

# Appraisal Report

## In Respect of the Acquisition of Natcoll Limited

### Renaissance Corporation Limited

*September 2007*

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## 1. Introduction

### 1.1 Background

Renaissance Corporation Limited (**Renaissance** or the **Company**) is listed on the main equities security market (**NZSX**) operated by New Zealand Exchange Limited (**NZX**) with a market capitalisation of approximately \$34 million as at 17 September 2007 and unaudited total equity of approximately \$12 million as at 30 June 2007.

The Company imports and distributes personal computers, associated peripheral hardware and computer software. It also develops and markets internet-based e-business solutions for small and medium sized enterprises and markets and delivers information technology products, services and solutions to the education sector.

### 1.2 Acquisition of Natcoll Limited

Renaissance announced on 13 August 2007 that it has entered into an agreement to acquire 100% of the shares in Natcoll Limited (**Natcoll**) (the **Natcoll Acquisition**).

Natcoll is a private tertiary establishment (**PTE**) providing training in design technology. It operates three campuses based in Auckland, Wellington and Christchurch.

The acquisition price is \$6.0 million. Consideration is in the form of \$5.0 million of cash and \$1.0 million of Renaissance scrip.

The \$1.0 million of Renaissance scrip consists of 1,082,251 shares issued at \$0.924 per share. The shares will be issued to Murray Wood. Mr Wood holds 43% of the shares in Natcoll. Mr Wood is a director of Renaissance's 100% owned subsidiary MagnumMac Limited (**MagnumMac**). The shares are subject to a lockup undertaking restricting Mr Wood's ability to sell or offer for sale the shares over the next three years.

The effective date of the acquisition is 31 July 2007. Renaissance is entitled to the Natcoll profits after 31 July 2007. The current Natcoll shareholders are entitled to a dividend of \$1.1 million to be paid in August 2007.

The purchase price of \$6.0 million is subject to an adjustment if Natcoll's total equity in the completion accounts is less than \$1.0 million. In such circumstances, the purchase price will be reduced by the amount that total equity is less than \$1.0 million. Completion accounts are required to be prepared by 30 September 2007.

### 1.3 Regulatory Requirements

Listing Rule 9.2.1(a) of the NZSX Listing Rules stipulates that an Issuer shall not enter into a Material Transaction if a Related Party is a party to the Material Transaction without first obtaining approval of the transaction by way of an ordinary resolution from shareholders not associated with the Related Party.

The Natcoll Acquisition will be a Material Transaction for Renaissance. Mr Wood is a director of a subsidiary of Renaissance and therefore is a Related Party of Renaissance. Accordingly, the Company is seeking shareholder approval of the Natcoll Acquisition.

Listing Rule 9.2.5(b) requires an Appraisal Report to be prepared where a meeting will consider a resolution required by Listing Rule 9.2.1(a).

Listing Rule 7.3.1(a) states that no issue of securities shall be made by an Issuer unless the precise terms and conditions of the issue have been approved by an ordinary resolution of the Issuer.

Listing Rule 6.2.2(b) requires an Appraisal Report to be prepared where a meeting will consider a resolution required by Listing Rule 7.3.1(a) and where more than 50% of the securities to be issued will be acquired by Directors of the Issuer or their Associated Persons.

The \$1 million of Renaissance scrip issued as part consideration will be issued to Mr Wood. Accordingly, the Company is seeking shareholder approval of the issue of Renaissance ordinary shares to Mr Wood.

### 1.4 Special Meeting of Shareholders

Renaissance is holding a special meeting of shareholders on 10 October 2007 whereby Renaissance's shareholders not associated with Mr Wood (the **Non-associated Shareholders**) will vote on an ordinary resolution in respect of:

- the Natcoll Acquisition (part (a) of the resolution )
- the issue of 1,082,251 shares to Mr Wood (part (b) of the resolution).

### 1.5 Purpose of the Report

The directors of Renaissance have engaged Simmons Corporate Finance Limited (**Simmons Corporate Finance**) to prepare an Appraisal Report on the fairness of the Natcoll Acquisition in accordance with Listing Rule 9.2.5(b) and the fairness of the issue of shares to Mr Wood in accordance with Listing Rule 6.2.2(b).

Simmons Corporate Finance was approved by NZX on 14 August 2007 to prepare the Appraisal Report.

Simmons Corporate Finance issues this Appraisal Report to the directors to assist the Non-associated Shareholders in forming their own opinion on whether to vote for or against the resolution in respect of the Natcoll Acquisition and the issue of 1,082,251 shares to Mr Wood.

We note that each shareholder's circumstances and objectives are unique. Accordingly, it is not possible to report on the fairness of the Natcoll Acquisition and the issue of 1,082,251 shares to Mr Wood in relation to each shareholder. This report on the fairness of the Natcoll Acquisition and the issue of 1,082,251 shares to Mr Wood is therefore necessarily general in nature.

The Appraisal Report is not to be used for any other purpose without our prior written consent.

## 2. Basis of Evaluation and Opinion

### 2.1 Basis of Evaluation

NZSX Listing Rule 1.2.2 requires an Appraisal Report to consider whether the consideration and the terms and conditions of the Natcoll Acquisition and the issue of shares to Mr Wood are fair to the Non-associated Shareholders.

The term *fair* has no legal definition in New Zealand either in the NZSX Listing Rules or in any statute dealing with securities or commercial law. Furthermore, overseas regulations provide minimal guidance in respect of how fairness should be determined in the context of a Material Transaction with a Related Party.

Guidance Note Number 10 issued by the New Zealand Institute of Chartered Accountants *Guideline on Independent Chartered Accountants Reporting as Experts to Shareholders* states “the expression of an opinion as to fairness will generally involve an assessment as to whether a transaction or proposal is just, impartial and equitable”.

For the purposes of this report, we consider that the Natcoll Acquisition and the issue of 1,082,251 shares to Mr Wood will be fair, having regard to the interests of the Non-associated Shareholders, if they are likely to be at least no worse off if the transactions proceed than if they do not. In other words, we consider that the Natcoll Acquisition and the issue of 1,082,251 shares to Mr Wood will be fair if there are no value transfers from the Non-associated Shareholders to Mr Wood. We have evaluated whether the expected benefits of the Natcoll Acquisition and the issue of 1,082,251 shares to Mr Wood to the Non-associated Shareholders outweigh any disadvantages and risks that may arise from the transactions.

Our opinion should be considered as a whole. Selecting portions of the evaluation without considering all the factors and analyses together could create a misleading view of the process underlying the opinion.

### 2.2 Rationale for the Natcoll Acquisition

The Natcoll Acquisition is part of Renaissance’s strategy to diversify its income streams.

The Apple distribution business has been the historic mainstay of Renaissance profits. The directors believe that Renaissance cannot expect to rely on Apple profits as it has historically.

Renaissance has recognised key strengths in the areas of marketing, distribution, deep knowledge of Apple products and capability, education, supply chain and e-commerce solutions. Existing Renaissance businesses are domestic focused and constrained by the New Zealand economy. The Company owns few of its brands. The value it adds by being expert as a brand representative stays with the brand owner. Renaissance aspires to own its own brands and benefit from the value it adds.

