



Pumpkin Patch Limited

Unaudited results for the 6 months ended 31 January 2008

Notes:

- *all references to dollars are NZ Dollars unless otherwise stated*
- *the Company has adopted New Zealand International Financial Reporting Standards (NZIFRS) in the current period and all statutory and NZX reporting has been prepared under the provisions of NZIFRS. However for the purposes of this commentary and to assist comparison to past financial periods the financial result for the 6 month period ended 31 January 2008 and comparative financial figures referred to in this document are those prepared under the provisions of previous New Zealand Generally Accepted Accounting Principles (previous NZGAAP). Refer to the schedules attached to NZX Appendix 1 or to the presentation to analysts to be held 20th February 2008 for a reconciliation of the transition from previous NZGAAP to NZIFRS.*

Group Performance Highlights

- Operating revenue \$205.0m up 13.5%
- Strong sales and EBIT performance from Australia (sales up 14.2%, EBIT up 27.8%)
- Strong sales and EBIT performance from New Zealand (sales up 7.2%, EBIT up 16.8%)
- Continued investment in the United States. 10 stores opened with capital expenditure of \$9.1m
- Before quota EBITDA was \$34.4m up 5.3%, EBIT was similar to last year at \$25.7m, and NPAT was \$16.5m down 6.8%
- After Quota EBITDA was \$29.9m down 1.7%, EBIT was \$21.3m down 10.5%, and NPAT was \$12.1m down 22.3%
- Total store numbers now 215 (Australia 104, New Zealand 50, United Kingdom 33, United States 28)
- Interim dividend of 4.00 cents per share, fully imputed (2007: 4.50cps)

Pumpkin Patch Limited has today announced its unaudited result for the six months ended 31 January 2008.

Group Revenue

Operating revenue for the group increased 13.5% to \$205.0m. Australia and New Zealand again delivered strong sales performances reflecting the strong brand awareness in these markets. Sales in the developing United States and United Kingdom market grew through new store openings.

Group Earnings

Group NPAT was \$12.1m compared to \$15.5m in 1H07. Earnings in the period were impacted by higher quota costs, higher interest charges, and a higher effective tax rate when compared to 1H07.

Australia Retail

Australian retail sales continued to grow strongly up 14.2% to \$98.7m reflecting the strength of the Pumpkin Patch brand in the market, a very strong summer range offered to customers, a generally buoyant retail environment and a more favourable average AUD/ NZD exchange rate.

Australian retail EBIT was up 27.8% to \$20.8m and as a percentage of sales was up 2.3% to 21.1%.

EBIT margins were positively impacted by recently opened stores reaching normal trading levels, a focus on inventory management, a more favourable exchange rate and continued economies of scale.

During the period the Company opened 2 new stores (1H07: 6) taking total stores to 104

New Zealand Retail

New Zealand retail sales grew 7.2% to \$33.3m, a strong performance considering the general retail softness that was widely reported pre-Christmas. The release of a strong summer range was well received by customers and helped the Company carry on from its strong 2007 sales performance and reinforced Pumpkin Patch's position in the market place.

EBIT grew 16.8% to \$6.9m and as a percentage of sales grew 1.7% to 20.8%.

The strong summer range, a focus on inventory and cost management and a better overall performance from the stand alone Urban Angels stores drove EBIT growth.

No new stores were opened in 1H08 (1H07: 3) Since January 1 Urban Angel store has been merged into an existing Pumpkin Patch store. Store numbers at January totalled 50.

United Kingdom Retail

United Kingdom retail sales grew 20.9% to GBP12.8m and 13.5% in NZD terms to \$34.3m. The general retail softness seen in 2H07 carried over into the current financial year with major operators (e.g. Next, Gap, Marks and Spenser) continuing to report disappointing sales results, especially when compared to 1H07 which was a very buoyant retail period.

On 1 January the European Union quota regime ceased. As a consequence all unused European Union quota on hand at that time was written off leading to a one off \$1.0m quota expense for the United Kingdom Retail segment. Total quota costs for the period including the write off were \$1.9m (1H07: \$1.1m).

The EBIT before quota costs was \$2.1m (1H07: \$3.2m) and EBIT after quota costs was \$0.2m (1H07: \$2.1m).

During the period the Company increased the use of direct shipping from China to the United Kingdom. This coupled with the ongoing complexities associated with the management of the phasing out of quota at times lead to stock mix and volume issues in the United Kingdom and some sales opportunities were lost. The Company has put in place additional processes to reduce the risk of future supply chain disruptions.

