NEWS RELEASE
FOR IMMEDIATE RELEASE

Pumpkin Patch Limited
Audited results for the 12 months ended 31 July 2011

Headline Financial Numbers

	July 2011 ($'000) 12 months	July 2010 ($'000) 12 months	
Operating revenue (including the discontinuing United States retail operation)	356,822	381,994	(6.6%)
Net profit after tax (excluding non-recurring items)	12,641	25,502	(50.4%)
Non-recurring items after tax	(14,517)	-	-
Net profit (loss) after tax	(1,876)	25,502	

Pumpkin Patch Limited today reported its underlying profit before tax for the year ended 31 July 2011 was $12.6m. This was in the range previously advised to the market.

Maurice Prendergast, Chief Executive Officer, said "The result reflects the very challenging retail environment and the effect of significant increases in garment costs due to cotton price escalation. Events such as the Christchurch earthquakes, the Queensland floods, and political unrest in the Middle East added to these challenges".

Prendergast added "While we are naturally disappointed with the overall group result you just have to look at the large scale store closures and restructuring plans announced by a number of the major international and Australasian apparel retailers as an indication of how tough it has been".

Prendergast highlighted the Pumpkin Patch online business as one of the successes for the year. "Our online sales were up significantly and we saw good growth across both local and international markets. The sites are amongst the most visited in Australasia and we have a very large customer database that we intend to make better use of. We are currently investigating a number of initiatives to leverage off our existing online capabilities to grow existing markets and to develop new online opportunities".

Prendergast also provided an update on the Company's Wholesale business. "While the high exchange rate is currently hurting the Wholesale business we are starting to see some signs that our partners will be increasing orders later in the 2012 year. In addition we have seen an increase in approaches from existing and potential partners wishing to take the Pumpkin Patch and Charlie & Me brands into new markets. We are actively assessing a number of markets and hope to start trading in them in the latter part of 2012. Even though we will not see the full benefit of these new markets for some time it does reinforce our confidence in the long term potential of our brands in international markets".

During the year the Company commenced a number of initiatives including the plan to close the United States retail stores, the review of United Kingdom retail stores, and the realignment of Head Office costs. Prendergast commented "We are currently taking a hard look at all aspects of the business. If the results from a store are not acceptable and we cannot find a suitable solution the store will be closed and if we are incurring a cost that is not generating an appropriate benefit we will remove the cost. This is an ongoing process that will continue throughout the 2012 year".

The 2012 year has started with more appropriate levels of inventory and as a result early 2012 trading performances have been better than last year. Prendergast added "It is still early in the season but having the inventory in on time has allowed us to match customer demand better than we did in 2011. While we are generally pleased how the year has started in Australia and New Zealand we remain cautious about global retail conditions in the medium term and believe 2012 will be another challenging year for us".

Prendergast added "While the Company's current hedging position will limit potential import cost upside in the 2012 year there is an opportunity for significant improvement in 2013".

Prendergast concluded by saying "While we expect 2012 will be another challenging year we continue to hold a strong market position across Australasia. Potential developments in our wholesale and online businesses are exciting and give us confidence that the international growth opportunities for our brands are substantial in the long term. We believe that we remain well positioned for when global retail conditions improve."

Pumpkin Patch Limited
27th September 2011

For further information please contact:
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The full Chief Executive Officer's commentary that formed part of today's announcement to the NZX is attached.

Pumpkin Patch Limited
Audited result for the 12 months ended 31 July 2011

Notes: all references to dollars are NZ Dollars unless otherwise stated

Overview

Pumpkin Patch Limited has today announced its audited result for the 12 months ended 31 July 2011. It reported its underlying profit before tax for the 2011 year was $12.6m, in the range previously advised to the market.

The Company faced a series of major challenges during the year. Difficult trading conditions in all markets, natural disasters, and political unrest in the Middle East, and a high NZD exchange rate impacted trading performances. In addition low inventory levels at the start of the year led to a poor 6 week trading period in August and September 2010. Total group operating revenue for the year was $356.8m, down 7% (1H11 down 10%; 2H11 down 3%).

