



**Renaissance Corporation Limited**  
2005 Annual Report

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Copies of the Annual and Interim Reports are available from our website, [www.renaissance.co.nz](http://www.renaissance.co.nz)

# DIRECTORY

## DIRECTORS

R G Ebbett (Chairman)  
 P Johnston (Managing Director)  
 C Giffney (appointed 15 February 2006)  
 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

## AUDITORS

Deloitte  
 Auckland

## BANKERS

Bank of New Zealand  
 Auckland

## SHARE REGISTRAR

Computershare Investor Services Ltd  
 Private Bag 92119  
 Auckland 1020

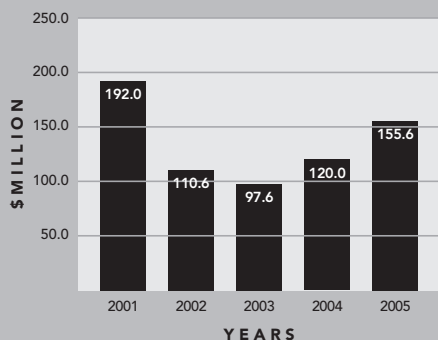
## SOLICITORS

Mayne Wetherell  
 Auckland

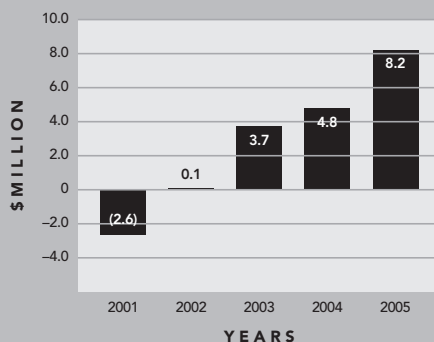
## FINANCIAL SUMMARY

	2005 \$000	2004 \$000	2003 \$000	2002 \$000	2001 \$000
Operating Revenue	<b>155,612</b>	119,979	97,559	110,606	192,009
Revenue Growth	<b>30%</b>	23%	(12%)	(42%)	22%
Net Surplus (Deficit) after Taxation and Minority Interest	<b>5,055</b>	2,288	1,331	(1,274)	(3,483)
Total Assets	<b>49,015</b>	34,475	26,253	31,240	42,655
Shareholders' Equity Ratio	<b>23%</b>	28%	35%	30%	27%
Dividend Rate Paid (Fully or Partially Imputed)	<b>9.5c</b>	6.0c	4.0c	3.0c	2.0c
Total Dividends	<b>3,649</b>	2,259	1,487	1,114	734
Net Asset Backing Per Share	<b>29.42c</b>	25.65c	25.00c	26.00c	31.41c
Earnings Per Share	<b>13.13c</b>	5.98c	3.58c	(3.43c)	(11.15c)

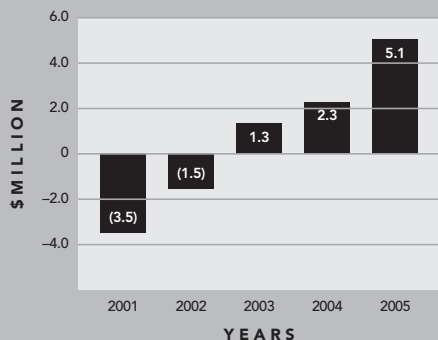
REVENUE



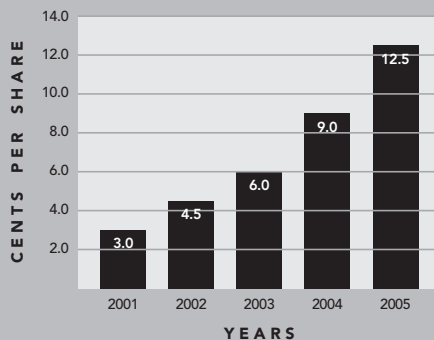
EBITDA



PROFIT AFTER TAX



GROSS DIVIDENDS PAID PER SHARE



# DIRECTORS' REPORT

In February 2006 the Directors of Renaissance Corporation announced that the 2005 annual result produced the highest profit in the Company's history. Renaissance posted an audited after-tax profit for the 12 months ended 31 December 2005 of \$5.1 million, an increase of 121% over the 2004 result of \$2.3 million. This represented a return of 45% on year-end equity.

Renaissance saw annual revenue growth of 30%. A small increase in trading margins coupled with tight controls of operating costs enabled the Group to report earnings before interest and tax at \$6.9 million, which was 89% ahead of 2004.

The main features of the year's trading were:

- Significant growth in our core distribution business
- Strong growth in our e-commerce subsidiary Conduit
- Continued strong cash generation from operations

## CASH FLOWS AND FINANCIAL POSITION

Cash flow generated from operations during the year was \$11.1 million and the Group had \$12.7 million cash in its year end balance sheet. At year end, total Group assets were \$49 million, (\$34.5 million in 2004) and shareholders' equity was \$11.3 million (\$9.8 million in 2004). Intangible assets continued to reduce and, as predicted, the Future Tax Asset was fully utilised with the Group returning to a tax-paying position in 2005.

## OPERATIONAL REVIEW

The extraordinary worldwide growth of Apple Computer has tended to dominate most of the local media coverage on Renaissance, and this is understandable. Our Apple Computer Division has achieved similar growth rates to those experienced by Apple internationally and this certainly is a major contributor to the Renaissance Group result. However it should be noted that during the same period the growth from our Brands Division and our e-commerce business, Conduit, has also been considerable.

## RENAISSANCE BRANDS DIVISION

Over the last two years this Division, especially in the areas of Mobile Computing and Telecommunications and Network Security, has achieved the highest profit growth in the Renaissance Group. This has largely been the result of several individual contracts being secured during this time, and although most of these have been one-off deals there has also been an underlying steady growth in our other targeted markets.

This Division has consistently demonstrated its ability to fully manage a vendor's brand in New Zealand and develop a complete go-to-market strategy. In nearly every case, we have delivered higher than average market share for those vendors.

In order to maintain growth in this Division we recognise the need to continue sourcing new brands and this remains a major focus for the year ahead.

## **APPLE COMPUTER DIVISION**

The worldwide success of Apple products, in particular the iPod, has been reflected in the continued growth experienced by the brand here in New Zealand. Over the last four years, Renaissance's investment in our retail strategy has allowed us to achieve high revenue growth, and the "Halo effect" – where iPod purchasers go on to buy an Apple computer system – is certainly evident in New Zealand.

There are several factors that could influence the future growth of this Division, including the prospect of Apple introducing their own on-line store into New Zealand. Apple has over 20 such stores worldwide and by their very nature these stores do compete with local resellers and distributors in some areas of business. However, there is also sufficient evidence to show that their introduction does aid in growing the overall Apple business. We have no firm date at this time for its introduction, and we do expect to see continued growth and further increases in unit volumes from this Division.

## **RENAISSANCE EDUCATION DIVISION**

For over 20 years, Renaissance has been providing computers, software and training to schools. In the last 2-3 years, greater investment has been needed to meet increasing government requirements, particularly in the area of software systems. After a comprehensive review of operations, we decided to combine our separate education teams into a single entity. In January 2006 we launched the Renaissance Education Division (RED) and shortly after launched the RED on-line store. This store will provide schools the ability to purchase a range of products, not all IT based, at discounted rates. This on-line store will also enable schools to earn RED Dollars with every purchase; these can be used to pay for some of the best professional development courses available to teachers in New Zealand. In the coming months we will also expand the range of technical services and support contracts available to schools. We believe this new Division will be more efficient, cost effective and better positioned to provide the very best IT solutions, including professional development and services, to New Zealand schools.

## **INSITE**

Our Christchurch-based PC assembly business continues to be a solid contributor to Group profits. In 2005 Insite released several new models, including desktop PCs and portables built under license from our UK-based partner RM, which have been well received. The range of products from Insite is particularly well suited to the education market and Insite resellers, including our own RED sales team, which now has a unique offering to take to market. As a result of increased production we have extended the Insite premises in Christchurch and new sales and support staff have been hired. We expect to see further growth from this business in 2006.

## **CONDUIT**

There is a growing confidence and maturity in New Zealand and Australian companies when it comes to implementing transactional web-based systems. Conduit has developed a superb reputation in this market and has been selected by a number of leading organisations to provide web-based solutions. In 2005 Conduit developed a number of new projects including phase one of the new Ferrit web site for Telecom. This site was launched with the ability to search over 1.2 million products and is scalable to significantly higher numbers. The site uses a new search engine developed and owned by Conduit, and we believe it to be one of the fastest of its kind in the world. After many years of investment Conduit is now a significant contributor to the Renaissance Group result and we see further growth from this business in the coming years.

## DIRECTORS' REPORT

### **DIVIDEND**

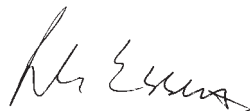
Your Directors announced a fully imputed dividend of 6 cents per share to be paid on 7 April 2006, with the shares going ex-dividend on 31 March 2006. The Company will also pay a supplementary dividend to non-resident shareholders of 1.058823 cents per share on the same date.

### **OUTLOOK**

Although 2006 will be a challenging year, our current businesses should allow us to achieve our growth targets. A major focus for the company is to continue adding to our portfolio with quality products that complement our existing offerings. We continue to look for potential acquisitions that would enhance our current business model and although we have held discussions with several prospects in the last 12 months, none have met our criteria.

The Directors believe that, provided market conditions remain relatively stable, the Company is well-positioned to show further growth and increased profitability in the coming year.

*For and on behalf of the Board of Directors*



R.G. Ebbett  
Chairman  
31 March 2006



P. Johnston  
Managing Director  
31 March 2006

# AUDITORS' REPORT

to the Shareholders of Renaissance Corporation Limited

We have audited the financial statements on pages 8 to 24. The financial statements provide information about the past financial performance and financial position of Renaissance Corporation Limited and group as at 31 December 2005. This information is stated in accordance with the accounting policies set out on pages 12 to 15.

## 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 Renaissance Corporation Limited and group as at 31 December 2005 and of the results of their operations and cashflows for the year ended 31 December 2005.

## AUDITORS' RESPONSIBILITIES

It is our responsibility to express an independent opinion to you on the financial statements presented by the Board of Directors.

## 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 obtain 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.

Other than in our capacity as auditor, we have no relationship with or 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 Renaissance Corporation Limited as far as appears from our examination of those records; and
- the financial statements on pages 8 to 24:
  - » comply with generally accepted accounting practice in New Zealand;
  - » give a true and fair view of the financial position of the Renaissance Corporation Limited and group as at 31 December 2005 and the results of their operations and cashflows for the year ended on that date.

Our audit was completed on 31 March 2006 and our unqualified opinion is expressed as at that date.



