



Renaissance Corporation Limited
2003 Annual Report

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Copies of the Annual and Interim Reports are available from our website, www.renaissance.co.nz

DIRECTORY

DIRECTORS

R G Ebbett (Chairman)
 P Johnston (Managing Director)
 D J Graham, CBE
 S B King
 C M Lewis
 M R Thompson

REGISTERED OFFICE

92 Beachcroft Avenue
 Onehunga
 Auckland

Private Bag 24905
 Royal Oak
 Auckland 1030

AUDITOR

Deloitte
 Auckland

BANKERS

Bank of New Zealand
 Auckland

SHARE REGISTRAR

Computershare Investor Services Ltd
 Private Bag 92119
 Auckland 1020

SOLICITORS

Russell McVeagh
 Auckland

FINANCIAL SUMMARY

	2003	2002	2001	2000	1999
	\$000	\$000	\$000	\$000	\$000
Operating Revenue	97,559	110,606	192,009	157,167	122,818
Revenue Growth	(12%)	(42%)	22%	28%	13%
Net Surplus (Deficit) after Taxation and Minority Interest	1,331	(1,274)	(3,483)	1,364	439
Total Assets	26,253	31,240	42,655	49,497	34,475
Shareholders' Equity Ratio	35%	30%	27%	32%	38%
Dividend Rate Paid (Fully Imputed)	4.0c	3.0c	2.0c	1.0c	—
Total Dividends	1,487	1,114	734	353	—
Net Asset Backing Per Share	25.0c	26.0c	33.0c	43.0c	37.0c
Earnings Per Share	3.58c	(3.43c)	(11.15c)	3.81c	1.66c

DIRECTORS' REPORT

FINANCIAL PERFORMANCE

The Directors of Renaissance Corporation are pleased to announce an audited profit after tax and minority interests of \$1.33 million for the 12 months ended 31 December 2003. This compares with a deficit of \$1.27 million for the 2002 year.

This result was a significant improvement over the previous year, and reflects the commitment we have made to deliver increased shareholder wealth.

This result includes the following key features:

- Strong cash generation from operations;
- Considerable reduction in group overheads;
- All business units were cash positive.

The result comprises an operating profit (before taxation and minority interests) of \$2.1 million, compared with a deficit of \$2.3 million in 2002.

CASH FLOWS AND FINANCIAL POSITION

Cash flow from operations continues to be strong with \$4.1 million generated for the year. As previously reported, many significant accounting expenses continue to be non-cash items, including amortisation of intangible assets, depreciation and income tax. Depreciation and amortisation exceeded capital expenditure over the period by \$0.6 million.

At year-end, total Group assets were \$26.3 million, down from \$31.2 million in 2002. Shareholders' equity was \$9.5 million (\$9.7 million in 2002), and interest-bearing debt was reduced from \$5.5 million to \$2.4 million.

OPERATIONAL REVIEW

Brand Representation

Despite a weak IT market in the third quarter, these businesses traded throughout the year ahead of expectation.

The Apple Computer Division saw significant unit growth in 2003, and finished the year strongly. The Division benefited from the introduction of many stunning new products such as the iPod digital music players and the new G5-based desktops and industrial-strength server and storage products.

Renaissance Brands Division continued to develop its range of products and saw quarter-on-quarter improvement throughout the year. After several years of poor results, this Division produced an excellent return in 2003. The focus on exclusive brand representation has been very successful for many of our vendors and customers. This is particularly true in the case of palmOne, which has enjoyed significant growth here in New Zealand. Other vendors are actively seeking similar partnerships with Renaissance, and we look forward to developing these new relationships throughout 2004.

Itas

Itas Division provides software and hardware solutions to the education sector. The Division saw substantial growth and secured contracts to supply a range of products to several recently-opened schools during the year. In 2003, the Ministry of Education conducted an in-depth review of school administration products from ten vendors. Itas, with its Integris product, was the only vendor to gain Ministry certification.

Itas continues to build a solid customer base. Increased sales of Integris, as well as other high quality software and hardware solutions, should provide a good result for the year ahead.

Conduit

Conduit, our eCommerce subsidiary, was restructured last year and, with its cash costs now covered by on-going revenues, there has been a significant turnaround in this business.

We can expect further development of the customer base both in New Zealand and Australia this year. Conduit will continue to play an important role in the future direction of Renaissance, with exciting new web-based developments being announced by the Apple Division in the first quarter, followed by other areas of the business later in the year.

Insite Technology

Insite, our PC assembly subsidiary, saw healthy unit volumes and increased its share of the New Zealand assembled PC market. Insite is one of the most innovative local assemblers, and in 2003 introduced several new, and first to market, products such as 64-bit AMD Opteron servers and Intel-based blade servers.

This Christchurch-based company is a solid performer, and the outlook for 2004 remains strong.

OUTLOOK

As indicated this time last year, the elimination of losses in Conduit and Itas, and the significant reduction in group overheads, positioned the Company for a return to profitability in 2003. The Directors believe that, provided market conditions remain relatively stable in 2004, the Company is well-positioned to continue generating positive cash flow, remain profitable, and provide a satisfactory return on shareholder investment.

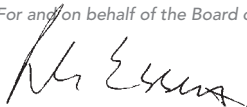
DIVIDEND

An interim dividend of 4 cents per share was paid on 26 September 2003, in recognition of the first half result. At that time, we indicated our awareness of the need to move to a more regular dividend scheme, provided results continue to meet our expectations.

We are pleased to declare a fully imputed final dividend of 3 cents per share to be paid on 2 April 2004, the record date being 26 March 2004 and ex-dividend date 29 March 2004.

We had an excellent result last year, and the Directors would like to thank management and staff for all their hard work and personal commitment to the Company.

For and on behalf of the Board of Directors



R.G. Ebbett
Chairman
20 February 2004



P. Johnston
Managing Director
20 February 2004

AUDITORS' REPORT

We have audited the financial statements on pages 7 to 22. The financial statements provide information about the past financial performance and financial position of the Company and Group as at 31 December 2003. This information is stated in accordance with the accounting policies set out on pages 11 to 13.

BOARD OF DIRECTORS' RESPONSIBILITIES

The Board of Directors is responsible for the preparation of the financial statements, in accordance with New Zealand law and generally accepted accounting practice, which give a true and fair view of the financial position of the Company and Group as at 31 December 2003 and of the results of their operations and cashflows for the year ended 31 December 2003.

AUDITORS' RESPONSIBILITIES

It is our responsibility to express an independent opinion on the financial statements presented by the Board of Directors and report 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:

- the significant estimates and judgements made by the Board of Directors in the preparation of the financial statements; and
- whether the accounting policies are appropriate to the circumstances of the Company and Group, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. 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 information in the financial statements.

Our firm carries out other assignments for the Company and Group in the area of taxation advice. In addition to this, principals and employees of our firm deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group.