The higher average GBP/ NZD exchange rate negatively impacted the translation of the United Kingdom result into New Zealand dollars.

Of the 27 stores open longer than 12 months 20 are making positive EBIT contributions at store level.

During the period 3 new stores were opened taking the total number of stores to 33. Although the retail environment is likely to remain soft for the remainder of the year customer and brand awareness continues to grow and the Company believes the United Kingdom provides good long term opportunities.

United States Retail

United States retail sales were USD11.4m up 61.0%, and up 45.1% to \$15.1m in NZD terms. The translation of sales was impacted by the higher USD/ NZD exchange rate this period.

During the period the Company opened 10 stores (1H07: 7) taking total stores to 28.

EBIT has been significantly impacted by the opening costs of the 10 new stores and the investment in the local management team made over the last 12 months. The Company believes it now has in place the local management structure required to grow the store network for the foreseeable future.

Quota costs for the period were \$1.3m (1H07: \$0.6m). Although the volume of quota purchased was higher due to the increase in product shipped to the United States the actual per unit price of quota increased significantly on 2007 prices.

As with the United Kingdom the complexities of working within the quota regime has at times led to stock levels and mix not being ideal at store level and some sales opportunities were lost.

Of the 14 stores open for greater than 12 months 7 made positive EBIT contributions at store level in the period.

The company has undertaken extensive market research finding that overall customer satisfaction was high and that as ranked against their competitors our customers rated the Pumpkin Patch performance very favourably. These results were consistent with our more mature market's surveys. In addition our United States customers are on average buying more items per visit than any of our other markets.

Wholesale and Direct

Wholesale and Direct turnover was up 4.8% to \$23.4m. Good sales growth was achieved in local currency terms however this growth was negatively impacted by the high exchange rates when sales were converted back to NZD. Sales were also negatively impacted by changes to the timing of deliveries to some customers when compared to 1H07.

EBIT excluding quota for the year was \$7.3m up 1.6% on last year while EBIT including quota was down 9.3% to \$6.1m.

Profitability was negatively impacted by higher exchange rates, the full period impact of the market development offices established in Asia and the United Kingdom in 2007, and costs of establishing additional direct shipping capability in China.

Quota costs for the period were higher at \$1.3m (1H07: \$0.5m) which includes a write off of \$0.2m of expired European Union quota and the impact of the higher per unit prices for United States quota.

The Company continues to research European markets and to develop strategies for a number of these.

The Company's development of its 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 albeit off a very small base last year.

Unallocated Overheads

Unallocated overheads were \$10.5m, up \$3.9m on 1H07. The increase was primarily made up of \$2.9m of unrealised foreign exchange losses on intercompany loans and \$0.4m of costs incurred in restructuring head office functions in the period.

Cash Flows and Balance Sheet

The Company continues to maintain a very strong balance sheet with net assets of \$115.7m.

Since July inventory has increased \$33.3m. Although inventory is higher due to increased store numbers much of the overall increase is timing related. Additional inventory was on hand for wholesale shipments falling in the early part of 2H08, new season's inwards shipments were ordered and receipted earlier than in recent seasons, and inventory holdings at new direct

warehouses have been boosted while these warehouses are bedded in. The Company expects inventory levels to stabilise in the medium term despite future sales growth.

Fixed assets have increased \$10.2m since July reflecting the capital expenditure on the 15 stores opened in the period.

The Company had total bank debt of \$65.4m at January (July 2007: \$37.1m).

Capital expenditure cash flows totalled \$19.9m down \$1.9m on 1H07. The impact of the decrease in the number of new store openings compared to 1H07 was partially offset by the change in the mix of the new stores towards the more expensive United States stores.

Dividend

The Directors have approved the payment of an interim dividend for 2008 of 4.00 cents per share (2007: 4.50cps) to be paid 15th April 2008, with a record date of 4th April 2008. The dividend will be fully imputed for New Zealand shareholders and fully franked for Australian shareholders. Non-resident shareholders will receive a supplementary dividend.

Management Team

As outlined in the announcement made on 13 November 2007 Chrissy Conyngham has been appointed Group General Manager/Design Director. Recently the Company appointed Neil Cowie as Chief Operating Officer. Neil has a wide range of retail experience most recently as CEO of Michel's Group Australia and with Woolworths Australia.

These appointments will allow the Company to continue to focus on its global growth strategies while ensuring that Australasia remains the strong foundation on which those strategies are based.