Chartered Accountants  
Auckland, New Zealand

This audit report relates to the financial statements of Renaissance Corporation Limited for the year ended 31 December 2005 included on Renaissance Corporation Limited's website. Renaissance Corporation Limited's Board of Directors is responsible for the maintenance and integrity of Renaissance Corporation Limited's website. We have not been engaged to report on the integrity of Renaissance Corporation Limited's website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 20 March 2006 to confirm the information included in the audited financial statements presented on this website. Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of

**FINANCIAL PERFORMANCE**

for the year ended 31 December 2005

	NOTES	Group		Parent	
		2005 \$000	2004 \$000	2005 \$000	2004 \$000
<b>Operating Revenue</b>	2	<b>155,612</b>	119,979	<b>562</b>	—
<b>Operating Surplus (Deficit) before the following Expenses:</b>		<b>9,174</b>	5,353	<b>(203)</b>	—
Audit fees		<b>63</b>	58	<b>63</b>	—
Depreciation:					
Leasehold improvements		<b>97</b>	83	—	—
Plant and equipment		<b>13</b>	50	—	—
Motor vehicles		<b>2</b>	2	—	—
Computer equipment		<b>338</b>	395	—	—
Office furniture and fittings		<b>75</b>	41	—	—
Software		<b>429</b>	239	—	—
Amortisation of goodwill		<b>156</b>	156	—	—
Amortisation of intangible assets		<b>172</b>	162	—	—
Directors' fees		<b>140</b>	140	<b>140</b>	—
Donations		<b>5</b>	5	—	—
Interest		<b>30</b>	164	—	—
Bad debts written off		<b>20</b>	18	—	—
Provision for doubtful debts		<b>14</b>	(114)	—	—
Loss on disposal of plant, property and equipment		<b>16</b>	46	—	—
Rental and operating lease costs		<b>422</b>	388	—	—
<b>Surplus before Taxation</b>		<b>7,182</b>	3,520	—	—
Taxation expense	3	<b>(2,127)</b>	(1,232)	—	—
<b>Net Surplus for the year</b>		<b>5,055</b>	2,288	—	—

**PARENT COMPANY EXPENDITURES**

In 2004, 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 prior year and therefore have not been shown in the above statement.

Statement of

**MOVEMENTS IN EQUITY**

for the year ended 31 December 2005

	NOTES	Group		Parent	
		2005 \$000	2004 \$000	2005 \$000	2004 \$000
<b>Equity at Beginning of the Year</b>		<b>9,807</b>	9,478	<b>11,650</b>	13,297
<b>RECOGNISED REVENUE AND EXPENSES</b>					
Net Surplus for the period		<b>5,055</b>	2,288	—	—
Exchange difference arising on translation of independent foreign operations		—	11	—	—
<b>Total recognised revenues and expenses</b>		<b>5,055</b>	2,299	—	—
<b>CONTRIBUTIONS BY OWNERS</b>					
Allotment of shares on exercise of options	4	<b>116</b>	612	<b>116</b>	612
<b>DISTRIBUTIONS TO OWNERS</b>					
Dividends paid		<b>(3,649)</b>	(2,259)	<b>(3,649)</b>	(2,259)
<b>MOVEMENTS IN MINORITY INTEREST</b>					
Movement in minority interest		—	(323)	—	—
<b>Added to equity during the year</b>		<b>1,522</b>	329	<b>(3,533)</b>	(1,647)
<b>Equity at End of the Year</b>		<b>11,329</b>	9,807	<b>8,117</b>	11,650

Statement of

**FINANCIAL POSITION**

as at 31 December 2005

	NOTES	Group		Parent	
		2005 \$000	2004 \$000	2005 \$000	2004 \$000
<b>EQUITY</b>					
Share capital	4	24,220	24,104	24,220	24,104
Net accumulated earnings and distributions		(12,891)	(14,297)	(16,103)	(12,454)
<b>Total Equity</b>		<b>11,329</b>	<b>9,807</b>	<b>8,117</b>	<b>11,650</b>
<b>CURRENT LIABILITIES</b>					
Payables and accruals	6	37,108	24,568	261	261
Provisions	7	42	100	—	—
Taxation payable		536	—	—	—
Advances from subsidiaries	12	—	—	5,897	2,354
		<b>37,686</b>	<b>24,668</b>	<b>6,158</b>	<b>2,615</b>
<b>Total Liabilities and Equity</b>		<b>49,015</b>	<b>34,475</b>	<b>14,275</b>	<b>14,265</b>
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment	8	2,197	1,939	—	—
Future tax benefit	3	—	1,166	114	114
Goodwill	10	662	818	—	—
Intangibles	9	410	425	—	—
Investment in subsidiaries	12	—	—	13,885	13,885
Deferred Taxation	11	903	389	—	—
		<b>4,172</b>	<b>4,737</b>	<b>13,999</b>	<b>13,999</b>
<b>CURRENT ASSETS</b>					
Bank		12,676	6,448	15	5
Receivables and prepayments	13	23,442	17,087	—	—
Inventories	14	8,725	6,203	—	—
Advances to subsidiaries	12	—	—	261	261
		<b>44,843</b>	<b>29,738</b>	<b>276</b>	<b>266</b>
<b>Total Assets</b>		<b>49,015</b>	<b>34,475</b>	<b>14,275</b>	<b>14,265</b>

On behalf of the Directors


P. Johnston  
Managing Director

C.M. Lewis  
Director

Statement of

**CASH FLOWS**

for the year ended 31 December 2005

	NOTES	Group		Parent	
		2005 \$000	2004 \$000	2005 \$000	2004 \$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
<i>Cash was provided from (disbursed to):</i>					
Receipts from customers		148,739	115,725	—	—
Interest received		282	114	—	—
Payments to external suppliers and employees		(136,921)	(104,145)	(562)	—
Receipt of dividends		—	—	100	—
Management fee		—	—	462	—
Taxation paid		(940)	(19)	—	—
Interest paid – external		(30)	(164)	—	—
<b>Net Cash Inflow from Operating Activities</b>	16	<b>11,130</b>	11,511	—	—
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
<i>Cash was provided from (disbursed to):</i>					
Proceeds from sale of business assets		114	143	—	—
Purchase of property, plant and equipment		(1,483)	(971)	—	—
<b>Net Cash (Outflow) from Investing Activities</b>		<b>(1,369)</b>	(828)	—	—
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
<i>Cash was provided from (disbursed to):</i>					
Proceeds from issue of shares		116	288	116	288
Receipt of intercompany advances		—	—	3,543	1,971
Payment of dividends		(3,649)	(2,259)	(3,649)	(2,259)
Settlement of term debt		—	(2,425)	—	—
<b>Net Cash (Outflow) Inflow from Financing Activities</b>		<b>(3,533)</b>	(4,396)	10	—
Net increase in cash held		6,228	6,287	10	—
Add opening cash brought forward		6,448	161	5	5
<b>Closing Cash Carried Forward</b>		<b>12,676</b>	6,448	15	5
<b>Cash Balances in the Statement of Financial Position:</b>					
<b>Bank</b>		<b>12,676</b>	6,448	15	5

# NOTES

to and forming part of the Financial Statements for the year ended 31 December 2005

## 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, Epson, Palm, Philips, Sierra Wireless, SonicWALL, Sony and USRobotics.
- 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) Consolidation of Subsidiaries

Subsidiaries are those entities that are controlled by the Company. The Group financial statements incorporate the financial statements of the Company and its subsidiaries, which have been consolidated using the purchase method. All inter-company transactions, balances and unrealised profits 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.

## 1 STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

### c) Depreciation

Depreciation is provided on all property, plant and equipment 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.

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

Goodwill arising on the acquisition of subsidiaries is recognised as an asset and separately disclosed. Goodwill is amortised in the statement of financial performance on a straight line basis over the period of expected benefits.

### 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.

# NOTES

to and forming part of the Financial Statements for the year ended 31 December 2005

## 1 STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

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 alignment with the time pattern of the nature of the lease.

### 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 difference arising on translation of independent foreign operations which is taken directly to the Statement of Movements in Equity.

### 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.

Definition 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.

## 1 STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

### 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.

Software development costs are capitalised in accordance with the Group policy on research and development. 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.

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 a basis consistent with those used in previous periods.

# NOTES

to and forming part of the Financial Statements for the year ended 31 December 2005

	Group		Parent	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
<b>2 OPERATING REVENUE</b>				
Sales	155,330	119,865	—	—
Interest received	282	114	—	—
Dividends received	—	—	100	—
Management fee	—	—	462	—
	<b>155,612</b>	<b>119,979</b>	<b>562</b>	<b>—</b>
<b>3 TAXATION</b>				
Surplus before taxation	7,182	3,520	—	—
Income Tax @ 33%	2,370	1,162	—	—
Taxation effect of permanent differences:				
Amortisation of goodwill	51	51	—	—
Non-deductible expenses	34	19	—	—
Recognise prior year tax loss offset	(328)	—	—	—
<b>Taxation Expense</b>	<b>2,127</b>	<b>1,232</b>	<b>—</b>	<b>—</b>
<b>THE TAXATION CHARGE IS REPRESENTED BY:</b>				
Current taxation	2,641	1,368	—	—
Deferred taxation income	(514)	(136)	—	—
	<b>2,127</b>	<b>1,232</b>	<b>—</b>	<b>—</b>

Renaissance Corporation Limited Group has no income tax losses (2004 losses, \$3,535,000) available to be carried forward and set off against future assessable income. The income tax effect of these losses is nil (2004, \$1,166,531). The income tax effect brought forward for Renaissance Corporation Limited is \$114,491 (2004, \$114,491).

Realisation of the Future Tax Benefit was subject to the requirements of the income tax legislation being met, including the required continuity of shareholding. This Future Tax Benefit has been realised during the 2005 year.

	Group	
	2005 \$000	2004 \$000
<b>IMPUTATION CREDIT ACCOUNT</b>		
Balance at beginning of year	201	947
Taxation paid	940	—
Other	—	366
Attached to dividends paid	(1,141)	(1,112)
<b>Balance at end of year</b>	<b>—</b>	<b>201</b>
At balance date the imputation credits available to the shareholders of the parent company were:		
Through shareholding in the parent company	—	201

#### 4 SHARE CAPITAL

	Group & Parent		2005 \$000	2004 \$000
	2005 Number of shares	2004		
<b>ISSUED AND PAID UP CAPITAL – ORDINARY SHARES</b>				
Balance at beginning of year	38,238,405	37,172,084	24,104	23,492
Issue to DBS Nominees Private	—	476,321	—	324
Allotment on exercise of employee share options	275,500	590,000	116	288
<b>Balance at end of year</b>	<b>38,513,905</b>	<b>38,238,405</b>	<b>24,220</b>	<b>24,104</b>

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

#### 5 CREDIT FACILITIES

##### BANK LOANS

The Renaissance Limited and Insite Technology Limited bank loans were repaid in full on 29 September 2004.

##### MULTI-OPTION FACILITY

The Group has a multi-option facility, including a committed cash advance facility (CCAF), of \$4,000,000 (31 December 2004, \$4,000,000). There was no CCAF drawn down as at 31 December 2005 (31 December 2004, Nil).

