time
- special benefits for small shareholders, including a 10% discount for the first \$1,000 invested in the notes
- tax effective structure for most investors
- the company has the right to early redemption at any time, if after three years the share price is above \$1.10 (that is twice the conversion price)

We believe that the notes are an attractive investment opportunity and look forward to a good level of participation by existing shareholders. Shareholders can apply for more than their pro-rata entitlement of convertible notes which will be available to the extent that other shareholders do not take up their full entitlement.

Unfortunately, due to restrictions of United States securities laws, subject to certain exemptions these notes cannot be offered to persons in the United States, even to those who are already shareholders.

The issue closes on 19 March 1999.

WOOD NEW ZEALAND

Your company is participating in Wood New Zealand, a new, industry-owned marketing body, with a focus on the promotion, branding, positioning, profile and information dissemination of New Zealand wood and wood products in offshore markets. It will enable individual members such as Evergreen to leverage their own marketing efforts. In addition, we consider that issues regarding quality brand marks and environmental certification are best resolved through a co-ordinated industry-wide approach.



OUTLOOK

It is pleasing to see the majority of our shareholders maintaining their investment in the company. It is reassuring to have a stable shareholder base and with the company now moving towards more substantial harvest realisations, the prospects are for improved value recognition.

In particular, the support of Hambrecht & Quist Guaranty Finance, LLC as a shareholder and underwriter of the convertible note issue is an endorsement of Evergreen's pure play forest resource ownership philosophy and the company's strategy of flexibility in respect of the timing and extent of its harvesting operations.

IN SUMMARY

Your directors and management are committed to growing the company in terms of value but to do so in a way which reflects sound investment principles. The forestry sector requires a careful investment judgement given the length of the investment cycle and the need to fairly balance long-term investment opportunities with shorter term yield requirements.

We appreciate your past support and look forward to your ongoing investment involvement in the company.

A handwritten signature in black ink, appearing to read "Peter D. Wilson".

Peter D. Wilson, *Chairman*
1 March 1999

A handwritten signature in black ink, appearing to read "Mark S. Bogle".

Mark S. Bogle, *Chief Executive*



EVERGREEN FORESTS LIMITED

STATEMENT OF FINANCIAL PERFORMANCE

For the periods ended

In \$NZ 000's	Notes	Group		
		31 December 1998 (6 months)	31 December 1997 (6 months)	30 June 1998 (12 months)
Continuing activities				
Operating revenue	3	2,393	222	591
Operating expenses		(1,503)	(408)	(738)
Net operating surplus (deficit) before taxation		890	(186)	(147)
Taxation		-	-	-
Net surplus (deficit) for the period		890	(186)	(147)

EVERGREEN FORESTS LIMITED

STATEMENT OF MOVEMENTS IN EQUITY

For the periods ended

In \$NZ 000's	31 December 1998 (6 months)	Group	
		31 December 1997 (6 months)	30 June 1998 (12 months)
Equity at the beginning of the period	96,190	96,337	96,337
Total recognised revenue and expenses for the period -net surplus (deficit)	890	(186)	(147)
Equity at end of the period	97,080	96,151	96,190

The accompanying notes form part of these financial statements.



EVERGREEN FORESTS LIMITED

STATEMENT OF FINANCIAL POSITION

As at

<i>In \$NZ 000's</i>	Notes	31 December 1998	Group 31 December 1997	30 June 1998
Equity	4	97,080	96,151	96,190
Non current liabilities				
Borrowings	5	49,025	43,079	46,956
Current liabilities				
Creditors and accruals		404	394	434
Total liabilities and equity		146,509	139,624	143,580
Non current assets				
Land		24,247	24,180	24,247
Roading and land improvements		2,208	2,201	2,158
Forests		112,163	105,529	108,890
Fixed assets		356	569	423
Investments	6	5,678	5,345	5,433
		144,652	137,824	141,151
Current assets				
Cash and short term deposits		1,284	1,332	1,879
Receivables and prepayments		573	468	550
		1,857	1,800	2,429
Total assets		146,509	139,624	143,580

The accompanying notes form part of these financial statements.



EVERGREEN FORESTS LIMITED

STATEMENT OF CASH FLOWS

For the periods ended

In \$NZ 000's	Notes	Group		
		31 December 1998 (6 months)	31 December 1997 (6 months)	30 June 1998 (12 months)
Cash flows from operating activities				
Cash was provided by (applied to):				
Receipts from customers		2,258	56	192
Payments to suppliers and employees		(1,559)	(667)	(1,114)
Interest received		34	75	111
Net Goods & Services Tax		119	251	545
Net cash flows from operating activities	7	852	(285)	(266)
Cash flows from investing activities				
Cash was provided by (applied to):				
Proceeds from sale of assets		283	223	502
Acquisition of fixed assets		(220)	(22)	(130)
Acquisition and development of forests		(1,107)	(10,953)	(12,409)
Acquisition of units in Nuhaka Farm Forestry Fund		(244)	–	(88)
GST refund from acquisitions		–	100	–
Net cash flows applied to investing activities		(1,288)	(10,652)	(12,125)



EVERGREEN FORESTS LIMITED

STATEMENT OF CASH FLOWS (CONTINUED)

For the periods ended

<i>In \$NZ 000's</i>	Notes	Group		
		31 December 1998 (6 months)	31 December 1997 (6 months)	30 June 1998 (12 months)
Cash flows from financing activities				
Cash was provided by (applied to):				
Proceeds from term borrowings		–	9,549	11,550
Issue expenses		(159)	–	–
Net cash flows applied to financing activities		(159)	9,549	11,550
Net (decrease) increase in cash held		(595)	(1,388)	(841)
Add cash at beginning of period		1,879	2,720	2,720
Total cash at the end of the period		1,284	1,332	\$ 1,879

The accompanying notes form part of these financial statements.



