

Pumpkin Patch Limited
2008 Annual Meeting of Shareholders
Tuesday 18th November 2008
Chairman's and Chief Executive Officer's Addresses

Chairman's address

During much of last year we faced very challenging retail conditions in most markets and our financial results were impacted as a consequence. However I am pleased to report that we continued to make considerable progress in developing the Pumpkin Patch brand in 16 markets around the world and worked towards our longer term strategy of making Pumpkin Patch a truly global brand.

The market leading position of Pumpkin Patch in Australia and New Zealand was reflected in the performances in our 'home' markets. Australia, which accounts for around 50% of our turnover, continued to generate strong sales and earnings growth even when faced with tougher retail conditions later in the year. Although sales and earnings growth from New Zealand were lower than seen in recent years this was a very credible result in light of the soft retail conditions that prevailed throughout the year.

During 2008 we faced very challenging conditions in the United States and United Kingdom. Many well established retailers in those markets reported significantly lower results. Although the financial performances in those markets were lower than what we would have liked them to be we are increasing the brand awareness and customer following at store level and remain confident there is a place for the Pumpkin Patch brand in those markets.

This was borne out in the results of a market research project that involved approximately 35,000 customers across all of our retail markets. We found that our customers rated us higher than our competitors for overall customer satisfaction, even in the United States and United Kingdom where we face competition from some well established household name retailers. Achieving this level of customer satisfaction after such a short period of time in those markets, especially the United States, is extremely pleasing and a credit to the entire team.

The slower global economy is expected to impact the Wholesale Division in 2009 as our customers deal with tougher retail conditions in their home markets. Research continues into a number of exciting markets in Asia and Europe however we are not at a stage where we can provide any further information on these markets just yet.

We are currently in a period of turmoil in global financial markets. This creates considerable uncertainty as to consumer demand over the next 12 to 24 months. The Board of Directors and the Executive Team are paying very close attention to the

changing circumstances we face and are doing our best to adjust our cost and working capital base accordingly.

One example of the types of things we are doing was the recent realignment of our foreign exchange cover portfolio that was announced earlier this month. Although the transaction does not directly impact earnings it did generate \$30m in cash that was used to reduce bank debt. This further strengthens the balance sheet and puts us in an even stronger position to deal with current challenges and to take advantage of opportunities that often arise in such volatile times.

Our Chief Executive Officer has visited all of our operations in the last 6 weeks. He and the team have put in place a series of plans (some of which he will share with you soon) which will directly impact both our sales and cost positions in a very pro-active manner.

I can assure you that the company is being highly proactive in these uncertain times and is tackling the challenges head on.

On behalf of the shareholders and the Board of Directors I would like to thank Maurice and his team for the hard work they put in on a day by day basis. Although they face difficult trading environments we have a strong team that is well prepared for the challenges that lie ahead and remains dedicated to making Pumpkin Patch a global success story.

As recently announced I will soon be standing down from my executive management role with the Company but will remain Chairman of the Board of Directors. I have enjoyed working with the Wholesale Team to develop the brand in a number of diverse markets around the world. In the last 5 years we have grown the wholesale portfolio from \$5m to \$50m in turnover and entered 7 new markets.

The Wholesale Division is now an important part of the Pumpkin Patch global strategy and is well placed to continue its development into the future.

I look forward to continuing to work with my fellow Directors and the Executive Team in taking Pumpkin Patch to the world.

Chief Executive Officer's address.

As Greg mentioned 2008 was a challenging year and 2009 looks every bit as challenging. In fact in my 15 years as Chief Executive Officer of Pumpkin Patch I have not seen retail conditions as difficult and our markets as volatile. Of course we are not alone in this. Our trading partners and our competitors around the world are also experiencing these conditions.

I will shortly outline the 2008 results. However, the reality is that 2008 was a very different year than what we are currently experiencing.

As a global company in many markets around the world we saw the difficult retail conditions develop before many of the New Zealand based retailers. Our United States operation in particular has been suffering for well over 12 months. We have been able to learn from this and we are positioning your Company to cope with a global recession.

