



RENAISSANCE

Interim Report 2011

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Directory

Directors

C G Giffney (Chairman)
R G Ebbett
W J Ellis
M R Thompson
M J Wood (deceased 22 February, 2011)

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Private Bag 24905
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Auditor

Deloitte
Auckland

Bankers

Bank of New Zealand
Auckland

Share Registrar

Computershare Investor Services Limited
Private Bag 92119
Auckland 1142

Copies of previous annual and interim reports are available from our website, www.renaissance.co.nz

Financial Summary

for the six months ended 31 March 2011

	Group Unaudited Six months ended	
	31 March 11 \$000	31 March 10 \$000
Operating revenue	102,099	108,050
Earnings before interest and tax (EBIT) from continuing operations	(944)	(2,489)
Total earnings before interest and tax (EBIT)	(944)	(2,489)
Net surplus after taxation from continuing operations	(856)	(1,883)
Other comprehensive income after tax	(33)	13
Total comprehensive income after tax	(889)	(1,870)
Total assets	45,560	43,813
Net tangible assets	1,726	2,855
Number of shares issued as at the end of the reporting period (thousands)	45,649	44,709
Shareholders' equity ratio	27%	31%
Net tangible assets per share (cps)	3.8	6.4
Dividend paid (cps)	—	—
Basic earnings per share from continuing operations (cps)	(1.88)	(4.21)
Basic earnings per share from discontinued operations (cps)	—	—
Basic earnings per share from profit attributable to shareholders of the Company (cps)	(1.88)	(4.21)

Chairman's Interim Report

on behalf of the Directors

On 10 May Renaissance Corporation Limited announced an EBITDA loss in the six months to 31 March 2011 of \$55k compared to \$1.5 million loss in the prior corresponding period. Performance has been adversely impacted by the Christchurch earthquake and the introduction of a second Apple distributor. The Company predicts profitable trading in the second six months of the year as cost reductions made in the prior period come into effect.

	6 months to 31 March 2011 \$000	6 months to 31 March 2010 \$000	Percent Change (%)
Operating revenue	102,099	108,050	5.5% decrease
EBITDA	(55)	(1,514)	96.4% increase
Depreciation & amortization	(889)	(975)	
EBIT	(944)	(2,489)	62.1% increase
Net finance cost	(248)	(199)	
Profit before tax	(1,192)	(2,688)	55.7% increase
Impact on profit of Christchurch not adjusted above	575		

In the six months to March 2011 the company executed on a number of strategic initiatives:

- The retail business of MagnumMac and Student IT was rebranded as YOOBEE and returned to profitability. Notwithstanding the loss of revenue from Christchurch due to the earthquake, retail sales lifted 12% over the previous period. Our gross profit increased 45% as product mix shifted to higher margin products and services.
- The Natcoll education business also contributed positively to the results despite the Christchurch campus being closed for the last 6 weeks of the period due to the earthquake.
- The gross margin across the whole business lifted from 14.9% to 16.2%.
- The YOOBEE brand was launched to encompass all our direct to consumer businesses. The Renaissance brand will continue to exist to serve the traditional distribution sales channel.
- We are in the early stages of commercialising some of our own intellectual property by launching our three new applications: Engage, Learn and Exchange. It is too early to predict the success of these but all development cost has been expensed as incurred.
- Natcoll short courses were launched into Australia. We opened our Digital Media training lab in Sydney on April 7. Six short courses are being offered initially. We aim to receive accreditation for the Natcoll vocational courses in late 2011 and to start offering full courses in early 2012, branded as YOOBEE.

Through these initiatives we are shifting the company away from its traditional reliance on third party distribution businesses, which continue to struggle.

Around the world large IT distributors are adopting global strategies to move to multiple distribution points in each country they conduct business in. In this period Apple introduced a second distributor, reduced credit and implemented changes to the margin structure.

