



RENAISSANCE CORPORATION LIMITED
(Company)

LETTER TO SHAREHOLDERS - AUGUST 2011

Dear Shareholder,

This communication may be a little unusual in its timing but your Directors felt that we should bring you up to date with events and performance year to date.

Renaissance has experienced the perfect storm in 2010-11. While we await confirmation that Torrens House, the building that housed our Natcoll Christchurch Campus and head office, has been condemned we finally feel we can chart the future with more certainty than we have been able since the February earthquake.

First, it is worth a recap.

Since 2006, in anticipation of some change in Renaissance's relationship with Apple, we have been pursuing a particular strategy to spread earnings dependency:

- We acquired MagnumMac (Apple specialty retailer) in July 2007.
- We acquired Natcoll (digital media vocational education institution) in August 2007.
- Tactically we wished to:
 - Sustain the distribution business to provide a base cash flow.
 - Develop new campuses for Natcoll.
 - Develop an online presence for Natcoll off the IP in the Natcoll course work.
 - Grow the retail operation with the anticipated growth in Apple product.

For a variety of reasons, not all internal (2008/09 financial crisis in particular), the management team appeared unable to live the vision and execute.

In Early 2010

In early 2010 the Board recruited a new CEO (January, 2010) and CFO (April, 2010) to execute the strategy.

The company recognised that the disintermediation of the IT hardware industry and the broad scale adoption of the cloud as a source of software applications and storage was moving swiftly.

The new management team commenced the adoption of its 3-year plan by:

- Aligning the sales teams around clients instead of products.
- Up-skilling the sales teams and implementing disciplined sales development and forecasting tools.
- Consolidating the disparate brand portfolio and launching our own new brand – YOOBEE.
- Consolidating the disparate back office functions in marketing and accounting.
- Developing and scaling our own intellectual property through a range of scalable applications.
- Securing international clients for those offerings.
- Installing systems to provide cross company business intelligence.

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The Perfect Storm

In August 2010, the board adopted the FY 2011 Budget. Between October 2010 and now Renaissance has been buffeted by the perfect storm:

Date	Event
28 th September 2010	We were informed of the introduction of a second Apple distributor (Ingram Micro).
1 st October	The second distributor started distributing Apple. The increase in GST heralded a period of uncertain trading. Initially it was difficult to see whether the effects were permanent or temporary or related to the distribution change.
5 th December	Apple reduced our credit limit they had traditionally provided us by 25% – effective 1 st January 2011.
10 th February	Informed of another Apple margin reduction – effective 1 st April 2011.
22 nd February	Christchurch Earthquake: <ul style="list-style-type: none"> • Best performing retail stores closed. • Distribution and Direct Sales offices closed. • Christchurch Natcoll campus rendered inaccessible but expected to open 1st July.
13 th June	Christchurch Earthquake #2: <ul style="list-style-type: none"> • Damage at the replacement store delayed start-up. • Christchurch campus now rendered un-inhabitable (until at least October 2011).
18 th August	We received advice that Natcoll's premises in Christchurch, Torrens House was likely to be demolished. That is yet to be confirmed.

So, we have had two major events hitting the business at the same time. The new Apple model has deeply affected our distribution and sales activities. The earthquake in Christchurch, has severely restrained our activities in that town.

Christchurch – The First Quake

Not only did we lose our very supportive Christchurch Director Murray Wood in the February quake we incurred the following material damage:

Table: Material damage suffered in the Christchurch earthquakes (\$)

Material damage suffered	\$'m Damage
Stock (currently on pallets at Onehunga)	0.9
Fixtures and fittings	0.4
TOTAL material damage insurance claim	1.3

Loss of earnings has been a more significant charge because of the length of time we have been out of business. To date that claim totals \$2.0 million. We expect it to reach \$2.627 million by the end of our financial year in September.

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Table: Loss of earnings suffered in the Christchurch earthquakes – estimate to September 2011 (\$)

Loss of earnings	\$'m Estimated Losses to 9/2011
Retail	0.8
Distribution	0.2
Natcoll Design College	1.7
TOTAL loss of earnings insurance claim	2.7

Christchurch – Mitigation of Losses

Following the first quake in Christchurch:

- We secured a new retail facility (Blenheim Road) in Christchurch and that commenced operating from July.
- We secured temporary teaching facilities (CMS and Lincoln University) for Christchurch students.
- Relocated students to Auckland and Wellington campuses.
- Expanded short course revenue in Auckland, and Wellington.