The firm has no other interests in Renaissance Corporation Limited or its subsidiaries.

UNQUALIFIED OPINION

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

In our opinion:

- proper accounting records have been kept by the Company as far as appears from our examination of those records; and
- the financial statements on pages 7 to 22:
 - » comply with generally accepted accounting practice in New Zealand;
 - » give a true and fair view of the financial position of the Company and Group as at 31 December 2003 and the results of their operations and cashflows for the year ended on that date.

Our audit was completed on 20 February 2004 and our unqualified opinion is expressed as at that date.



Chartered Accountants
Auckland, New Zealand

Statement of

FINANCIAL PERFORMANCE

for the year ended 31 December 2003

	NOTES	Group	
		2003 \$000	2002 \$000
Operating Revenue	2, 3	97,559	110,606
Operating Surplus before the following Expenses:		4,452	2,430
Audit fees		60	65
Other fees paid to auditors		—	7
Depreciation:			
Leasehold improvements		110	109
Plant and equipment		50	46
Motor vehicles		3	8
Computer equipment		557	528
Office furniture and fittings		43	50
Software		246	166
Amortisation of goodwill		156	156
Amortisation of intangible assets		160	190
Directors' fees		140	130
Donations		5	6
Interest		446	702
Bad debts written off		27	311
Provision for doubtful debts		(96)	(4)
Loss on disposal of plant, property and equipment		26	263
Rental and operating lease costs		418	825
Operating Surplus (Deficit) before Taxation		2,101	(1,128)
Non-recurring items	4	(45)	(1,170)
Surplus (Deficit) before Taxation	3, 4	2,056	(2,298)
Taxation (expense) benefit	5	(745)	741
Surplus (Deficit) after Taxation		1,311	(1,557)
Minority interest in deficit of subsidiary		20	283
Net Surplus (Deficit) for the year		1,331	(1,274)

PARENT COMPANY EXPENDITURES

Expenditures for the Parent Company, Renaissance Corporation Limited, were paid for through its subsidiary, Renaissance Limited.

The Parent Company was managed this way in order to reduce the operating costs of administering a separate company within the business.

There were no balances in the revenue and expenditure accounts of the Parent Company for the current and prior year, and therefore have not been shown in the above statement.

Statement of

MOVEMENTS IN EQUITY

for the year ended 31 December 2003

	NOTES	Group		Parent	
		2003 \$000	2002 \$000	2003 \$000	2002 \$000
Equity at Beginning of the Year		9,657	12,295	14,524	15,638
Net Surplus (Deficit) for the period		1,331	(1,274)	—	—
Total Recognised Revenues and Expenses		1,331	(1,274)	—	—
Allotment of shares on exercise of options	6	10	—	10	—
Dividends received		—	—	250	—
Dividends paid		(1,487)	(1,114)	(1,487)	(1,114)
Movement in minority interest		(20)	(283)	—	—
Exchange difference arising on translation of independent foreign operations		(13)	33	—	—
Equity at End of the Year		9,478	9,657	13,297	14,524

Statement of

FINANCIAL POSITION

as at 31 December 2003

	NOTES	Group		Parent	
		2003 \$000	2002 \$000	2003 \$000	2002 \$000
EQUITY					
Share capital	6	23,492	23,482	23,492	23,482
Accumulated losses		(14,337)	(14,168)	(10,195)	(8,958)
Shareholders' Equity		9,155	9,314	13,297	14,524
Minority interest		323	343	—	—
Total Equity		9,478	9,657	13,297	14,524
NON-CURRENT LIABILITIES					
Term loans	7, 8	1,890	2,427	—	—
		1,890	2,427	—	—
CURRENT LIABILITIES					
Committed cash advance facility	8	—	2,500	—	—
Payables and accruals	9	14,350	15,613	261	28
Provisions	10	—	513	—	—
Current portion of term loans	7	535	530	—	—
Advances from subsidiaries	15	—	—	122	—
		14,885	19,156	383	28
Total Liabilities and Equity		26,253	31,240	13,680	14,552
NON-CURRENT ASSETS					
Property, plant and equipment	11	1,963	2,806	—	—
Future tax benefit	5	2,515	3,003	114	114
Goodwill	13	974	1,130	—	—
Intangibles	12	503	550	—	—
Advances to subsidiaries	15	—	—	—	852
Investment in subsidiaries	15	—	—	13,561	13,561
		5,955	7,489	13,675	14,527
Deferred Taxation	14	253	537	—	—
CURRENT ASSETS					
Bank		161	923	5	25
Receivables and prepayments	16	13,031	12,270	—	—
Inventories	17	6,853	10,021	—	—
		20,045	23,214	5	25
Total Assets		26,253	31,240	13,680	14,552

On behalf of the Directors



P. Johnston
Managing Director
20 February 2004



C.M. Lewis
Director
20 February 2004

Statement of

CASH FLOWS

for the year ended 31 December 2003

	Group		Parent	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
NOTES				
CASH FLOWS FROM OPERATING ACTIVITIES				
<i>Cash was provided from (disbursed to):</i>				
Receipts from customers	90,850	118,920	—	—
Interest received	6	77	—	—
Payments to external suppliers and employees	(86,385)	(116,768)	—	—
Taxation refunded	27	118	—	—
Interest paid – external	(446)	(702)	—	—
Net Cash Inflow from Operating Activities	4,052	1,645	—	—
19				
CASH FLOWS FROM INVESTING ACTIVITIES				
<i>Cash was provided from (disbursed to):</i>				
Proceeds from sale of business assets	395	328	—	—
Purchase of property, plant and equipment	(700)	(1,556)	—	—
Net Cash (Outflow) from Investing Activities	(305)	(1,228)	—	—
CASH FLOWS FROM FINANCING ACTIVITIES				
<i>Cash was provided from (disbursed to):</i>				
Proceeds from issue of shares	10	—	10	—
(Payment) Receipt of intercompany advances	—	—	(30)	4
Payment of dividends	(1,487)	(1,114)	—	—
Settlement of term debt	(532)	(418)	—	—
Settlement of committed cash advance facility	(2,500)	—	—	—
Net Cash (Outflow) Inflow from Financing Activities	(4,509)	(1,532)	(20)	4
Net (decrease) increase in cash held	(762)	(1,115)	(20)	4
Add opening cash brought forward	923	2,038	25	21
Closing Cash Carried Forward	161	923	5	25
Cash Balances in the Statement of Financial Position:				
Bank	161	923	5	25

NOTES

to and forming part of the Financial Statements for the year ended 31 December 2003

1 STATEMENT OF ACCOUNTING POLICIES

REPORTING ENTITY

Renaissance Corporation Limited is registered under the Companies Act 1993 and listed on the New Zealand Stock Exchange. The Group consists of Renaissance Corporation Limited and its subsidiaries Renaissance Limited, Conduit International Limited and Insite Technology Limited.

