



**Pumpkin Patch Limited  
Chairman and Chief Executive Officer's Address  
2007 Annual Meeting of Shareholders  
Tuesday 20<sup>th</sup> November 2007**

**Chairman's Address**

I am pleased to report that in 2007 the Company again grew sales across all of its 5 business units and continued its strategy of developing the Pumpkin Patch brand in its more established markets and a number of new and very diverse markets around the world.

Strong growth came from our 'home' markets of Australia and New Zealand. Although the retail environment in both markets was subdued for much of the year the strength of the Pumpkin Patch brand came to the fore, leading to strong trading performances especially in the second half of the year. We continue to be the childrenswear fashion leader in Australasia which combined with the ongoing support of our very loyal customers means we are well placed to drive sales growth in years to come.

The United Kingdom faced a challenging second half of the year with very soft general retail conditions impacting all major retail operators. Despite this the awareness of the Pumpkin Patch brand continued to grow. This market offers longer term opportunities for the brand and we will continue the measured store expansion strategy in 2008.

The early results coming from the United States give us confidence that the market offers us long term opportunities. The brand is getting traction in the market place with new customers reacting very positively when they are exposed to the Pumpkin Patch experience when stores open.

Last year the Company continued to grow its Wholesale operations with existing wholesale partners in markets such as the Middle East, and through a number of new accounts we are developing across Asia. Pumpkin Patch product is now available in nearly 400 partner locations across 15 very diverse international markets which is an amazing achievement and shows the product is accepted by customers globally. During the year we opened market development offices in Singapore and the United Kingdom to grow existing wholesale accounts and to identify opportunities in new markets for future years.

One of the many highlights in 2007 was the opening of our 100<sup>th</sup> Australian store in Blacktown, Sydney. We also celebrated the opening of the 200<sup>th</sup> company owned store in Paradise Valley, Phoenix, Arizona. Both of these were major milestones for the Company. We have achieved so much in such a short period of time. Overall in 2007 we opened a record 35 stores across Australia, New Zealand, the United States and the United Kingdom and finished the year with 200 stores.

The international store roll out program does lead to increases in interest, depreciation, and local market development costs. Although these costs do impact earnings in the short term they are the costs of expanding the Pumpkin Patch brand in overseas markets and are required to drive long term growth for shareholders.

At year end net assets were \$110.3m up 14% on last year. The expansion of the business is being funded via bank debt and as such total bank debt rose \$24.1m to \$37.1m at year end. However the Company maintains a strong balance sheet and has significant capacity to continue to grow our overseas markets.

As in past years we will not be giving any guidance on the half year result today as we are only just entering the important November/ December trading period. However we can report that trading patterns across all markets remain similar to those reported back in September when we released the 2007 result. Australia and New Zealand remain buoyant, while the United Kingdom and the United States remain subdued. The new seasons ranges have been well received by customers which we hope translates into a good Christmas trading period. Of course we will be providing a more detailed market analysis in late February when we report the 2008 1<sup>st</sup> half year result.

Finally on behalf of the shareholders and the Board of Directors I would like to thank Maurice and his entire team for their continued hard work and dedication to growing the Pumpkin Patch brand around the world. All of the directors believe the strategies being executed will generate long term benefits for all shareholders.

#### **Chief Executive Officer's address**

It gives me pleasure to welcome you all here today and to be able to report to you that Pumpkin Patch had another strong year in 2007.

Firstly I would like to briefly go over what I see as the performance highlights of the 2007 year.

- Operating revenue was \$365.7m - up 17.9% on 2006
- Strong EBIT performances from Australia and New Zealand
- EBITDA was \$60.6 - up 9.4% on 2006
- EBIT was \$46.0m - up 2.6% on 2006
- Interest was \$3.5m - up from \$0.6m in 2006
- Quota costs for the year were \$4.2m vs. \$3.4m in 2006
- We opened 35 stores across 4 retail markets;-
  - Australia 13 stores
  - New Zealand 4 stores
  - U.K. 7 stores
  - USA 11 stores
  - Our total stores are now 200 worldwide
- Along with our wholesale partnerships Pumpkin Patch product is now available in nearly 600 locations across 16 markets .
- With the final dividend of 4.50 cents per share the total dividend for the year was 9 cents per share.