Having been the sole distributor of Apple products it was inevitable that we would lose some customers with the introduction of a second distributor. Sales in some channels were down significantly and we expect this to continue into the second half. As this is the lowest margin part of our business the effect on profitability will be manageable.

During the half year we invested significantly in our service capabilities, which resulted in both improved service levels and an increase in service revenues of 16%. The return on this investment was not commensurate with forecast levels and as a result the company moved to align its services cost base with revenue performance.

Chairman's Interim Report

on behalf of the Directors

Management has responded to the current economic and competitive landscape by reducing operating costs during the trading period and expect to reap the benefits of these in the next reporting period. It is not possible to respond immediately to the sort of changes we have experienced and inevitably there has been a delay in right-sizing. That has been a significant contributor to losses in the period.

The tragedy in Christchurch has had and continues to have a significant impact on trading. In Christchurch we have two retail operations and one Natcoll campus.

- Natcoll has a campus of 183 students. We have not been able to teach since February 22. The building is in the "red zone" but has been given a "G2 sticker" but no access is possible while buildings around it are at risk. In the period before March 31 we estimate lost margin was about \$235,000.
- YOOBEE had one retail store that has been condemned and one retail store which has yet to reopen. We have shifted our support operation into premises out of town and expect to re-commence retail sales in July. We estimate this lost margin, and a resultant loss of supplier rebates, was about \$340,000.

We do have insurance cover for loss of business but we have made no attempt to incorporate any likely recoveries into these half-year results.

With these trading results Renaissance has breached one of its banking covenants. We have alerted the Bank and are awaiting their response.

The balance sheet shows an increase in net debt. This is largely due to the reduced credit terms from Apple as a result of no longer being their sole distributor.

We had expected a July restart for Natcoll. The Christchurch City Council and Canterbury Earthquake Recovery Authority have pushed this date back to October because of the slower than expected demolition programme in the CBD area.

This additional 3 month delay we estimate will cost the Christchurch Campus \$900k revenue in the July to September quarter. This is on top of the revenue reduction expected in the April to June quarter of \$850k.

We have taken a number of initiatives to grow the Natcoll business:

- 3 new classes started in Auckland from April
- 2 new classes started in Wellington from May
- We have rented a classroom at Christchurch Polytechnic Institute of Technology - enabling two classes to finish their course.

We continue to investigate other options. It is however extremely difficult to assess the net impact on the Company. We share some of the frustration a number of Christchurch businesses are feeling and we continue to press for access to Natcoll House so that we can resume normal trading.

We previously forecast that our Christchurch operations would resume normalised trading from July onwards. It now looks like October. Volatility around the changed Apple distribution model has significantly reduced and due to the substantial reductions in costs made earlier in the year we have locked in significant savings in the business. These are showing in monthly results.

For and on behalf of the Board of Directors



C.G. Giffney
Chairman
17 June 2011

Consolidated Statement of Comprehensive Income

for the six months ended 31 March 2011

	Group Unaudited Six months ended	
	31 March 11 \$000	31 March 10 \$000
Revenue	102,099	108,050
Purchases	(84,893)	(94,429)
Audit fees	(47)	(45)
Change in inventories	(616)	2,579
Depreciation	(709)	(710)
Amortisation of intangible assets	(180)	(265)
Directors' fees	(120)	(100)
Donations	(3)	(1)
Finance expense	(287)	(219)
Finance income	39	20
Bank fees	(123)	(82)
Gain / (loss) on revaluation of foreign currency transactions	110	87
Bad debts written off and movement in doubtful debt provision	1	(21)
Loss on disposal of plant, property and equipment	—	(393)
Impairment of goodwill	—	(881)
Rental and operating lease costs	(1,512)	(1,463)
Employee benefits		
— Wages and salaries	(11,201)	(10,923)
— Defined contribution plan	(101)	(74)
— Long Term Incentive Scheme	(40)	142
— Change in provision for long service and sick leave	53	32
Advertising and marketing	(618)	(711)
Telephone and internet	(446)	(351)
Building and property costs	(523)	(397)
Other expenses	(2,075)	(2,533)
Profit before income tax	(1,192)	(2,688)
Income tax expense	336	805
Profit from continuing operations	(856)	(1,883)
Other comprehensive income		
Translation of foreign operations	(44)	17
Income tax relating to other comprehensive income	11	(4)
Other comprehensive income net of tax	(33)	13
Total comprehensive income net of tax	(889)	(1,870)
Profit attributable to members of parent entity	(856)	(1,883)
Total comprehensive income attributable to members of parent entity	(889)	(1,870)
Earnings per share for profit attributable to the shareholders of the Company		
Basic earnings per share (cps)	(1.88)	(4.21)
Diluted earnings per share (cps)	(1.88)	(4.21)
Earnings per share from continuing operations		
Basic earnings per share (cps)	(1.88)	(4.21)
Diluted earnings per share (cps)	(1.88)	(4.21)