Renaissance Corporation Limited is an issuer for the purposes of the Financial Reporting Act 1993.

The financial statements and Group financial statements of Renaissance Corporation Limited have been prepared in accordance with the Financial Reporting Act 1993 and the Companies Act 1993.

The principal activities are as follows:

- Distribution – the distribution of personal computers, associated peripheral hardware and computer software. Major brands handled are Allied Telesyn, Apple, Asus, Creative, Epson, Macromedia, palmOne, Philips, SonicWALL, Sony and US Robotics.
- eBusiness – Conduit International Limited develops and markets internet-based eBusiness solutions for small and medium sized enterprises in the Pacific region.
- Education – the Group markets and delivers IT products, services and solutions to the education sector from primary through to tertiary.
- PC Build – Insite Technology Limited focuses on the assembly and national distribution of the quality-based range of Insite PCs and servers. Key markets include education, business, and a range of niche customers.

MEASUREMENT BASE

The accounting principles recognised as appropriate for the measurement and reporting of earnings and financial position on an historical cost basis are followed by the Group. The reporting currency is New Zealand dollars.

SPECIFIC ACCOUNTING POLICIES

The following specific accounting policies which materially affect the measurement of financial performance and the financial position have been applied:

a) Basis of Consolidation – Purchase Method

The consolidated financial statements include the holding company and its subsidiaries accounted for using the purchase method. All significant intercompany transactions are eliminated on consolidation.

In the parent company financial statements, investments in the subsidiaries are stated at cost or, where, in the opinion of the Directors, there has been a permanent diminution in value, at Directors' valuation.

b) Property, Plant and Equipment

The Group has six classes of property, plant and equipment:

- Leasehold Improvements
- Plant and Equipment
- Motor Vehicles
- Office Furniture and Equipment
- Computer Equipment
- Software

All property, plant and equipment are recorded at cost.

c) Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to allocate the assets' costs over their estimated useful lives.

Leased assets are depreciated over the shorter of the unexpired period of the lease and the estimated useful life of the assets.

NOTES

to and forming part of the Financial Statements for the year ended 31 December 2003

1 STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

Major depreciation periods are:

- Leasehold Improvements 5 years straight line
- Plant and Equipment 5-10 years straight line
- Motor Vehicles 5 years straight line
- Office Furniture and Equipment 10 years straight line
- Computer Equipment 3-4 years straight line
- Software 2-4 years straight line

d) Receivables

Receivables are stated at their estimated net realisable value.

e) Goodwill and Intangible Assets

Goodwill represents the excess of the purchase consideration over the fair value of net tangible assets acquired at the time of acquisition of a business or shares in a subsidiary.

Software development costs are capitalised in accordance with the Group policy on research and development. Goodwill and intangible assets are amortised using the straight line method over the period during which benefits are expected to be received. This is a maximum of 10 years.

f) Income Tax

The income tax expense charged to the Statement of Financial Performance includes both the current year's provision and the income tax effects of timing differences calculated using the liability method.

Tax effect accounting is applied on a comprehensive basis to all timing differences. A debit balance in the deferred taxation account is only carried forward to the extent that there is virtual certainty of its recovery.

Income tax benefits arising from income tax losses are recognised only to the extent of accumulated net credits from timing differences in the deferred taxation account unless there is virtual certainty of their realisation.

g) Inventories

Inventories are valued at lower of cost or net realisable value. Cost is calculated on the weighted average cost basis.

h) Leases

Group entities lease certain plant and equipment and land and buildings.

Finance leases, which effectively transfer to the entity substantially all of the risks and benefits incidental to ownership over the leased item, are capitalised at the present value of the minimum lease payments.

The leased assets and corresponding liabilities are disclosed and the leased assets are depreciated over the period the entity is expected to benefit from their use.

Operating lease payments, where the lessors effectively retain substantially all the risks and benefits of ownership over the leased items, are included in the determination of the operating surplus in equal instalments over the lease term.

i) Foreign Currencies

Transactions in foreign currencies are converted at the New Zealand rate of exchange ruling at the date of the transaction.

Monetary items receivable or payable in a foreign currency, other than those resulting from short term transactions covered by forward exchange contracts, are translated at balance date at the closing rate.

For transactions covered by short term forward exchange contracts, the rates specified in those contracts are used as the basis for measuring and reporting the transaction.

Exchange differences on foreign currency balances are recognised in the Statement of Financial Performance, with the exception of exchange differences arising on translation of independent foreign operations, which is taken directly to the Statement of Movements in Equity.

NOTES

to and forming part of the Financial Statements for the year ended 31 December 2003

1 STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

j) Financial Instruments

The Group is party to financial instruments with off balance sheet risk to meet financing needs and to reduce exposure to fluctuations in foreign currency rates. These financial instruments include foreign exchange forward contracts, and financial guarantees.

The Group enters into foreign currency forward exchange contracts to hedge trade-related foreign currency transactions. Any exposure to gains or losses on these forward contracts is generally offset by a related loss or gain on the item being hedged. Gains and losses on contracts which hedge specific short-term foreign currency denominated commitments are recognised as a component of the related transaction in the period in which the transaction is completed.

k) Statement of Cash Flows

The Statement of Cash Flows is prepared exclusive of GST, which is consistent with the method used in the Statement of Financial Performance.

Definitions of the terms used in the statement of cash flows:

- "Cash" includes coins and notes, demand deposits and other highly liquid investments readily convertible into cash and includes at call borrowings such as bank overdraft, used by the company and the Group as part of their day-to-day cash management.
- "Investing activities" are those activities relating to the acquisition and disposal of current and non-current investments and any other non-current assets.
- "Financing activities" are those activities relating to changes in the equity and debt capital structure of the company and Group and those activities relating to the cost of servicing the company's and the Group's equity capital.
- "Operating activities" include all transactions and other events that are not investing or financing activities.

l) Research and Development

Development costs are recognised as an asset when all of the following criteria are met:

- the product or process is clearly defined and the costs attributable to the product or process can be identified separately and measured reliably;
- the technical feasibility of the product or process can be demonstrated;
- the company intends to produce and market, or use the product or process;
- the existence of a market for the product or process or its usefulness to the company, if it is to be used internally, can be demonstrated; and
- adequate resources exist, or their availability can be demonstrated, to complete the project and market or use the product or process.

Capitalisation is limited to that amount which, taken together with further related costs, is probable of recovery from related future economic benefits.

Development costs recognised as an asset are amortised on a straight line basis over the period of expected benefits.

All other development costs and all research costs are recognised as expenses in the period in which they are incurred.

COMPARATIVE FIGURES

Where appropriate, comparative figures have been changed in order to conform with this year's presentation.

