Pumpkin Patch®

interim report

january 2010

group performance highlights

HIGHLIGHTS FROM THE FIRST HALF

- Net profit after tax up 50% to $14.3m
- Trading conditions are improving across all of our markets
- Earnings growth from all our retail markets
- Development of a number of new wholesale markets
- Net bank debt down 70% to $9.6m.
- Interim dividend increased 50% to 4.50 cents per share

The Company is well positioned to take advantage of the improving market conditions and growth opportunities across existing and new markets.

chief executive officer's report

On behalf of the Board of Directors I am pleased to present the Company's result for the six months ended 31 January 2010.

OVERVIEW OF THE FIRST HALF RESULT

While we faced challenging conditions across markets for much of the first half we increased half year earnings to $14.3m, a 50% lift on the same period last year. This has allowed us to increase our interim dividend payment to shareholders by 50% to 4.50 cents per share.

A number of major initiatives over the last 18 months have strengthened the balance sheet with bank debt at January less than $10m and inventory reduced 34% from a year ago.

While conditions in all of our retail markets have steadily improved management is hopeful that this improvement will continue for the remainder of the financial year.

The Company is well positioned to take advantage of growth opportunities being developed in Australasia, the United Kingdom, and a number of wholesale markets.

AUSTRALIA RETAIL

	UNAUDITED 6 MONTHS ENDED		12 MONTHS ENDED
	31 JAN 2010	31 JAN 2009	31 JUL 2009
Turnover AU$'000	80,616	80,986	166,398
Turnover NZ$'000	100,188	97,382	203,426
EBIT NZ$'000	19,873	19,479	38,469
	19.8%	20.0%	18.9%
Stores			
Pumpkin Patch	99	98	99
Outlet	15	11	12
Urban Angel	-	1	-
	114	**110**	**111**

Trading conditions improved steadily across the period. Total AUD sales (excluding temporary clearance stores open in 1H09 but now closed) were up 3% and up 6% in NZD terms due to more favourable exchange rates faced during the period.

We continued to focus on growing market share and reinforcing Pumpkin Patch's position in the market. While promotional activity remained higher than normal overall segment EBIT was up 2% to $19.9m. Excluding the temporary clearance stores in 1H09 EBIT this period was up 4%.

Similar trading conditions are anticipated for the remainder of the financial year.

During the period we opened 3 new stores (1H09: 3) taking total stores at January to 114. Negotiations continue on the first tranche of the 30-40 stores expected to be opened over the next three years. Four stores will be opened by the end of the financial year including the first of the new smaller format stores.

NEW ZEALAND RETAIL

	UNAUDITED 6 MONTHS ENDED		12 MONTHS ENDED
	31 JAN 2010	31 JAN 2009	31 JUL 2009
Turnover NZ$'000	30,849	31,865	64,357
EBIT NZ$'000 (1)	6,166	6,086	11,125
	20.0%	19.1%	17.3%
Stores			
Pumpkin Patch	33	33	33
Outlets	12	12	12
Urban Angel	5	9	6
	50	**54**	**51**

(1) Operating EBIT before non-recurring costs

Although the New Zealand retail environment remained subdued for much of the period, sales were up 1% (excluding temporary clearance stores that were trading in 1H09).

Improved margins led to a 1% increase in total segment EBIT to $6.2m. Excluding the temporary clearance stores trading in 1H09 EBIT was up 4%.

We expect trading conditions to slowly improve across the second half of the year with a fuller recovery not occurring until the 2011 financial year.

As at January, 50 stores were open across New Zealand. Two stores are expected to open before the end of the financial year.

WHOLESALE & DIRECT

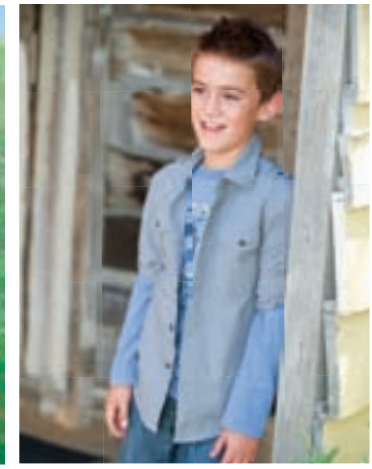
	UNAUDITED 6 MONTHS ENDED		12 MONTHS ENDED
	31 JAN 2010	31 JAN 2009	31 JUL 2009
Turnover NZ$'000	23,993	27,785	62,540
EBIT NZ$'000	6,794	7,781	16,583
	28.3%	28.0%	26.5%

As we predicted earlier in the year, wholesale partners lowered orders in response to softer retail environments in their home markets. As a result of this, and the continued strength of the NZD against most export currencies, total sales were down 14% to $24.0m.