The multi-option facility is 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 bank having first priority on a maximum of \$14,000,000 plus interest and charges.

#### 6 PAYABLES AND ACCRUALS

	Group		Parent	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
Trade creditors	28,374	19,780	—	—
Sundry creditors and accruals	7,895	4,178	261	261
Employee entitlements	839	610	—	—
	<b>37,108</b>	<b>24,568</b>	<b>261</b>	<b>261</b>

Trade creditors of \$22,183,219 (31 December 2004, \$14,964,841) are secured by way of debenture over the assets and undertakings of Renaissance Limited, to Apple Computer Australia Pty Ltd. Sundry creditors and accruals includes approximately \$878,000 (2004: nil) relating to after-sales service allowances.

#### 7 PROVISIONS

Balance at beginning of year	100	—	—	—
Provisions made in the year	—	100	—	—
Amounts utilised in the year	(58)	—	—	—
<b>Balance at end of year</b>	<b>42</b>	<b>100</b>	<b>—</b>	<b>—</b>

Provisions relate to costs that will be incurred in rationalising the operations in the Group in 2006.

# NOTES

to and forming part of the Financial Statements for the year ended 31 December 2005

	Group		Parent	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
<b>8 PROPERTY, PLANT AND EQUIPMENT</b>				
Leasehold improvements	821	616	—	—
Accumulated depreciation	(505)	(407)	—	—
	<b>316</b>	209	—	—
Plant and equipment	325	365	—	—
Accumulated depreciation	(230)	(224)	—	—
	<b>95</b>	141	—	—
Motor vehicles	75	8	—	—
Accumulated depreciation	(6)	(6)	—	—
	<b>69</b>	2	—	—
Computer equipment	2,431	1,771	—	—
Accumulated depreciation	(1,488)	(1,106)	—	—
	<b>943</b>	665	—	—
Office furniture and equipment	523	425	—	—
Accumulated depreciation	(259)	(181)	—	—
	<b>264</b>	244	—	—
Software	1,719	1,635	—	—
Accumulated depreciation	(1,209)	(957)	—	—
	<b>510</b>	678	—	—
<b>Total Property, Plant and Equipment – Net Book Value</b>	<b>2,197</b>	1,939	—	—
<b>9 INTANGIBLES</b>				
Software development costs capitalised	1,106	949	—	—
Accumulated amortisation	(696)	(524)	—	—
	<b>410</b>	425	—	—
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.				
<b>10 GOODWILL</b>				
On acquisition of subsidiaries	4,562	4,562	—	—
Accumulated amortisation	(3,900)	(3,744)	—	—
	<b>662</b>	818	—	—

Goodwill is amortised over a period no greater than 10 years.

	Group		Parent	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
<b>11 DEFERRED TAXATION</b>				
Balance at beginning of year	389	253	—	—
Current year movement	514	136	—	—
<b>Balance at end of year</b>	<b>903</b>	<b>389</b>	<b>—</b>	<b>—</b>

	Parent	
	2005 \$000	2004 \$000
<b>12 INVESTMENTS IN / ADVANCES (FROM) SUBSIDIARIES</b>		
Investment in subsidiaries	13,885	13,885
Advances to subsidiaries	261	261
Advances from subsidiaries	(5,897)	(2,354)

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	
		2005	2004
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	100%	100%

On 30 September 2004, Renaissance Corporation Limited issued 476,321 shares to DBS Nominees Private, to acquire the remaining 16.67% in Conduit International Limited.

The above subsidiary Companies all have a balance date of 31 December.

	Group		Parent	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
<b>13 RECEIVABLES AND PREPAYMENTS</b>				
Trade receivables	21,664	16,531	—	—
Prepayments and miscellaneous receivables	1,778	556	—	—
	<b>23,442</b>	<b>17,087</b>	<b>—</b>	<b>—</b>

# NOTES

to and forming part of the Financial Statements for the year ended 31 December 2005

	Group		Parent	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
<b>14 INVENTORIES</b>				
Finished goods	7,516	6,478	—	—
Goods in transit	1,209	1,725	—	—
	<b>8,725</b>	6,203	—	—

Inventory supplied by a number of suppliers is subject to a reservation of title until such time as payment is made in full.

## 15 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 ARE:

Bank	12,676	6,448	15	5
Receivables	23,442	17,087	—	—
Financial guarantees	23,703	16,455	23,703	16,455
Forward exchange contracts to buy	48,843	45,426	48,399	44,984

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 exposed to specific concentration of credit risk. The Group's five largest debtors as at 31 December 2005 represent 53.93% (31 December 2004, 45.62%) of trade receivables.

### CURRENCY RISK

At balance date the Group had entered into trade related foreign exchange contracts maturing during 2006 to purchase the equivalent of NZ\$48,842,823 (31 December 2004, \$45,426,157). These contracts cover 100% of the Group's exposure to all suppliers payable in Australian and United States dollars respectively.

### INTEREST RATE RISK

The Group has no interest-bearing liabilities, and is therefore not exposed to interest rate risk.

	Group		Parent	
	2005	2004	2005	2004
	\$000	\$000	\$000	\$000

## FAIR VALUES

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

### Liabilities:

Forward exchange contracts	<b>300</b>	287	<b>314</b>	283
----------------------------	------------	-----	------------	-----

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.

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.

## 16 RECONCILIATION OF NET SURPLUS AFTER TAXATION WITH CASH INFLOW FROM OPERATING ACTIVITIES

Reported surplus after taxation	<b>5,055</b>	2,288	—	—
<i>Add (less) non cash items:</i>				
Depreciation	<b>954</b>	810	—	—
Amortisation of goodwill and intangible assets	<b>328</b>	318	—	—
Increase in deferred tax	<b>(514)</b>	(136)	—	—
Decrease in future income tax benefit	<b>1,703</b>	1,349	—	—
Increase in sundry creditors and accruals	<b>3,759</b>	2,066	—	—
Increase in provisions	<b>(58)</b>	100	—	—
Increase in employee entitlements	<b>229</b>	238	—	—
Other	<b>(1)</b>	(76)	—	—
	<b>6,400</b>	4,669	—	—
<i>Movement in working capital:</i>				
Increase in trade creditors	<b>8,552</b>	7,914	—	—
Increase in receivables	<b>(6,355)</b>	(4,056)	—	—
(Increase) Decrease in inventory	<b>(2,522)</b>	650	—	—
	<b>(325)</b>	4,508	—	—
<i>Less items classified as investing activity:</i>				
Loss on sale of property, plant and equipment	—	46	—	—
	—	46	—	—
<b>Net Cash Inflow from Operating Activities</b>	<b>11,130</b>	11,511	—	—

# NOTES

to and forming part of the Financial Statements for the year ended 31 December 2005

## 17 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 includes 100% ownership of Conduit Solutions Australia Pty Limited, with nil carrying investment value. Conduit International Limited also has the following non-trading subsidiaries: Conduit Holdings Limited, Conduit Technology Limited and Conduit Solutions Limited.

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 \$5,897,605 made to the parent company by Renaissance Limited were outstanding at 31 December 2005 (31 December 2004, advances to the parent company totalled \$2,354,609). Advances totalling \$261,491 made by the parent company to Conduit International Limited were outstanding at 31 December 2005 (31 December 2004, \$261,491). These advances are non-interest bearing and payable on demand.

No related party balances have been written off or forgiven.

## 18 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 \$22,183,219 (31 December 2004, \$14,964,841).

Renaissance Corporation Limited has also provided a guarantee of \$7,000,000 to the Bank of New Zealand, inclusive of interest and costs in terms of the Bank's standard guarantee form. The bank has provided on behalf of Renaissance Corporation Limited standby Letters of Credit for \$1,445,851 (2004: \$1,414,874).

	Group		Parent	
	2005	2004	2005	2004
	\$000	\$000	\$000	\$000
Not later than one year	396	421	—	—
Later than one year and not later than two years	188	361	—	—
Later than two years and not later than five years	28	160	—	—
Later than five years	—	—	—	—
	<b>612</b>	<b>942</b>	<b>—</b>	<b>—</b>

## 19 COMMITMENTS

There are no capital commitments at 31 December 2005 (31 December 2004, nil).

*Operating lease commitments under non-cancellable operating leases:*

Not later than one year	396	421	—	—
Later than one year and not later than two years	188	361	—	—
Later than two years and not later than five years	28	160	—	—
Later than five years	—	—	—	—
	<b>612</b>	<b>942</b>	<b>—</b>	<b>—</b>

## 20 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 exercise price of the options was established as the average market price of the Company's ordinary shares over the ten trading days preceding the date that the option was issued.

The issue of options was made on 30 April 2004.

### THE PARTICIPANTS ARE ENTITLED TO EXERCISE THE OPTIONS AS FOLLOWS:

50% of the Options become exercisable on the date falling 24 months after the Grant Date. 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 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.

### DETAILS OF THE OPTIONS ISSUED ARE AS FOLLOWS:

	Exercise Price	N° of Options
Options issued on 3 September 2002		740,000
Options exercised between 3 September 2002 and 3 September 2003		(24,500)
Options exercised between 3 September 2003 and 22 October 2004		(140,000)
Options exercised between 23 October 2004 and 25 August 2005		(275,500)
Options lapsed as participants ceased to be full-time employees		(300,000)
The number of issued options yet to be exercised as at 31 December 2005	\$0.42 per share	—

# NOTES

to and forming part of the Financial Statements for the year ended 31 December 2005

	Exercise Price	N° of Options
Options issued on 30 April 2004		1,600,000
Options lapsed as participants ceased to be full-time employees		(100,000)
<hr/>		
The number of issued options yet to be exercised as at 31 December 2005	\$0.67 per share	1,500,000

## 21 SEGMENTAL REPORTING

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

## 22 SUBSEQUENT EVENTS

Subsequent to balance date, Colin Giffney was appointed to the Board of Directors on 15 February 2006. A fully imputed dividend of 6 cents per share was approved to be paid on 7 April 2006, with the shares going ex-dividend on 31 March 2006. The Company will also pay a supplementary dividend to non-resident shareholders of 1.058823 cents per share on the same date.

## 23 TRANSFER TO NZ IFRS

Renaissance Corporation will adopt the New Zealand equivalents to with International Financial Reporting Standards ("NZ IFRS") for the year ended 31 December 2007.

The first interim financial statements prepared under NZ IFRS will be for the six months ending 30 June 2007 and the first annual statements will be for the year ending 31 December 2007. When complying with NZ IFRS for the first time, the group will need to restate the comparative financial statements using NZ IFRS.

The adoption of NZ IFRS will require a number of changes to Renaissance Corporation's current accounting policies. Renaissance Corporation has not identified the impact on the financial report had it been prepared using NZ IFRS. Differences in current accounting policies from adopting NZ IFRS have not yet been quantified or specifically identified, as the impacts are not known or reliably estimable.

