

Pumpkin Patch Limited
2009 Annual Meeting of Shareholders
Tuesday 24th November 2009
Chairman and Chief Executive Officer Addresses

Chairman's address

The 2009 financial year will be remembered as perhaps the most difficult year we have faced as a Company since our founding 20 years ago.

However it will also be remembered as a year in which the entire Pumpkin Patch Team pulled together to deal with the challenging markets and implemented a number of initiatives that have set our Company up to face the future with confidence and certainty.

This time last year the global financial markets were in turmoil and the retail sectors in all our markets were facing a very uncertain period of trading. Instead of going into defensive mode the Company embarked on a series of initiatives to both navigate our way through the economic storm and put in place a very strong financial platform to allow the Company to take advantage of the recovery when it came.

Maurice will expand on some of these initiatives in more detail soon but the highlights for me were:

- An impressive \$63m reduction in net bank debt
- A substantial reduction in inventory holdings, and
- The implementation of the reorganisation plan for the United States retail operation.

Trading conditions in all markets were challenging across 2009.

In Australia and New Zealand however we grew market share and reinforced the brand's position as the leading specialty childrenswear offer. While we were not able to increase our profitability in this environment we did increase our store footprint and are currently assessing some significant new store opportunities across Australia which we plan to develop over the next few years.

The difficult market in the United Kingdom while giving us some challenges is providing us with lower rental costs when re-negotiating leases and is creating some new store opportunities. We believe the Pumpkin Patch brand is getting stronger in that market and will be well placed when the general retail market improves.

Throughout the year we continued to investigate Wholesale growth opportunities both in existing and new markets. The successful development of new markets takes time and we want to make sure we choose the right partners to take the Pumpkin Patch brand to these exciting new markets. We are currently in talks with a number of new Wholesale partners and Maurice will later discuss a number of new wholesale relationships we are in the final stages of negotiating.

During the year it became clear that the poor trading conditions in the United States would continue for the foreseeable future, and that our existing trading model could not be sustained. Accordingly we implemented a reorganisation plan for this business late in the 2009 year.

Under this plan 15 stores were closed while leases on the remaining 20 stores were renegotiated at significantly lower rents.

The plan led to a one off charge in 2009. The financial impact of the reorganisation was fully disclosed in the audited financial statements that formed part of the Annual Report. While the writedown of the discontinued operations had a significant impact on our financial result for the year the directors believe the steps taken were important in providing the best outcome for all shareholders.

The reorganised store network will continue to give us good brand presence in the West Coast market and will generate much better financial outcomes.

Overall I believe the 2009 result was a very credible one given the hugely volatile environment faced during the year. The initiatives implemented across the various business units position us well to take advantage of improved trading conditions and other market growth opportunities.

Finally on behalf of you the shareholders and the Board of Directors I would like to thank Maurice and his team for the immense amount of hard work they have put in over the last 18 months dealing with all the challenges the Company encountered. We think we are through the worst of the slow down and are positioned well to take advantage of opportunities that the recovery will present to us. I am proud to say that the entire team remains totally dedicated to making Pumpkin Patch a truly global success story, and I look forward to working with them into the future to achieve that goal.

Chief Executive Officer's address

2009 was a very difficult year. I stood here at last year's shareholders meeting and told you that in my 16 years as Chief Executive Officer of Pumpkin Patch I had not seen retail conditions as difficult or our markets as volatile.

Unfortunately those trading conditions were with us for most of the 2009 financial year.

As a team we took on those challenges and embarked on a number of major initiatives that significantly strengthened our balance sheet and prepared us for 2010 and beyond.

Some of the achievements in 2009 were:

- Bank debt was reduced by \$63m to \$18m
- Our banking facilities were renegotiated with our funding lines now in place until December 2011.
- A huge amount of time and effort went into reducing inventory by \$42m.
- We implemented the United States reorganisation plan.
- We reported a Net Profit After Tax of \$25.1m, up 7.8%. This excludes the United States stores and one off write downs.
- We reviewed all overheads across the group to ensure they matched the current environment.
- Importantly we were able to keep our dividend at the same level as 2008.
- All of this means we are well positioned for when trading conditions improve.

Now I will look at each individual market, starting with our largest market Australia.

Australia Retail

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 last year.

Earnings of \$38.5m were down slightly, reflecting increased promotional activity as we matched other retailers and continued to build market share.

During the period 5 new stores opened taking total stores to 111.

New Zealand Retail

While the New Zealand retail environment was challenging we held up reasonably well 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 did impact margins. As a result earnings for the year were down to \$11.1m.

2 new stores were opened during the year taking store numbers to 51.

Wholesale and Direct

Wholesale and Direct turnover was \$62.5m, up 5.3% on last year.