We continued strong growth in Group Revenues \$366m up 18%. Since 2003 group turnover has grown at an average of 17%.

Sales grew in all of our markets. Despite subdued retail environments in our home markets of Australia and New Zealand we continued to leverage the strength of the brand. At the same time we opened 18 stores across the United States and United Kingdom again giving strong sales growth from both new and old stores. The Wholesale segment increased sales by 27% despite being affected from a very strong NZ dollar.

The international nature of our sales channels, continues to reduce our exposure to any one economic downturn. Although Australia is still by far our biggest market contributing almost 50% of sales, the UK is close to New Zealand. This highlights the fact that we are no longer a New Zealand or even Australasian retailer.

Since 2003 EBITDA has grown annually on average at an impressive 38%. Predominantly this was from our home markets of New Zealand and Australia and from our Wholesale division. While the developing United States and United Kingdom markets had strong sales growth we are yet to get to any meaningful profits.

I will now briefly review each business unit's result for 2007, starting with our largest market Australia.

#### Australia Retail:

Sales from the Australian retail stores were up 6.4% to AUD156.9m. This reflects the strength of the Pumpkin Patch brand in Australia. While we started the year slow the trading conditions improved noticeably in the second half.

EBIT was up 9.2% to \$35.5m and as a percentage of sales was the same as last year at 19.9%. While most competitors undertook aggressive promotional activity to maintain sales we continued to grow EBIT by focusing on managing inventory levels and our margins.

The 13 stores opened during 2007 took total Australian stores to 102.

We expect to open at least 6 new stores in the coming year and are confident that Pumpkin Patch will continue to be Australia's childrenswear fashion leader.

#### New Zealand Retail:

New Zealand retail sales grew 7.8% to \$64.3m. Like Australia sales performances improved in the second half.

Despite fickle market conditions and promotional activity from our competitors our EBIT grew 7.2% to \$12.7m, and we held sales margins at similar levels to last year.

During the year 4 stores were opened taking the total number of stores to 50. We are expecting to open 1 new store in 2008.

#### United Kingdom Retail:

United Kingdom retail sales grew 29.5% to GBP19.6m or NZD \$54.3m. While we had a strong first half of the year there was a definite slowdown in retail in the second half of 2007. Most of our competitors also experienced this downturn.

EBIT continues to be impacted by new store opening costs and the ongoing investment in the infrastructure needed to manage a growing network of stores. Importantly we are seeing improved earnings performances at store level. Of the 23 stores open for a full year - 18 traded profitably at store level.

The cost of quota in the year was \$1.6m versus \$1.2m in 2006. Quota continues to be not only a financial burden but also a significant barrier to efficient logistics in this market. However the EU has announced an end to the quota on 1 January 2008. Although this is a very good result for us we will not see the full

effect of the change until the 2009 financial year as we will have unused quota on hand at the end of December this year that will require writing off.

During the year 7 new stores were opened taking the total number of stores to 30. We will continue our measured expansion plans and expect to open up 5 new stores in the 2008 year.

United States Retail:

United States retail sales were USD12.8m or \$18.1m in NZD terms.

During the year we opened 11 stores in the United States including the opening of the first stores in Arizona, Oregon, Texas and Washington. A total of 18 stores were open at year end: 12 in California, 2 in both Arizona and Washington, and 1 each in Oregon and Texas.

Excluding quota an EBIT loss of \$0.4m was generated versus a positive EBIT of \$0.6m last year.

This year's result included the opening costs of the 11 new stores (vs. 6 stores in 2006) and the ongoing investment in infrastructure required to grow our store network. These costs weigh heavily on store level profitability and will continue to do so in the medium term. This means profits will remain subdued in the short term however the results to date give us confidence that the market offers a significant long term opportunity for us.

Like the United Kingdom quota impacted on both profitability and our ability to move product quickly to market. The United States quota is due to expire in 2009 however at this stage there is no certainty around this happening.