CHANGES IN ACCOUNTING POLICIES

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

NOTES

to and forming part of the Financial Statements for the year ended 31 December 2003

	Group		Parent	
	2003 \$000	2002 \$000	2003 \$000	2002 \$000
2 OPERATING REVENUE				
Sales	97,553	110,529	—	—
Interest received	6	77	—	—
	97,559	110,606	—	—
3 CONTINUING AND DISCONTINUED ACTIVITIES				
CONTINUING ACTIVITIES				
Operating revenue	91,768	101,085	—	—
Net Surplus (Deficit) before taxation	2,101	(1,128)	—	—
Taxation (expense) benefit	(760)	355	—	—
Net Surplus (Deficit) after taxation and before minority interest	1,341	(773)	—	—
DISCONTINUED ACTIVITIES				
Operating revenue	5,785	9,521	—	—
Net (Deficit) before taxation	(45)	(1,170)	—	—
Taxation benefit	15	386	—	—
Net (Deficit) after taxation and before minority interest	(30)	(784)	—	—
4 NON-RECURRING ITEMS				
Costs attributable to discontinued web activities	(45)	—	—	—
Office closure/redundancies	—	(513)	—	—
Costs attributable to discontinued brands	—	(657)	—	—
	(45)	(1,170)	—	—
5 TAXATION				
Surplus (Deficit) before taxation	2,056	(2,298)	—	—
Income Tax @ 33%	678	(758)	—	—
Taxation effect of permanent differences:				
Amortisation of goodwill	51	51	—	—
Non-deductible expenses	16	10	—	—
	745	(697)	—	—
(Less) prior year tax adjustments	—	(44)	—	—
Taxation Expense (Benefit)	745	(741)	—	—
THE TAXATION CHARGE IS REPRESENTED BY:				
Current taxation	461	(847)	—	—
Deferred taxation	284	106	—	—
	745	(741)	—	—

NOTES

to and forming part of the Financial Statements for the year ended 31 December 2003

Renaissance Corporation Limited Group has income tax losses of approximately \$7,622,000 (2002, \$9,101,000) available to be carried forward and set off against future assessable income. The income tax effect of these losses is \$2,515,466 (2002, \$3,003,333). Realisation of the Future Tax Benefit is subject to the requirements of the income tax legislation being met, including the required continuity of shareholding.

	Group	
	2003	2002
	\$000	\$000
IMPUTATION CREDIT ACCOUNT		
Balance at beginning of year	1,679	2,346
Taxation (received)	—	(118)
Attached to dividends paid	(732)	(549)
Balance at end of year	947	1,679
At balance date the imputation credits available to the shareholders of the parent company were:		
Through direct shareholding in the parent company	947	1,679
Through indirect shareholding in subsidiary company	323	350
	1,270	2,029

6 SHARE CAPITAL

	Group & Parent			
	2003	2002	2003	2002
	Number of shares		\$000	\$000
ISSUED AND PAID UP CAPITAL – ORDINARY SHARES				
Balance at beginning of year	37,147,584	37,147,584	23,482	23,482
Allotment on exercise of employee share options	24,500	—	10	—
Balance at end of year	37,172,084	37,147,584	23,492	23,482

All shares participate equally in dividends and any surplus on winding up of the company. Each share has the right to one vote.

	Group		Parent	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
7 TERM LOANS				
Bank loans	2,425	2,957	—	—
Less current portion	(535)	(530)	—	—
Total Term Loans	1,890	2,427	—	—
REPAYABLE AS FOLLOWS:				
Payable within 1 year	535	530	—	—
Payable within 2 years	1,015	2,412	—	—
Payable within 3 - 5 years	875	15	—	—
	2,425	2,957	—	—

NOTES

to and forming part of the Financial Statements for the year ended 31 December 2003

8 CREDIT FACILITIES

BANK LOANS

The Renaissance Limited bank loan of \$2,375,000 (31 December 2002, \$2,875,000) has a fixed interest rate of 8.28% and is finally repayable on 29 September 2004. The company intends to re-finance this loan on maturity.

The Insite Technology Limited bank loan of \$50,158 (31 December 2002, \$82,301) has a fixed interest of 8.06% and is finally repayable on 22 May 2005.

MULTI-OPTION FACILITY

The Group has a multi option facility, including a committed cash advance facility (CCAF), of \$5,000,000 (31 December 2002, \$6,500,000). There was no CCAF drawn down at 31 December 2003 (31 December 2002, \$2,500,000).

The term loans and multi option facility are secured by a registered first debenture over the assets and undertakings of Renaissance Limited, limited by a subsequent charge to Apple Computer Australia Pty. Ltd, with the BNZ having first priority on a maximum of \$14,000,000 plus interest and charges.

The term loans and multi option facility are also secured by a registered first debenture over the assets and undertakings of Renaissance Corporation Limited and Insite Technology Limited.

9 PAYABLES AND ACCRUALS

	Group		Parent	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
Trade creditors	11,866	12,814	—	—
Sundry creditors and accruals	2,112	2,365	261	28
Employee entitlements	372	434	—	—
	14,350	15,613	261	28

Trade creditors of \$10,421,824 (31 December 2002, \$9,209,235) are secured by way of debenture over the assets and undertakings of Renaissance Limited, to Apple Computer Australia Pty. Ltd.

10 PROVISIONS

Balance at beginning of year	513	—	—	—
Provisions made in the year	—	513	—	—
Amounts utilised in the year	(513)	—	—	—
Balance at end of year	—	513	—	—

Prior year provisions relating to redundancies and closure costs were incurred in rationalising the operations of Conduit International Limited in early 2003.

NOTES

to and forming part of the Financial Statements for the year ended 31 December 2003

	Group		Parent	
	2003 \$000	2002 \$000	2003 \$000	2002 \$000
11 PROPERTY, PLANT AND EQUIPMENT				
Leasehold improvements	609	579	—	—
Accumulated depreciation	(365)	(255)	—	—
	244	324	—	—
Plant and equipment	327	270	—	—
Accumulated depreciation	(182)	(84)	—	—
	145	186	—	—
Motor vehicles	8	26	—	—
Accumulated depreciation	(5)	(11)	—	—
	3	15	—	—
Computer equipment	1,598	2,155	—	—
Accumulated depreciation	(1,014)	(967)	—	—
	584	1,188	—	—
Office furniture and equipment	419	507	—	—
Accumulated depreciation	(141)	(161)	—	—
	278	346	—	—
Software	1,428	1,106	—	—
Accumulated depreciation	(719)	(359)	—	—
	709	747	—	—
Total Property, Plant and Equipment – Net Book Value	1,963	2,806	—	—
12 INTANGIBLES				
Software development costs capitalised	865	752	—	—
Accumulated amortisation	(362)	(202)	—	—
	503	550	—	—
Software development costs capitalised are amortised over a period of 5 years subject to an annual impairment assessment. Software development costs capitalised include development costs capitalised in relation to expenditure incurred in developing a web site with e-commerce capabilities.				
13 GOODWILL				
On acquisition of subsidiaries	4,562	4,562	—	—
Accumulated amortisation	(3,588)	(3,432)	—	—
	974	1,130	—	—
Goodwill is amortised over a period no greater than 10 years.				
14 DEFERRED TAXATION				
Balance at beginning of year	537	643	—	—
Current year movement	(284)	(106)	—	—
Balance at end of year	253	537	—	—

NOTES

to and forming part of the Financial Statements for the year ended 31 December 2003

	Parent	
	2003	2002
	\$000	\$000
15 INVESTMENTS IN/ADVANCES (FROM) TO SUBSIDIARIES		
Investment in subsidiaries	13,561	13,561
Advances (from) to subsidiaries	(122)	852

The Directors are satisfied that the investments and advances are recorded at the lower of cost, market value and/or recoverable amount. Advances are non-interest bearing and have no fixed repayment date.