Lower sales led to EBIT being down 13% to $6.8m, however EBIT margins were at levels slightly higher than 1H09.

Early indications are that the wholesale markets are slowly returning to more normal buying patterns which will lead to improved sales in the 2011 year.

We now have wholesale partnerships in 20 international markets with China, Lebanon, Malta and Thailand being the latest added.



UNITED KINGDOM RETAIL

	UNAUDITED 6 MONTHS ENDED		12 MONTHS ENDED
	31 JAN 2010	31 JAN 2009	31 JUL 2009
Turnover GB£'000	12,456	12,131	22,520
Turnover NZ$'000	28,404	32,359	59,200
EBIT NZ$'000 (1)	(215)	(1,114)	(4,962)
	(0.8%)	(3.4%)	(8.4%)
Stores			
Pumpkin Patch	35	33	33
Outlets	4	3	3
	39	**36**	**36**

(1) Operating EBIT before non-recurring costs

While general United Kingdom retail sales conditions remained volatile during the period, store level sales growth was generated across the period with the exception of January when the stores were impacted by severe snow storms. Total sales were up 3% in GBP terms, however the higher exchange rate led to a 12% reduction in NZD sales.

Trading conditions are expected to improve steadily across the remainder of the financial year and into 2011.

The EBIT loss for the period was $0.2m, an 81% improvement on last year (1H09: $1.1m loss). The Company is benefiting from improving margins and supply chain processes.

The softer leasing environment is allowing us to negotiate better lease terms when our store leases are renewed. This environment is also creating a number of new store opportunities which we are currently assessing.

During the period, 3 new stores were opened (1H09: 1) taking the total number of stores to 39. At least one new store will open before the end of the financial year.

UNITED STATES RETAIL

	UNAUDITED 6 MONTHS ENDED		12 MONTHS ENDED
	31 JAN 2010	31 JAN 2009	31 JUL 2009
Turnover US$'000 (1)	7,531	7,618	13,655
Turnover NZ$'000 (1)	10,554	12,800	22,825
EBIT NZ$'000 (2)	(755)	(3,778)	(9,289)
Stores			
Pumpkin Patch	20	35	20

(1) From continuing operations
(2) Operating EBIT from continuing operations before non-recurring costs

United States retail conditions remained very volatile, however some small signs of improvement were seen in the latter part of the period. Total sales from the 20 stores trading during the period were at similar levels as 1H09.

The segment EBIT loss from the 20 continuing stores was $0.8m, 80% better than last year (1H09: $3.8m loss). As part of the reorganisation plan implemented in 2009 store leases were renegotiated downwards to levels that better reflect the current market and full impairment was made of all store fixed assets.

Trading conditions are expected to remain soft but improve slowly through into 2011. The changes made to the store network in 2009 and the improving environment will lead to a much better result for the year.

We expect all legal requirements relating to the 2009 reorganisation to be completed in May 2010. Based on current estimates the costs recognised in 2009 are expected to be sufficient to complete all aspects of the reorganisation.

CASH FLOWS & BALANCE SHEETS

We have continued to strengthen the balance sheet in 2010 and remain very well positioned to take advantage of growth opportunities that are arising across all our markets.

The 70% reduction in bank debt over the last 12 months highlights the cash generating capabilities of the Company. Net bank debt was $9.6m as at January. Based on current trading conditions and expected working capital and capital expenditure requirements, net bank debt is expected to be around $15m at year end. The bulk of the bank debt facilities are in place until December 2011.

Capital expenditure cash flows totalled $3.9m (1H09: $8.2m).

Inventory is expected to remain around current levels based on an average store holding basis.

DIVIDEND

The Directors approved a 50% increase in the interim dividend to 4.50 cents per share (2009 interim: 3.00cps). The dividend will be paid on 22nd April 2010, have a record date of 8th April 2010, and will be fully imputed for New Zealand shareholders and fully franked for Australian shareholders. Non-resident shareholders will receive a supplementary dividend.

SUMMARY

Although there remains some way to go before the markets fully recover, we have placed ourselves in a position to benefit from improving trading conditions and the first half result reflects this.

Pumpkin Patch is becoming a truly global childrenswear brand, exporting New Zealand based intellectual property to the world. The Pumpkin Patch brand is now sold in 22 markets around the world with New Zealand making up only 16% of total Group turnover. We continue to focus on the numerous growth opportunities that international markets offer and are confident of being able to develop many of these in the next 2 to 3 years.

As a consequence of this diversification we are less reliant on any one market and have weathered the economic downturn well. We remain confident this strategy will deliver long term rewards to shareholders.

On behalf of the Board of Directors, I would like to thank the Pumpkin Patch team for their continued hard work and their ongoing dedication to the global success of the brand.

Maurice Prendergast
Chief Executive Officer