



Pumpkin Patch Limited

Audited results for the twelve months ended 31 July 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 users of this information with the comparison to past financial periods the financial result for the 12 month period ended 31 July 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 17th September 2008 for a reconciliation of the transition from previous NZGAAP to NZIFRS.

Group Performance Highlights

- Operating revenue \$410.4m up 12.3%
- Continued strong sales and EBIT performance in Australia (sales up 11.4%, EBIT up 15.9%)
- Strong performance in New Zealand despite a difficult general retail environment
- Continued investment in the United States. 16 stores opened with capital expenditure of \$14.5m
- Group result was significantly impacted by:
 - Higher interest charges
 - Higher quota costs, and
 - A very difficult United States retail environment
- Before quota EBITDA was \$62.3m down 3.8%, EBIT was \$45.6m down 9.2%, and NPAT was \$26.7m down 16.0%
- After quota EBITDA was \$55.6m down 8.1%, EBIT was \$38.9m down 15.3%, and NPAT was \$20.1m down 27.2%
- 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)

Pumpkin Patch Limited has today announced its audited result for the twelve months ended 31 July 2008.

Group Revenue

Total group operating revenue increased 12.3% to \$410.4m. Australia and New Zealand continued to deliver strong sales performances even when faced with more challenging retail conditions across both markets. This reflects the market leading position of the Pumpkin Patch brand in the two markets. Sales in the developing United States and United Kingdom market grew through new store openings. The Wholesale and Direct divisions again generated sales growth.

Group Earnings

Group NPAT was \$20.1m compared to \$27.6m in 2007. Strong earnings growth from the Australian and Wholesale segments was offset by higher interest charges, higher quota costs, and losses from the United States and United Kingdom segments.

Australia Retail

Although the Australian segment faced more challenging retail conditions in the latter part of the year full year sales continued to grow strongly up 11.4% to \$198.5m. This strong sales performance reflects the strength of the Pumpkin Patch brand in the market, the very strong summer and winter ranges offered to customers, and a more favourable average AUD/ NZD exchange rate.

Australian retail EBIT was up 15.9% to \$41.2m.

EBIT margins were positively impacted by the ongoing focus on controlling product margins in a softening market and continued economies of scale benefits. Increased promotional activity was seen across the market in 2H08 as general retail conditions softened however this did not materially impact EBIT margins.

During the period the Company opened 5 new stores (2007: 13) taking total stores to 107.

New Zealand Retail

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. Sales softened in the latter part of 2H08 however the market leading position Pumpkin Patch holds in the market place lessened the impact of the slowdown.

EBIT grew 0.2% to \$12.7m.

Three stores were opened in the year (2007: 4) and 1 Urban Angel store was merged into an existing Pumpkin Patch store (2007: 3 mergers). Store numbers at July totalled 52.

United Kingdom Retail

United Kingdom retail sales grew to GBP 22.7m up 15.8%, or NZ\$59.4m up 9.4%. The retail environment across the year was very soft compared to 2007. Conditions slowed as the year progressed and as the economic outlook for the consumer worsened. This was reflected in the disappointing sales results from retail market leaders.

On 1 January 2008 the European Union quota ceased and as a consequence all unused quota 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 year including the write off were \$2.2m (2007: \$1.6m).

The EBIT loss before quota was \$0.2m (2007: \$2.8m positive). The EBIT loss after quota was \$2.4m (2007: \$1.2m positive).

Supply chain and quota management complexities at times lead to stock mix and volume issues which meant some sales opportunities were lost especially in 1H08. The ending of quota and the implementation of a number of supply chain initiatives will lessen the complexity of managing inventory in the future.

Of the 30 stores open longer than 12 months 18 stores generated positive EBIT contributions at store level before quota costs.

During the period 5 new stores were opened (2007: 7) taking the total number of stores to 35.