SIGNIFICANT SUBSIDIARIES

Subsidiary	Principal Activity	Percentage Held	
		2003	2002
Renaissance Limited	Marketing of brands and distribution	100%	100%
Insite Technology Limited	Computer assembly and distribution	100%	100%
Conduit International Limited	eBusiness services and solutions	83.3%	83.3%

The above Companies have a balance date of 31 December.

	Group		Parent	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
16 RECEIVABLES AND PREPAYMENTS				
Trade receivables	12,664	11,401	—	—
Prepayments and miscellaneous receivables	367	869	—	—
	13,031	12,270	—	—
17 INVENTORIES				
Finished goods	5,356	6,925	—	—
Goods in transit	1,497	3,096	—	—
	6,853	10,021	—	—

Stock supplied by a number of suppliers is subject to a reservation of title until such time as payment is made in full. The value of stock subject to this reservation of title amounts to approximately \$1,137,000 (31 December 2002, \$1,820,000).

NOTES

to and forming part of the Financial Statements for the year ended 31 December 2003

	Group		Parent	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000

18 FINANCIAL INSTRUMENTS

CREDIT RISK

Financial instruments which potentially subject the Group to credit risk principally consist of bank balances, accounts receivable, financial guarantees, advances to subsidiaries, and forward foreign exchange contracts to buy foreign exchange.

The Group performs credit evaluations on all customers requiring credit and generally does not require collateral.

The Group has debtors insurance to minimise its credit risk.

MAXIMUM EXPOSURES TO CREDIT RISK AT BALANCE DATE:

Bank	—	—	5	25
Receivables	12,717	11,824	—	—
Advances to subsidiaries	—	—	—	852
Financial guarantees	—	—	13,988	14,666
Forward exchange contracts to buy	12,440	5,517	—	—

The above maximum exposures are net of any recognised provision for losses on these financial instruments. No collateral is held on the above amounts.

CONCENTRATION OF CREDIT RISK

The Group is not exposed to any specific concentration of credit risk. The Group's five largest debtors represent 30.06% (31 December 2002, 19.69%) of trade receivables.

FOREIGN EXCHANGE CONTRACTS

At balance date the Group had entered into trade-related foreign exchange contracts maturing during 2004 to purchase the equivalent of NZ\$12,439,512 (31 December 2002, \$5,517,449). These contracts cover 100% of the Group's exposure to all creditors payable in Australian and United States dollars respectively (31 December 2002, \$4,962,866 unhedged Australian foreign currency liabilities).

FAIR VALUES

The estimated fair values of the financial instruments are as follows:

Liabilities:

Term loans	2,425	2,957	—	—
Forward exchange contracts	12,440	5,517	—	—

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Bank, Receivables, Advances to and from subsidiaries, and Payables.

The carrying amounts of these balances are equivalent to their fair value and therefore have been excluded from the table above.

Term loans

The fair value of the term loans are estimated based on current market rates available to the Group for debt of similar nature and maturity.

Foreign currency forward exchange contracts

The fair value of these classes of financial instruments is based on the quoted market prices of comparable financial instruments.

Financial Guarantees

It is not practical to estimate the fair values of financial guarantees.

NOTES

to and forming part of the Financial Statements for the year ended 31 December 2003

	Group		Parent	
	2003 \$000	2002 \$000	2003 \$000	2002 \$000
19 RECONCILIATION OF NET SURPLUS AFTER TAXATION WITH NET CASH INFLOW FROM OPERATING ACTIVITIES				
Reported surplus (deficit) after taxation	1,311	(1,557)	—	—
<i>Add (less) non cash items:</i>				
Depreciation	1,009	907	—	—
Amortisation of goodwill and intangible assets	316	346	—	—
Decrease in deferred tax	284	106	—	—
Decrease (increase) in future income tax benefit	488	(873)	—	—
Other	(14)	33	—	—
	2,083	519	—	—
<i>Movement in working capital:</i>				
(Decrease) in trade creditors	(1,776)	(8,359)	—	—
(Increase) decrease in receivables	(761)	8,291	—	—
Decrease in inventory	3,168	2,488	—	—
	631	2,420	—	—
<i>Less items classified as investing activity:</i>				
Loss on sale of business assets	27	263	—	—
	27	263	—	—
Net Cash Inflow from Operating Activities	4,052	1,645	—	—

20 RELATED PARTIES

The Group consists of Renaissance Corporation Limited and its subsidiaries Renaissance Limited, Conduit International Limited, Insite Technology Limited and Itas Limited (non-trading). Conduit International Limited also has the following non-trading subsidiaries – Conduit Holdings Limited, Conduit Technology Limited and Conduit Solutions Limited.

All transactions between companies within the Group were conducted at an arm's length basis.

Parent company transactions with Renaissance Limited include the receipt of cash and the payment of expenditure made by Renaissance Limited on behalf of Renaissance Corporation Limited.

Transactions between Renaissance Limited and Insite Technology Limited include sales and purchases of computer hardware and software.

Conduit International Limited provides Renaissance Limited with network hosting, desktop support and development services.

Advances totalling \$122,155 made to the parent company by Renaissance Limited and Conduit International Limited were outstanding at 31 December 2003 (31 December 2002, advances from the parent company totalled \$851,679). These advances are non-interest bearing and payable on demand.

No related party balances have been written off or forgiven.

NOTES

to and forming part of the Financial Statements for the year ended 31 December 2003

21 CONTINGENT LIABILITIES

PARENT COMPANY GUARANTEES

Renaissance Corporation Limited has provided a guarantee to Apple Computer Australia Pty. Ltd with regard to the purchase obligations of Renaissance Limited. At balance date the amount subject to guarantee was \$10,421,824 (31 December 2002, \$9,209,235).

Renaissance Corporation Limited has also provided a guarantee of \$7,000,000 inclusive of interest and costs in terms of the Bank's standard guarantee form.

There is a guarantee in respect of lease obligations of Renaissance Limited for 92 Beachcroft Ave, Onehunga. At balance date this amounted to \$351,323 to the period ending 31 March 2005.