Renaissance is wary of diversifying too far from existing strengths. Natcoll encapsulates skills and knowledge in education, Apple products and digital design technology. Renaissance's aspiration is to grow Natcoll both physically and online. This fits with Renaissance's existing expertise. Furthermore, Natcoll provides relatively stable earnings as a base for expansion.

### **2.3 Evaluation of the Fairness of the Natcoll Acquisition**

In our opinion, after having regard to all relevant factors, the consideration and the terms and conditions of the Natcoll Acquisition are fair to the Non-associated Shareholders.

The basis for our opinion is set out in detail in sections 2.2, 6, 7 and 8. In summary, the key factors leading to our opinion are:

- the rationale for the Natcoll Acquisition is sound
- the purchase price of \$6.0 million for 100% of the Natcoll shares falls within our assessment of the value of the shares of \$5.7 million to \$6.4 million
- the value of the consideration paid equates to \$6.0 million
- the terms and conditions of the Natcoll Acquisition are in line with general commercial practice for transactions of this nature.

### **2.4 Evaluation of the Fairness of the Issue of 1,082,251 Shares to Mr Wood**

In our opinion, after having regard to all relevant factors, the consideration and the terms and conditions of the issue of 1,082,251 shares to Mr Wood as part consideration are fair to the Non-associated Shareholders.

The basis for our opinion is set out in detail in section 7. In summary, the key factors leading to our opinion are:

- the rationale for the issue of shares to Mr Wood is sound
- the issue price of the shares of \$0.924 is in line with the market value of the shares. It is based on the volume weighted average share price (**VWAP**) at which Renaissance's shares traded on the NZSX for the ten business days up to and including 10 August 2007
- the shares are subject to a lockup undertaking whereby Mr Wood is restricted from selling or offering for sale any of the shares for at least one year and cannot sell or offer for sale all of the shares for a period of three years
- the increase in Mr Wood's shareholding in the Company from 6.3% to 8.7% is unlikely to have any significant impact on the control of Renaissance at shareholder voting, board or operational levels.

### **2.5 Implications of the Resolution not being Approved**

In the event that the resolution in respect of the Natcoll Acquisition and the issue of 1,082,251 shares to Mr Wood is not approved, then the acquisition cannot proceed. This would narrow the possible areas for diversification and growth off the Company's existing strengths.

## **2.6 Voting For or Against the Resolution**

Voting for or against the resolution in respect of the Natcoll Acquisition and the issue of 1,082,251 shares to Mr Wood is a matter for individual shareholders based on their own views as to value and future market conditions, risk profile and other factors. Shareholders will need to consider these consequences and consult their own professional adviser if appropriate.

### 3. Profile of Renaissance

#### 3.1 Company Background

The Company was incorporated on 7 June 1968 as The Consolidated Silver Mining Company of New Zealand Limited.

It has since undergone a number of name changes. It changed its name to Consolidated Minerals Limited in 1981, Consolidated Enterprises Limited in 1983, Triumph Industries Limited in 1987 and Renaissance Corporation Limited in 1997.

The Company has been involved in various pursuits over the years. However, in 1994 it returned to computer distribution with the re-acquisition of the CED Group.

#### 3.2 Nature of Operations

Renaissance is best-known for the marketing and management of information technology and consumer electronics products, effectively acting as the New Zealand office for many international brands. While warehousing and distribution are naturally a vital function of brand representation, the main focus is on developing markets, creating channel programs and driving customer demand for a range of products such as Apple, FileMaker, Palm, SonicWALL, USRobotics and Wacom.

There are four wholly-owned subsidiaries within the Renaissance group:

- Conduit International Limited (**Conduit**)
- Insite Technology Limited (**Insite**)
- MagnumMac
- Renaissance Limited.

##### **Conduit**

Conduit is an e-commerce organisation which supplies and hosts transactional websites and facilitates electronic data transfer between organisations.

##### **Insite**

Insite specialises in the assembly of personal computers, notebook computers, servers and peripherals. Insite's products are marketed to education and business users through a network of resellers and to selected direct accounts.

##### **MagnumMac**

MagnumMac was founded in 1989 and operates as a reseller of Apple computer products.

### ***Renaissance Limited***

Renaissance Limited has three distinct business units:

- the Apple Division
- Renaissance Brands
- Renaissance Education Division (**RED**).

The Apple Division is dedicated to the sales, marketing, brand management and support of Apple products in New Zealand.

Renaissance Brands distributes a wide range of IT products through a nationwide reseller channel. It is focussed on marketing brands which the Company has exclusive distribution rights, such as those from FileMaker, SonicWALL, USRobotics and Wacom.

RED is focussed on providing ICT solutions for education in New Zealand. RED works closely with students, teachers, school boards and the Ministry of Education in providing quality professional development, support services, software and hardware systems to New Zealand schools.

### **3.3 Recent Acquisitions**

Renaissance has made two recent acquisitions:

- MagnumMac
- Ultra Computers (**Ultra**).

#### ***MagnumMac***

Renaissance acquired MagnumMac on 1 July 2007 for \$3.5 million in cash and scrip.

#### ***Ultra***

Ultra manufactures and distributes personal computers, server products and notebooks in New Zealand. Insite acquired the assets of Ultra on 14 June 2006 for an undisclosed amount.

### 3.4 Financial Performance

A summary of Renaissance's recent financial performance is set out below.

Summary of Renaissance Financial Performance				
	Year to 31 Dec 04 (Audited) \$000	Year to 31 Dec 05 (Audited) \$000	Year to 31 Dec 06 (Audited) \$000	6 Mths to 30 Jun 07 (Unaudited) \$000
Total revenue	119,979	155,612	163,143	88,092
EBITDA	4,812	8,494	10,114	2,595
EBIT	3,684	7,212	8,750	2,066
NPAT	2,288	5,055	6,213	1,217
Revenue growth p.a.	23.0%	29.7%	4.8%	13.7%
EBITDA margin	4.0%	5.5%	6.2%	3.0%
EBIT margin	3.1%	4.6%	5.4%	2.4%
NPAT margin	1.9%	3.2%	3.8%	1.4%
EPS (cents)	6.0	13.2	16.0	3.1

Source: Renaissance 2005 and 2006 annual reports and draft 30 June 2007 half year report

EBITDA: Earnings before interest, tax, depreciation and amortisation  
 EBIT: Earnings before interest and tax  
 NPAT: Net profit after tax  
 EPS: Earnings per share

Renaissance recorded significant revenue growth between 2003 and 2005. However, since then, it has experienced soft retail sales and margin contraction in line with the general IT sector.

As a result of lower margins, soft retail sales and recent constraints in product supply, Renaissance has forecast pre-tax profits in the range of \$5.0 million to \$5.5 million for the 2007 year.

### 3.5 Financial Position

A summary of Renaissance's recent financial position is set out below.