The accompanying notes form part of the financial statements.

Consolidated Statement of Changes in Equity

for the six months ended 31 March 2011

Group Unaudited	Share capital	Foreign currency translation reserve	Retained earnings /(deficit)	Total
	\$000	\$000	\$000	\$000
Balance as at 1 October 2010	28,970	(4)	(15,597)	13,369
Profit for the period	—	—	(856)	(856)
Translation differences on foreign operations	—	(44)	—	(44)
Income tax relating to other comprehensive income	—	11	—	11
Total comprehensive income	—	(33)	(856)	(889)
Recognition of share based payments	39	—	—	39
Balance as at 31 March 2011	29,009	(37)	(16,453)	12,519
Balance as at 1 October 2009	29,043	(5)	(13,529)	15,509
Profit for the period	—	—	(1,883)	(1,883)
Translation differences on foreign operations	—	17	—	17
Income tax relating to other comprehensive income	—	(4)	—	(4)
Total comprehensive income	—	13	(1,883)	(1,870)
Recognition of share based payments	(141)	—	—	(141)
Balance as at 31 March 2010	28,902	8	(15,412)	13,498

The accompanying notes form part of the financial statements.

Consolidated Statement of Financial Position

as at 31 March 2011

Audited Nine months ended 30 Sept 10 \$000		Group Unaudited Six months ended 31 March 11 \$000	31 March 10 \$000
	Current assets		
3,039	Cash and cash balances	464	4,063
14,406	Trade and other receivables	15,364	13,604
449	Prepayments	530	377
2,354	Cash held in trust	2,738	2,916
335	Directors loans receivable	335	—
9,732	Inventories	10,348	7,298
313	Current tax receivable	354	293
<u>30,628</u>	Total current assets	<u>30,133</u>	<u>28,551</u>
	Non-current assets		
4,168	Property, plant and equipment	4,634	4,284
7,982	Goodwill	7,982	7,982
983	Intangible assets	924	1,180
—	Directors loans receivable	—	335
1,333	Deferred tax assets	1,887	1,481
<u>14,466</u>	Total non-current assets	<u>15,427</u>	<u>15,262</u>
<u>45,094</u>	Total assets	<u>45,560</u>	<u>43,813</u>
	Current liabilities		
24,172	Trade payables	19,057	21,221
4,593	Other payables and accruals	5,489	5,637
2,354	Deferred income	2,738	2,916
86	Provisions	54	89
—	Short term loans	4,950	—
250	Current tax payable	502	168
<u>31,455</u>	Total current liabilities	<u>32,790</u>	<u>30,031</u>
	Non-current liabilities		
270	Provisions	251	284
<u>270</u>	Total non current liabilities	<u>251</u>	<u>284</u>
<u>31,725</u>	Total liabilities	<u>33,041</u>	<u>30,315</u>
	Equity		
28,970	Share capital	29,009	28,902
(15,597)	Retained earnings	(16,453)	(15,412)
(4)	Reserves	(37)	8
<u>13,369</u>	Total equity	<u>12,519</u>	<u>13,498</u>
<u>45,094</u>	Total liabilities and equity	<u>45,560</u>	<u>43,813</u>

The Board of Directors of Renaissance Corporation Limited authorised these financial statements for issue on 23 June 2011.