The key potential implications of the conversion to NZ IFRS may include, but are not limited to, the following:

- Under NZ IAS 36, adoption of NZ IFRS goodwill is not subject to amortisation, but must be tested for impairment annually, and also whenever there is an indication that goodwill may be impaired
- Under NZ IAS 12, accounting for income tax will require adoption of a balance sheet approach instead of the current income statement approach
- Under NZ IAS 1, with limited exceptions, adjustments required on first-time adoption of NZ IFRS are recognised directly in retained earnings at the date of transition to NZ IFRS

Developments in NZ IFRS are being monitored to manage the transition to NZ IFRS compliance.

The impact of adopting NZ IFRS may vary from the information presented, and the variation may be material.

# SHAREHOLDER INFORMATION

## REMUNERATION OF DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2005

### 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	\$616,950
S.B. King	\$30,000
C.M. Lewis	\$464,650

## REMUNERATION OF EMPLOYEES (EXCLUDING EXECUTIVE DIRECTORS)

### NUMBER OF EMPLOYEES

\$100,000—\$110,000	3
\$110,000—\$120,000	2
\$120,000—\$130,000	1
\$130,000—\$140,000	2
\$150,000—\$160,000	1
\$250,000—\$260,000	1
\$310,000—\$320,000	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 20/3/06	Non-Beneficially Held as at 20/3/06	Beneficially Held as at 31/12/04	Non-Beneficially Held as at 31/12/04
R.G. Ebbett	330,000	—	330,000	—
P. Johnston	62,500	—	62,500	—
D.J. Graham	45,000	—	45,000	—
C.G. Giffney	200,000	—	—	—
S.B. King	25,000	—	50,000	—
C.M. Lewis	1,950,000	—	1,950,000	—
M.R. Thompson	6,756,705	—	7,456,205	12,831,079

In 2004, M.R. Thompson held shares in his own name, as a joint beneficiary in his family trust, and as a shareholder in Electronic Mail International Limited. He had non-beneficial interests in the shares held by Electronic Mail International Limited.

# SHAREHOLDER INFORMATION

## GENERAL DISCLOSURES OF INTEREST

There were 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
Horticom Limited	Director
New Zealand Air Braking Consultants Limited	Director

### C.G. GIFFNEY

Entity	Relationship
Giffney & Jones (NZX Member)	Principal
Solution Dynamics Limited	Director
Takeovers Panel	Member

### D.J. GRAHAM, CBE

Entity	Relationship
University Book Shop	Director

## SHARE DEALINGS

### M.R. THOMPSON HAD THE FOLLOWING DEALINGS:

- On 23 February 2005, sold 6,000 shares for \$6,720 under Martinique Management Limited
- On 24 March 2005, transferred 450,000 shares for \$450,000 to Electronic Mail International Limited
- On 9 August 2005, Electronic Mail International Limited sold 1,500,000 shares for a total consideration of \$1,650,000 by private treaty
- On 22 December 2005, Electronic Mail International Limited was liquidated and the shares were distributed in specie to its shareholders in the course of liquidation of that company
- On 24 February 2006, sold 24,375 shares for \$36,602
- On 27 February 2006, sold 65,800 shares for \$98,700
- On 28 February 2006, sold 46,550 shares for \$70,500
- On 1 March 2006, sold 49,500 shares for \$76,042
- On 2 March 2006, sold 3,775 shares for \$5,813
- On 3 March 2006, sold 200,000 shares for \$200,000 to C.G. Giffney
- On 8 March 2006, sold 49,500 shares for \$74,250
- On 13 March 2006, sold 4,000 shares for \$6,000
- On 17 March 2006, sold 18,720 shares for \$28,080

### S.B. KING HAD THE FOLLOWING DEALINGS:

- On 2 February 2006, sold 15,000 shares for \$22,350
- On 22 February 2006, sold 10,000 shares for \$14,900

### C.G. GIFFNEY HAD THE FOLLOWING DEALINGS:

- On 3 March 2006, purchased 200,000 shares for \$200,000 from M.R. Thompson

## 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 20 March 2006 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	%
ACMA Limited	10,081,079	26.18%
Malcolm Raymond Thompson	6,756,705	17.54%
Clive Malcolm Lewis & Helen Joy Lewis	1,950,000	5.06%

The total number of voting securities of the Company on issue at 20 March 2006 was 38,513,905 fully-paid ordinary shares.

## TWENTY-FIVE LARGEST SECURITY HOLDERS AS AT 20 MARCH 2006

Shareholder	Number of Shares	%
ACMA Limited	10,081,079	26.18%
Malcolm Raymond Thompson	5,796,387	15.05%
Clive Malcolm Lewis & Helen Joy Lewis	1,950,000	5.06%
Accident Compensation Corporation — A/C NZCSD	1,664,000	4.32%
Martinique Management Limited	960,318	2.49%
DBS Nominees (Private) Limited	476,321	1.24%
ASB Nominees Limited	420,000	1.09%
First NZ Capital Custodians Limited	390,218	1.01%
New Zealand Equity Nominee Pool — NZCSD	350,000	0.91%
Richard Grant Ebbett	330,000	0.86%
Matthew Ryan Lynch	300,000	0.78%
Murray John Wood	283,935	0.74%
Hamish Edward Elliot Brown & Colin Charles Mckay & Alison Jane Preston	250,000	0.65%
Eng Se John Tan	243,893	0.63%
Walter Mick George Yovich & Jeanette Julia Yovich	232,783	0.60%
Colin Glenn Giffney	200,000	0.52%
Ascendi International Limited	185,800	0.48%
Hendry Nominees Limited	180,659	0.47%
Siu Fong Tan	176,969	0.46%
Norman Francis Reynolds & Margaret June Reynolds	159,000	0.41%
William Frank Parkinson & Robin Gwiney Parkinson	156,500	0.41%
Kay Hong Chiam	150,000	0.39%
Rees Hollier John Jones & Moira Marguerite Jones & Walter Mick George Yovich	125,485	0.33%
Portfolio Custodian Limited	116,712	0.30%
Gee Seu Law	105,700	0.27%
<b>Total</b>	<b>25,285,759</b>	<b>65.65%</b>

# SHAREHOLDER INFORMATION

## DOMICILE OF SECURITY HOLDERS AS AT 20 MARCH 2006

Country	Number of Holders	Number of Shares	%
New Zealand	1608	27,405,318	71.16%
Singapore	3	10,707,400	27.80%
Australia	36	151,977	0.40%
United Kingdom	7	93,580	0.24%
Canada	2	70,000	0.18%
Hong Kong	3	38,000	0.10%
USA	8	12,900	0.03%
Others	6	34,730	0.09%
<b>Total</b>	<b>1,673</b>	<b>38,513,905</b>	<b>100.00%</b>

## SPREAD OF SECURITY HOLDERS AS AT 20 MARCH 2006

Shareholding size	Number of Holders	Total Shares Held	%
1—999	70	38,165	0.10%
1,000—1,999	484	651,890	1.69%
2,000—4,999	419	1,240,296	3.22%
5,000—9,999	264	1,668,117	4.33%
10,000—49,999	367	6,509,558	16.90%
50,000—99,999	35	2,214,620	5.75%
100,000—499,999	29	5,739,475	14.90%
500,000—999,999	1	960,318	2.49%
1,000,000 and over	4	19,491,466	50.62%
<b>Total</b>	<b>1,673</b>	<b>38,513,905</b>	<b>100.00%</b>

# CORPORATE GOVERNANCE

The Board and Management of Renaissance Corporation Limited are committed to the maintenance of high ethical and behavioural standards throughout the organisation.

## ROLE OF THE BOARD

The Board of Directors is responsible for the management and supervision of the business and affairs of the Company. The Board discharges this responsibility by ensuring that sound business systems are in place to ensure that:

- business strategies, plans and budgets are properly formulated, reviewed and approved;
- relationships with key suppliers are maintained at a high level;
- significant business risks are identified and continually monitored;
- the Company complies with the continuous disclosure regime;
- all material transactions and matters of importance to the Company are approved by the Board; and
- the Company complies with the laws and regulatory requirements that affect it.

Responsibility for the day-to-day operation and administration of the Company is delegated to the Managing Director who is accountable to the Board.

## COMPOSITION OF THE BOARD

The Board comprises two executive directors (the Managing Director and Finance Director) and five non-executive directors. These Directors are detailed on page 25 of this Report.

Pursuant to NZSX Listing Rule 3.3.8 at least one third, or the number nearest to one-third, of the directors (excluding any Director appointed by the Board between Annual Meetings) retire by rotation at each annual meeting. Directors so retiring are eligible for re-election at that meeting. A Director appointed by the Board in between Annual Meetings holds office only until the next meeting, but is eligible for election at that meeting.

At the 2006 Annual Meeting Mr S.B. King, a director of 18 years' service, will be retiring from the Board. In February 2006 the Board appointed Mr C. Giffney a Director of the Company, and he will be putting himself forward for election at the same meeting.

Pursuant to NZSX Listing Rule 3.3.1 at least one third of the total number of Directors shall be independent directors. The Board has determined that Mr D. J. Graham, Mr S. B. King, and Mr C. Giffney are independent Directors of the Company.

## BOARD MEETINGS

The Board has eight scheduled meetings a year, but will also meet as and when required to deal with any specific matters that may arise between meetings. Details of attendances at the Board meetings held during the year ended 31 December 2005 were:

R. G. Ebbett	8
D. J. Graham	7
P. Johnston	8
S. B. King	8
C. M. Lewis	8
M. R. Thompson	7

# CORPORATE GOVERNANCE

## COMMITTEES OF THE BOARD

The Board has two permanent committees – one for audit and the other for executive remuneration. These committees are comprised of all the non-executive directors of the Company

The Audit Committee has the responsibility for reviewing the financial statements to ensure that these comply with the appropriate laws and regulations. The committee meets with the independent auditors to discuss the annual audit and it is a policy of the Board that the independent auditors have unrestricted access to the Committee.

The Remuneration Committee sets the remuneration plans for, and undertakes the performance appraisals of, the Managing Director and Finance Director. The Committee meets at the beginning of each financial year and then as appropriate during the year. Full details of the workings of this committee may be found on pages 35-36 of this report.

## REMUNERATION OF DIRECTORS

The shareholders of the Company at the Company's Annual Meeting on 20 April 2001 resolved that the Directors fees to be paid to non-executive Directors be fixed at a sum not exceeding \$150,000 per annum, such sum to be divided amongst them in such proportions as they may determine. The Directors advise that the total fees paid to the non-executive Directors for the year ended 31 December 2005 was \$140,000, and details of this are shown on page 25 of this Report.

The fees payable to Directors have been unchanged since 2001 but an increase in the approved total sum to \$250,000 is being recommended to the May 2006 Annual Meeting. This increase is to enable the company to move to a remuneration basis for any newly-appointed Directors (including Mr. Giffney) which does not carry with it the retirement allowance applicable to the existing Directors. No current adjustment is proposed for the fees payable to the latter Directors, and any increase in the future would not feed through into Directors' retirement allowances.