Summary of Renaissance Financial Position				
	As at 31 Dec 04 (Audited) \$000	As at 31 Dec 05 (Audited) \$000	As at 31 Dec 06 (Audited) \$000	As at 30 Jun 07 (Unaudited) \$000
Current assets	29,738	44,843	40,836	27,972
Non-current assets	4,737	4,172	4,750	5,821
Total assets	34,475	49,015	45,576	33,793
Current liabilities	24,668	37,686	31,908	21,657
Total equity	<u>9,807</u>	<u>11,329</u>	<u>13,668</u>	<u>12,136</u>

Source: Renaissance 2005 and 2006 annual reports and draft 30 June 2007 half year report

Renaissance's main current assets are trade receivables of \$16.3 million as at 30 June 2007, along with inventories of \$5.4 million and cash and bank balances of \$6.2 million.

Its main non-current assets are property, plant and equipment of \$2.7 million as at 30 June 2007, along with intangible assets of \$2.0 million.

Current liabilities consist mainly of payable and accruals.

Renaissance has no non-current liabilities.

### 3.6 Cash Flows

A summary of Renaissance's recent cash flows is set out below.

Summary of Renaissance Cash Flows				
	Year to 31 Dec 04 (Audited) \$000	Year to 31 Dec 05 (Audited) \$000	Year to 31 Dec 06 (Audited) \$000	6 Mths to 30 Jun 07 (Unaudited) \$000
Net cash flow from operating activities	11,511	11,130	(3,033)	5,449
Net cash used in investing activities	(828)	(1,369)	(2,182)	(655)
Net cash used in financing activities	<u>(4,396)</u>	<u>(3,533)</u>	<u>(3,876)</u>	<u>(2,208)</u>
Net increase/(decrease) in cash held	6,287	6,228	(9,091)	2,586
Opening cash balance	161	6,448	12,676	3,585
Closing cash balance	<u>6,448</u>	<u>12,676</u>	<u>3,585</u>	<u>6,171</u>

*Source: Renaissance 2005 and 2006 annual reports and draft 30 June 2007 half year report*

The net decrease in cash in the 2006 year largely arose from a build up of inventory levels and a reduction in payables and accruals.

### 3.7 Directors

The directors of Renaissance are:

- Richard Ebbett
- Rick Ellis
- Colin Giffney, chairman
- Paul Johnson, managing director
- Clive Lewis, finance director
- Malcolm Thompson.

### 3.8 Capital Structure and Shareholders

#### Shares

Renaissance currently has 41,213,905 ordinary fully paid shares on issue.

The names, number of shares and percentage holding of the ten largest shareholders of fully paid shares as at 7 September 2007 are set out below.

Renaissance's Ten Largest Shareholders		
Shareholder	No. of Shares Held	%
Malcolm Thompson	4,977,667	12.08%
Clive Lewis and Helen Lewis	2,150,000	5.22%
MagnumMac Resources Limited	2,001,500	4.86%
FNZ Custodians Limited	1,197,904	2.91%
Martinique Management Limited	960,318	2.33%
Accident Compensation Corporation	936,495	2.27%
Investment Custodial Services Limited	769,593	1.87%
National Nominees New Zealand Limited	602,000	1.46%
Murray Wood	596,040	1.44%
Tea Custodians Limited	500,000	1.21%
Subtotal	14,691,517	35.65%
Others (2,318 shareholders)	26,522,388	64.35%
Total	41,213,905	100.00%

*Source: NZX Data*

Mr Thompson and Mr Lewis are directors of the Company.

MagnumMac Resources Limited is wholly owned by Mr Wood. Mr Wood currently holds a relevant interest in 2,597,540 shares in the Company (6.3%).

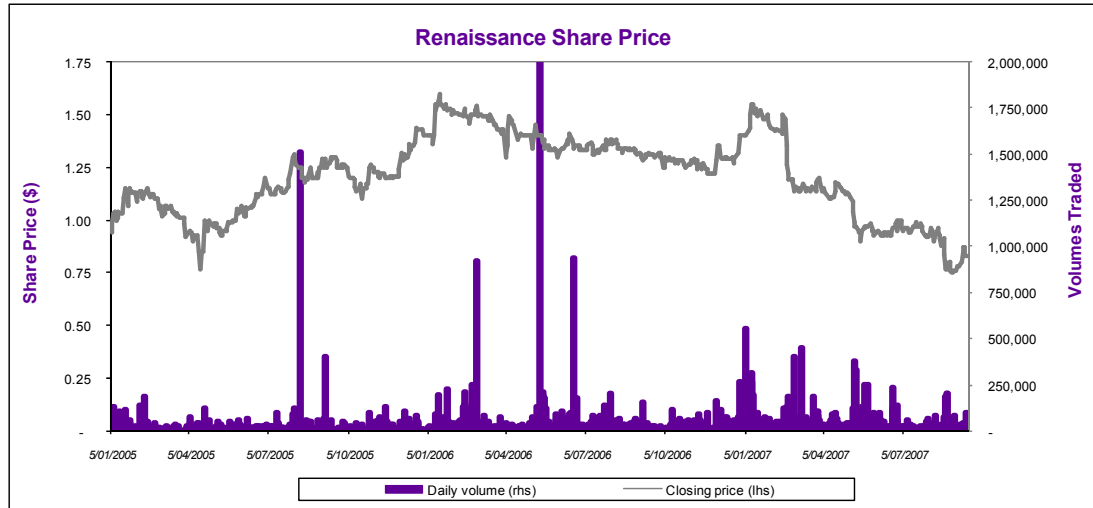
#### Employee Share Option Plan

Renaissance has issued options to acquire shares in the Company to its executive directors, management and employees in accordance with the Company's share option plan.

There are currently 825,000 options outstanding at an exercise price of \$0.67 per share.

### 3.9 Share Price History

Set out below is a summary of Renaissance’s daily closing share price and daily volumes of shares traded from 5 January 2005 to 17 September 2007.



Renaissance’s shares have traded between \$0.76 and \$1.60 since 5 January 2005. The VWAP has been:

- \$0.80 over the past month
- \$0.88 over the past three months
- \$0.97 over the past six months
- \$1.16 over the past year.

The average volume of shares traded each month since 5 January 2005 represented approximately 2% of the shares on issue.

## 4. Profile of Natcoll

### 4.1 Company Background

Natcoll was incorporated on 21 November 1997. It was established with a view to providing an international learning environment for creative digital design education to enhance vocational opportunities.

At inception, it was envisaged that Natcoll would provide a campus for 200 students with central city venues and small classes with a maximum of 20 students per class to enhance tutor pupil time. It was also envisaged that each student would work in a computer lab and have full access to a computer and the software required to complete the course.

Today, Natcoll is a leading New Zealand specialist provider of New Zealand Qualifications Authority (**NZQA**) approved creative digital design technology courses.

Operating from inner city campuses in Auckland, Wellington and Christchurch, Natcoll has a staff of 118 and caters for over 600 full time students.