United States Retail

United States retail sales were US\$20.9m up 63.2%, or NZ\$27.3m up 50.6%. The translation of sales was impacted by the higher USD/ NZD exchange rate this year.

The United States retail environment has been very tough with market leaders reporting extremely difficult trading conditions. Some industry rationalisation is occurring with many retailers closing stores and slowing store roll out plans, and in some cases closing entire operations. Such conditions are difficult for new entrants who do not have an established brand presence.

During the period the Company opened 16 stores (2007: 11) taking total stores to 34 across 8 states. On average stores have been opened for 16 months.

The EBIT loss was NZ\$6.3m before quota and NZ\$8.9m after quota.

EBIT was significantly impacted by the very poor retail environment and increased quota costs.

Quota costs for the period were \$2.6m (2007: \$1.1m). The increase is due to both an increase in the volume of product shipped to the United States and a significant increase in the per unit price of quota during the year.

As with the United Kingdom the complexities of working with quota at times led to stock levels and mix not being ideal and some sales opportunities were lost. A number of supply chain initiatives currently being implemented and the scheduled ending of quota on 1 January 2009 will help reduce the complexity of managing inventory in coming years.

Of the 18 stores open for greater than 12 months 10 stores made positive EBIT contributions at store level before quota costs.

Wholesale and Direct

Wholesale and Direct turnover was up 17.8% to \$59.4m. Sales growth was achieved in local currency terms across most markets however this growth was negatively impacted by the high exchange rates when sales were converted back to NZD.

EBIT excluding quota for the year was \$17.4m up 11.7% on last year. EBIT including quota was up 10.6% to \$15.5m.

Quota costs for the period were \$1.8m (2007: \$1.5m) including a one off \$0.2m write off of unused European Union quota on hand when the quota ended on 1 January 2008. Quota costs will reduce in 2009 due to the ending of European Union quota and will be nil in 2010 following the end of United States quota in January 2009.

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.

Unallocated Overheads

Unallocated overheads were \$19.1m (2007: \$15.9m). The increase was primarily made up of \$1.5m higher unrealised foreign exchange losses incurred during the year and \$0.6m of costs incurred in restructuring head office functions.

Cash Flows and Balance Sheet

The Company continues to maintain a strong balance sheet with net assets of \$117.3m.

Inventory holdings at July were \$35.8m higher than last year. Although additional inventory was held for stores opened during the year the majority of the increase relates to inventory purchased to provide a buffer against ongoing supply chain disruptions into the United Kingdom and the United States. The impact of the additional stock purchased was accentuated by the softening of the retail environment in those two markets. A number of stock reduction and supply chain strategies are being implemented which will lead to lower inventory holdings on an average store basis over the next 18 months. The stock reduction strategies are not expected to materially impact margins over this period.

Fixed assets have increased \$18.2m since 2007 reflecting the capital expenditure on the 29 stores opened in 2008 less ongoing depreciation charges.

The Company had total bank debt of \$81.3m at July (2007: \$37.1m). The movement is mostly the result of the increased inventory holdings.

Capital expenditure cash flows totalled \$35.6m (2007: \$35.8m). Although new store openings were lower in 2008 there was a change in the mix of new stores towards the more expensive United States stores.

Dividend

The Directors have approved the payment of a final dividend for 2008 of 3.50 cents per share (2007: 4.50cps) to be paid 15th October 2008, with a record date of 3rd October 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.

Outlook for 2009 - Divisional

Australia

The Company is expecting trading conditions to be difficult throughout 2009 as a result of lower consumer spending. However the strength of the Pumpkin Patch brand in the Australian market will position the Company well for when consumers come back to the market.

The Company plans to open at least 4 stores in 2009 including 1 Outlet store.

New Zealand

The retail environment is expected to remain difficult throughout 2009 and store level profitability is likely to be impacted due to the fixed nature of store overheads.

It is expected that 4 new stores will open in FY09 including 3 Outlet stores.