The Company's Constitution, up until 2005, permitted a payment to be made to a Director on cessation of office provided that – where such payment exceeds the total remuneration paid to a Director in his or her capacity as a Director for any three years chosen by the Company – such payment requires the approval of shareholders by ordinary resolution. Under the new Constitution adopted in 2005, which automatically incorporated the Listing Rules of the NZSX, the above situation continues to apply for all Directors appointed before 1 May 2004, but any payment to a Director appointed after that date requires shareholder approval.

The Board has resolved to pay a retiring allowance of \$90,000, being equivalent to Directors fees paid for 2003-2005, to Mr S. B. King, who retires at the 2006 Annual Meeting after 18 years as a Director of the Company. Messrs R. G. Ebbett, D. J. Graham and M. R. Thompson have each been Directors of the Company for in excess of 10 years, and the Board has resolved that they will be eligible for a retirement allowance based on their Directors' fees over the same years at the time of their cessation of office. No new Directors will be eligible for retirement allowances and the level of fee paid will be adjusted to reflect this.

## INSIDER TRADING POLICY

The Company adopts the procedure approved under the Securities Markets Act 1988 and the Insider Trading (Approved Procedure for Company Officers) Notice 1996 for regulating share trading by Directors, officers and employees who possess inside information. Any dealings in shares by a Director or employee must be within the timeframes specified in the latter legislation and must be with the consent of the Chairman and the Finance Director under delegated authority from the Board.

**CODE OF BEST PRACTICE**

Pursuant to NZSX Listing Rule 10.5.3(i) the Company is required to disclose in its Annual Report the extent to which its Corporate Governance processes materially differ from the principles set out in the NZX Corporate Governance Best Practice Code (the Code). The Board has reviewed these principles and concluded that the Company's Corporate Governance practices do not materially differ from the Code. Any departure from the processes laid down in the Code reflects the fact that all of the non-executive Directors serve on all sub-committees of the Board.

**ETHICS**

A code of ethics setting out the ethical and behavioural standards expected of the Company's Directors, employees, and contractors is in place.

# NOTICE OF MEETING

Notice is hereby given of the 38th Annual Meeting of Shareholders of Renaissance Corporation Limited to be held at Renaissance Limited, 92 Beachcroft Ave, Onehunga, Auckland on Monday, 8 May 2006 at 10:30AM for the following purposes:

## ORDINARY BUSINESS

1. To receive and consider the Annual Report, including the Auditors' Report for the year ended 31 December 2005.
2. To elect directors:
  - Mr M.R. Thompson retires by rotation pursuant to listing rule 3.3.8 of the NZX Listing Rules ("Listing Rules"), and being eligible offers himself for re-election. **[RESOLUTION 1]**
  - Mr C.G. Giffney was appointed to the Board during the year pursuant to Listing Rule 3.3.3, and being eligible now offers himself for re-election. **[RESOLUTION 2]**

Mr S.B. King, who also retires by rotation pursuant to Listing Rule 3.3.8, is not offering 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. **[RESOLUTION 3]**

## SPECIAL BUSINESS

4. To increase the maximum annual aggregate sum payable for Directors' remuneration (excluding Executive Directors) by \$100,000 from \$150,000 to \$250,000. **[RESOLUTION 4]**
5. That, for the purposes of Listing Rule 9.2.1, the shareholders ratify the entry into by the Company of the employment agreement with, and payments of remuneration made to, Paul Johnston in accordance with such employment agreement as follows:
  - a total of \$245,758 in respect of the financial year ended 2003;
  - a total of \$392,000 in respect of the financial year ended 2004;
  - a total of \$616,950 in respect of the financial year ended 2005. **[RESOLUTION 5]**
6. That, for the purposes of Listing Rule 9.2.1, the shareholders approve the amendment by the Company of the employment agreement with Paul Johnston to provide for the remuneration for the financial year ended 2006, as set out in the explanatory notes to these resolutions under the heading "Remuneration Package for 2006 – Mr. Johnston" on page 37. **[RESOLUTION 6]**
7. That, for the purposes of Listing Rule 9.2.1, the shareholders ratify the entry into by the Company of the employment agreement with, and payments of remuneration made to, Clive Lewis in accordance with such employment agreement as follows:
  - a total of \$180,941 in respect of the financial year ended 2003;
  - a total of \$301,580 in respect of the financial year ended 2004;
  - a total of \$464,650 in respect of the financial year ended 2005. **[RESOLUTION 7]**

8. That, for the purposes of Listing Rule 9.2.1, the shareholders approve the amendment by the Company of the employment agreement with Clive Lewis to provide for the remuneration for the financial year ended 2006, as set out in the explanatory notes to these resolutions under the heading "Remuneration Package for 2006 – Mr. Lewis" on page 37. [RESOLUTION 8]
9. That, for the purposes of Listing Rule 9.2.1, the shareholders approve the entry by the Company into Material Transactions with certain Related Parties, such Material Transactions being the future payment (beyond the 2006 financial year) of remuneration to each Executive Director pursuant to their employment agreements, as set by the Independent Committee from year to year and regardless of whether such remuneration, in either case, exceeds 0.5% of the Average Market Capitalisation of the Company and/or \$250,000, but provided that in the setting of such remuneration, the Independent Committee follows the process set out in the explanatory notes to these resolutions. [RESOLUTION 9]

## OTHER BUSINESS

10. 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  
31 March 2006

## 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.
3. For the purposes of resolution 9, the terms Material Transaction, Related Parties and Average Market Capitalisation shall have the meaning given to those terms in the Listing Rules, and the terms Executive Directors and Independent Committee shall have the meaning given to those terms in the explanatory notes.

# EXPLANATORY NOTES

## NON-EXECUTIVE DIRECTORS

1. At the Annual Meeting of 2001, the Company's shareholders authorised the Company to pay an aggregate maximum amount of remuneration to the non-executive Directors of \$150,000 per annum. The Company wishes to increase the current fee cap in order to ensure it can attract and retain Directors of the highest calibre.

## EXECUTIVE DIRECTORS

2. The Company currently has two executive directors, Paul Johnston (the Managing Director) and Clive Lewis (the Finance Director) ("Executive Directors"). Each of the Executive Directors entered into their current employment agreement with the Company in 2003. The Executive Directors each receive remuneration pursuant to their employment agreements comprising a base salary, a bonus and a profit share payable if certain criteria are met.
3. The remuneration paid to each Executive Director for the previous three years is as follows:

### PAUL JOHNSTON

- a total of \$245,758 in respect of the financial year ended 2003, being made up of a base salary of \$175,000 and a combined bonuses of \$70,758;
- a total of \$392,000 in respect of the financial year ended 2004, being made up of a base salary of \$200,000, a tier 1 performance bonus of \$50,000, a tier 2 performance bonus of \$20,000 and profit share of \$122,000;
- a total of \$616,950 in respect of the financial year ended 2005, being made up of a base salary of \$250,000, a tier 1 performance bonus of \$50,000, a tier 2 performance bonus of \$18,750 and profit share of \$298,200.

### CLIVE LEWIS

- a total of \$180,941 in respect of the financial year ended 2003, being made up of a base salary of \$122,500, combined bonuses of \$48,441 and a car allowance of \$10,000;
- a total of \$301,580 in respect of the financial year ended 2004, being made up of a base salary of \$140,000, a tier 1 performance bonus of \$40,000, a tier 2 performance bonus of \$20,000, profit share of \$91,580 and a car allowance of \$10,000;
- a total of \$464,650 in respect of the financial year ended 2005, being made up of a base salary of \$175,000, a tier 1 performance bonus of \$40,000, a tier 2 performance bonus of \$16,000, profit share of \$223,650 and a car allowance of \$10,000.

## NZX LISTING RULES

4. The Executive Directors are "Related Parties" of the Company (as defined in the NZX Listing Rules). The total remuneration package received by each of the Executive Directors in the 2003, 2004 and 2005 financial years ("Years") in each instance exceeded 0.5 per cent of the Company's Average Market Capitalisation at the relevant time (and, where relevant, in each case was in excess of \$250,000). Accordingly, the payment by the Company of remuneration to each of the Executive Directors in each of those Years constituted a "Material Transaction" with a Related Party pursuant to Listing Rule 9.2.1.
5. Listing Rule 9.2.1 (unless NZX confirms by way of a ruling that it is satisfied that the transaction is at arm's length and on commercial terms) requires the approval of shareholders where the Company proposes to enter into a Material Transaction (which includes employment agreements) with a Related Party and, in the case of employment agreements, the value of that transaction exceeds 0.5% of the Company's Average Market Capitalisation, or \$250,000, whichever is the greater.
6. Prior to making such payments in each Year, had the Company provided information to NZX to satisfy it that the remuneration paid to the Executive Directors was set on arm's length commercial terms, it is likely that NZX

would have issued an appropriate ruling. This was not done due to an oversight. The Company did provide that information to NZX in September 2005 and, while NZX determined that it would not make this ruling retrospectively, NZX did confirm that, based on the information provided, had the application been made at the appropriate time before the remuneration was paid, it is likely that reasonable grounds would have been made out in support of such application. Furthermore, NZX confirmed it had no reason to believe that the remuneration paid was not commercial, nor to believe that the Executive Directors influenced the Independent Committee that set the remuneration (described below), when the remuneration was set. A full announcement was made to the market in this regard on 30 September 2005.

### **INDEPENDENT COMMITTEE**

7. The Board of the Company has a committee of Directors who sit as an independent remuneration committee ("Independent Committee") to determine employment agreements, performance bonus criteria and amounts, and the profit share entitlements for each of the Executive Directors. The Independent Committee sets both the amounts payable in respect of base salaries, performance bonuses and profit share entitlements and the criteria and measurements that must be achieved by each Executive Director to receive such payments.
8. The current Independent Committee is made up of certain Directors of the Company being Messrs Ebbett, Giffney (from February 2006), Graham, King and Thompson. Messrs Giffney, Graham and King are the Independent Directors of the Company for the purpose of the Listing Rules. In addition, while not independent of the Company for Listing Rule purposes, Messrs Ebbett and Thompson are independent of the Executive Directors in that there is no business or other relationship between those persons and the Executive Directors that would influence any decisions made in respect of either of the Executive Directors' remuneration entitlement.
9. Each of the Executive Directors' employment agreements and all subsequent changes to the remuneration payable thereunder were negotiated and concluded on an arm's length, commercial basis between the Independent Committee and the Executive Directors. A certificate from the Independent Committee confirming this was provided to NZX in September 2005.
10. The Independent Committee is, and has been, responsible for reviewing, negotiating and concluding all changes to the base salary, performance bonus and profit share entitlements of the Executive Directors. The Independent Committee overlooked the fact that, because of the small market capitalisation of the Company, the remuneration for its Executive Directors would constitute a Material Transaction with a Related Party. Therefore, the Company did not apply for an NZX ruling at the time at which such remuneration was set. Accordingly, the Company is now asking its shareholders to ratify retrospectively the payments made to the Executive Directors in each of the 2003, 2004 and 2005 financial years, and for the approval of shareholders to allow the Independent Committee to continue to set the Executive Directors' remuneration from year to year pursuant to the process outlined below.