### 4.2 Nature of Operations

Natcoll is a PTE offering a range of vocational, practical and highly technical courses in:

- multimedia
- computer graphic design
- web development
- animation
- video post production.

Natcoll's regional campuses in Auckland, Wellington and Christchurch offer:

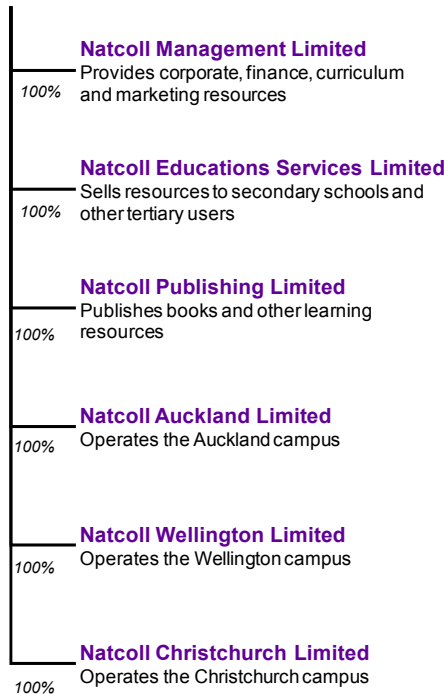
- NZQA-approved vocationally-based certificate and diploma courses
- short courses for the community, primary and secondary school students and teachers
- training for industry in industry-related software.

The entry level foundation course is fifteen weeks, providing a basic introduction to image capture and manipulation, digital illustration, production of printed documents, websites and video. Over 80% of students who complete the foundation course carry on to complete diploma courses.

### 4.3 Corporate Structure

The Natcoll group consists of a parent company and six wholly-owned subsidiaries.

#### Natcoll Limited



Natcoll Limited is the parent company of the group. Natcoll Management Limited is the group head office and is led by the national principal who is supported by the finance, marketing and curriculum teams. National course co-ordinators, under the guidance of the academic manager, maintain the quality and industry relevance of each course program. Each campus is led by a campus principal who is supported by an assistant principal. Each teaching department is led by a course co-ordinator.

### 4.4 Financial Performance

A summary of Natcoll's recent financial performance is set out below.

Summary of Natcoll Financial Performance					
	Year to 31 Dec 04 (Audited) \$000	Year to 31 Dec 05 (Audited) \$000	Year to 31 Dec 06 (Audited) \$000	7 Mths to 31 Jul 07 (Unaudited) \$000	Year to 31 Dec 07 (Budget) \$000
Revenue	8,227	7,858	8,717	5,356	9,469
EBITDA	810	981	1,341	864	1,441
EBIT	226	438	815	514	840
NPAT	242	391	686	440	691
Revenue growth p.a.	(8.9%)	(4.5%)	10.9%		20.5%
EBITDA margin	9.8%	12.5%	15.4%	16.1%	15.2%
EBIT margin	2.7%	5.6%	9.3%	9.6%	8.9%
NPAT margin	2.9%	5.0%	7.9%	8.2%	7.3%

Source: Natcoll audited financial statements, 31 July 2007 management accounts and 2007 budget

Natcoll's revenue increased between 2005 and 2006 by 11% and is budgeted to increase by 21% in 2007. Revenue is closely correlated to student numbers. Recent increases in student numbers are attributable to the development of new courses and success in gaining international students.

The improving earnings margins are a function of revenue growth combined with a largely fixed cost base. Wages and salaries represent approximately half of Natcoll's operating costs.

Results for the seven months to 31 July 2007 are ahead of budget.

#### 4.5 Financial Position

A summary of Natcoll's recent financial position is set out below.

Summary of Natcoll Financial Position				
	As at 31 Dec 04 (Audited) \$000	As at 31 Dec 05 (Audited) \$000	As at 31 Dec 06 (Audited) \$000	As at 31 Jul 07 (Unaudited) \$000
Current assets	1,269	1,774	2,067	2,135
Non-current assets	1,188	961	871	1,049
Total assets	<u>2,457</u>	<u>2,735</u>	<u>2,938</u>	<u>3,184</u>
Current liabilities	531	618	735	941
Total equity	<u>1,926</u>	<u>2,117</u>	<u>2,203</u>	<u>2,243</u>

*Source: Natcoll audited financial statements and 31 July 2007 management accounts*

Natcoll's main current assets as at 31 July 2007 were cash at bank of \$1,935,000.

Its non-current assets consisted of fixed assets of \$936,000 (primarily plant and equipment) and intellectual properties and residual copyright of \$113,000.

Liabilities consisted mainly of accounts payable of \$747,000.

Natcoll has no interest bearing debt (**IBD**).

#### 4.6 Cash Flows

A summary of Natcoll's recent cash flows is set out below.

Summary of Natcoll Cash Flows				
	Year to 31 Dec 04 (Audited) \$000	Year to 31 Dec 05 (Audited) \$000	Year to 31 Dec 06 (Audited) \$000	7 Mths to 31 Jul 07 (Unaudited) \$000
Net cash flow from operating activities	123	1,162	1,253	994
Net cash used in investing activities	(312)	(314)	(439)	(528)
Net cash used in financing activities	<u>(600)</u>	<u>(200)</u>	<u>(600)</u>	<u>(400)</u>
Net increase/(decrease) in cash held	(789)	647	214	66
Opening cash balance	1,797	1,008	1,655	1,869
Closing cash balance	<u>1,008</u>	<u>1,655</u>	<u>1,869</u>	<u>1,935</u>

*Source: Natcoll audited financial statements and 31 July 2007 management accounts*

The improved earnings in the past three years have seen an increase in net cash flow from operating activities.

Net cash used in financing activities reflect dividends paid. Natcoll paid a dividend of \$1.1 million on 7 August 2007 to the current Natcoll shareholders.

#### **4.7 Directors**

The directors of Natcoll are:

- Robert Bijl
- Hugh Derham
- Murray Wood.

#### **4.8 Capital Structure and Shareholders**

Natcoll has 125,000 ordinary fully paid shares on issue.

Natcoll's shareholders are:

- Murray Wood – 53,750 shares (43%)
- Barry Hawkins – 25,000 shares (20%)
- John Mote – 18,750 shares (15%)
- Hugh Derham – 15,000 shares (12%)
- Peter van Rij and Robert Bijl as trustees of the Helmore Business Trust – 12,500 shares (10%).

## 5. Overview of the Private Tertiary Establishment Sector

### 5.1 Industry Overview

Natcoll is a NZQA accredited specialist tertiary education provider. It is formally registered with NZQA as a PTE by virtue of the Education Act 1989 and as such falls within the regulations of the New Zealand Qualifications Framework (**NZQF**).

During the 1980s, a series of reports identified a need to reform education and training in New Zealand to improve competitiveness in global markets, to create a modern education system that would encourage lifelong learning, and to increase skill levels in the labour force.

The NZQF was established as a key initiative to develop and implement a national qualifications system in New Zealand, with the NZQA being its executive arm.