Group		Parent	
2003	2002	2003	2002
\$000	\$000	\$000	\$000

22 COMMITMENTS

There are no capital commitments at 31 December 2003 (31 December 2002, nil).

Operating lease commitments under non-cancellable operating leases:

Not later than one year	426	349	—	—
Later than one year and not later than two years	112	219	—	—
Later than two years and not later than five years	—	241	—	—
Later than five years	—	—	—	—
	538	809	—	—

23 EMPLOYEE SHARE OPTION PLAN

Renaissance Corporation Limited has issued options to acquire shares in the Company to Executive Directors, management and employees (Participants) of the Company in accordance with the Company's employee share option plans (Plans).

- The first issue of options was made on 9 May 2000.
- The second issue of options was made on 29 September 2000.
- The third issue of options was made on 3 September 2002.

THE PARTICIPANTS ARE ENTITLED TO EXERCISE THE OPTIONS AS FOLLOWS:

- 50% of the Options first become exercisable on the date falling 12 months after the date of issue ("Grant Date") of the Options; and
- 50% of the Options first become exercisable on the date falling 24 months after the Grant Date.

An option will lapse in the event that:

- The Option is not exercised within two years of the date from which it first becomes exercisable; or
- The Participant ceases to be an employee of the Company. However, the Plan allows a Participant to exercise an Option (within a restricted time frame) where he or she has ceased employment as a result of retirement, ill health, accident or death.

NOTES

to and forming part of the Financial Statements for the year ended 31 December 2003

23 EMPLOYEE SHARE OPTION PLAN (CONTINUED)

DETAILS OF THE OPTIONS ISSUED ARE AS FOLLOWS:

	Exercise Price	N° of Options
Options issued on 9 May 2000	\$0.51 per share	1,250,000
Options exercised between 9 May 2001 and 23 May 2001		(426,000)
Options lapsed as participants ceased to be full-time employees		(374,000)
Number of issued options yet to be exercised as at 31 December 2003		<u>450,000</u>

	Exercise Price	N° of Options
Options issued on 29 September 2000	\$1.06 per share	150,000
Options lapsed as participants ceased to be full-time employees		(115,000)
Number of issued options yet to be exercised as at 31 December 2003		<u>35,000</u>

	Exercise Price	N° of Options
Options issued on 3 September 2002	\$0.42 per share	740,000
Options exercised between 3 September 2002 and 3 September 2003		(24,500)
Options lapsed as participants ceased to be full-time employees		(300,000)
Number of issued options yet to be exercised as at 31 December 2003		<u>415,500</u>

24 SEGMENTAL REPORTING

The Group operates primarily in the importation and distribution of computer hardware and software. All activities were undertaken in New Zealand.

25 SUBSEQUENT EVENTS

There were no events subsequent to balance date.

SHAREHOLDER INFORMATION

REMUNERATION OF DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2003

CURRENT DIRECTORS

R.G. Ebbett	\$50,000	
M.R. Thompson	\$100,000	(includes \$70,000 for consultancy fees)
D.J. Graham	\$30,000	
P. Johnston	\$245,758	
S.B. King	\$30,000	
C.M. Lewis	\$180,941	

REMUNERATION OF EMPLOYEES (EXCLUDING EXECUTIVE DIRECTORS)

NUMBER OF EMPLOYEES

\$100,000 — \$110,000	3
\$110,001 — \$120,000	1
\$120,001 — \$130,000	1
\$140,001 — \$150,000	1

ENTRIES IN THE INTERESTS REGISTER

There are no declarations of interest in any transactions with related parties by any Director.

STATEMENT OF DIRECTORS' INTEREST

Directors held the following equity securities in the Company:

	Beneficially Held as at 31/12/03	Non-Beneficially Held as at 31/12/03	Beneficially Held as at 31/12/02	Non-Beneficially Held as at 31/12/02
R.G. Ebbett	377,250	—	377,250	—
D.J. Graham	45,000	—	45,000	—
P. Johnston	62,500	—	62,500	—
S.B. King	36,500	—	56,500	—
C.M. Lewis	1,850,000	—	1,850,000	—
M.R. Thompson	7,689,351	12,783,829	7,689,351	12,783,829

M.R. Thompson holds shares in his own name, as a joint beneficiary in his family trust, and as a shareholder in Electronic Mail International Limited. He has non-beneficial interests in the shares held by Electronic Mail International Limited.

SHAREHOLDER INFORMATION

GENERAL DISCLOSURES OF INTEREST

There were no new general disclosures of interest received from the Directors this year.

R.G. EBBETT

Entity	Relationship
Acma Capital (NZ) Limited	Director
Cavalier Corporation Limited	Director
Ebbett Waikato Group Limited	Chairman
Electronic Mail International Limited	Director
Horticom Limited	Director
TBS Corporation Limited	Director

D.J. GRAHAM, CBE

Entity	Relationship
University of Auckland	Chancellor
University Book Shop	Director

M.R. THOMPSON

Entity	Relationship
Electronic Mail International Limited	Director

SHARE DEALINGS

S.B. KING HAD THE FOLLOWING DEALINGS:

On 24 October 2003, sold 9,000 shares for \$4,050;
On 29 October 2003, sold 11,000 shares for \$4,840

SUBSTANTIAL SECURITY HOLDERS

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

The following are registered by the Company at 16 February 2004 as Substantial Security Holders in the Company, having declared the following relevant interest in voting securities in terms of Section 25 of the Securities Amendment Act 1988.

Substantial Security Holder	Number of Voting Securities	%
Electronic Mail International Limited	18,622,112	50.09%
M.R. Thompson	20,473,180	55.08%

SHAREHOLDER INFORMATION

TWENTY-FOUR LARGEST SECURITY HOLDERS AS AT 16 FEBRUARY 2004

Shareholder	Number of Shares	%
Electronic Mail International Limited	18,622,112	50.09%
Clive Malcolm Lewis & Helen Joy Lewis	1,850,000	4.98%
Martinique Management Limited	1,849,464	4.98%
Lu's International Limited	508,468	1.37%
National Nominees New Zealand Limited	451,434	1.21%
Tan Eng Se John	383,893	1.03%
Richard Grant Ebbett	377,250	1.01%
Paul Kane	200,000	0.54%
Tan Siu Fong	176,969	0.48%
Norman Francis Reynolds & Margaret June Reynolds	159,000	0.43%
Kay Hong Chiam	150,000	0.40%
National College of Design & Technology of Christchurch Ltd	148,329	0.40%
Ferndale Management Limited	139,238	0.37%
Murray John Wood	135,606	0.36%
Poonam Gupta	132,000	0.36%
Stanley Frederick Boldero	120,728	0.33%
Peter Herbert Brett & Mary Madeleine Brett	118,990	0.32%
Portfolio Custodian Limited	116,712	0.31%
Hamish Edward Elliot Brown & Colin Charles Mckay & Alison Jane Preston	102,211	0.28%
Russell James Collie & Diane Mary Vincent-Collie	100,000	0.27%
Fulcrum Securities Limited	100,000	0.27%
Wang Li Chih Han	100,000	0.27%
Rodney Grant Stock	100,000	0.27%
Lloyd Ronald Ward & Colleen Joy Ward	100,000	0.27%
Total	26,242,404	70.60%