Outlook for the remainder of 2008 - Divisional

Australia

The Company is expecting current trading conditions to continue for the remainder of the financial year and that margins will remain strong.

An additional 2 stores will be opened in the second half taking total store numbers to 106.

New Zealand

No new stores are planned for 2H08 however the company expects that trading conditions will remain consistent with the first half. We will continue to hold margin and focus on quality of the product.

United Kingdom

Although the retail environment is expected to remain soft, customer and brand awareness continues to grow. The measured investment will continue with 2 new stores opening before year end.

The Company will focus on enhancing margins for the period and building further the brand awareness that is developing. Improved logistics and the benefits of a quota free market will improve segment EBIT margins.

United States

The current retail environment is delaying the store sales growth first experienced and therefore short term earnings will remain subdued.

As outlined many non-financial performance measures remain very positive but due to the current economic conditions in the United States the focus in the short term is on bedding down existing stores and ensuring the stores and the supply chain are operating efficiently.

The Company plans to follow a more cautious expansion plan in the short term with 6 stores expected to open before the end of the financial year. It is currently reviewing sites for 2009 and will assess the retail environment carefully before planning the next stage of the expansion. Investment will be continually assessed as market conditions improve.

Wholesale

The Wholesale business continues to expand with both new and existing customers growing in local currency terms. The high New Zealand dollar is expected to continue to subdue earnings in this segment.

New opportunities in Asia and Russia will be the focus for the remainder of the year. The Company continues to research other European markets and to develop strategies for a number of these.

The Direct operations are expected to continue to grow especially in the United States and the United Kingdom however noticeable earnings will not be seen until 2009 and beyond.

Outlook for the remainder of 2008 – Financial

Foreign Currency

The New Zealand dollar has remained high having a net negative impact on results for the half of \$1.1m.

The Company continue to hold high levels of foreign exchange cover on USD inventory purchase commitments for the remainder of the 2008 financial year and into the 2009 and 2010 years at forward rates similar to those transacted in 2007 and 1H08. Any weakening of the NZD, AUD, and GBP against the USD will not materially impact inventory purchase costs in the near term.

The Company holds foreign exchange cover over its export sales at rates similar to those achieved in 1H08. Any weakening of the NZD against the USD, AUD, and GBP will increase the value of overseas earnings in the near term.

Overall the Company would receive a net benefit should the NZD weaken against the USD, AUD, and GBP.

Quota

As noted above the European Union quota regime ceased on 1 January 2008 and as a result the Company has incurred a one off \$1.2m expense for all unused European Union quota on hand at that date. The full \$1.2m cost is reflected in the 1H08 result.

As at 31 January 2008 some quotable stock was on hand in the United Kingdom. At the time this stock is sold across 2H08 the associated quota cost will be expensed as normal through cost of sales. All product shipped to the UK from 1 January has been quota free.

The United States quota is due to expire on 1 January 2009. At this stage there has been no indication as to whether a replacement trade barrier will be implemented in 2009. As the quota prices vary throughout the year the Company is unable to give accurate guidance in NZD terms as to the likely quota cost for 1H08. However unit quota prices are not expected to exceed the average 1H07 unit price.

Interest

The expansion of new markets continues to be funded via bank debt and as such interest costs increased \$1.5m to \$2.9m. Assuming no increase in interest rates total interest costs for the 2008 year are expected to be between \$6.2m and \$6.7m.

Taxation

The effective tax rate for the Company was approximately 34% which is 3.5% higher than the average rate for 1H07. This is a function of the differing contributions each market has made towards the overall Company result and the differing tax rates in each of those markets.

Based on current divisional forecasts the effective tax rate for the full year is expected to be between 35% and 37%.

Depreciation

Depreciation was up 29.9% or \$2.0m to \$8.7m reflecting the impact of the 35 stores opened in 2007, the 15 stores opened across 1H08, and the overall mix of new stores moving towards more expensive United States and United Kingdom stores.

Depreciation for the full year is expected to be between \$18.0m and \$20.0m.

Summary

The very strong sales and earnings growth in Australia and New Zealand reflects the market leading position the Pumpkin Patch brand holds in these two countries. These markets provide a very strong foundation on which the Company will base its global expansion strategy.

Although the trading conditions are challenging in the United States and the United Kingdom and short term earnings are being impacted by those conditions the Company remains very confident that these markets offer substantial long term opportunities for the brand.

On behalf of the Board of Directors



Maurice Prendergast
Chief Executive Officer



Greg Muir
Executive Chairman

Pumpkin Patch Limited
20 February 2008