CHIEF EXECUTIVE OFFICER'S REPORT

As you will be aware I recently announced that I am standing down as Chief Executive Officer around Christmas time. There are a number of other business and personal activities I want to focus on so the time is right for me to make this change. While I will be leaving my executive role I am staying on as a director and of course I will remain a significant shareholder.

While the decision has not been easy to make I know I leave the business in good hands. I have worked with our new CEO, Neil Cowie, for over 3 years and I am confident he is the right person to lead the business into the future.

Even though the current trading environment is tough we have some very exciting opportunities on the horizon and the business is well positioned to take advantage of those. I look forward to working with Neil during a transition phase over the next few months and continuing to support him and the wider Pumpkin Patch team in my role as director and shareholder.

MAURICE PRENDERGAST

FINANCIAL RESULT 2011

Over the past year we faced a series of major challenges which made 2011 a very difficult year for us. Volatile 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. As a result total operating revenue for the year was down 7% to $356.8m (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 our overall earnings with underlying net profit after tax being down 50% to $12.6m.

AUSTRALIA RETAIL

	2011	2010	
Turnover AU $'000	144,775	157,056	(7.8%)
Turnover NZ $'000	180,363	198,276	(9.0%)
EBIT NZ $'000	28,708	38,705	(25.8%)
	15.9%	19.5%	
Stores			
Pumpkin Patch	107	103	
Outlet	17	16	
Charlie & Me	8	-	
	132	119	

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 for us to build sales momentum in 2011.

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 continued to be higher than normal store level gross margins were not 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.

We opened 13 stores during the year (5 Pumpkin Patch, 8 Charlie & Me) taking total stores to 132. We expect to open 3 new stores in 2012.

Trading conditions in 2012 are expected to remain difficult and as such we remain cautious of the outlook in the short term.

NEW ZEALAND RETAIL

	2011	2010	
Turnover NZ $'000	54,167	58,908	(8.0%)
EBIT NZ $'000	8,512	11,310	(24.7%)
	15.7%	19.2%	
Stores			
Pumpkin Patch	37	34	
Outlet	15	12	
Charlie & Me	3	-	
Urban Angel	-	3	
	55	49	

A subdued New Zealand retail environment coupled with the Christchurch earthquakes led to another challenging year for us 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. We expect to open 2 stores in 2012.

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

WHOLESALE AND DIRECT

	2011	2010	
Turnover NZ $'000	54,145	53,217	1.7%
EBIT NZ $'000	10,893	13,708	(20.5%)
	20.1%	25.8%	

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 2012 we are anticipating continued growth of the Pumpkin Patch and Charlie & Me online businesses. Our websites are amongst the most visited children's product related websites in Australasia. To leverage off this and its existing online capability we are currently investigating a number of online growth opportunities in both local and offshore markets.

While we are 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 we are increasingly confident about the long term potential of the Wholesale and Direct operations.

UNITED KINGDOM & IRELAND RETAIL

	2011	2010	
Turnover GBP £'000	24,265	23,636	2.7%
Turnover NZ $'000	49,707	52,455	(5.2%)
EBIT [1] NZ $'000	(1,680)	(885)	(89.8%)
Stores			
United Kingdom			
Pumpkin Patch	36	35	
Outlet	4	4	
Ireland			
Pumpkin Patch	3	-	
	43	39	

[1] FY11 EBIT is operating EBIT before non-recurring reorganisation and impairment costs

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.

We are currently reviewing a number of underperforming stores in the United Kingdom and in the 2011 financial year we 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. Two outlet 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

	2011	2010	
Turnover US $'000	14,255	13,586	4.9%
Turnover NZ $'000	18,440	19,138	(3.6%)
EBIT [1] NZ $'000	(2,686)	(2,685)	(0.0%)
Stores			
Pumpkin Patch	20	20	

[1] FY11 EBIT is operating EBIT before non-recurring reorganisation and impairment costs

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 of our owned and 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. We are currently exploring new opportunities for the distribution of our brands in the United States.

OTHER FINANCIAL INFORMATION

REORGANISATION COSTS

In June 2011 we announced that we are closing our 20 retail stores in the United States and were reviewing underperforming stores in the United Kingdom. As a result of those changes we also reviewed our Head Office operation to ensure it better matched the reorganised store network and was more appropriate given the challenging nature of global markets. As a result of this we recognised $15.6m of non-recurring reorganisation costs in the 2011 financial year of which around $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 we took measures to ensure deliveries of inventory better matched demand cycles in the early part of 2012. Inventory ended the 2011 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 after balance date there was significant volatility in exchange rates which led to an improvement in the after tax value of those derivatives and a corresponding increase in total shareholders funds of around $21m (based on exchange rates in early October.)

FOREIGN EXCHANGE

While we have 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 we are 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

We paid total dividends of 3.00 cents per share for the 2011 financial year. While no final dividend was paid with the anticipated lowering of bank debt across the coming year we will assess whether a dividend is paid at the conclusion of the first half of the 2012 financial period.

SUMMARY

While trading conditions remained challenging this year we 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.

Finally I would like to thank the entire Pumpkin Patch team for all their support over the last 18 years that I have been CEO. I have been extremely proud to have worked with you all and to have been there to see the fantastic things we have achieved together. While I am leaving my executive role I am looking forward to continuing to work with you all as a director and supporting Neil and the team to take advantage of the many opportunities that the Company has around the world.

Maurice Prendergast

MAURICE PRENDERGAST - CEO