### **THE PROCESS FOR SETTING EXECUTIVE DIRECTORS' REMUNERATION**

11. In determining the remuneration of the Company's Executive Directors, and whether any changes to base salary, performance bonus or profit share arrangements are appropriate, the Independent Committee draws on the vast experience of its members and available market information. The Independent Committee is mindful that they must always act in the best interests of the Company when determining the remuneration for any of its senior executives, including the Executive Directors. In order to attract and retain high-quality management in the highly competitive information technology industry, the Company must remunerate senior executives appropriately. In addition, in order to compete in the changing New Zealand market conditions and to address the Company's and shareholders' expectations, the Independent Committee must have sufficient flexibility when setting both the

## EXPLANATORY NOTES

amounts payable and the criteria and measurements that must be achieved by each Executive Director to receive such payments.

12. The remuneration payable to the Executive Directors for each financial year is reviewed and set by the Independent Committee at the start of the respective financial year in line with the following process:
13. The Independent Committee considers the Cubiks remuneration survey when setting the remuneration of its Executive Directors. Cubiks is an internationally recognised independent human resource company that regularly provides salary surveys in many jurisdictions. The Independent Committee's view is that the Cubiks survey has provided the most up-to-date and specifically tailored independent remuneration information available in New Zealand in respect of the Executive Directors' positions. The Company is a subscriber to Cubiks for this very reason, and uses it as a guiding measure for most employee positions at the Company. The Independent Committee may also, if considered appropriate, engage other reputable, independent and qualified agencies to provide information to assist the Independent Committee in the process of determining remuneration packages for its Executive Directors.
14. The Company is a marketing and sales organisation and as such its most valuable resource is its management. This is demonstrated by the very high operating profit the Company earns on its assets and the high cash generation it achieves. A marketing and sales organisation typically provides a high level of profit-based incentive to all levels of management and the Company consistently follows this approach.

### MR. JOHNSTON

- a) Mr Johnston's current employment agreement, as Managing Director of the Company, was concluded on 28 March 2003. Mr Johnston has all the authority and duties expected of a Managing Director of a listed company;
- b) Under Mr Johnston's employment agreement, for each financial year he is paid a base salary, and has a two-tier performance bonus entitlement. In addition, he has a profit share arrangement based on the profit of the Company before tax;
- c) The two-tier performance bonus is structured as follows:
  - i Historically, tier 1 has been based on the annual profit before tax of the Company as against a target set by the Independent Committee. This tier 1 bonus only begins to accrue once 80% of the target has been met and rises on a straight line to 100% of target. As set out below, for the 2006 financial year, tier 1 has been modified such that it now focuses on certain selected business units, rather than the overall Company; and
  - ii Tier 2 is payable based on how Mr Johnston has positioned the Company to maintain future growth, particularly in the areas of development, management, customers, vendors and growth strategies.
- d) Mr Johnston is also entitled to a profit share equal to a certain percentage set by the Independent Committee of annual pre-tax profit of the Company (post all bonuses and profit share) in excess of a pre-tax profit target also set by the Independent Committee (for 2005, the percentage was 10%). This bonus is calculated and paid half yearly;
- e) Each year the Independent Committee reviews and re-sets the base salary, two-tier performance bonus and profit share bonus entitlements and amounts, as well as the criteria and measurements that will apply. The amounts set need to reflect the profit potential of the Company and the current market value of a Managing Director in Mr Johnston's position.

### REMUNERATION PACKAGE FOR 2006 – MR. JOHNSTON

f) The Company has agreed with Mr Johnston, subject to shareholders' approval, for his 2006 remuneration package to comprise a base salary of \$325,000, a tier 1 performance bonus of up to \$50,000 (based on the contribution to profit for certain selected business units within the Company), a tier 2 performance bonus of up to \$50,000 (based on similar measurements as discussed for tier 2 in previous years in 14(c)(ii) above) and a profit share of 5% of the pre-tax profit of the Company above the pre-tax profit target set by the Independent Committee (discussed below). However, the maximum amount payable under the profit share component has been capped at \$100,000.

### MR. LEWIS

- g) Mr Lewis's current employment agreement, as Finance Director of the Company, was concluded on 1 April 2003. Mr Lewis has all the authority and duties expected of a Financial Director of a listed company and works closely with the Managing Director on both operational and strategic matters;
- h) Mr Lewis's two-tier performance bonus structure is identical to Mr Johnston's, except that the maximum amounts payable are less, to reflect his position relative to that of Mr Johnston, and the tier 2 criteria are tailored to his role as Finance Director.
- i) Mr Lewis's profit share is also identical to Mr Johnston's, except for the percentage amount which again has been less to reflect his position (for 2005, the percentage was 7.5%).
- j) In addition, Mr Lewis provides his own vehicle for business purposes and is reimbursed by the Company for the amount of \$10,000 per annum.
- k) Each year the Independent Committee reviews and re-sets the base salary, two-tier performance bonus and profit share bonus entitlements and amounts as well as the criteria and measurements that will apply. Again, the amounts set need to reflect the current market expectations and value of a Finance Director in Mr Lewis's position.

### REMUNERATION PACKAGE FOR 2006 – MR. LEWIS

l) The Company has agreed with Mr Lewis, subject to shareholders' approval, for his 2006 remuneration package to comprise a base salary of \$225,000, a tier 1 performance bonus of up to \$40,000 (based on the contribution to profit for certain selected business units within the Company), a tier 2 performance bonus of up to \$40,000 (based on similar measurements as discussed for tier 2 in previous years in 14(h) above) and a profit share of 5% of the pre-tax profit of the Company above the pre-tax profit target set by the Independent Committee (discussed below). However, the maximum amount payable under the profit share component has been capped at \$100,000.

### PRE-TAX PROFIT TARGET

15. The pre-tax profit target used by the Independent Committee is set with reference to the budgeted pre-tax profit target set by the Board of Directors for the forthcoming year and is never less than this figure. The Board of Directors ratifies this pre-tax profit target after a rigorous process involving the management of the Company and the Board of Directors as a whole. This process is summarised as follows:
- i) the process begins with the managers of each division of the Company putting together divisional budgets and forecasts for the forthcoming year;
  - ii) the divisional managers are required to factor into their budgets and forecasts, among other things, the target volume of sales required by third party brand vendors;

## EXPLANATORY NOTES

- iii the divisional information is thoroughly tested through rigorous examination by the executive management before it is collated, and overall Company budgets and forecasts prepared;
  - iv these overall budgets and forecasts are put to the Board where they are scrutinised and tested as between the executive management and the Board of Directors;
  - v the expectation of the Board is that the budgets and forecasts (which include the forecast pre-tax profit) will be set at levels which will require management to perform at a level beyond that at which they performed in the previous year;
  - vi the Board also expects the budgets and forecasts to address shareholders' expectations that the Company will continue to improve its performance; and
  - vii the process is undertaken over November and December of each year. The budgets and forecasts are then agreed and ratified by the Board of Directors at the first board meeting of the following year.
16. The above is a summary of the process, which in practice involves significant information flow between management and the Board of Directors, as well as rigorous testing by the Board of the financial information provided to it. The directors are conscious of their duty to act in the best interests of the Company when setting future budgets and forecasts.
17. The Independent Committee has always used, and will continue to use, the pre-tax profit number set through the above process (or a higher number) as the pre-tax profit benchmark for the Executive Directors' bonus scheme.

### **PROFIT SHARE PERCENTAGE CAP**

18. As noted above, the profit share for the financial year ended 2006 payable to each of Mr Johnston and Mr Lewis is capped, for each, at \$100,000. When setting the Executive Directors' remuneration packages for all future years, the Independent Committee will set a cap on the amount payable in respect of the profit share component, such cap to be set at a level that the Independent Committee considers to be in the best interests of the Company.

### **RESOLUTIONS 5 AND 7**

19. Because the Company did not to obtain NZX or shareholder approval at the time of setting remuneration for each Executive Director in each Year, the Company now wishes to have its shareholders ratify the total remuneration packages paid to each Executive Director in each of the 2003, 2004 and 2005 Years.

### **RESOLUTIONS 6 AND 8**

20. The Company has agreed the remuneration packages for the financial year ended 2006 for each of the Executive Directors, subject to shareholder approval. In each case, the 2006 packages will constitute a Material Transaction with a Related Party. Accordingly, the Company now wishes to have its shareholders approve the total remuneration packages proposed for each Executive Director in 2006.

### **RESOLUTION 9**

21. Subject to what is said in paragraph 22, in future years the Company needs the Independent Committee to have the ability to set the remuneration of the Company's Executive Directors in each year and the criteria and measurements that will apply in respect thereof, without having to incur the expense of referring the matter to NZX or the Company's shareholders in each year for approval. In setting the remuneration from year to year, the Independent Committee will continue to follow the process outlined above and to act in the Company's best interests. Accordingly, the Company wishes to have the shareholders approve the Independent Committee to, in future years, set the Executive Directors' remuneration packages, whether or not such packages constitute a

Material Transaction with a Related Party, provided that the Independent Committee follows the process for doing so as set out above.

## **INDEPENDENT APPRAISAL REPORT**

22. Shareholders should note that, at the time of preparation of this Notice of Meeting, the NZX is considering amending the Listing Rules as they relate to employment contracts. It is possible that the Board may, in setting the future remuneration for the Executive Directors, choose to comply with the procedures permitted by the new Listing Rules, or to continue to follow the process set out above.
23. NZX requires an independent appraisal report to be prepared in respect of resolutions 6, 8 and 9. However, an independent appraisal report is not required in respect of resolutions 5 and 7. This report is included in this notice of meeting on pages 40—47.
24. While not required to comment specifically on the remuneration payable in respect of the 2003, 2004 or 2005 (resolutions 5 and 7), the independent appraiser has reviewed the remuneration packages paid to the Executive Directors in each of these years, and has concluded that for each such year the remuneration packages of both Executive Directors are fair and reasonable in the context of the New Zealand market and remuneration packages for generally comparable positions (see pages 5, 8 and 10 of the independent appraisal report).
25. The independent appraisal report is required to address the remuneration package proposed for each of the Executive Directors in 2006 (resolutions 6 and 8) and the authority to be granted to the Independent Committee to set the Executive Directors' remuneration packages for future years (resolution 9).
26. As regards the remuneration package proposed for the Executive Directors for the financial year ended 2006, the independent appraiser has concluded that, for each Executive Director, the 2006 packages are fair, reasonable and comparable with the relevant markets (see pages 11 and 12 of the independent appraisal report).
27. In respect of the process to be adopted by the Independent Committee when setting the remuneration payable to the Executive Directors in future years, the independent appraiser has concluded that it is a robust and thorough process which should generate fair and reasonable remuneration packages for the Executive Directors (see page 12 of the independent appraisal report).