Although this result was very credible, softer conditions in the latter half of the year led to lower second half sales. This was partially offset by lower average export exchange rates and a strong performance from our internet business.

Earnings for the year were \$16.6m up 6.7% on last year.

United Kingdom Retail

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

While sales were similar to 2008 higher promotional activity was necessary which led to generally lower margins. The EBIT loss for the year was \$5.0m before any impairment charges.

As a result of the annual review of stores we made a non-cash charge of \$6.4m against the fixed asset value of 10 United Kingdom stores. We are currently implementing strategies that focus on improving the operating results of these stores.

During the year 1 new store was opened taking the total number of stores to 36.

United States Retail

The United States was and continues to be a very difficult market.

During the year we reorganised the United States store footprint to focus on mainly the West Coast stores that have performed better over the last 2 years.

This meant closing 15 of the 35 stores and renegotiating all remaining leases at levels that reflect current market conditions.

The total costs of the reorganisation were approximately \$40m. Non cash were about \$35m while the actual cash costs were approx \$5m.

The losses in the United States grew from last year's \$9m to \$14.8m. This reflects how bad trading had deteriorated over the last two years and the fixed nature of our costs, mainly lease costs.

The last 18 months were a very tough period for the entire Pumpkin Patch Team however I am proud to say they all fronted up when it mattered and worked together to deal with the challenges the markets threw at us.

While obviously the 2009 result was not what we wanted the team at all times acted like the true professionals they are. They undertook a number of major initiatives that will generate value for you as shareholders in years to come.

Outlook 2010

As in past years we will not be providing full year's earnings guidance today as it is just far too early in the year to do so. Adding to this is the ongoing uncertainty in all our markets and ongoing volatile exchange rates.

However we believe we are through the worst of the global recession and we are seeing some stability return.

Despite this uncertainty the strength of the brand and the initiatives I have outlined will position us well to take advantage of improved trading conditions when they eventuate.

I will now look at each of our markets individually for 2010.

Australia

We are seeing the early signs of improved trading conditions and expect this improvement to continue across 2010, mostly impacting the second half of the financial year.

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.

We believe that we will be able to secure between 30 and 40 new store sites over the next 3 to 4 years. These sites will be on average smaller than our existing stores as many of the new stores will be located in sub-regional malls that suit a smaller format store. However the economics of these smaller stores will make them good incremental earners.

New Zealand

Retail conditions remain subdued however most commentators are predicting a slow but steady improvement through the 2010 calendar year. This should translate to improved sales performances in the second half of the 2010 financial year.

We will continue to focus on growing market share and reinforcing the strength of the Pumpkin Patch brand.

Wholesale and Direct

Wholesale customers are lowering 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 growth opportunities.

We are implementing a number of initiatives that will be a platform for improved earnings in 2011.

We continue to undertake research into new markets around the world. We are in the final stages of negotiations on agreements for China, Jordan, and Lebanon. Each of these wholesale partners will add the Pumpkin Patch brand to its stable of international brands, with the first shipments due to occur in the second half of the 2010 year.

While the Chinese market is obviously the largest and most exciting market, like all wholesale initiatives it will start out small and take some time before it contributes any noticeable earnings.

The Direct operation, which is the internet and catalogue part of our business, will continue to identify and develop growth opportunities across all of its markets. We invested heavily during 2009 to ensure we are able to build on the strong platform we already have.

United Kingdom

The soft economic environment is expected to continue throughout 2010. Despite this we expect to see an improvement on the 2009 result in the coming year.

Recent supply chain initiatives are improving the flow of product into the market which allows us to better match stock with customer demand.

The leasing market has softened significantly which is leading 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.

The current environment is creating new store opportunities for us and as a result we are in the process of confirming up to 3 new stores for the current year.

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 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.

All legal aspects of the reorganisation are expected to be completed early next calendar year.

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 bank debt is likely to remain around the levels seen at the end of July.

Inventory

Our focus will continue to be directed at inventory management to ensure inventory levels remain around current levels based on an average stock holding per store.

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.

In summary, over 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 these demands and are confident that we will continue to make progress in 2010.

As I have already mentioned the major debt reduction in 2009 and reduced inventory levels have significantly strengthened our balance sheet and positions us very well for the future.

I would like to thank the entire team at Pumpkin Patch for a tremendous effort over the last year. Despite all the challenges they dealt with and the hard decisions they had to make the team remains 100% dedicated to making Pumpkin Patch a truly global brand and delivering long term growth for shareholders.

I would also like to thank the Board for their continued support and direction over the last year.

Pumpkin Patch Limited
24th November 2009

For further information please contact:
Maurice Prendergast (Chief Executive Officer) or Matthew Washington (Chief Financial Officer)
Pumpkin Patch Limited
Phone +64 9 274 7088