Because we expected to be back in Torrens House by 1st of July we did not arrange new premises for the College but we tried to shift as many courses as we could around our other campuses. Head office staff have been working from an employee's home. Nevertheless between the Christchurch retail and education businesses we have been losing about \$0.250 million per month since the February quake.

Natcoll was housed at Torrens House, Hereford Street. Unscathed in the first quake it has been in the "Red" zone since February and we have not been able to access the building. Unfortunately it was severely damaged in the June quake. It now seems extremely unlikely, if at all, that we will get into Torrens House any time soon and so we can at least go ahead and arrange temporary accommodation for the College.

From very early days after the earthquake we have worked with our insurance adviser, Fawcett Faire Limited, to ensure we document and process accurately our difficulties in Christchurch. While we are nearly \$4.0 million out of pocket at the moment we have received a progress payment of \$500,000 for the material damage claim and we have lodged for another \$500,000 progress payment on the loss of earnings claim. Outcomes in Christchurch remain uncertain.

Distribution & Direct Sales

With the introduction of a second distributor of Apple, it was inevitable that we would lose some market share. What we did not know was how much, in what areas or which customers.

Between our year to September 2010 and what we expect for the year to September 2011 sales in Distribution and Direct Sales are down 14%. Apple sales in these businesses are down only 8% on last year, which is a credible result. We have suffered a slightly greater drop in sales of other product and so, combined with margin reductions, gross margin in this business has declined \$1.5 million year on year.

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Table: Distribution and Direct Sales margins 2010 to 2012 (\$m)

	2010	2011 (Q1-Q3 ACTUAL, Q4 FORECAST)	2012
Revenue	144.5	123.7	118.9
Gross Margin	15.1	11.0	9.8
% Gross margin	10.43%	8.86%	8.24%

There was another tranche of Apple margin cut effective 1st of April, which we have included in our 2012 forecast. Given the extent of recent changes we expect that Apple will probably cease change for a period of time at least.

Over our whole business, with no adjustment for loss of business in Christchurch gross margins have declined \$4.0 million or 27%. That has been the real issue.

Since November we have been reducing the overheads of the business through relentless cost cutting and headcount reductions. Given that the number of employees in our retail and education businesses has been relatively stable the really pronounced movements have happened in our Distribution and Sales businesses.

Chart: Headcount by division since November 2010



In summary, we have reduced the total number of employees by 99 from 367 to 268 since November 2010. 76 of those people have gone from distribution and sales.

Table: Headcount by division since November 2010

Month	Retail	Education	NZ Sales	Distribution	Other	Total
November 2010	101	91	60	69	46	367
September 2011	92	86	11	42	37	268
TOTAL REDUCTION	-9	-5	-49	-27	-9	-99

It has been a tough time on staff. The relentless external pressure and compensating changes have affected morale in the Company as employees have wondered when it would stop. Subject to no further external shocks we think we have reached that point. We can now settle the business.

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Mix of Earnings

One of the interesting side effects of what has been an extremely challenging year is that by the end of 2012 the mix of earnings in the business will have changed significantly. Combined, Distribution and NZ Sales give a reasonable proxy to our reliance on Apple outside retail. (Apple product represents about 70% of those businesses.) While the revenue will remain quite high, the profitability (or lack of it) of the direct sales activity has been the major issue in 2011. As we settle the businesses in 2012 we see that at EBITDA level at least, Retail and Education should contribute about \$5.2 million compared with the contribution of the Distribution activities of \$1.4 million. Retail & Education businesses with our own IP and branding will be contributing nearly 80% of earnings and have been positively affected by the centralisation of accounting, payroll, and marketing head office functions.