In order to be accredited to assess learners against NZQF standards (NZQA accredited) an education organisation must be registered as a PTE, a government training establishment or formally set up as an education institution according to the Education Act, 1989.

Education organisations that want to assess learners against NZQF standards need to be accredited for those standards. This involves preparing and submitting an application to NZQA. Education organisations prepare any required evidence for submission with their application according to the relevant criteria.

### 5.2 Regulatory Environment

#### ***NZQA Accreditation***

To be NZQA accredited, a provider must conform to certain criteria.

Audit cycles are undertaken regularly by the NZQA of accredited institutions for quality assurance purposes. The length of audit cycles is often a signal of quality.

Natcoll has achieved the highest audit cycle of three years.

NZQA accreditation plays an important role for specialist tertiary education providers as it:

- provides comfort to students that they are undertaking a Government approved and audited course
- provides employers a standard benchmark to compare qualifications from New Zealand.

### **Tertiary Education Commission**

Government funding for the tertiary sector is administered through the Tertiary Education Commission (**TEC**). The TEC administers funding of \$2.8 billion across the sector and has earmarked \$135 million for PTEs.

The TEC has published *Tertiary Education Strategy 2007-2012* and incorporated into this is the *Statement of Tertiary Priorities 2008-2010* (known as **STEP**). In the current plan, the Government has identified four new priorities under the STEP priorities:

- increasing educational success for young New Zealanders – more achieving qualifications at NZQA level 4 and above by age 25
- increasing literacy, numeracy and language levels in the workforce
- increasing the achievement of advanced trade, technical and professional qualifications to meet regional and national industry needs
- improving research connections and linkages to create economic opportunities.

In order to receive funding, PTEs must demonstrate that they will achieve at least one or more of the Government priorities.

Natcoll performs strongly in the first and third priorities.

### **5.3 Sector Participants**

Participants in the provision of digital media education sector include:

- PTEs such as Natcoll
- polytechnic institutions and universities that offer a digital media course with a high level of technical content
- Design and Art College in Christchurch
- Media Design School in Auckland.

### **5.4 Critical Success Factors for the Industry**

PTEs derive their revenue from students and Government funding. As such, industry profitability is dependent on growth in student enrolment and/or Government funding. Critical success factors for participants in the specialist tertiary education industry include:

- acquisition and maintenance of NZQA accreditation
- Government funding
- student numbers are vital to success in this market. The risk of student numbers declining is amplified by the number of overseas students who are subject to New Zealand dollar fluctuations.

## 5.5 Industry Growth Prospects

Growth prospects for the PTE sector are strong due to:

- strong backing by the Government – as mentioned above, the TEC manages \$2.3 billion of funding across the sector and \$135 million has been earmarked for PTEs
- increased participation levels - TEC statistics show that participation levels have increased significantly in level 1 to 4 certificates between 1999 and 2005
- an increasing number of 18 to 25 year olds in the population. TEC statistics show that the number of 18 to 25 year olds increased by 50,000 from 2001 to 2006 and is expected to increase by another 35,000 between 2007 and 2011.

## 6. Valuation of Natcoll

### 6.1 Introduction

The Natcoll Acquisition involves the acquisition of 100% of the shares in Natcoll. In such circumstances, we are of the view that the appropriate basis upon which to evaluate the fairness of the Natcoll Acquisition is to compare the acquisition price of \$6.0 million with the full underlying value of Natcoll on a standalone basis.

Such an approach attributes full control value to Natcoll under its current strategic and operational initiatives, but excludes the value of any synergies that may accrue to a specific acquirer.

### 6.2 Standard of Value

We have assessed the fair market value of 100% of the shares in Natcoll. Fair market value is defined as the price (expressed in terms of money or money's worth) that a willing but not anxious buyer, with access to all relevant information and acting on an arms length basis, would be prepared to pay to a willing but not anxious seller in an open, unrestricted and stable market.

### 6.3 Basis of Valuation

In general terms it is recognised that the value of a share represents the present value of the net cash flows expected therefrom. Cash flows can be in the form of either dividends and share sale proceeds or a residual sum derived from the liquidation of the business.

There are a number of methodologies used in valuing shares and businesses. The most commonly applied methodologies include:

- discounted cash flow (**DCF**)
- capitalisation of earnings
- net assets or estimated proceeds from an orderly realisation of assets.

Each of these valuation methodologies is applicable in different circumstances. The appropriate methodology is determined by a number of factors including the future prospects of the business, the stage of development of the business and the valuation practice or benchmark usually adopted by purchasers of the type of business involved.

The DCF method is the fundamental valuation approach used to assess the present value of future cash flows, recognising the time value of money and risk. The value of an investment is equal to the value of future free cash flows arising from the investment, discounted at the investor's required rate of return.

The capitalisation of earnings method is an adaptation of the DCF method. It requires an assessment of the maintainable earnings of the business and a selection of a capitalisation rate (or earnings multiple) appropriate to that particular business for the purpose of capitalising the earnings figure.

An assets based methodology is often used in circumstances where the assets of a company have a market value independent of the profitability of the company that owns them. A valuation based on an orderly realisation of assets is normally restricted to instances where the investor holds sufficient control to effect a sale of the assets and / or there is some indication that an orderly realisation is contemplated.

#### **6.4 Valuation Approach**

Our preferred valuation approach to assess the fair market value of Natcoll is the DCF method. However, Natcoll has not prepared detailed financial projections beyond its 2007 budget and hence it is not possible to undertake any meaningful DCF analysis.

We have therefore assessed the fair market value of Natcoll using the capitalisation of earnings method.

The capitalisation of earnings method that we have applied derives an assessment of the value of the core operating business, prior to considering how the business is financed or whether it has any significant surplus assets. This ungeared business value is commonly referred to as the enterprise value and represents the market value of the operating assets (i.e. operating working capital, fixed assets and intangible assets such as brand names, software, licences, know-how and general business goodwill) that generate the operating income of the business.

To derive the value of the Natcoll shares, it is necessary to add the value of any surplus (or non-operating) assets and the value of net interest bearing assets to the assessed enterprise value.

#### **6.5 Capitalisation of Earnings Valuation**

##### ***Introduction***

We have assessed Natcoll's future maintainable earnings and have reviewed the market valuation and operational performance of comparable companies to derive a range of earnings multiples to apply to our assessed level of maintainable earnings.