We plan to open at least 16 stores in 2008 and continue to identify new sites for 2009 and beyond.

Wholesale and Direct:

Wholesale and Direct turnover was up 26.7% to \$50.4m. Growth was achieved across both the more established wholesale accounts and the newer markets we are developing.

EBIT was up 20.7% to \$14.0m.

During the year we established wholesale support offices in Singapore and the United Kingdom. This will allow us to manage the development of the new Asian accounts and prepare our European market strategies. The costs of these are reflected in the Wholesale result with benefits likely to come in future years.

We continued to conduct trials in a number of markets such as Malaysia, Singapore, Indonesia, Korea and Pakistan. While these are showing promise it is still very early in the development phase and therefore difficult to assess which markets will provide the best long term opportunities. Meaningful earnings from these markets will not be seen in 2008.

I am proud to say that you can now buy Pumpkin Patch product in almost 400 wholesale partner locations across 15 markets - Australia, Bahrain, Indonesia, South Korea, Kuwait, Malaysia, Oman, Pakistan, Qatar, Saudi Arabia, Singapore, South Africa, United Arab Emirates, United Kingdom, United States.

During the year we continued to develop our mail order and internet strategy in the United Kingdom and commenced direct selling into the United States. While early indications are favourable these two markets are unlikely to offer significant earnings in the short term.

Outlook for 2008:

Australia and New Zealand:

- We expect to trade strongly in Australia and New Zealand as we continue to expand our store footprint.
- Our focus will be on margin retention and inventory turn to drive earnings in these two markets. In both Australia and New Zealand we expect the solid trading conditions we experienced late in 2007 to carry into the current year
- In Australia we plan to open at least 6 stores in the financial year, 2 of which are already open.
- In New Zealand we plan to open at least 1 new store.

United Kingdom:

- The soft retail environment that prevailed for much of 2007 has carried across to the 2008 year. This was accentuated by a late start to winter which lead to a delay in normal winter trading patterns kicking in
- The brand continues to gain traction in the market and as such we will continue our measured expansion plans by opening 5 new stores in the current year.
- 1 store has already opened and another 2 will be opening over the next 2 weeks

United States:

- Our older stores continue to perform well however we have noticed a definite softening in the general retail environment.
- Customer feedback remains very strong with independent market research showing we have a better overall customer satisfaction rating than all our main competitors which is amazing considering the short period of time we have been in the market.
- In addition we continue to sell more units on average to each customer who visits the United States stores than we do in our other markets i.e. the customers like what they see when they come through our doors.
- All of this gives us much confidence in the future of the Pumpkin Patch brand in this market.
- We plan to open at least 16 stores in the financial year of which 10 are already open
- We are also continuing to identify new sites for 2009 and beyond.

Wholesale and Direct:

- We are not expecting any significant growth from our more established accounts but will continue to work with them to look at new opportunities.
- Assistance will be given to our new Asian partners to build their businesses and implement the strategies required to drive sales.
- And of course we will be identifying new market opportunities for future years.
- The Direct Team will also build on the fledgling internet and mail order businesses they have established in the United Kingdom and the United States

Summary:

Although we are expecting earnings growth to come from our home markets, increased interest charges, store opening costs and market development costs in the United States and United Kingdom will continue to impact the Group's financial results in the short term. This is the cost of developing a global brand.

However we are confident that the current strategies being followed will deliver long term shareholder value.

Finally I again have to acknowledge the 3,200 people who form the Pumpkin Patch Team. They continue to inspire us to make Pumpkin Patch a truly global brand.

In particular I would like to acknowledge Chrissy Conyngham who has just taken on the role of Group General Manager who will oversee the Senior Management Team, directing the operations throughout Australasia. Her appointment to this new role will allow me to concentrate on the development of our new markets, especially the United States and the United Kingdom.

I am very proud to be a part of the Team and I look forward to working with them all in 2008.

Greg Muir  
Executive Chairman

Maurice Prendergast  
Chief Executive Officer

20 November 2007