Later I will outline some of the steps my team and I have taken to prepare Pumpkin Patch for the next year or two. Firstly though, let me go through the highlights of 2008.

Some of the highlights of 2008 were:

- Operating revenue \$410.4m, up a very credible 12%
- Continued strong sales and profit performance in Australia.
- The New Zealand operation continued to grow despite difficult conditions.
- However, our Group result was impacted by:
 - Higher interest, quota in the United States and Europe and the very difficult United States and United Kingdom retail environments.
- Excluding IFRS adjustments our EBITDA was \$55.6m down 8.1% on 2007, and our Net Profit after Tax was \$20.1m, 27% less than last year.
- Quota continued to impact us in the United Kingdom and United States. This will reduce significantly as we go in 2009.
- Total store numbers are now 228:
 - Australia 107,
 - New Zealand 52,
 - United Kingdom 35,
 - United States 34
- Final dividend of 3.50 cents per share, fully imputed (2007: 4.50cps)

In 2008 Revenue grew to \$410m, increasing 12.3% on 2007. Since 2003 operating revenue has grown at a compounded average growth rate of 16%.

Australia continued to be the power house of the Company generating close to 50% of turnover, with New Zealand and the United Kingdom neck and neck for 2nd place.

Since 2003 Earnings before Interest, Tax and Depreciation has grown annually at average rate of 30%. As I discussed earlier we had our first reduction in 2008. The strong earnings growth from Australasia and Wholesale was offset by higher quota costs and losses in the United States.

Now I will look at each individual market.

Australia:

Despite tough conditions in the 2nd half, sales continued to grow strongly up 11.4% to \$198.5m.

Australian earnings were up 16.1% to \$41.0m with margins growing as we focused on controlling costs and promotional activity.

We opened 5 new stores taking total store numbers to 107.

New Zealand:

Retail sales grew 2.0% to \$65.6m a very solid performance considering the general retail environment was poor for much of the year.

We opened 3 new stores in the year. We also merged 1 Urban Angel store into an existing Pumpkin Patch store.

Store numbers at July totalled 52.

United Kingdom:

Sales grew to NZ\$59.4m up 9.4%. Again conditions were difficult for most of the year.

Quota ceased during the year and we wrote off all unused quota leading to a one off \$1.0m expense. Total quota costs were \$2.2m vs. \$1.6m in 2007.

We are already seeing some benefits of the quota system finishing, with the better management of inventory now possible.

Of our 30 stores that have been open longer than 12 months, 18 stores generated positive contributions before quota costs.

We opened 5 new stores taking the total number of stores at July to 35.

United States:

Retail sales were NZ\$27.3m up 50.6%. This was mainly due to the opening of 16 new stores during the year.

The United States environment was very tough to say the least with many retailers reporting difficult trading conditions. These conditions are more difficult for new entrants like Pumpkin Patch who do not have an established brand presence.

During the period we opened 16 stores taking total stores to 34. Our stores average trading life is about 16 months so they haven't been trading for a great deal of time.

The loss was \$9.2m after quota of \$2.6m. While we never expected to be profitable in the first few years the size of the loss was disappointing.

As with the United Kingdom the complexities of working with quota at times led to stock levels and mix not being ideal. With quota ceasing in this coming January we should see some advantage later in the 2009.

Of the 18 stores open for greater than 12 months, 10 stores made positive earnings contributions before quota.

Wholesale and Direct:

Sales were up 17.8% to \$59.4m. We were negatively impacted by the high New Zealand dollar but should see some benefit in 2009 with the dollar at lower levels.

Earnings were \$15.5m up nearly 11% on last year.

Quota costs for the period were \$1.8m vs. \$1.5m in 2007. Again quota costs will reduce in the coming year.

The development of our mail order and internet businesses in the United Kingdom and the United States is showing good early signs with solid sales growth coming from both markets.

So that was 2008. All in all I am very pleased with the result we have posted. Not everything went to plan but we made good progress in most markets despite some very big headwinds.

Now focusing on the 2009 financial year.

All our markets have been extremely difficult for the first quarter and we probably are yet to see the full impact of the credit crisis. This makes it very difficult to predict what the exact impact will be during 2009 and beyond.

