



## CHIEF EXECUTIVE OFFICER'S REPORT

During the 2010 year we faced subdued market conditions across most of our global markets. While total group revenue was down 11% we delivered a 76% increase in full year earnings to \$25.5m and improved EBIT margins across all 4 of our retail markets. This was the result of inventory, margin, and cost management initiatives implemented during the year and the restructuring initiatives undertaken over the last two years.

We continue to have a very strong Balance Sheet and are well positioned to take advantage of the significant growth opportunities the Pumpkin Patch brand and the new Charlie & Me brand have in Australasia and other international markets.

While we expect general conditions in all markets to remain challenging in the short term the strength of the Pumpkin Patch brand will ensure we benefit when trading conditions improve.

### AUSTRALIA RETAIL

	2010	2009	
Turnover AU \$'000	157,056	166,398	(5.6%)
Turnover NZ \$'000	198,276	203,426	(2.5%)
EBIT NZ \$'000	38,705	38,469	0.6%
	19.5%	18.9%	
<b>Stores</b>			
Pumpkin Patch	103	99	
Outlet	16	12	
	119	111	

While we experienced a general improvement in sales in the first half of the year a softening of the general retail environment in the second half of the year offset much of that improvement. Total sales for the year were down 2.5% in NZD terms.

We continued to focus on the management of margins and overheads, the results of which can be seen in the 0.6% improvement in EBIT as a percentage of sales and the increase in total EBIT to \$38.7m.

During the year we opened 8 new stores (2009: 5) taking total stores to 119 at year end. We expect to open 8 new Pumpkin Patch stores in Australia in the 2011 year and see continued new store growth opportunities in coming years.



MAURICE PRENDERGAST

## NEW ZEALAND RETAIL

	2010	2009	
Turnover NZ \$'000	58,908	64,357	(8.5%)
EBIT <sup>(1)</sup> NZ \$'000	11,310	11,125	1.7%
	19.2%	17.3%	
<b>Stores</b>			
Pumpkin Patch	34	33	
Outlet	12	12	
Urban Angel	3	6	
	49	51	

(1) Operating EBIT before non-recurring costs.

The New Zealand retail environment remained subdued for much of the year with total sales down 8.5% or 6.3% when excluding temporary clearance stores operating in 2009 but not in 2010.

Total EBIT was up 1.7% to \$11.3m and EBIT as a percentage of sales was up a strong 1.8% reflecting the focus on margin and inventory management across the year.

At year end we had 49 stores open across New Zealand. Two new Pumpkin Patch stores are expected to open in the 2011 year.

## WHOLESALE AND DIRECT

	2010	2009	
Turnover NZ \$'000	53,217	62,540	(14.9%)
EBIT NZ \$'000	13,708	16,583	(17.3%)
	25.8%	26.5%	

With soft retail environments in their home markets our wholesale partners lowered their product orders in 2010. As a result of this and the continued strength of the NZD against most export currencies total sales were down 14.9% to \$53.2m.

The lower sales result led to EBIT being down 17.3% to \$13.7m however EBIT margins remained at levels similar to 2009.

During the year we established new wholesale partnerships in China, Lebanon, Malta, and Thailand taking the total number of wholesale markets to 20. We are in the process of finalising a number of relationships in new markets for the 2011 year.

The continued softness in global retail markets mean wholesale partners are only slowly returning to more normal buying patterns. The full impact of this and the impact of the new markets we are adding will not be seen until the 2012 financial year.



## UNITED KINGDOM RETAIL

	2010	2009	
Turnover GB £'000	23,636	22,520	5.0%
Turnover NZ \$'000	52,455	59,200	(11.4%)
EBIT <sup>(1)</sup> NZ \$'000	(885)	(4,962)	82.2%
<b>Stores</b>			
Pumpkin Patch	35	33	
Outlet	4	3	
	39	36	

(1) Operating EBIT before non-recurring costs.

While general retail conditions in the United Kingdom remained volatile throughout the year total sales in GBP terms were up 5.0%. However in NZD terms sales were down 11.4% due to the significantly higher exchange rates experienced across the year.

The EBIT loss for the year was \$0.9m, a significant improvement on \$5.0m loss last year. Improved margins and a focus on reducing overheads particularly at underperforming stores have all benefited the United Kingdom this year.

Trading conditions are expected to remain soft in the short term but steadily improve later in the year and into 2012.

During the year we opened 3 new stores (2009: 1) taking the total number of stores to 39. We expect to open 3 new stores in 2011.

## UNITED STATES RETAIL

	2010	2009	
Turnover US \$'000	13,586	13,585	0.0%
Turnover NZ \$'000	19,138	22,825	(16.1%)
EBIT <sup>(2)</sup> NZ \$'000	(2,685)	(9,289)	71.1%
<b>Stores</b>			
Pumpkin Patch	20	20	

(2) EBIT excluding discontinued stores and before non-recurring costs.

While retail conditions remained soft across the year trading patterns became more stable as the year progressed. Total USD sales from the 20 stores trading during the year were at similar levels as 2009. Sales in NZD terms were impacted by higher exchange rates and ended the year down 16%.

The segment EBIT loss was \$2.7m, a 71.1% improvement on last year (2009: \$9.3m loss). Improved margins and the benefits of the 2009 reorganisation plan, mainly lower rental and depreciation charges, contributed to the much improved result.

Conditions are expected to remain soft until the United States economy as a whole shows significant improvement.



## NEW BUSINESS

### CHARLIE & ME

During the year we announced the launch of Charlie & Me, our new stand alone brand targeting the 'everyday wear' segment of the market which makes up over 75% of total global childrenswear sales. The new brand will allow us to leverage off our existing infrastructure and capabilities to expand into a very large segment of the market that our Pumpkin Patch brand does not directly cater for.

While the initial focus of Charlie & Me will primarily be on Australia the brand creates substantial global growth opportunities.

We opened the first Charlie & Me store in August 2010 and plan to open at least another 6 stores in 2011.

### IRELAND

Over the last three months we have opened our first two company operated Pumpkin Patch stores in Ireland. While the retail environment remains challenging in Ireland the soft leasing conditions creates an opportunity for us to enter the market with relatively low risk.

### CASH FLOWS AND BALANCE SHEET

We continue to maintain a very strong balance sheet which will allow us to take advantage of growth opportunities that exist across all markets. Net bank debt at year end was \$26.1m. Based on current trading conditions and expected working capital and capital expenditure requirements net bank debt is expected to be between \$30.0m and \$35.0m at July 2011. The bulk of the bank debt facilities are in place until December 2011.



## SUMMARY

Although retail conditions were subdued in 2010 the 76% improvement in earnings shows we have responded well to the environment we faced and reflects the strength of the Pumpkin Patch brand.

The initiatives undertaken over the last 24 months have ensured we are well positioned to take advantage of growth opportunities in all our markets and to reap the benefits when general trading conditions improve.

The launch of the Charlie & Me brand and the ongoing development of new wholesale markets are expected to open up a new phase of long term growth and will deliver long term rewards to our shareholders.

On behalf of the Board of Directors we again thank the very dedicated Pumpkin Patch team based around the world for the hard work they put in everyday to make the Company the success that it is.

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

MAURICE PRENDERGAST - CEO