Table: Contributions by division 2010 to 2012 (before adjustment for Christchurch effect on Revenue & Profit) (\$m)

\$'m	9/2010	9/2011	9/2012
	Actual	Forecast	Forecast
REVENUE			
Distribution	109.4	101.1	95.5
NZ Sales	35.1	22.6	22.9
Retail/Online	51.9	51.9	66.6
Education	10.8	9.6	11.5
Australia	0		0.3
REVENUE TOTAL	207.2	185.3	196.8
EBITDA			
Distribution	1.8	1.3	1.2
NZ Sales	(0.4)	(1.9)	0.9
Retail/Online	0.1	0.6	2.4
Education	2.1	1.6	2.7
Australia		(0.2)	(0.1)
Overheads	(4.2)	(3.2)	(3.1)
EBITDA TOTAL	(0.7)	(1.8)	4.0

Balance Sheet

There is no doubt the balance sheet is stretched at this time. As previously reported we have been in breach of our banking covenants and we remain in breach.

A significant impact has been the reduction in supplier credit from Apple. It has been difficult to decide what extra capital, if any, is required as the introduction of the second distributor settles into the market. Where the Apple business will settle – and so any capital requirements - is still very much a moving target. The issue is compounded by the insurance claims.

We are working with our bank. We continue to assess the situation.

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Plenty of Positives

It is tempting to look back and think that it has been all gloom. It has not. Despite the difficulties we have been pursuing our growth agenda:

- Businesses that have historically lost money or at best struggled have been made profitable.
- We have consolidated our direct businesses under a single brand. YOOBEE, which has allowed us to significantly reduce our marketing expenditure on multiple brands. The new Brand has been chosen as a finalist for the Best of New Zealand awards.
- We have continued to make gains in our retail operations:
 - Same store revenue growth in YOOBEE retail has been 5%. Adjusted for sales lost in Christchurch same store revenue growth in YOOBEE retail would have been 15%.
 - We opened a new YOOBEE store in Britomart, Auckland in early September.
 - We have completed the consolidation of a number of our disparate online retail stores under the YOOBEE brand.
 - We will relocate and upgrade our store and consolidate our education and sales offices in a single location in Wellington during November.
 - We are working with Apple to review and refresh the appearance of all of our stores nationally.
- In Education:
 - We are seeking Australian accreditation of the diploma courses we offer in New Zealand. We hope to start offering Natcoll courses in Sydney in early 2012.
 - We are currently offering short courses on a small number of technical topics in Australia and are expanding our offering in New Zealand.
 - We are developing the capability to offer some of our Education courses online and expect to have our first course available in October.
- The Stakeholder Relationship Management Tool, Engage, has been developed to manage our own stakeholders, is being offered in the Cloud for others.

Conclusion

Christchurch has been especially tough for the staff on the ground. It has been hard for the Company. With more clarity on premises, we can now see a way ahead. We expect the Christchurch education business to be back in full operation by December this year.

The changes Apple introduced has released us to shed some of the Apple activities that were not profitable but which we embraced as part of our responsibility as the sole distributor. For instance, sale of product into education was a segment where we had really struggled to make money over many years. That model has completely changed.

The trading result for 2011 will not be pretty. On our best estimates the raw result, before making any adjustment for the Christchurch earthquake insurance claims will be a loss of about \$4.0 million. If we add back the insurance claim of \$2.7 million we will report a loss of about \$1.3 million. The year-end adjustments for insurance claims, inventories and fixtures & fittings are going to be problematic this year and so at this stage it is not possible to give a number but somewhere in that range seems reasonable.

We are now looking forward to 2012. The significant reductions we have made in employee numbers and operating expenditure will begin to flow in 2012. While it is early for us to complete a

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budget management's best estimate is that we will record a profit of about \$1.5 million in 2012 after an EBITDA of about \$4.0 million.

Table: Estimated comparative results 2010 to 2012 (\$m)

	9/2010	9/2011		9/2012
		Raw	Adj ChCh	
Revenue	207.1	185.3	193.3	196.8
Gross Margin	33.7	29.2		31.3
Salaries	22.0	21.0		17.5
OPEX	12.4	10.0		9.8
Loss of profit in Christchurch			2.7	
EBITDA	-0.7	-1.8	0.9	4.0
EBIT	-2.3	-3.6	-0.9	2.0
Interest	0.3	0.5	0.5	0.5
NPBT	-2.6	-4.1	-1.5	1.5

Management has a number of other initiatives in place, which the board will be monitoring month by month, which could enhance the bottom line, but these have not been budgeted.

For and on behalf of the Board of Renaissance Corporation,

Colin Giffney, Chairman