

"PUMPKIN PATCH REMAINS
THE LEADING SPECIALTY
CHILDRENSWEAR OFFER IN
AUSTRALASIA AND WE PLAN TO
FURTHER EXPAND THE BRAND
IN THESE MARKETS."

MAURICE PRENDERGAST

CHIEF EXECUTIVE OFFICER'S REPORT

During 2009 the Company embarked on number of strategic initiatives to strengthen its Balance Sheet and increase market share in a difficult retail environment.

As a result of those initiatives we successfully reduced net bank debt by 77% to \$18m, reduced inventory holdings by 34% or \$42m, developed and implemented a reorganisation plan for our United States retail operation, and realigned overheads across all business units.

Total group revenue grew 4.5% to \$428.6m despite the extremely difficult retail conditions experienced in all of our global markets.

The extreme retail volatility experienced in the United States continued to materially impact Group earnings across 2009. Net profit after tax excluding all United States stores and non-recurring items was \$25.1m up 7.8%. The implementation of the United States store reorganisation plan led to impairment charges and other non-recurring costs of \$39.9m being recognised in the year.

Net profit after tax excluding the 15 closed United States stores and non-recurring items was \$18.5m down 4.2%. With these 15 United States stores included but excluding non-recurring items NPAT was \$14.7m down 13.9%.

AUSTRALIA RETAIL

	2009 \$000	2008 \$000	
Turnover AUD	166,398	163,401	1.8%
Turnover NZD	203,426	198,452	2.5%
EBIT NZD	38,469	41,031	(6.2%)
	18.9%	20.7%	
Stores			
Pumpkin Patch	99	95	
Outlet	12	11	
Urban Angel	-	1	
	111	107	

Despite the soft retail environment encountered for much of the year our Australian stores continued to trade reasonably well with turnover up 2.5% on 2008.



MAURICE PRENDERGAST

Segment EBIT of \$38.5m (FY08: \$41.0m) reflected increased promotional activity across the year and the continued drive to build market share and consolidate the brand's positioning.

During the period 5 new stores opened (FY08: 5) taking total stores to 111.

NEW ZEALAND RETAIL

	2009 \$000	2008 \$000	
Turnover NZD	64,357	65,633	(1.9%)
EBIT (1)	11,125	12,586	(11.6%)
	17.3%	19.2%	
Stores			
Pumpkin Patch	33	32	
Outlet	12	11	
Urban Angel	6	9	
	51	52	

(1) Operating EBIT before non-recurring costs

The New Zealand retail environment was challenging during the year however the strength of the brand and increased promotional activity lessened the impact of those conditions with sales only marginally down 1.9%.

A change in sales mix resulting from the opening of 4 outlet stores since the beginning of 2008 and increased promotional activity during 2009 impacted segment margins. As a result EBIT for the year was down to \$11.1m (FY08: \$12.6m).

Two new stores were opened during the year (FY08: 3), taking store numbers to 51.

WHOLESALE AND DIRECT

	2009 \$000	2008 \$000	
Turnover NZD	62,540	59,380	5.3%
EBIT NZ	16,583	15,541	6.7%
	26.5%	26.2%	

Wholesale and Direct turnover was \$62.5m, up 5.3% on 2008. Softer conditions being faced by wholesale partners in their home markets led to lower wholesale orders especially in the latter part of the year. This however was offset by lower average export exchange rates and a strong performance from the mail order and internet business.

EBIT for the year was \$16.6m up 6.7% on last year.

UNITED KINGDOM RETAIL

	2009 \$000	2008 \$000	
Turnover GBP	22,520	22,654	(0.6%)
Turnover NZD	59,200	59,369	(0.3%)
EBIT NZD (1)	(4,962)	(2,621)	(89.3%)
Stores			
Pumpkin Patch	33	33	
Outlet	3	2	
	36	35	

(1) Operating EBIT before non-recurring costs

United Kingdom retail sales conditions continued to be very volatile throughout the year.

While sales were similar to 2008 high promotional activity was necessary leading to a generally lower margin. The EBIT loss for the year was \$5.0m (2008: \$2.6m) before non-recurring impairment charges.

As a result of the annual review of stores required under IAS36 (Impairment of Assets) we made a non-cash impairment charge in 2009 of \$6.4m to adjust downwards the carrying value of 10 United Kingdom stores. We are implementing strategies that focus on improving the operating results of the lower performing stores.

During the year 1 new store was opened (2008: 5) taking the total number of stores to 36.



UNITED STATES RETAIL

	2009 \$000	2008 \$000	
Turnover USD	23,194	20,898	11.0%
Turnover NZD	39,086	27,310	43.1%
EBIT NZD (1)	(14,779)	(9,180)	(61.0%)
Stores			
Pumpkin Patch	20	34	

(1) Operating EBIT before non-recurring costs

In response to the extremely difficult economic environment in the United States and the high levels of uncertainty as to how long those conditions would continue we implemented a reorganisation plan for the United States retail stores. Under that plan 15 of our 35 stores were closed. Leases on the remaining 20 stores are being renegotiated at levels that better reflect current market conditions.

The total costs of the reorganisation were approximately \$39.9m including the full impairment of all fixed assets in the United States, inventory revaluation costs, employee obligations, and legal and other professional fees. Approximately \$4.8m of those costs are cash in nature.

