

30 April 2003

THE GAME GROUP PLC

RECORD PROFITS

Unaudited Preliminary results for the year ended 31 January 2003

Highlights

- Pre-tax profit before goodwill amortisation up 26% to a record £33.1m (£26.3m)
- Operating profit, before goodwill amortisation and last year's provision for re-branding, increased to a record £32.4m (£31.2m)
- Turnover up 23% to £560m (£454m)
- Basic earnings per share up 32% to 4.4 p (3.33p)
- Net cash at Bank of £37.4m
- Final dividend increased by 37.5% to 0.55p making a total for the year of 1.0p (0.8p)

Peter Lewis, Chairman, commented:-

"The strength of GAME's position in its markets can be measured by this achievement of record sales, record profits and record cash in the bank of £37.4m in a difficult year for UK retailers. Our response to the intense competition during Christmas 2002 was successful in maintaining our clear market leadership whilst delivering record profits. The current year has begun well with further gains in market share".

For further information please contact:

John Steinbrecher, Chief Executive

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The GAME Group

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RESULTS

It was another good year.

- Operating profit, before goodwill amortisation and last years provision for re-branding, increased to a record £32.4m (£31.2m).
- Pre-tax profits before goodwill amortisation were up 26% to £33.1m (£26.3m).
- Turnover grew by 23% to £560m (£454m) with like for like sales up 12%.
- Gross profit margin reduced to 28.1% (29.9%) in line with expectations for the launch year of Xbox and GameCube.
- Basic earnings per share were 4.4p (3.33p) with adjusted EPS, before goodwill amortisation, of 5.98p (4.91p).

Your Board is proposing an increase in the final dividend of 37.5% to 0.55p per share making a total for the year of 1p (0.8p) . This increase is a result of the Group's strong cash position and your Board's confidence in the underlying business.

A BRIEF REVIEW OF THE YEAR

Our Market

A year ago the UK market for computer software and video games was expected to grow in 2002 by as much as 25%. As clear market leader, our profits were expected to grow proportionately. In the event, the market did increase, but by 8%*. As soon as it was clear to your Board that market growth was going to be less than previous forecasts, with the inevitable impact on your Group's profits increase, we were quick to ensure that our investors were informed.

The reasons for the shortfall against expectations were a combination of the sharp drop-off in customer traffic experienced by most high street retailers and industry specific issues, including lower than anticipated sales of both Nintendo's GameCube and to a lesser extent Microsoft's Xbox in their launch year. Total console unit sales in 2002 increased significantly over the previous year but by value rose by only 1%*. By contrast, software sales were up 11%* by value.

In response to these trading conditions, industry wide promotional activity was intense and GAME responded very effectively, driving up seasonal like for like sales from a mid-December negative of 5% to a positive 4% for the whole Christmas Season. Moreover, this strategy maintained our dominant market share, successfully resisting the competitive attempts of mass merchandisers and others.

*source : ELSPA/ChartTrack

In 2002, the UK games market continued to be the largest in Europe with an estimated value of £2.1bn*. This was twice the size of video rental and almost 1 ½ times bigger than cinema box office spending. In “The Way Ahead” section, later in this report, we address our growth prospects for 2003 and the adaptation of our business model deriving from our experiences of Christmas 2002.

Our Business

During the year, there were 12 net store openings in the UK and 48 in our European markets of France, Spain and Sweden. This increased our European store base by 73% generating total sales growth of 100%. It also added inevitable start-up costs with a consequent short-term drag effect on Group profits.

<u>Stores trading at 31 January</u>	<u>2003</u>	<u>2002</u>
<u>Company owned & concessions</u>		
UK	335	323
Europe	114	66
<u>Franchises</u>		
Europe	58	58
<u>Total Outlets</u>	<u>507</u>	<u>447</u>

This was a year of substantial investment in our fledgling European business not only in stores but in management, systems and IT. Europe now represents 12% of Group sales, and made a small loss in the year.