## **VOTING**

28. None of the following persons or entities nor any associated person of any of them may vote in relation to resolution 4: ACMA Limited, Richard Grant Ebbett, Colin Giffney, David John Graham, Malcolm Raymond Thompson and Sydney Bryan King.
29. Neither Clive Lewis, nor Paul Johnston nor any associated person of either of them may vote in relation to resolutions 5 to 9.
30. The Company's major shareholders, Malcolm Thompson and ACMA Limited, have indicated that they will vote in favour of the resolutions above (for which they are eligible to vote).

Appendix

# REPORT ON REMUNERATION

Prepared for Renaissance Corporation Limited by Jarrod Moyle for Sheffield Limited, 3 March 2006.

## THE BRIEF

Sheffield Ltd has been retained by the Board of Directors for Renaissance Corporation Limited (Renaissance), to provide an independent report on remuneration for the Managing Director and Finance Director. This independent appraisal report is being sought in relation to a resolution to be put to the shareholders of Renaissance at its 2006 Annual Meeting regarding the future remuneration of Executive Directors. Under the listing rules with the NZX the current remuneration of the Executive Directors constitutes a material transaction with related parties.

Renaissance Corporation was first listed on the NZX in 1994. At that time Renaissance's sole business was the Apple Computer Inc. distribution franchise in New Zealand. In the mid 1990s Renaissance bought other significant distribution companies. However, in 2002 the board and management of Renaissance chose to concentrate on being a value-add distributor and significantly restructured the business. The company faced significant losses in the 2001 and 2002 financial years. However, since then, Renaissance has shown dramatic growth in profitability, cash generation and dividend payments. With the restructure of Renaissance has come an increasing focus on sales and marketing. The new range of Apple products requires significant emphasis and expertise in marketing and advertising to ensure their success.

Renaissance is comprised of five business units: Apple Computer Division, Conduit, Insite, Renaissance Brands and Renaissance Education Division. For the year to 31 December 2005 Renaissance has achieved revenues of \$155 million, has \$49 million in assets and currently has a market capitalisation of \$58 million.

## REMUNERATION PHILOSOPHY OF RENAISSANCE

As a publicly listed company in the highly competitive computing/telecommunications industry, the Executives at Renaissance are critical to the continued success of the organisation. There is considerable mobility of executives in this industry and consequently they are relatively highly paid. The Board of Renaissance has recognised that retaining and rewarding executives is a critical issue for the company and has adopted an appropriate strategy to achieve this. Throughout the organisation Renaissance currently pays relatively low base salaries and benefits (no motor vehicles or superannuation is provided), but this is offset by a large incentive opportunity. In addition, the Board of Renaissance has chosen to position the remuneration of the executives at the upper quartile of the market to ensure they are attracting, rewarding and retaining the best possible candidates.

## MARKET DATA AND APPROACH

We have referred to two principal sources of information to compile our market data sample:

- Sheffield's remuneration database, which contains approximately 10,000 records per year of 'total package' information collected through our tailored surveys, remuneration consulting and recruitment activity throughout the country;
- The results of regular surveys carried out by Sheffield Limited. In particular, this includes the annual Sheffield Chief and Senior Executive Surveys (published in March 2005) which cover Chief Executives/Managing Directors and their direct reports across a variety of organisations.

The data in this report is presented in 'total cost to company' format, and comments are made on this basis. The "total cost to company" figure includes base salary, cash allowances, benefits (such as vehicles, medical insurance and superannuation etc.), bonus payments and Fringe Benefit Tax (FBT), as shown in the market data tables included with this report.

## REMUNERATION MARKET COMPARISONS FROM PUBLISHED SURVEYS – DEFINITIONS

Sheffield remuneration surveys provide market comparisons at three levels as follows:

### TERMINOLOGY

Term	Definition
Base Salary	Annual salary including regular overtime but excluding non-cash benefits, variable allowances and additional cash payments (e.g. bonuses).
Total Gross Package	Total value of package excluding performance-related items and fringe benefits tax.
Total Cost Package	Total Gross Package plus actual performance-related items and bonuses paid plus fringe benefits tax. This is the total cost to the company of providing the package.

We recommend that organisations make their link to the remuneration market based on Total Gross Package as this figure provides a more meaningful and stable basis than Base Salary in terms of fixed pay comparisons. A comparison of base salary only is inaccurate as it ignores a significant portion of the remuneration in those companies that also provide benefits, and overstates the rate of pay for those that do not.

Both Total Gross Package and Total Cost Package comparisons are important; organisations which do not provide bonus/incentive pay still need to remain competitive at an overall level with those which do provide such opportunities, and vice versa.

## REMUNERATION FOR THE MANAGING DIRECTOR

The Managing Director is accountable for the overall strategic management and results of Renaissance. The incumbent has overseen a considerable change of strategy and rapid increases in profitability. The Managing Director directly oversees the largest of the organisation's business units, the Apple Computer Division, as well as the company's marketing function.

### MARKET DATA

In order to benchmark this role against the market in which Renaissance operates, we have selected a sample of 14 comparable roles. The sample includes information on Chief Executive Officer and Managing Director roles in organisations from the computing/information systems and import/export/distribution sectors. The majority of the organisations included in our sample are publicly listed companies. Specifically, the positions operate in companies with revenues ranging from a lower quartile of \$61 million to an upper quartile of \$158 million, with a median of \$110 million. Additionally, the sample organisations have market capitalisation ranging from \$27 million to \$138 million with a median of \$64 million and assets ranging from \$22 million to \$84 million, with a median of \$46 million.

A detailed market table of this information is attached at the end of this report and can be summarised as follows:

	Lower Quartile (\$)	Median (\$)	Average (\$)	Upper Quartile (\$)
Base Salary	200,000	230,328	243,446	252,000
Total Gross Package	239,538	295,727	314,989	364,648
<b>Total Cost Package</b>	<b>340,933</b>	<b>459,233</b>	<b>446,956</b>	<b>520,348</b>

Appendix

# REPORT ON REMUNERATION

## COMMENTARY ON MARKET DATA

This detailed market sample indicates that roles the size and nature of the Managing Director of Renaissance are likely to receive total cost packages (this includes base salary, benefits plus FBT and actual incentive/bonus payments paid) ranging from \$340,933 to \$520,348, with a median of \$459,233.

Fifty percent of those included in our market sample report that they received at least one benefit as part of their total cost packages. Common benefits included motor vehicles or car allowances (43% incidence), medical insurance (36%), telephone costs and superannuation (both 29%).

In addition, 71% of our sample reported that they received performance pay as part of their total cost packages. Payments received ranged from a lower quartile of \$100,000 to an upper quartile of \$224,000 with a median of \$145,000. As a percentage of base salary these payments ranged from 38% to 99% with a median of 47% of base salary. Of those that received performance payments this was most likely to be in the form of an annual bonus payment (50%), while 21% received a profit share payment, 7% received a commission payment and 7% received shares.

## ASSESSMENT

In arriving at an assessment on the level of remuneration for the Managing Director at Renaissance, we have taken into account an amalgam of several factors including the size, maturity, ownership and industry of the company, its public listing, the complexity of the role, and the market data presented above. In addition, we have also incorporated Renaissance's philosophy to remunerate executives at the upper quartile of the market.

Based on this information and on the company's stated remuneration philosophy, our view is that an appropriate total cost package (this includes base salary, benefits plus FBT and actual incentive/bonus payments made) for this role would be  $\pm 10\%$  of the upper quartile of the data range presented above. This would equate to a range of \$468,313 to \$572,383, with a midpoint of \$520,348.

We are aware that in the 2005 financial year the incumbent received a base salary of \$250,000, \$68,750 in annual bonus payments and earned \$298,200 in profit share. This means the incumbent earned a total cost package of \$616,950 which is above the upper end of our recommended range.

In the table below we have compared the incumbent's 2005 package with the upper quartile figures from our market sample. As you can see, the Managing Director earned a base salary which is equivalent to the upper quartile of our sample. However, at the total gross package level the Managing Director's fixed package is well below the upper quartile of the market due to the fact that he receives no additional benefits in his package. In regards to performance pay, in the 2005 year, the incumbent earned a much higher proportion of his package in performance pay than is seen in the market.

Component	2005 Package (\$)	Upper Quartile Package (\$)
Base Salary	250,000	252,000
Base Salary and Benefits	250,000	364,648
Total Performance Pay	366,950 (147% of base salary)	224,000 (99% of base salary)
<b>Total Package</b>	<b>616,950</b>	<b>520,348*</b>

\* The numbers in the table do not add up vertically. Where the incidence of respondents receiving a benefit, allowance or performance payment is less than 100%, the median, quartile and percentile figures relate only to those people receiving that particular benefit, and not to the total sample. So, if only 50% of a sample have professional fees, the median, quartile and percentile figures will only be calculated on that half of the sample. For this reason, the figures in the tables should be read across only, never down. This applies to every line of data in the tables, including sub-totals and totals.

## ASSESSMENT OF PROPOSED 2006 PACKAGE

We are aware that the board has proposed that for the 2006 financial year the Managing Director's base salary will be increased by 30% from \$250,000 to \$325,000, the tier 1 bonus will remain the same and the tier 2 bonus will increase from \$25,000 to \$50,000. However, this is offset by a reduction in the profit share allocation from 10% of pre-tax profit to 5%, capped at a maximum of \$100,000. The package will be structured as follows:

Base Salary:	\$325,000
Tier 1 Target Bonus:	\$50,000
Tier 2 Target Bonus:	\$50,000
Profit Share:	\$100,000 (maximum)
<b>Maximum Total:</b>	<b>\$525,000</b>

Therefore if the incumbent were to achieve all of the targets in the tier 1 and tier 2 bonuses, and receive the maximum profit share payment, the Managing Director's total package would be \$525,000. This amount is at the midpoint of our recommended range (\$520,348). So despite an increase in base salary and bonus payments the reduction in profit share will result in a lower total package overall than in 2005. If bonus targets are set aggressively, we also believe that it is unlikely the incumbent would earn the maximum amounts, unless the year is an exceptional one.

## REMUNERATION FOR THE FINANCE DIRECTOR

The Finance Director at Renaissance has broad management responsibilities. In addition to overseeing the finance function, the incumbent oversees four of the five business units and is thus accountable for much of the overall strategic management of the Renaissance Corporation Group. The incumbent has played a key role in the development and implementation of the new strategy for Renaissance that has delivered significant results. This role has clearly evolved into a "2IC" position.

## MARKET DATA

In order to benchmark this role against the market, we have selected a sample of 13 comparable roles. The sample includes information on Chief Financial Officer, Finance Director, and Chief Operating Officer roles from organisations in similar industries to Renaissance. Many of those included in our sample are from publicly listed organisations. Specifically, the positions operate in companies with revenues ranging from a lower quartile of \$75 million to an upper quartile of \$142 million, with a median of \$100 million. Additionally, the sample organisations have assets ranging from a lower quartile of \$41 million to an upper quartile of \$170 million, with a median of \$45 million.