The accompanying notes form part of the financial statements.

Cash Flow Statement

for the six months ended 31 March 2011

		Group Unaudited Six months ended	
	<i>Note</i>	31 March 11 \$000	31 March 10 \$000
Cash flows from operating activities			
<i>Cash was provided from (disbursed to):</i>			
Receipts from customers		101,061	111,492
Interest received		39	20
Payments to suppliers and employees		(107,042)	(103,693)
Income tax paid		—	—
Interest paid		(287)	(219)
Net cash inflow (outflow) from operating activities	5	<u>(6,229)</u>	<u>7,600</u>
Cash flows from investing activities			
<i>Cash was provided from (disbursed to):</i>			
Payment for intangible assets		(121)	—
Payment for property, plant and equipment		(1,175)	(897)
Net cash outflow from investing activities		<u>(1,296)</u>	<u>(897)</u>
Cash flows from financing activities			
<i>Cash was provided from (disbursed to):</i>			
Proceeds from issue of equity securities		4,950	—
Repayment of borrowings		—	(2,700)
Net cash outflow from financing activities		<u>4,950</u>	<u>(2,700)</u>
Net decrease in cash and cash equivalents		(2,575)	4,003
Cash and cash equivalents at the beginning of the period		3,039	60
Cash and cash equivalents at the end of March		<u>464</u>	<u>4,063</u>

The accompanying notes form part of the financial statements.

Notes to the Financial Statements

for the six months ended 31 March 2011

1 Statement of accounting policies

Reporting entity

Renaissance Corporation Limited (the Company) is a company incorporated and domiciled in New Zealand, registered under the Companies Act 1993 and listed on the New Zealand Stock Exchange (NZX). The Company is an issuer in terms of the Financial Reporting Act 1993 and its financial statements comply with that Act. The Renaissance Group of companies (the Group) consists of Renaissance Corporation Limited and its subsidiaries Renaissance Limited, Conduit International Limited, YOOBEE Ltd (previously MagnumMac Limited), Natcoll Limited, Widget to Pay Limited (previously Ttxtunes Limited) and YOOBEE Pty Ltd (previously Conduit Solutions Australia Pty Limited), the last two being subsidiaries of Conduit International Limited.

The principal activities of the Group are described in Note 4 Segment information.

Statement of compliance

The interim consolidated financial statements have been prepared in accordance with New Zealand International Accounting Standard NZ IAS 34 Interim Financial Reporting. The interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Group for the 9 months ended 30 September 2010.

Accounting policies

The accounting policies applied by the Group in these condensed consolidated financial statements are the same as those applied by the Group in its consolidated financial statements for the 9 months ended 30 September 2010.

The financial statements for the six months ended 31 March 2011 are unaudited.

2 Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of uncertainty were the same as those applied to the consolidated financial statements as at and for the 9 months ended 30 September 2010.

3 Contingent liabilities

Parent company guarantees

Renaissance Corporation Limited has provided a guarantee to Apple Australia Pty Ltd with regard to the purchase obligations of Renaissance Limited. At balance date, the amount subject to guarantee was \$15,881,018 (2010: \$17,585,049). Renaissance Corporation Limited has also provided a guarantee of \$12,000,000 to its Bankers inclusive of interest and costs in terms of the Bank's standard guarantee form (2010: \$12,000,000). The Bank has provided on behalf of Renaissance Corporation Limited standby Letters of Credit for \$118,885 (2010: \$118,885).

There is a guarantee in respect of lease obligations of Renaissance Limited for 92 Beachcroft Ave, Onehunga. At balance date this amounted to \$846,709 plus GST for the period 1 April 2011 to 31 March 2013 (2010: \$1,269,485 plus GST).

There is no indication that there is any possibility of amounts becoming payable under any of these guarantees.