The lower sales result, higher product costs driven mostly by unprecedented cotton price increases, the continued high NZD exchange rate, and the fixed nature of overheads across the business had a deleveraging impact on earnings. Net profit after tax, excluding non-recurring reorganisation costs, was down 50% to $12.6m.

Soft trading conditions in all markets and the high NZD are expected to continue to create challenges in the 2012 year. However the Company has started the new financial year with much better inventory levels and as a result has had a better start to 2012.

Individual Market Commentary

Australia Retail

Trading conditions in Australia were challenging throughout the year as consumers adjusted to the more subdued economic environment that developed as the year progressed. This combined with the Queensland floods made it tough to build sales momentum.

Total AUD sales for the year were $144.8m; down 8% on last year. The majority of the decline occurred in the first half which was down 14% on the same period last year following the poor August and September trading period. AUD sales in the second half of the year were down 1% when compared to the same period last year.

Although promotional activity continues to be higher than normal store level gross margins have not been materially impacted. However the lower sales result and the fixed nature of store overheads had a deleveraging effect on segment EBIT which was down 26% to $28.7m.

The Company opened 13 stores during the year (5 Pumpkin Patch, 8 Charlie & Me) taking total stores to 132. It is expected that 3 new stores will open in 2012.

Trading conditions are expected to remain difficult and as such the Company remains very cautious of the outlook in the short term.

New Zealand Retail

A subdued New Zealand retail environment coupled with the Christchurch earthquakes led to another challenging year however conditions became more stable as the year progressed. Total sales were down 8% to $54.2m (1H11 down 12%; 2H11 down 3%).

As in Australia the deleveraging impact of the lower sales result led to a 25% decline in EBIT to $8.5m.

During the year 7 new stores were opened and 2 Urban Angel stores were rebranded as Charlie & Me. The Company expects to open 2 stores in 2012.

Trading conditions are expected to remain subdued in the near term.

Wholesale and Direct

Wholesale sales continued to be impacted by high NZD exchange rates and wholesale partners having to manage challenging retail conditions and in some cases political unrest in their home markets. The lower Wholesale sales result was offset by a significant increase in online revenue from the Direct business. Combined total segment sales in NZD terms were up 2% to $54.1m.

Segment EBIT was down 21% to $10.9m, mostly the result of the high NZD exchange rates impacting the translation of Wholesale sales to New Zealand dollars.

In the coming year the Company is anticipating continued growth in its Pumpkin Patch and Charlie & Me online businesses. The Company's websites are amongst the most visited children's product related websites in Australasia. To leverage off this and its existing online capability the Company is currently investigating a number of online growth opportunities in both local and offshore markets.

While the Company is seeing the signs of Wholesale partners increasing orders for the latter part of the 2012 year the high NZD exchange rate is expected to more than offset any sales growth that is generated.

Based on the growth opportunities currently being investigated the Company is increasingly confident about the long term potential of the Wholesale and Direct operations.

United Kingdom and Ireland Retail

Retail conditions continued to be very challenging in the United Kingdom throughout the year but especially in the latter part of the year when the general economic situation across Europe deteriorated rapidly. The three Ireland stores that were opened during the year traded reasonably well considering the poor state of the economy in that market.

Total sales from the two markets were up 3% on local currency terms (1H11 up 5%; 2H11 flat) however the high NZD exchange rate led to NZD sales being down 5% on last year.

The EBIT loss for the year, before non-recurring reorganisation costs, was $1.7m (2010: $0.9m loss) driven mostly by softer sales performances in the second half of the year and a higher exchange rate.

The Company is currently reviewing underperforming stores in the United Kingdom and has in the 2011 financial year recognised the impairment of certain store assets and a number of leases deemed to be onerous. Fourteen stores have lease expiries or exit clauses falling in the 2012 financial year. If acceptable lease renewal terms or other reorganisation options cannot be agreed with landlords stores will be closed. Four stores have been closed since year end.

General retail conditions are expected to remain very challenging in 2012 and the high NZD exchange rate will continue to impact earnings.