A detailed market table of this information is attached at the end of this report and can be summarised as follows:

	Lower Quartile (\$)	Median (\$)	Average (\$)	Upper Quartile (\$)
Base Salary	135,000	170,000	164,380	185,665
Total Gross Package	154,166	190,212	191,105	205,386
<b>Total Cost Package</b>	<b>211,350</b>	<b>247,550</b>	<b>247,259</b>	<b>283,371</b>

Appendix

# REPORT ON REMUNERATION

## COMMENTARY ON MARKET DATA

This detailed market sample indicates that roles the size and nature of the Finance Director of Renaissance Corporation are likely to receive total cost packages (this includes base salary, benefits plus FBT and actual incentive/bonus payments paid) ranging from \$211,350 to \$283,371, with a median of \$247,550.

Eighty-five percent of those included in our market sample report that they received at least one benefit as part of their total cost packages. Common benefits included medical insurance (54% incidence), car allowances, telephone costs and superannuation (all 46%).

In addition, 85% of our sample reported that they received performance pay as part of their total cost packages. Payments received ranged from a lower quartile of \$32,000 to an upper quartile of \$96,200 with a median of \$52,800. As a percentage of base salary these payments ranged from 19% to 50% with a median of 30% of base salary. Of those that received performance payments this was most likely to be in the form of an annual bonus payment (69%), while 23% received a profit share payment and 8% received a commission payment.

## ASSESSMENT

In arriving at an assessment on the level of remuneration for the Finance Director at Renaissance, we have taken into account an amalgam of several factors including the size, maturity, ownership and industry of the company, its public listing, the complexity of the role, and the market data presented above. In addition, we have also incorporated Renaissance's philosophy to remunerate executives at the upper quartile of the market.

Based on this information and on the company's stated remuneration philosophy, our view is that an appropriate total cost package (this includes base salary, benefits plus FBT and actual incentive/bonus payments made) for this role would be  $\pm 10\%$  of the upper quartile of the data range presented above. This would equate to a range of \$255,034 to \$311,708, with a midpoint of \$283,371.

Placement at or above the upper quartile of the sample is appropriate for several reasons. Firstly, Mr Lewis and Mr Johnston work very much as a team as Executive Directors and both hold considerable leadership responsibility. Secondly, Mr Lewis directly oversees four of the five business units, along with his duties as the head of the Finance team. This clearly indicates that Mr Lewis' role is beyond that of a typical Chief Financial Officer or Finance Director. In addition, our data evidences growing premiums paid to the top financial executives of publicly listed entities given the increasing accountability, reporting, disclosure and regulatory requirements.

We are aware that in the 2005 financial year the incumbent received a base salary of \$175,000, a leased motor vehicle at a cost of \$10,000 to the company, \$56,000 in annual bonus payments and earned \$223,700 in profit share. This means the incumbent earned a total cost package of \$464,700 which is above the upper end of our recommended range.

In the table below we have compared the incumbent's 2005 package with the upper quartile figures from our market sample. As you can see, the Finance Director earned a base salary which is below the upper quartile of our sample. In addition, with no additional benefits, his total gross package is well behind the upper quartile of our market sample. However, this is offset by the performance pay available in his package. The incumbent earns a significantly higher proportion of his package in performance pay.

Component	2005 Package (\$)	Upper Quartile Package (\$)
Base Salary	175,000	185,665
Base Salary and Benefits	185,000	205,386
Total Performance Pay	279,700 (160% of base salary)	96,200 (50% of base salary)
<b>Total Package</b>	<b>464,700</b>	<b>283,371*</b>

\* The numbers in the table do not add up vertically. Where the incidence of respondents receiving a benefit, allowance or performance payment is less than 100%, the median, quartile and percentile figures relate only to those people receiving that particular benefit, and not to the total sample. So, if only 50% of a sample have professional fees, the median, quartile and percentile figures will only be calculated on that half of the sample. For this reason, the figures in the tables should be read across only, never down. This applies to every line of data in the tables, including sub-totals and totals.

## ASSESSMENT OF PROPOSED 2006 PACKAGE

We are aware that the board has proposed that for the 2006 financial year the Finance Director's base salary will be increased by 29% from \$175,000 to \$225,000, the tier 1 bonus will remain the same and the tier 2 bonus will increase from \$20,000 to \$40,000. However, this is offset by a reduction in the profit share allocation from 7.5% of pre-tax profit to 5%, capped at \$100,000. The package will be structured as follows:

Base Salary:	\$225,000
Motor Vehicle:	\$10,000
Tier 1 Target Bonus:	\$40,000
Tier 2 Target Bonus:	\$40,000
Profit Share:	\$100,000 (maximum)
<b>Maximum Total:</b>	<b>\$415,000</b>

Therefore if the incumbent were to achieve all of the targets in the tier 1 and tier 2 bonuses, and receive the maximum profit share payment, the Finance Director's total package would be \$415,000. This amount is above the upper end of our recommended range (\$311,708). So despite an increase in base salary and bonus payments the reduction in profit share will result in a lower total package overall than in 2005. Again, we believe that it is unlikely that the incumbent will earn the maximum amounts on all of the performance pay targets.

## SUMMARY

### REMUNERATION FOR 2003, 2004 AND 2005

As we have stated in our assessment, in the 2005 year, both the Managing Director and the Finance Director at Renaissance were paid above the upper quartile of our sample of similar roles in New Zealand. Despite this, in our opinion the remuneration packages of both Executive Directors are fair and reasonable in the context of the New Zealand market and remuneration packages for generally comparable positions.

While the Executive Directors are paid above the upper quartile this is due to the significant performance pay opportunity that is available to the Executive Directors. Both of the Executive Directors receive base salaries that are below our recommended positioning. A large proportion of their remuneration is dependent upon stringent

# REPORT ON REMUNERATION

performance criteria. This ensures that the Executive Directors must earn their performance pay through exceptional results.

Sheffield is a strong proponent of well-designed performance pay plans based upon achievement of key results aligned to overall business success. The Executive Directors' performance pay plans certainly appear to meet this standard.

The performance pay scheme, while generous in comparison with the New Zealand market, is fair and well constructed. A performance pay scheme should align the objectives of the employees with those of the shareholders. A significant proportion of the Executive Directors performance pay is directly linked to profit ensuring maximum alignment with shareholder objectives. In addition, each year the Board "raise the bar" requiring the organisation to perform even better than the previous year in order for the Executive Directors to get the same level of profit share. The Executive Directors did not receive any profit share payment in 2003 as the profit of Renaissance did not reach the target level. For 2004 and 2005, the minimum profit required before any performance pay was to be paid out has been 10% and 20% above the actual result achieved in the previous year. The 2005 remuneration is a result of exceptionally good company performance where Renaissance recorded a 121% increase in profit on the previous year. Therefore, in our assessment the 2005 remuneration packages of the Executive Directors are both fair and reasonable in the New Zealand market.

In reviewing the total cost package structures and payments in 2003 and 2004, we note the strong similarities with the package provided in 2005. Where the packages differ in 2003 and 2004 is in lower base salaries respectively, lower payments earned under the two bonus plans and significantly lower profit share payments. Looking retrospectively at market practice in those years, we can again state that in our opinion, both package structures and total amounts paid were fair and reasonable for these types of positions in New Zealand.

The two components of the scheme, the bonus payments and profit share, ensure there is adequate focus on all of the key responsibilities of the Executive Directors. Tier 1 of the annual bonus plan provides reward for reaching profit targets while the profit share scheme rewards over achievement. Tier 2 of the plan recognises the non-financial objectives of each of the Executive Directors' roles and ensures that there is not an imprudent focus on a single measure of performance, namely profit, at the expense of other important objectives.

While the structure of the Executive Directors' packages is uncommon in the New Zealand market, (with a large component performance based) this is not uncommon internationally. In New Zealand, Chief Executives typically receive approximately 83% of their total package in fixed remuneration (base salary and benefits) and 17% in performance pay. In Australia, however, Chief Executives are likely to receive approximately 70% of their total package in fixed remuneration and 30% in performance pay (a mixture of short term and long term incentives). In the USA the ratio is approximately 38% fixed remuneration and 62% performance pay. So while uncommon in New Zealand, the structure of the Executive Directors' remuneration is typical in other developed countries. Eventually we expect the structure of packages of New Zealand Executives to converge toward those seen internationally. In this regard, Renaissance is a market leader in the structure of the Executive Directors' remuneration packages.

Furthermore, we often see the remuneration packages of New Zealand based international companies reflecting those of their parent organisation overseas. While Renaissance is a New Zealand-owned company, much of the revenue is generated through marketing and distribution relationships with technology companies based in the USA, and it is reasonable for Renaissance to have a remuneration policy that is consistent to those companies.

## REMUNERATION FOR 2006 AND BEYOND

For 2006 the board has proposed increasing base salaries of the Executive Directors, increasing tier 2 bonuses, but reducing the overall profit share target now capped at \$100,000. This new package structure is more typical of market practice for this type of role. The proposed base salaries for both of the Executive Directors' line up with the upper quartile total gross package of our market samples for 2005. (Since there are no benefits offered, the total gross package is the correct figure to compare with.) For the Managing Director, the proposed total cost package is also comparable with the upper quartile of our market sample. For the Finance Director, the proposed total cost package is above our recommended range, due to the level of performance pay available. However, we know that this is not a typical Finance Director role and carries significantly more responsibility. In addition, as we have already stated, the performance pay scheme is well designed and reflects the importance of the contribution the Finance Director makes to the overall success of Renaissance, therefore we can support the total cost package for the Finance Director.

While we do not feel that the profit share payment in 2005 was inappropriate, rather the result of an exceptional year, the new package structure with higher fixed remuneration and lower variable is reflective of current New Zealand market practice. We encourage our clients to ensure that there is significant opportunity for executives to be rewarded for exceptional performance. As such, we do not oppose uncapped performance pay schemes, so long as they are well constructed and based on measurable targets with clear benefit to the organisation, such as profit. However, if the objective of the board is to remunerate the Executive Directors in closer alignment with the New Zealand market, the new package structure clearly accomplishes this. Therefore, we conclude that the proposed remuneration packages for the Executive Directors for 2006 are fair, reasonable and comparable with the relevant markets and should not cause any concern for the shareholders.

The process for setting the Executive Directors remuneration has been outlined in the explanatory notes. The board is proposing using the same process as has been used in the past for setting remuneration for 2007 and beyond. The process involves gathering market data from reputable sources to determine appropriate package levels, reviewing the objectives and targets for the tier 1 and 2 bonuses based on the needs of the company and agreeing on an appropriate pre-tax profit target for the profit share payment. The pre-tax profit target is arrived at a thorough process involving the forecasts of divisional managers and third party brand vendors, examination by the executive management and scrutiny from the directors. Each year the board expects that the forecasts will be set above that which was achieved in the previous year to ensure continuous improvement. In our opinion this is a robust and thorough process which should generate fair and reasonable remuneration packages for the Executive Directors. We have no hesitation in supporting this process.

Thank you for asking us to prepare this report for Renaissance Corporation Limited.

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