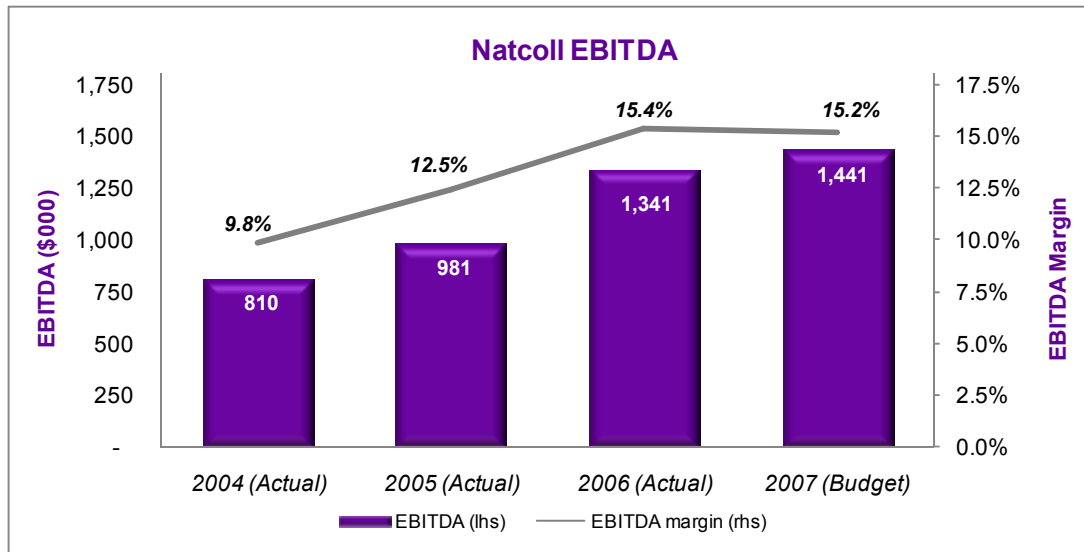
##### ***Future Maintainable Earnings***

The evaluation of maintainable earnings involves an assessment of the level of profitability which (on average) the business can expect to generate in the future, notwithstanding the vagaries of the economic cycle.

The assessment of maintainable earnings is made after considering such factors as the risk profile of the business, the characteristics of the market in which it operates, its historical and forecast performance, non-recurring items of income and expenditure and known factors likely to impact on future operating performance.

We have used EBITDA as the measure of earnings. The use of EBITDA and EBITDA multiples is more common in valuing businesses for acquisition purposes as it eliminates the effect of financial leverage which is ultimately in the control of the acquirer and also eliminates any distortions from the tax position of the business and differing accounting policies in respect of depreciation and the amortisation of intangible assets.

Set out below is a summary of Natcoll’s actual EBITDA and EBITDA margins for the 2004 to 2006 financial years and its budget for 2007.



Natcoll has recorded increased EBITDA and EBITDA margins since 2004 and is budgeting to continue this trend. Actual results for the seven months to 31 July 2007 are ahead of budget.

We have based our assessed level of future maintainable EBITDA on the average of actual 2006 EBITDA and budget 2007 EBITDA. This equates to \$1.39 million.

### Earnings Multiple

Actual sales of comparable businesses can provide reliable support for the selection of an appropriate earnings multiple. In addition, we can infer multiples from other evidence such as minority shareholding trades for listed companies in New Zealand and overseas with similar characteristics to Natcoll or transactions involving businesses in the same industry.

Given that future maintainable EBITDA represents prospective earnings, the EBITDA multiple applied must be a prospective multiple.

There are no companies listed on the NZSX or NZAX that are truly comparable with Natcoll. While there are tertiary education providers listed on foreign stock exchanges, we do not consider that these companies provide meaningful comparable earnings multiple data as the companies tend to be significantly larger than Natcoll and they operate in different geographical and regulatory markets.

In the absence of directly comparable companies, we have reviewed the EBITDA multiples for:

- Kidicorp Group Limited (**Kidicorp**), which bears some similarity to Natcoll in that it is a private education provider, albeit in the early childhood education sector
- observed multiples for Renaissance
- multiples paid by Renaissance in its recent acquisitions.

The tables below summarise the EBITDA multiples for Kidicorp and Renaissance.

<b>Kidicorp EBITDA Multiples</b>			
		<b>Historic Mar 2007</b>	<b>Prospective Mar 2008</b>
Takeover offer price per share	\$0.24		
Market capitalisation	\$42.5m		
Enterprise value <sup>1</sup>	\$50.5m		
EBITDA multiple		13.6x	8.3x
<i><sup>1</sup> Based on normalised IBD of \$13.1 million and properties intended for resale of \$5.1 million</i>			

Kidicorp has recently been the subject of a successful full takeover offer from Positive Educare Limited.

<b>Renaissance EBITDA Multiples</b>				
	<b>Historic</b>		<b>Prospective</b>	
	<b>17 Sep 2007</b>	<b>Dec 2006</b>	<b>Dec 2007</b>	<b>Dec 2008</b>
Share price (1 month VWAP)	\$0.80			
Market capitalisation	\$33.04m			
Enterprise value	\$26.8m			
EBITDA multiple		2.7x	4.0x	3.1x
<i>Source: Capital IQ</i>				

We are of the view that the observed Renaissance EBITDA multiples provide the most useful guidelines for multiples to apply in the valuation of Natcoll.

The Kidicorp multiples represent the price paid in a full takeover offer under the Takeovers Code for an NZSX listed company which is approximately seven times larger (by market value) than Natcoll. We would expect higher multiples to be paid for larger companies whose shares are more liquid through their listing on a stock exchange.

While Renaissance is much larger than Natcoll and its shares are listed on the NZSX, the observed multiples for Renaissance are based on trades of minority interests in the Company. We would expect the multiples for Renaissance under a takeover offer to be higher than those currently observed.

We consider an appropriate prospective EBITDA multiple for Natcoll to be in the range of 3.5x to 4.5x. This is in line with the multiples paid by Renaissance in recent acquisitions.

### Capitalisation of EBITDA Valuation

Based on the above, we assess the enterprise value of Natcoll to be in the range of \$4.9 million to \$5.6 million as at the present date.

Capitalisation of EBITDA Valuation		
	Low	High
Future maintainable EBITDA (\$000)	1,390	1,390
EBITDA multiple	3.5x	4.0x
Natcoll enterprise value (\$000)	<u>4,865</u>	<u>5,560</u>

### 6.6 Value of Natcoll Shares

To derive the value of the Natcoll shares, it is necessary to add the value of Natcoll's net cash on hand to its enterprise value.

Natcoll had cash on hand of \$1.94 million as at 31 July 2007.

Under the terms of the Natcoll Acquisition, Natcoll has paid its shareholders a dividend of \$1.1 million on 7 August 2007.

Natcoll had no IBD or any material surplus or non-operating assets as at 31 July 2007.

Based on the above, we assess the fair market value of all the shares in Natcoll to be in the range of \$5.7 million to \$6.4 million as at the present date.

Value of Natcoll Shares		
	Low \$000	High \$000
Natcoll enterprise value	4,865	5,560
Net cash on hand as at 31 July 2007	1,935	1,935
Dividend paid on 7 August 2007	(1,100)	(1,100)
Value of Natcoll shares	<u>5,700</u>	<u>6,395</u>

## 6.7 Implied Multiples

The above value range implies prospective EBITDA multiples, EBIT multiples, price earnings (**PE**) multiples and net tangible assets (**NTA**) multiples as set out below. The earnings multiples are based on Natcoll's budget for the year ended 31 December 2007. The NTA multiples are based on Natcoll's financial position as at 30 June 2007.