United States Retail

Although the United States retail environment remained very challenging throughout the year total USD sales were up 5% on last year (1H11 up 8%; 2H11 up 1%). However due to the high exchange rate sales in NZD terms were down 4%.

The segment EBIT loss for the period before non-recurring reorganisation costs was $2.7m (2010: $2.7m loss).

As previously announced all Company operated retail stores in the United States will close in the 2012 financial year with the last of the stores expected to close by the end of January 2012. Estimated store closure costs have been recognised in the 2011 financial year.

The brand continues to be sold in the United States through Wholesale partners and the growing online operation. The Company is currently exploring new opportunities for the distribution of its brands in the United States.

Other Financial Information

Reorganisation Costs

In June 2011 the Company announced that it is closing its 20 retail stores in the United States and was reviewing underperforming stores in the United Kingdom. As a result of those changes the Company also reviewed its Head Office operation to ensure it better matched the reorganised store network and was more appropriate given the challenging nature of global markets. At the time of the announcement the Company stated that it would be recognising non-recurring reorganisation costs of up to $11.0m in the 2011 financial year of which up to $5m would be cash in nature.

The general economic environment in Europe and the United Kingdom has continued to deteriorate. As a result the Company widened its review of the United Kingdom retail operation and has recognised an additional $4.6m in non-cash reorganisation costs for a number of onerous leases and the impairment of store assets in the United Kingdom.

In total $15.6m of non-recurring reorganisation costs have been recognised in the 2011 financial year of which up to $10.8m will be non-cash in nature.

Cash Flows and Balance Sheet

Net bank debt at July was $61.0m. Based on current trading conditions and expected working capital and capital expenditure requirements net bank debt is expected to be between $40m and $50m at July 2012. The bulk of the bank debt facilities are in place until December 2013.

Capital expenditure for the year totalled $17.1m, higher than last year (2010: $13.4m) due primarily to the new stores opened during 2011. Future capital expenditure requirements on an average store basis will be lower than in the past as the new store mix moves towards the smaller and lower cost Charlie & Me stores.

To avoid a repeat of the low inventory levels at July 2010 and the subsequent poor trading performances in August and September 2010 the Company took measures to ensure deliveries of inventory better matched demand cycles in the early part of 2012. Inventory ended the year at $84.4m well within historical inventory levels on an average store basis. The closure of the United States stores and a number of the United Kingdom stores will lead to a reduction in inventory holdings across the coming year.

Shareholders funds at July were $32.5m (2010: $80.9m). The main driver of the movement from last year was the non-cash reduction in the balance of the Cash Flow Hedge Reserve caused by movements in exchange rates during the year. At balance date the after tax mark to market losses on all foreign exchange derivatives totalled $36.0m. However since balance date movements in exchange rates have led to a $17.7m improvement in the after tax value of those derivatives and a corresponding increase in total shareholders funds.

Foreign Exchange

While the Company has in place foreign exchange cover to protect the NZD value of imported product the average rates on that cover are significantly below current market rates. This means that unlike many other retailers and importers the Company is not receiving the benefit of the high NZD exchange rate.

While the average rate for current AUD related export cover is at similar levels to those experienced in 2011 the average rates on USD and GBP related export cover are higher than the average rates experienced in 2011. This will especially impact the conversion of Wholesale related foreign currency receipts to NZD in the 2012 year.

Dividend

The Company has paid total dividends of 3.00 cents per share in the 2011 financial year. No final dividend will be paid however with the anticipated lowering of bank debt across the coming year the Company will review the dividend policy again at the conclusion of the first half financial period.

Summary

While trading conditions remained challenging this year the Company continued to develop strategies that will deliver long term benefits to shareholders.

Initiatives being developed and implemented in the United States and the United Kingdom will help reduce the impact that underperforming stores have on overall group earnings and will establish alternative brand distribution options to compliment the growing wholesale and online operations in those markets.

The brand’s position in the Australasian markets remains very strong. Opportunities currently being assessed for the Wholesale and Direct business units show that there is significant growth potential for the brands in a wide range of local and international markets.

Maurice Prendergast
Chief Executive Officer

Jane Freeman
Chairperson

Pumpkin Patch Limited
27th September 2011