Notes to the Financial Statements

for the six months ended 31 March 2011

4 Segment information

Renaissance Corporation's principal operations are within New Zealand. Financial information based on geographic segments has not been disclosed as operations by YOOBEE Pty Ltd make up an insignificant percentage of the overall Group results.

In 2010 the financial year end of the Group was changed to 30 September and the interim reporting period end was changed to 31 March. All prior period information has been restated to reflect this change.

(a) description of segments

The Group is organised into the following business segments by product and service type.

Distribution - distributes computers, associated peripheral hardware and computer software primarily through a nationwide network of resellers. Major brands handled include Allot, Apple, AudioEngine, Brocade, Canon, Filemaker, Freecom, Fuji Xerox, McAfee, SonicWall, Palo Alto, Quantum, Aspen Optics and Netcom.

Direct - markets and sells digital technology products and services in all areas of New Zealand through enterprise, education and Government market segments. Natcoll Limited provides a range of training courses designed to give its tertiary level students the technical skills required for a career in the creative digital industry.

Retail - markets and sells Apple products, associated peripheral hardware and computer software to its digital technology consumers through its YOOBEE (formerly MagnumMac) and StudentIT retail outlets.

Online - markets and sells Apple products, associated peripheral hardware and computer software to its digital technology consumers through e-commerce websites.

(b) Segment revenue and profit

	Group			
	Segment revenue		Segment profit	
	2011	2010	2011	2010
Continuing operations	NZ\$'000	NZ\$'000	NZ\$'000	NZ\$'000
Distribution	57,097	57,672	590	1,091
Direct	17,690	25,985	(446)	(618)
Retail	26,881	24,043	37	(1,581)
Online	431	350	(173)	(153)
Total of all segments	102,099	108,050	8	(1,261)
Central administration costs			(952)	(1,228)
Finance costs			(248)	(199)
Total profit before tax			(1,192)	(2,688)
Income tax expense			336	805
Total profit for the year to date from continuing operations			(856)	(1,883)

(c) Segment assets and liabilities

	Group			
	Assets		Liabilities	
	2011	2010	2011	2010
Group	\$000	\$000	\$000	\$000
Group	45,560	43,813	33,041	30,315

Notes to the Financial Statements

for the six months ended 31 March 2011

(d) Other segment information

	Group			
	Depreciation and amortisation		Additions to non-current assets	
	2011	2010	2011	2010
	\$000	\$000	\$000	\$000
Distribution	15	13	39	20
Direct	326	406	767	728
Retail	281	244	55	131
Online	1	1	2	—
Total of all segments	623	664	863	879
Unallocated	266	311	433	18
Total	889	975	1,296	897

5 Reconciliation of surplus after taxation with cash flows from operating activities

	Group Unaudited Six months ended	
	31 March 11 \$000	31 March 10 \$000
Loss for the period	(856)	(1,883)
<i>Add / (less) non-cash items:</i>		
Depreciation	709	710
Amortisation of intangible assets	180	265
Net foreign exchange (gain) / loss	(32)	24
Decrease / (increase) in deferred tax	(554)	(370)
Long Term Incentive Scheme transactions	40	(142)
Increase / (decrease) in provisions	(52)	106
	291	593
<i>Less items classified as investing activity:</i>		
Impairment of goodwill	—	881
Loss on sale of property, plant and equipment	—	393
		1,274
<i>Movement in working capital:</i>		
Increase / (decrease) in trade creditors	(5,116)	669
Increase in other payables	896	952
(Increase) / decrease in receivables	(1,039)	3,442
(Increase) / decrease in current tax	211	(26)
(Increase) / decrease in inventory	(616)	2,579
	(5,664)	7,616
Net cash inflow / (outflow) from operating activities	(6,229)	7,600

6 Restatement of prior year comparatives

In 2010 the financial year end of the Group was changed to 30 September and the interim reporting period end was changed to 31 March. All prior period information has been restated to reflect this change.