Implied Multiples		
	Low	High
EBITDA multiple	3.4x	3.9x
EBIT multiple	5.8x	6.6x
PE multiple	8.3x	9.3x
NTA multiple	2.7x	3.0x

We consider these implied multiples to be reasonable.

## 6.8 Conclusion

We assess the fair market value of 100% of the ordinary shares in Natcoll to be in the range of \$5.7 million to \$6.4 million as at the present date.

The valuation represents the full underlying standalone value of Natcoll based on its current strategic and operational initiatives assuming 100% of the company was available to be acquired.

## 7. Consideration Paid by Renaissance

### 7.1 Cash and Shares

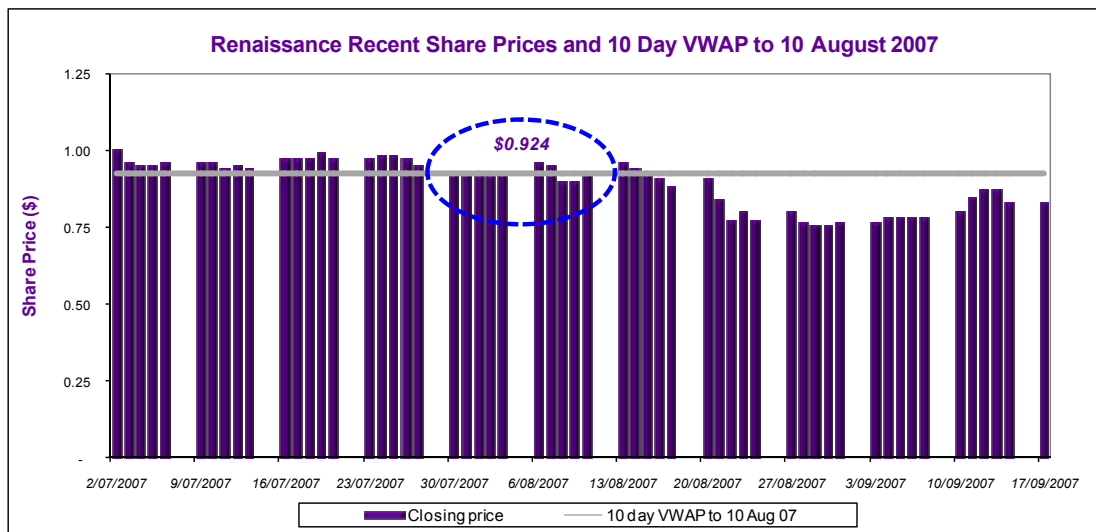
Renaissance will pay consideration in the form of \$5.0 million of cash and \$1.0 million of Renaissance shares for 100% of the Natcoll shares.

The consideration will be paid to the five Natcoll shareholders as set out below.

Natcoll Acquisition Consideration					
	Shareholding %	No. of Renaissance Shares	Consideration		
			Shares \$000	Cash \$000	Total \$000
Murray Wood	43%	1,082,251	1,000	1,580	2,580
Barry Hawkins	20%			1,200	1,200
John Mote	15%			900	900
Hugh Derham	12%			720	720
Helmore Business Trust	10%			600	600
	<u>100%</u>	<u>1,082,251</u>	<u>1,000</u>	<u>5,000</u>	<u>6,000</u>

### 7.2 Issue Price of Shares

The issue price of \$0.924 per share is based on the ten day VWAP up to 10 August 2007, being the business day prior to the announcement of the Natcoll Acquisition.



The graph shows that Renaissance's shares have traded within a narrow range up to the date of the Natcoll Acquisition. Since the announcement of the Natcoll Acquisition, the Company's shares have traded between \$0.75 and \$0.96.

As the shares are to be issued to Mr Wood at market value at the date of the acquisition (based on the ten day VWAP up to 10 August 2007), there will be no dilutionary impact on the Company's share price nor any value transfers from the Non-associated Shareholders to Mr Wood.

### **7.3 Terms of the Issue of Shares**

The 1,082,251 shares issued to Mr Wood are subject to a lockup undertaking.

The shares cannot be sold or offered for sale for one year after the completion date, without the prior written approval of Renaissance (which approval may be withheld at the Company's absolute discretion).

After one year following the completion date, Mr Wood may sell or offer for sale up to 33.3% of the shares.

After two years following the completion date, Mr Wood may sell or offer for sale up to a further 33.3% of the shares.

After three years following the completion date, Mr Wood may sell or offer for sale all remaining shares.

### **7.4 Impact on Control of Renaissance**

The issue of 1,082,251 shares to Mr Wood will increase his shareholding in the Company from 2,597,540 shares (6.3%) to 3,679,791 shares (8.7%).

We do not consider the increase in Mr Wood's shareholding level will have any significant impact on the control of the Company at shareholder voting, board or operational levels.

### **7.5 Conclusion**

In our opinion, the consideration of \$5.0 million in cash and 1,082,251 shares issued at \$0.924 per share is fair to the Non-associated Shareholders. We assess the value of the consideration to equate to \$6.0 million, which is within our assessed valuation range for 100% of Natcoll's shares.

In our opinion, the issue of 1,082,251 shares at \$0.924 per share to Mr Wood as part consideration for the Natcoll Acquisition is fair to Non-associated Shareholders:

- the \$0.924 issue price is based on the market value of the Company's shares and hence does not lead to the potential for dilution in the Company's share price nor any value transfers from the Non-associated Shareholders to Mr Wood
- the lockup undertaking ensures that Mr Wood cannot immediately sell or offer for sale the shares, which could have led to downward pressure on Renaissance's share price
- the increase in Mr Wood's shareholding in the Company is unlikely to have any significant impact on the control of the Company.

## 8. Terms and Conditions of the Natcoll Acquisition

### 8.1 Agreement for Sale and Purchase

The Natcoll Acquisition is documented in the Agreement for Sale and Purchase of Shares of Natcoll Limited dated 13 August 2007 (the **Natcoll ASP**).

The Natcoll ASP was prepared by Mayne Wetherell, legal advisers to Renaissance on the transaction.

### 8.2 Completion

Completion of the Natcoll Acquisition is envisaged to take place by 30 September 2007.

Completion accounts are required to be prepared and audited. The completion accounts will be used to determine whether any adjustment to the purchase price is required (based on a minimum level of total equity of \$1.0 million).

A dispute resolution procedure is in place in the event that Renaissance and the Natcoll shareholders cannot agree on any matters relating to the completion accounts.

### 8.3 Vendor Pre-completion Obligations

The Natcoll ASP sets out various positive obligations and negative obligations on the Natcoll shareholders pending completion.

Of particular note is that Natcoll is permitted to pay a dividend of \$1.1 million to the Natcoll shareholders in August 2007, which was paid on 7 August 2007.

We consider the obligations on the Natcoll shareholders to be reasonable and in line with general commercial practice for transactions of this nature.