We are at an early stage in the development of our business in these markets and while much of the initial groundwork needed to create a solid foundation for future expansion has been done, there is still some way to go. Each of our three businesses is at a different stage of development. In 2003 our plans for France are a continuation of the remodelling of the acquired ScoreGames chain as well as the enhancement of IT Systems and the strengthening of the local management team. In Sweden, where much of the key foundation stage is behind us, our efforts will be concentrated on accelerating store expansion, whilst in Spain we seek to improve overall performance with a more modest store expansion programme.

In the UK, the re-branding from Electronics Boutique to GAME was completed on schedule and within budget. In 2003 we expect to accelerate our store opening programme.

In October 2002, we sought in the High Court to clarify our rights to terminate the long standing services agreement with Electronics Boutique Inc (EBI). On appeal, the court upheld the agreement which expires on 31 January 2006. We continue to pay EBI 1% of our UK turnover.

*source : ELSPA/ChartTrack

TREASURY

GAME continues to be strongly cash generative. In the year net cash inflow from operating activities increased by 26% to £37.4m (£29.7m). Despite a substantial increase in capital expenditure to £22.3m (£7.0m) driven largely by the rebranding programme and our store investment in Europe and the UK, the Group ended the year with net cash of £37.4m (£35.9m). In the last two years GAME has generated net cash inflow from operating activities of £67.1m

As a result of our strong cash generation and the weakness in our share price, on 28 January 2003 the Board commenced the buy back of our own shares for cancellation, in order to enhance shareholder value. Including 1,000,000 shares purchased prior to the year end, a total of 11,450,000 shares have now been acquired at an average price of 36.98p. The Board has current powers to continue this programme prior to the annual renewal of its authority at the AGM on 3 July, when the Group will seek shareholder approval to increase this figure from 5% to 10% in line with current practice.

During the year, the Board authorised the purchase of land at Basingstoke for the creation of a new Distribution and Head Office facility, which we expect to be completed in early 2004. The existing leasehold premises at Bracknell are inadequate for the future requirements of our fast growing business. This development will be largely financed by 10 year loans which have been negotiated with a major UK bank on favourable terms.

Provision of £14.7m for potential deferred consideration payments in respect of the acquisitions in 2001 in France and Spain will no longer be required and goodwill in the balance sheet has accordingly been reduced by this amount.

BOARD CHANGES

On 28 February 2003 the Board announced that its long serving Chief Executive, John Steinbrecher, had decided to return to his native United States. He relinquishes his role on 31 January 2004 after over 8 very successful years.

Martin Long, 36, who has been a director and has worked side by side with John since 1995 and as Deputy Chief Executive and Chief Financial Officer for over 3 years, has been named Chief Executive Designate and will succeed John on his return to the USA. Martin will continue to act as Chief Financial Officer in the meantime and the Board will appoint a Finance Director in due course. Lisa Morgan, 32, has been promoted from Commercial Director to Deputy Chief Executive Designate.

On 25 January Sir Richard Greenbury, 66, retired from the Board as a non-executive director so as to pursue his many other retirement interests. He made an invaluable contribution to our affairs during his term. He is succeeded by Christopher Bell, 45, who is Chief Executive of Ladbrokes Worldwide and a main board director of Hilton Group plc.

Following Sir Richard's retirement, William Slee, 62, who has been a member of the Board since September 2001, was appointed Senior Independent Director.

OUR PEOPLE

It would be remiss of me not to note that our successful response to the challenges of 2002 trading conditions was made possible only by the commitment and energy of our outstanding workforce. We thank them all.

In addition to the Main Board changes there have been important internal and external appointments to the key trading subsidiaries, in particular strengthening Operations, Property Management, Human Resources and our commercial team, to meet the needs of the next phase of our growth.

THE WAY AHEAD

The challenge of Christmas 2002 demanded a swift response by your management which was both forthcoming and effective. Very few UK retailers were able to match GAME's success in reporting 2002 as a record year.

Since the year end, management has built on these experiences and adapted our business model to suit these new conditions. In 2003 and beyond, much greater emphasis is being given to our competitive advantages which taken together represent a unique selling proposition. These include the loyalty data base (now 3.9 million customers), our preowned programme, multi-buy product offers, unrivalled range of products, our all-round superior instore service and local price competitiveness.