Rising unemployment, dropping customer confidence, lack of spending power and increased competition are impacting all of our markets.

However I am pleased to say that my Executive team, who collectively have about 110 years experience at Pumpkin Patch, that's an average of about 10 years each, have the ability to cope with all of these things.

Over the last 12 months as we have watched the crisis play out in the United States and now the rest of the world, my team have been positioning the company to come out of this stronger and leaner.

However, we won't be immune to the pain retailers and brand operators will face and at this stage we, like everyone else, aren't quite sure where the end will be.

There is no doubt, as analysts are predicting, most retailers reliant on consumers will have reduced earnings this year.

However as Greg said, we have taken a number of steps over the last 6 months to deal with the challenges and are now starting to see some positive responses from our customers.

In addition to the day to day challenge of getting customers through our stores we have also set about reducing our costs:

- You may have seen reported a number of staff cuts at our head office. We have also reduced staff levels in all stores in every country. This is never a pleasant task, in fact, we have not really had to undertake this before. I am happy that my team handled this with both professionalism and the empathy that we as shareholders would want. I was very proud of the way they took on this task to ensure we now have the right size teams for the current environment.
- We have also implemented a head count freeze in all parts of the company.
- All costs within the business are currently being reduced and we have specifically targeted areas that are not expected to yield returns in the next 2 years.

On the revenue side:

- We have trialled a number of promotions that have been successful in drawing customers back to our shops.
- We have utilised our database and increased advertising spend to ensure we are getting our share of available customers.
- We are working with our franchise partners to help them make the most of the marketing tools available to them.

From a Balance Sheet perspective:

- We continue to reduce inventory holdings. We said in our last press release we are on track over the next 12-18 months to reduce inventory levels despite softer markets.

- We have reduced capital expenditure from the \$36m we spent in 2008 to about \$16m this year.
- As already mentioned we have taken the opportunity to realign our foreign exchange portfolio when the New Zealand dollar recently fell. Although this does not impact earnings over the next 2-3 years the net effect of this is that we have been able to reduce bank debt by \$30m.

We now expect bank debt to be between \$30-\$40m, a large reduction on the \$81m last year and well within our current bank facilities of over \$110m.

All of these initiatives are about preparing your Company for the tough times ahead and making sure that we have sufficient ability to take opportunities that this difficult environment will create.

Now if we can just look at each of our markets individually for 2009.

Australia and New Zealand:

While we will see a definite reduction in profitability we are well placed with a strong brand.

We will continue to expand in store numbers in both New Zealand and Australia, and have already opened 3 new stores with 3 more before Christmas.

United Kingdom:

Things will remain difficult and our focus is on getting better supply to our stores and managing our margins. With quota ceasing last year we are seeing some benefit but sales remain sluggish. We expect to remain cash flow positive even if profits are difficult again this year.

We have opened our new store in White City which is trading to budget.

United States:

This is understandably our most difficult market. We continue to focus on bedding down our operation. We have a great team on board and they are improving our United States business in many ways.

However earnings will remain difficult in the short term. We have stopped any expansion in the United States until we see a dramatic increase in the market place.

Wholesale and Direct:

We are seeing our partners reduce orders as the credit crisis hurts their businesses.

However the Middle East operation continues to expand store numbers but this may slow over the coming year.

Our internet strategies are expanding albeit off a low base.

Once again I would like to thank my Executive team and all our staff throughout the World. We have had a very difficult start to the year and as I said earlier they have all been committed to delivering the best outcome for all shareholders.

I would again like to thank the Board for their continued support. As Chief Executive Officer it is great to be able to rely on their continued trust in the team.

And lastly I would like to thank Greg. As he said earlier he changes his role to non-Executive Chairman this year. I have been reliant on his expertise in many areas over the last 5 years. He has taken our Wholesale business from small beginnings to a major earnings contributor. Thanks Greg for the passion and dedication you have shown as a member of the Executive team.

Maurice Prendergast
Chief Executive Officer

Greg Muir
Chairman

Pumpkin Patch Limited
18 November 2008