### 8.4 Conditions Precedent

The Natcoll Acquisition is conditional upon, amongst other things:

- Renaissance undertaking a due diligence investigation of Natcoll by 14 September 2007 and the results of that investigation being satisfactory to the Company
- Natcoll having a balance of not less than \$750,000 cash in the bank at the close of business on completion
- Non-associated Shareholders' approval of the Natcoll Acquisition and the issue of shares to Mr Wood
- consent (if required) being given by TEC and NZQA to the changes of control of Natcoll and its subsidiaries arising as a result of the Natcoll Acquisition.

## **8.5 Warranties and Tax Indemnity**

The Natcoll shareholders have given warranties to Renaissance in respect of a number of matters including the accuracy of information provided, the operations of the business, employment matters and title to assets.

The warranties are subject to minimum and maximum liability thresholds.

The Natcoll shareholders have indemnified Renaissance from and against any loss suffered in relation to any tax claim up to 31 December 2011.

We consider the warranties and tax indemnity given by the Natcoll shareholders to be reasonable and in line with general commercial practice for transactions of this nature.

## **8.6 Non-competition**

Each Natcoll shareholder has agreed not to compete with the Natcoll business for five years.

## **8.7 Conclusion**

In our opinion, the terms and conditions of the Natcoll Acquisition, as set out in the Natcoll ASP, are in line with general commercial practice for transactions of this nature and are fair to the Non-associated Shareholders.

## **9. Sources of Information, Reliance on Information, Disclaimer and Indemnity**

### **9.1 Sources of Information**

The statements and opinions expressed in this report are based on the following main sources of information:

- the draft Renaissance notice of meeting
- Renaissance 31 December, 2005 and 2006 annual reports
- Renaissance draft 30 June 2007 half year report
- the Natcoll ASP
- Natcoll audited financial statements for the years ended 31 December, 2003 to 2006
- Natcoll management accounts for the seven months ended 31 July 2007
- Natcoll budget for the year ended 31 December 2007
- Natcoll draft 2008 prospectus
- share price data and shareholder data from NZX Data and Capital IQ
- various share brokers' reports on Renaissance
- publicly available information regarding the tertiary education industry.

During the course of preparing this report, we have had discussions with and/or received information from the executive management and directors of Renaissance and Renaissance's legal advisers.

The directors have confirmed that we have been provided for the purpose of this Appraisal Report with all information relevant to the Natcoll Acquisition and the issue of 1,082,251 shares to Mr Wood that is known to them and that all the information is true and accurate in all material aspects and is not misleading by reason of omission or otherwise.

Including this confirmation, we have obtained all the information that we believe is necessary for the purpose of preparing this Appraisal Report.

In our opinion, the information set out in this Appraisal Report is sufficient to enable the directors and the Non-associated Shareholders to understand all the relevant factors and to make an informed decision in respect of the Natcoll Acquisition and the issue of 1,082,251 shares to Mr Wood.

### **9.2 Reliance on Information**

In preparing this report we have relied upon and assumed, without independent verification, the accuracy and completeness of all information that was available from public sources and all information that was furnished to us by Renaissance and its advisers.

We have evaluated that information through analysis, enquiry and examination for the purposes of preparing this report but we have not verified the accuracy or completeness of any such information or conducted an appraisal of any assets. We have not carried out any form of due diligence or audit on the accounting or other records of Renaissance or Natcoll. We do not warrant that our enquiries would reveal any matter which an audit, due diligence review or extensive examination might disclose.

### **9.3 Disclaimer**

We have prepared this report with care and diligence and the statements in the report are given in good faith and in the belief, on reasonable grounds, that such statements are not false or misleading. However, in no way do we guarantee or otherwise warrant that any forecasts of future profits, cash flows or financial position of Renaissance or Natcoll will be achieved. Forecasts are inherently uncertain. They are predictions of future events that cannot be assured. They are based upon assumptions, many of which are beyond the control of Renaissance and Natcoll and their directors and management. Actual results will vary from the forecasts and these variations may be significantly more or less favourable.

We assume no responsibility arising in any way whatsoever for errors or omissions (including responsibility to any person for negligence) for the preparation of the report to the extent that such errors or omissions result from our reasonable reliance on information provided by others or assumptions disclosed in the report or assumptions reasonably taken as implicit.

Our evaluation has been arrived at based on economic, exchange rate, market and other conditions prevailing at the date of this report. Such conditions may change significantly over relatively short periods of time. We have no obligation or undertaking to advise any person of any change in circumstances which comes to our attention after the date of this report or to review, revise or update this report.

We have had no involvement in the preparation of the notice of meeting issued by Renaissance and have not verified or approved the contents of the notice of meeting. We do not accept any responsibility for the contents of the notice of meeting except for this report.

### **9.4 Indemnity**

Renaissance has agreed that, to the extent permitted by law, it will indemnify Simmons Corporate Finance and its directors and employees in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity does not apply in respect of any negligence, wilful misconduct or breach of law. Renaissance has also agreed to indemnify Simmons Corporate Finance and its directors and employees for time incurred and any costs in relation to any inquiry or proceeding initiated by any person. Where Simmons Corporate Finance or its directors and employees are found liable for or guilty of negligence, wilful misconduct or breach of law or term of reference, Simmons Corporate Finance shall reimburse such costs.

## 10. Qualifications and Expertise, Independence, Declarations and Consents

### 10.1 Qualifications and Expertise

Simmons Corporate Finance is a New Zealand owned specialist corporate finance advisory practice. It advises on mergers and acquisitions, prepares independent expert's reports and provides valuation advice.

The person in the company responsible for issuing this report is Peter Simmons, B.Com, DipBus (Finance), CFIP, CA.

Simmons Corporate Finance and Mr Simmons have significant experience in the independent investigation of transactions and issuing opinions on the merits and fairness of the terms and financial conditions of the transactions.

### 10.2 Independence

Simmons Corporate Finance does not have at the date of this report, and has not had, any shareholding in or other relationship with Renaissance that could reasonably be regarded as capable of affecting our ability to provide an unbiased opinion in relation to this transaction.

Simmons Corporate Finance has not had any part in the formulation of the Natcoll Acquisition or any aspects thereof. Our sole involvement has been the preparation of this report.

Simmons Corporate Finance will receive a fixed fee for the preparation of this report. This fee is not contingent on the conclusions of this report or the outcome of the voting in respect of the Natcoll Acquisition or the issue of 1,082,251 shares to Mr Wood. We will receive no other benefit from the preparation of this report.

### 10.3 Declarations

Advance drafts of this report were provided to the directors. Certain changes were made to the drafting of the report as a result of the circulation of the drafts. However, there was no material alteration to any part of the substance of this report, including the methodology or conclusions as a result of issuing the drafts.

Our terms of reference for this engagement did not contain any term which materially restricted the scope of the report.

### 10.4 Consents

We consent to the issuing of this report in the form and context in which it is to be included in the notice of meeting to be sent to Renaissance's shareholders. Neither the whole nor any part of this report, nor any reference thereto may be included in any other document without our prior written consent as to the form and context in which it appears.

*Simmons Corporate Finance Limited*

18 September 2007