Due to the corporate structures employed in the United States the reorganisation plan does not impact any other trading segment including the United States wholesale company. The plan utilises legal protections afforded to United States corporate bodies that reorganise their business operations and therefore does not impact the New Zealand parent company.

Excluding the non-recurring reorganisation costs the segment generated an operating EBIT loss of \$14.8m for the year (2008: \$9.2m). Adverse trading conditions and the relatively young age of the majority of the stores made it impossible for stores to make any headway in 2009.

CASH FLOWS AND BALANCE SHEET

We have significantly strengthened our Balance Sheet to be well positioned to deal with any ongoing trading uncertainty and to take advantage of any market opportunities that arise.

Net bank debt was significantly reduced by \$63m or 77% to \$18m.



Continued focus on the management of inventory levels across all markets has resulted in a \$42m or 34% reduction in inventory holdings. Inventory at July 2009 was \$80m.

Capital expenditure cash flows totalled \$12m (2008: \$36m).

OUTLOOK FOR 2010

Trading conditions are expected to remain difficult in the near term. Despite this uncertainty the initiatives undertaken in 2009 have positioned us well to take advantage of improved trading conditions when they eventuate.

AUSTRALIA

Trading conditions are expected to improve across 2010. We will continue to promote strongly to grow market share and strengthen the brand's market position.

We are currently assessing a number of new store locations across Australia to consolidate our store network and to take advantage of opportunities that arise in softer retail environments.

NEW ZEALAND

The current retail environment is expected to improve slowly across the 2010 year. We will continue to focus on growing market share and reinforcing the strength of the Pumpkin Patch brand in the market.

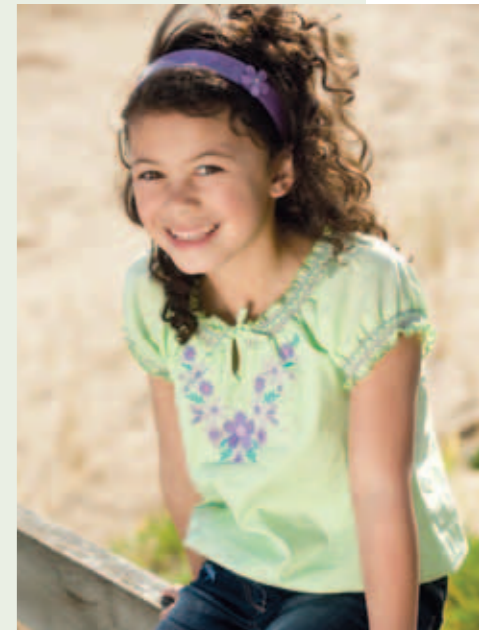
WHOLESALE

Wholesale customers are expected to lower their orders in 2010 as they deal with challenging conditions in their home markets. However we continue to work closely with our partners to develop brand growth opportunities.

The Direct operations will continue to identify and develop growth opportunities across all of its markets.

UNITED KINGDOM

The poor economic environment is expected to continue and trading will remain volatile. Despite this we expect to have some improvement on the 2009 result in the coming year. Recent supply chain initiatives are improving the flow of product into the market.



The leasing market has softened significantly which will lead to lower rental costs however the full impact of this will not be seen for a number of years while leases go through scheduled reviews.

This environment is also creating possible new store opportunities which are currently being assessed.

UNITED STATES

While the reorganised store network is expected to have a significant positive impact on total Group earnings and cash flows in 2010, trading in the United States remains very unpredictable with no immediate signs of recovery being seen. We continue to closely monitor all stores on a store by store basis and implement strategies to improve performance.

The changes made in the United States will provide shareholders with better financial outcomes in the near term and create a more sound foundation on which we can develop our United States strategy in the longer term.

BANK DEBT

Based on current trading conditions and expected working capital and capital expenditure requirements bank debt is expected to remain around current levels.

The bulk of the bank debt facilities are in place until December 2011.

INVENTORY

Focus will continue to be directed at inventory management strategies to ensure inventory levels remain around current levels based on an average store holding basis.

FOREIGN EXCHANGE

While we maintain good levels of foreign exchange cover the ongoing volatility of the New Zealand Dollar makes it increasingly difficult to predict how foreign exchange rates will influence the 2010 result and plan for longer term growth initiatives.



SUMMARY

During the last eighteen months we faced unprecedented volatility in all of our markets. While Australasia now appears to be more stable and improving other markets remain volatile. We continue to adjust our strategies to meet market demands and are confident that we will continue to make progress in 2010 despite some challenges in the near term.

We embarked on a major debt reduction programme in 2009 which has significantly strengthened our balance sheet and positions us very well for the future.

Pumpkin Patch remains the leading specialty childrenswear offer in Australasia and we plan to further expand the brand in these markets. Even though trading conditions will remain very challenging in the United Kingdom and earnings will be impacted the brand continues to get stronger. The changes made in the United States will deliver much improved financial outcomes for shareholders in years to come.

I would like to thank the entire team at Pumpkin Patch for a tremendous effort over the last year.

A handwritten signature in black ink that reads "Maurice Prendergast".

MAURICE PRENDERGAST - CEO