Your Board believes that by harnessing these competitive advantages together with our philosophy of empowering store management to respond to local trading conditions, GAME will benefit from further advances in the games market predicted for this year. Industry reports indicate the world wide games market may grow to \$18.5bn this year (\$16.9bn in 2002)*. Since 1995, the global leisure software market has almost tripled in value. There are few, if any, other markets that can show comparable growth.

In the UK, 2002 video game console unit sales were up 44% to 3.3million. This increase in the installed base will stimulate demand for software sales this year and beyond. The UK is the third largest games market in the world. Of great significance to the future of GAME is that in the largest and more mature market of the USA, specialist retailers, like GAME, continue to grow their store base and market share.

* Source : ELSPA/ChartTrack

CURRENT AND FUTURE TRADING

In 2003 we aim to exploit our commercial advantages in the UK, whilst in Europe the emphasis is on honing our management systems and capabilities. We expect the video games market to grow and your management's task is to ensure that GAME takes its full share of the opportunities.

In the first half of last year like for like sales increased by 29% due to the unprecedented event of two major systems launches in quick succession. Thus, in value terms, this year's comparisons for the first half will be misleading, nevertheless, in the 12 weeks to 26 April which incorporated the launch of Xbox in 2002, this year's overall sales are up by 10% with same store sales up 1%. Your Board is encouraged by this performance which is ahead of budget, with margins in line with internal forecasts. In addition, GAME has further increased its UK market share.

Your Board is anticipating another successful year.

Peter Lewis
Chairman
30 April 2003

THE GAME GROUP PLC

Unaudited consolidated profit and loss account for the year ended 31 January 2003

	Note	Unaudited 2003 £'000	Audited 2002 £'000
Turnover		560,065	453,776
Cost of sales		<u>402,910</u>	<u>318,201</u>
Gross profit		157,155	135,575
Other operating expenses	1	<u>130,786</u>	<u>115,355</u>
Operating profit before goodwill amortisation and re-branding costs		32,395	31,179
Goodwill amortisation		(5,923)	(5,716)
Re-branding costs	2	(103)	(5,243)
Operating profit		26,369	20,220
Interest receivable and similar income		1,052	607
Interest payable and similar charges		(256)	(243)
Profit on ordinary activities before taxation		27,165	20,584
Taxation	3	10,608	8,566
Profit on ordinary activities after taxation		16,557	12,018
Dividends	4	3,758	2,954
Retained profit for the financial year		12,799	9,064
Earnings per share			
- basic	5	4.40p	3.33p
- diluted	5	4.36p	3.23p
Earnings per share before amortisation of goodwill			
- basic	5	5.98p	4.91p
- diluted	5	5.91p	4.76p
Number of own stores trading (including concessions)			
At beginning of year		389	311
At end of year		449	389

THE GAME GROUP PLC

Unaudited consolidated balance sheet at 31 January 2003

	Note	Unaudited 2003 £'000	Audited 2002 £'000
Fixed assets			
Intangible assets	6	92,160	112,720
Tangible assets	7	41,742	25,975
		<u>133,902</u>	<u>138,695</u>
Current assets			
Stocks		38,205	37,746
Debtors	8	17,523	15,529
Cash at bank and in hand		37,972	35,885
		<u>93,700</u>	<u>89,160</u>
Creditors: amounts falling due within one year	9	71,923	73,183
		<u>21,777</u>	<u>15,977</u>
Net current assets			
		<u>155,679</u>	<u>154,672</u>
Creditors: amounts falling due after more than one year	10	1,361	4,621
Accruals and deferred income			
Leasehold property incentives		1,733	1,149
		<u>152,585</u>	<u>148,902</u>
Net assets			
		<u><u>152,585</u></u>	<u><u>148,902</u></u>
Capital and reserves			
Called up share capital		18,772	18,520
Share premium account		38,513	36,463
Shares to be issued	11	-	11,232
Capital redemption reserve		50	-
Other reserves		76,907	76,907
Profit and loss account		18,343	5,780
		<u>152,585</u>	<u>148,902</u>
Equity shareholders' funds		<u><u>152,585</u></u>	<u><u>148,902</u></u>