United Kingdom

The current difficult retail conditions are expected to continue. Customer awareness of the Pumpkin Patch brand continues to grow and trading at the more recently opened stores is expected to improve during 2009.

The Company will focus on enhancing margins through better inventory management and building further the brand awareness that is developing. Continued refinement of logistics systems and the removal of quota will improve segment EBIT margins however the impact of these will not be noticeable until overall retail trading conditions improve which is not expected until at least 2010.

As previously reported the Company is following a more cautious roll out program while market conditions remain soft. The Company will maintain its normal disciplined approach to site selection and new stores will only be considered when landlord contributions significantly cover capital expenditure costs. Currently one new store has been committed to for 2009.

United States

The current tough retail environment is expected to continue throughout 2009 and possibly longer. This is delaying the store sales growth profile that would normally be expected from a maturing network of stores. As a result the segment is expected to continue to generate EBIT losses for the foreseeable future.

While market conditions remain as they are the Company will focus on bedding down existing stores, increasing brand awareness, building a customer database, and ensuring the supply chain is operating efficiently to reduce costs and improve the management of inventory.

The Company plans to follow a more cautious expansion plan with 1 store committed for opening in 2009.

The Company continues to develop medium term strategies for the United States operation. With an average store age of only 16 months it is still very early in the market's development life cycle.

The Company believes the best strategy in the near term while general retail conditions remain difficult is to continue to drive store level cost efficiencies, enhance supply chain and inventory management processes, promote the brand within the market place, and open new stores only when stringent lease criteria are met.

Wholesale

The Wholesale business is expected to be impacted by the current global retail weakness with lower sales forecasted from major wholesale customers in the United States, United Kingdom, and Australia. In addition softer retail conditions across many of the Company's newer wholesale markets are expected to lead to slower growth rates in 2009.

Softer global retail markets are also expected to lead to increased margin pressure from customers in 2009.

The Company continues to research other Asian and European markets and is developing strategies for a number of these. However it is unlikely that any new markets will be entered in 2009.

The Direct operations will continue to grow especially in the United States and the United Kingdom however noticeable earnings will not be seen until 2010 and beyond.

Outlook for 2009 – Financial

Foreign Currency

The recent weakening of the New Zealand dollar against the Company's main trading currencies will create an overall net positive impact on earnings however the full benefit will not be seen until into the 2010 year.

The Company continues to hold high levels of foreign exchange cover on USD inventory purchase commitments for 2009 and into 2010 and 2011 at forward rates similar to those transacted in 2008. The 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 a portion of its export sales at rates similar to those achieved in 2008. The weakening of the NZD against the USD, AUD, and GBP will increase the value of overseas earnings but the impact of this will not be fully realised until 2010.

Quota

European Union quota ceased on 1 January 2008 and as reported earlier in the year the Company incurred a one off \$1.2m expense for all unused quota on hand.

United States quota is due to end on 1 January 2009. As such the Company will continue to incur quota costs on product imported into the United States up until 31 December 2008. These quota costs will be reflected in the trading results for the United States segment for 1H09 and the early part of 2H09 as stock on hand at 31 December 2008 is sold in the normal course of business. At this stage there has been no indication as to whether a replacement trade barrier will be implemented in 2009.


Summary

The very strong sales performance across Australasia reflects the market leading position the Pumpkin Patch brand holds in Australia and New Zealand. Although 2009 is likely to be more difficult than 2008 the Company is well placed to withstand likely challenges that will arise.

The continued development of new Wholesale markets shows that Pumpkin Patch is well on the way to become a truly global fashion brand.

Although the trading conditions are likely to remain very difficult in the United States and the United Kingdom and short term earnings will continue to be impacted by those conditions the Company is very confident that these markets play a very important role in the overall global strategies of Pumpkin Patch and will deliver long term value to shareholders.

On behalf of the Board of Directors



Maurice Prendergast
Chief Executive Officer



Greg Muir
Executive Chairman

Pumpkin Patch Limited
17th September 2008