DOMICILE OF SECURITY HOLDERS AS AT 16 FEBRUARY 2004

Country	Number of Holders	Number of Shares	%
New Zealand	1,538	36,733,513	98.82%
Singapore	3	165,000	0.44%
Australia	33	96,741	0.26%
Canada	1	60,000	0.16%
Hong Kong	3	44,000	0.12%
Others	17	72,830	0.20%
Total	1,595	37,172,084	100.00%

SPREAD OF SECURITY HOLDERS AS AT 16 FEBRUARY 2004

Shareholding size	Number of Holders	Total Shares Held	%
1 - 999	52	27,866	0.07%
1,000 - 1,999	516	693,390	1.86%
2,000 - 4,999	410	1,222,564	3.29%
5,000 - 9,999	248	1,571,006	4.23%
10,000 - 49,999	316	5,587,103	15.03%
50,000 - 99,999	29	1,827,751	4.92%
100,000 - 499,999	20	3,412,360	9.18%
500,000 - 999,999	1	508,468	1.37%
1,000,000 and over	3	22,321,576	60.05%
Total	1,595	37,172,084	100.00%

CORPORATE GOVERNANCE

The Board of Directors of the Company ("the Board") is responsible for the corporate governance of the Company.

The term "corporate governance" is generally understood to mean the control of the business by the directors, and the accountability of the directors to the shareholders and others, for the performance of the Company and compliance by the Company with laws and standards.

This statement outlines the policies and processes practised by the Board during the year.

BOARD OF DIRECTORS

The Board is comprised of two executive Directors, Paul Johnston (Managing Director) and Clive Lewis (Finance Director), and four non-executive Directors, Richard Ebbett (Chairman), Mal Thompson, John Graham, CBE and Bryan King. The Board is elected by the shareholders of the Company.

The Board establishes the objectives and overall framework within which business is conducted, and is responsible for the direction and supervision of the business and affairs of the Company.

The Board retains full and effective control over the Company, over all decisions on material matters and monitoring executive management.

Board meetings are generally held monthly. The Board met 11 times during 2003.

PRIMARY RESPONSIBILITIES OF THE BOARD OF DIRECTORS

These include:

- Approval of the annual and half yearly financial statements;
- Establishment of long term goals for the Company and strategic plans to achieve those goals;
- Review and adoption of annual budgets for the financial performance of the Company;
- Monitoring of results against plan; and
- Ensuring that the Company has adequate internal controls and compliance procedures.

BOARD COMMITTEES

The Board has two formally constituted committees, the Remuneration Committee and the Audit Committee. Committees established by the Board review and analyse policies and strategies, and, where appropriate, make recommendations to the full Board. Committees do not take action or make decisions on behalf of the Board unless specifically mandated by prior Board authority to do so.

NOTICE OF MEETING

Notice is hereby given of the 36th Annual Meeting of Shareholders of Renaissance Corporation Limited to be held at Renaissance Limited, 92 Beachcroft Ave, Onehunga, Auckland on Friday, 30 April 2004 at 10:30AM for the following purposes:

ORDINARY BUSINESS

1. To receive and consider the Annual Report, including the Auditor's Report for the year ended 31 December 2003.
2. To elect directors:
 - Mr C.M. Lewis retires by rotation pursuant to clause 9.1.5 of the Company's Constitution, and being eligible offers himself for re-election.
 - Mr M.R. Thompson retires by rotation pursuant to clause 9.1.5 of the Company's Constitution, and being eligible offers himself for re-election.
3. To record the reappointment of Deloitte as auditors for the Company and to authorise the Directors to fix the auditors' remuneration for the ensuing year.

SPECIAL BUSINESS

4. To consider, and if thought fit, to pass the following special resolution: The existing Constitution of the Company be revoked and the Company adopt a replacement Constitution in the form tabled at the meeting and signed by the Chairman for the purposes of identification.
5. To authorise the Company to issue up to 1,850,000 options to acquire ordinary shares in the company, to Executive Directors and employees, on the terms outlined in the Explanatory Notes accompanying this Notice of Meeting and on such other terms as the Directors think fit.

OTHER BUSINESS

6. To transact such other business as may properly be brought before the meeting in accordance with the Company's Constitution.

By order of the Board



C.M. Lewis
Director
20 February 2004

NOTES

1. A Shareholder entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of the Shareholder. The proxy need not be a Shareholder.
2. To be valid, the form appointing the proxy, duly completed and executed, must be received by the Company at 92 Beachcroft Avenue, Onehunga, Auckland no less than 48 hours before the commencement of the meeting.

