Chairman's report

We went to a great deal of trouble in the annual report to explain how your Directors viewed 2008 and the way ahead. I will take that statement as read.

On reflection I only have two things I think we need to add to that statement to refresh it.

The first is an update of our trading outlook.

As stated in the annual report, our first half result will be down on the 2008 half year. It could be down as much as 80% on the same period in 2008. However, our performance is heavily skewed to the second half, and first half trading gives very little indication of our full year result. Despite trading conditions that have remained very challenging in the first half we are still expecting a full year's profit in line with that reported in 2008. It just looks more like a stretch budget in the current environment.

The second issue is our reported breach of a banking covenant.

As required we reported that we were in breach of a banking covenant at year-end. It was reported in the annual report this way. "*The Group was in breach of the equity covenant to maintain net tangible assets at $6,000,000 at 31 December 2008. In February 2009, the bank has agreed not to take any action at the current time with respect to the equity covenant as at 31 December 2008 but requires adherence to all covenants at all times going forward.*"

Your Directors did not agree with the net tangible asset covenant because it is not a measure of our ability to repay debt or service debt or our ability to absorb shocks. I am not sure how you reacted to it but it may have (incorrectly) conveyed the idea we are cash strapped. I am pleased to say that we have since negotiated new covenants that we believe better meet bank and shareholder expectations of a covenant.

Because of our distribution activities we experience large intra-month and large seasonal swings in inventory, debtors and creditors. Shareholders don't normally see these. At 31 December our net bank debt was $4.7m. On current projections we expect the net debt exposure to be around zero by the third or fourth quarter of calendar 2009.

To restate the picture painted in the annual report:

The Renaissance of old was an IT distribution company with the vast majority of the business distribution of one brand - Apple. That was mostly Apple.

- In 2006 management sensed that Apple's business model was evolving rapidly and as a result we would experience changes to our distribution agreement. We just did not know what the changes would be, when they might occur or what the financial impact would be.
- In late 2007 Apple informed us of their intention to offer direct supply to some trans-Tasman retailers and also introduce further substantial reductions in our distribution margin.
- The contribution from Apple distribution is expected to fall by about $1.5m as the full year impact of the changes takes effect in 2009.

The Renaissance you are looking at today is not the business it was three years ago.

- Through the MagnumMac and Natcoll acquisitions in late 2007, conscious redesign of our existing operations and the changes introduced by Apple, the balance of the business has shifted.

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- In 2006 the distribution of electronic products including Apple, Asus and all other brands accounted for around 85% of the $11m of EBITDA before head office expenses.

- By the end of 2009 distribution will be about 35% of EBITDA.

- In 2008 EBITDA in our education segment grew 28% and it will be at least 35% of EBITDA by the end of 2009. Natcoll performed right up to expectations and it is performing well this year.

The strategic challenge is clear. We must continue to shift Renaissance profitability into businesses aligned to our institutional skill base. The businesses need to be ones where we control more of our own destiny.

The recession is inevitably having an impact on us. Notwithstanding, our performance in 2009 is mainly in our hands. It will reflect our ability to get MagnumMac performing as it should. It will reflect our ability to right size the business and respond to the environment. It will reflect our ability to optimise a significantly changed but still loved and important Apple distributorship.

We are going through a difficult transition - but it is a transition. By 2010 we should be back to increasing profits off a broader base.

Colin Giffney
Chairman
22 May 2009

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