EVERGREEN FORESTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the six months ended 31 December 1998

1. STATEMENT OF ACCOUNTING POLICIES

The accounting policies used for the six months ended 31 December 1998 are consistent with those used in the published interim financial statements for the six months ended 31 December 1997 and the published annual financial statements for the year ended 30 June 1998.

2. AUDIT

Figures for the six months ended 31 December 1998 and 31 December 1997 are unaudited. Figures for the twelve months ended 30 June 1998 have been extracted from audited financial statements.

3. OPERATING REVENUE *In \$NZ 000's*

	31 December 1998 (6 months)	Group 31 December 1997 (6 months)	30 June 1998 (12 months)
Operating revenue includes:			
Interest income	34	75	111
Net surplus on sale of assets	43	91	206
Operating expenses includes:			
Depreciation of fixed assets	41	38	75
Rental expenses	43	42	81
Operating lease expenses	17	21	43

4. EQUITY

During the period the company issued a total of 1,000,000 ordinary share options pursuant to the management share option scheme. The number of options that may be exercised will vary depending on the performance of the company. The exercise price is \$0.55. The options do not carry dividend or voting rights, or rights to attend meetings of the company. Bonus and rights issue entitlements accumulate during the option period.



EVERGREEN FORESTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 31 December 1998

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

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 is \$3.6 million. Interest only payments commence on 1 August 1999. Principal repayments are due on 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:

	31 December 1998 (6 months)	Group 31 December 1997 (6 months)	30 June 1998 (12 months)
Later than one, not later than two years	–	16,754	–
Later than two, not later than five years	49,025	26,325	46,956
	49,025	43,079	46,956

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

Nuhaka Farm Forestry Fund	5,678	5,345	5,433
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Nuhaka Farm Forestry Fund is a Group Investment Fund listed on the New Zealand Stock Exchange. The total holding at 31 December 1998 was 20.10%, represented by 356,336 units (value based on market price as at 31 December 1998 was \$ 3,531,290).



EVERGREEN FORESTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 31 December 1998

7. 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.

	31 December 1998 (6 months)	Group 31 December 1997 (6 months)	30 June 1998 (12 months)
Operating surplus (deficit) after tax	890	(186)	(147)
Less items classified as investing activities:			
Gain on sale of assets	(43)	(91)	(206)
Add non-cash items:			
Depreciation	41	38	75
Amortisation of prepaid rent	34	35	70
Add/(less) movements in working capital:	(70)	(81)	(58)
Net cash provided by operating activities	852	(285)	(266)



DIRECTORS

PETER D. WILSON, CA, CHAIRMAN
Resident: Napier, New Zealand.

ROBBIE G. V. DYCE, FACA, FCCM, FCIT
Resident: Wellington, New Zealand.

WILLIAM J. FALCONER, LLB
Resident: Auckland, New Zealand.

**STEPHEN N. HURLEY, AB (AMHERST
COLLEGE), MBA (HONS) (HARVARD
UNIVERSITY)**
Resident: Brookline, Massachusetts.

THE HON. JAMES K. MCLAY, QSO, LLB
Resident: Auckland, New Zealand.

**JOHN O. PARKER, BA (HONS), MBA
(DARTMOUTH COLLEGE)**
Resident: Sudbury, Massachusetts.

MANAGEMENT

MARK S. BOGLE, MPP, ACA
Chief Executive.

DAVID E. SAYER, BSc(FOR), MNZIF
General Manager.

BARRY G. HERBISON, BCOM, CA
*Chief Financial Officer and Company
Secretary.*

**ASHLEY Q. CHAN, BCOM(HONS),
DIPTA(ATAA), AAIBF**
Business Analyst.



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Press releases and previous annual and half year reports can be accessed on the web site:
<http://www.evergreen.co.nz>

SHARE REGISTRAR

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Tel 64-9 522 0022. Fax 64-9 522 0058

AUDITORS

PricewaterhouseCoopers, Auckland

ADR DEPOSITORY BANK

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New York, New York 10006. USA
Tel 1-212 250 8500. Fax 1-212 250 5644

BANKERS

Westpac Banking Corporation

SOLICITORS

Russell McVeagh McKenzie Bartleet & Co.

LISTINGS

The ordinary shares are traded on the New Zealand Stock Exchange and the American Depository Receipts (ADR) are traded on the Over The Counter (OTC) bulletin board in The United States of America. (20 ordinary shares comprise one ADR.)

SHARE LISTING DETAILS

<i>Stock exchange</i>	<i>Ticker symbol</i>
New Zealand	EVF
OTC Bulletin Board	EVFSY