EXPLANATORY NOTES

ITEM 4: ADOPTION OF NEW CONSTITUTION

1. The New Zealand Exchange Limited ("NZX") has made a number of changes to its Listing Rules ("Listing Rules"), which have taken effect from 1 January 1999, 1 December 1999, 1 December 2002 and 29 October 2003. The changes are principally to section 3 (Independent Directors and Audit Committee), section 7 (Issue of New Securities and Buybacks) and section 9 (Related Party Transactions) of the Listing Rules. These changes are required to be reflected in the Company's constitution, and the Board has recommended that the Company adopt a new constitution to reflect these changes, to update the existing Constitution ("Existing Constitution").
2. A copy of the proposed new constitution ("New Constitution") is available (free of charge) on request to Clive Lewis by telephone +64 (0) 9 968-3600, by fax +64 (0) 9 968-4389, or email companysecretary@renaissance.co.nz. You may also inspect a copy (free of charge) at the Company's registered office at 92 Beachcroft Avenue, Onehunga, Auckland and at the Company's forthcoming Annual Meeting, particulars of which are given in this Notice of Meeting.
3. The New Constitution has been approved by the NZX, and shareholder approval is now sought. The effect of the changes (other than those which are of a minor, consequential or mechanical nature) is set out below. Defined terms which are used in these explanatory notes (being those which commence with initial capital letters) have the same meaning as is given to them in the New Constitution.
4. **Clause 1.1 – Definitions:** The definition of "Exchange" is deleted and new definitions are inserted for "NZX" and "NZSX" to reflect the rebranding of the business previously known as the NZSE.
5. **Issues of New Equity Securities:**
 - a) Clause 2.4.1(c) has been altered to increase the number of Equity Securities which may be issued within any 12 month period, other than on a pro-rata basis and without shareholder approval, from 10% of the relevant Class of existing Equity Securities on issue to 15%. A new sub-clause (vi) has been inserted to clarify the market price to be used when calculating the number of certain types of convertible securities to be taken into account for the purposes of applying this formula.
 - b) Clause 2.4.1(d)(i) is amended by increasing the number of Equity Securities which may be issued to employees in any 12 month period from 2% of the relevant Class of existing Equity Securities on issue to 3%. The maximum which may be issued in any 5 year period has been increased from 5% to 7%. Sub-clause (d)(iii) is amended so as to require, except where permitted by the Listing Rules, an Ordinary Resolution to be passed before any repricing or amendment of the terms of any Securities issued to Employees or Directors, where those Securities were originally issued with shareholder approval.
6. **Buybacks:**
 - a) Clause 2.10.2 has been amended to enable the Company to make non pro-rata, off-market buybacks of Equity Securities (without the need for shareholder approval) provided the Equity Securities are not acquired from a Director, Associated Person or Employee and the total number acquired does not exceed 10% of the total number of Equity Securities of the relevant Class on issue within a 12 month period.
 - b) Clause 2.10.3 is amended by deleting the requirement for the Company to give prior notification of the price at which it intends to buy back Securities but now includes a maximum timeframe of 12 months for which any notification may be in force.
7. **Redemption of Equity Securities:** Clause 2.10.4 is amended to permit redemptions of Equity Securities (without the need for shareholder approval) from holders who hold less than a Minimum Holding.
8. **Buyback or Redemptions with approval of Equity Security Holders and Financial Assistance with Approval of Equity Security Holders:** Clauses 2.10.5 and 2.10.8 require separate resolutions approving certain buybacks, redemptions and the giving of financial assistance for the acquisition of Equity Securities to be passed by the members of each Class of Quoted Equity Securities of the Company whose rights or entitlements are affected in a similar way by the proposal. The New Constitution requires approval only of those Classes who are materially affected.

- 9. Major Transactions:** Clause 5.1.1(b) is amended to require shareholder approval for the Company to enter into a transaction in respect of which the value is in excess of 50% of the lesser of the Average Market Capitalisation or the Gross Value of Assets of the Company. In the Existing Constitution, the 50% threshold is calculated by reference to the Company's Shareholders Funds.
- 10. Material Transactions with Related Parties:**
- In Clause 5.2.3, a Material Transaction for the purposes of the Related Party transaction provisions is determined by applying the relevant percentage thresholds contained in clause 5.2.3 to the lesser of the Shareholder Funds of the Company and its Average Market Capitalisation. In the Existing Constitution, the thresholds are only applied to Shareholders Funds.
 - The New Constitution makes it clear that an amalgamation may be a Related Party transaction.
 - Under the New Constitution, a person who becomes a Related Party as a consequence of a Material Transaction is excluded from the definition of Related Party, for the purposes of that transaction only.
 - The following are excluded from the Related Party transaction provisions:
 - employment contracts on arm's length terms;
 - indemnities in favour of directors or employees where no proceedings are underway or threatened at the time the indemnity is given; and
 - arrangements, amalgamations and compromises under Part XV of the Companies Act 1993.
- 11. Takeovers:** The provisions dealing with takeovers (clause 6) have been deleted, as the Takeovers Code, which has come into force since the adoption of the Existing Constitution, now governs takeovers.
- 12. Board Composition:** Clause 8.1 has been amended to provide for:
- a minimum of two Independent Directors (or, if there are more than eight Directors, the greater of three or one third of the total number of Directors);
 - public confirmation by the Board of which Directors are independent.
- 13. Audit Committee:** Clause 8.8 of the New Constitution:
- requires the establishment of an Audit Committee;
 - sets out its composition, and in particular requires a majority of its members to be Independent Directors; and
 - sets out the responsibilities of the Audit Committee.

ITEM 5: EMPLOYEE SHARE OPTION PLAN

- Shareholders are being asked to approve the issue by the Company of up to 1,850,000 options to acquire shares in the Company ("Options") to directors and senior employees ("Participants") in accordance with the Company's employee share option plan ("Plan").
- Nine hundred thousand of the Options will be issued no later than 31 May 2004, as follows:

Name	Position	Number of Options
Paul Johnston	Managing Director	500,000
Clive Malcolm Lewis	Financial Director	400,000

The remaining 950,000 Options may be issued by the directors at any time within the period of 12 months following the date of the Company's 2004 annual meeting, to any other employee of the Company (but none of these remaining Options may be issued to directors).

- The principal terms of the Plan are as follows:
 - Each Option entitles the Participant to subscribe for one ordinary share in the Company at a future date.
 - The Participants will be entitled to exercise Options as follows:
 - 50% of the Options become exercisable on the date falling 24 months after the date of issue ("Grant Date") of the Options; and

EXPLANATORY NOTES

(continued)

- ii 50% of the Options become exercisable on the date falling 36 months after the Grant Date.

However, the Plan contains provisions to allow a Participant to exercise an Option early if there is a takeover offer made for the Company which may result in the offeror acquiring in excess of 50% of the ordinary shares of the company.

- c) The exercise price of an Option will be the average market price of the Company's ordinary shares over the 10 trading days preceding the date that the Option is issued. The exercise price is payable at the time an Option is exercised. Options must be exercised in multiples of 20,000.
 - d) An Option will lapse in the event that:
 - i) The Option is not exercised within two years of the date from which it first becomes exercisable; or
 - ii) The Participant ceases to be a full-time employee of the Company. However, the Plan allows the Board in its sole discretion, to make such amendments to the terms of the Plan as it considers appropriate to allow a Participant to exercise his or her Options in a fair and reasonable manner where he or she has ceased employment as a result of accident or ill health. The Plan also allows the Participant's personal representatives to exercise his or her Options (within a restricted time frame) where the Participant ceases to be a full-time employee by reason of his or her death.
 - e) An Option does not confer a right to attend or vote at any meeting of the Company.
 - f) Options are only transferable with the approval of the directors.
 - g) The Company will (except to the extent precluded by the Listing Rules of NZX) reduce or increase the number of Options held by a Participant in the event of consolidation or subdivision of any or all of the Company's shares.
 - h) The Company will (except to the extent precluded by the Listing Rules of NZX) take all necessary steps to procure that Participants participate in any rights issue or bonus issue made by the Company as if the Participant was the holder of the shares to which his or her Options relate in order to ensure that the Participant is able to share in all such benefits received by shareholders. Any securities to which the Participant becomes entitled as a result of a bonus issue will be allotted and issued only upon the exercise of the Options to which they relate.
 - i) The Company will adjust the exercise price and/or the number of Options in the event of any other alteration or reconstruction of the capital of the Company, to ensure that no benefit or disadvantage is conferred on a Participant that is not conferred on holders of shares.
4. In accordance with NZX Listing Rule 9.3, none of the directors or employees referred to in paragraph 2, nor any of their associated persons, may vote on the resolution approving the Plan.

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