THE GAME GROUP PLC**Unaudited consolidated cash flow statement for the year ended 31 January 2003**

	Unaudited 2003 £'000	Audited 2002 £'000
Net cash inflow from operating activities	37,366	29,712
Returns on investments and servicing of finance	796	364
Taxation	(10,648)	(6,504)
Capital expenditure	(22,263)	(7,036)
Acquisitions	(569)	(12,845)
Equity dividends paid	(3,175)	(2,623)
	-----	-----
Net cash inflow before financing	1,507	1,068
Financing	(7)	18,866
	-----	-----
Increase in cash in the year	1,500	19,934
	=====	=====
Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	26,369	20,220
Depreciation	7,862	10,402
Amortisation of intangible assets	5,923	5,716
Loss on disposal of tangible fixed assets	184	121
Increase in stock	(806)	(6,596)
Increase in debtors	(1,995)	(3,287)
(Decrease)/ increase in creditors	(755)	3,437
Increase/ (decrease) in leasehold property incentives	584	(301)
	-----	-----
	37,366	29,712
	=====	=====
Reconciliation of net cash flow to movement in net funds		
Increase in cash in the year	1,500	19,934
Cash outflow/ (inflow) from decrease/ (increase) in net debt and lease financing	1,239	(113)
	-----	-----
Change in net funds resulting from cash flows	2,739	19,821
Loans and finance leases acquired with subsidiary undertaking	-	(1,363)
New finance leases	(339)	(1,207)
Deferred consideration on acquisitions	3,500	(3,500)
Translation differences	(75)	27
	-----	-----
Movement in net funds in year	5,825	13,778
Net funds at beginning of year	28,958	15,180
	-----	-----
Net funds at end of year	34,783	28,958
	=====	=====

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Notes to the preliminary announcement for the year ended 31 January 2003

1 Other operating expenses

	Unaudited 2003 £'000	Audited 2002 £'000
Selling and distribution	100,974	90,852
Administrative expenses	29,812	24,503
	<hr/>	<hr/>
	130,786	115,355
	<hr/> <hr/>	<hr/> <hr/>

Administrative expenses include goodwill amortisation of £5,923,000 (2002: £5,716,000). Selling and distribution includes re-branding costs of £103,000 (2002: £5,243,000).

2 Re-branding costs

During the previous year the Group announced its decision to adopt GAME as its core trading name in the future. A one off charge for the costs of re-branding in the United Kingdom and Eire was included within those financial statements, and the re-branding exercise was completed in the current year giving rise to the following charge:

	Unaudited 2003 £'000	Audited 2002 £'000
Accelerated depreciation charge	(247)	2,913
Provision for communication to loyalty scheme members	65	1,259
Other costs	285	1,071
	<hr/>	<hr/>
	103	5,243
	<hr/> <hr/>	<hr/> <hr/>

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Notes to the preliminary announcement for the year ended 31 January 2003

3 Taxation

Analysis of charge in the year

	Unaudited 2003 £'000	Audited 2002 £'000
<i>Current year:</i>		
UK Corporation tax	10,278	9,179
Adjustments in respect of prior periods	(23)	18
Overseas tax payable	26	49
	<hr/>	<hr/>
Total current tax	10,281	9,246
<i>Deferred tax:</i>		
Origination and reversal of timing differences	327	(680)
	<hr/>	<hr/>
Taxation on profit on ordinary activities	10,608	8,566
	<hr/> <hr/>	<hr/> <hr/>

4 Dividends

	Unaudited 2003 Pence per share	Unaudited 2003 £'000	Audited 2002 Pence per share	Audited 2002 £'000
Interim paid	0.45	1,693	0.40	1,472
Final proposed	0.55	2,065	0.40	1,482
	<hr/>	<hr/>	<hr/>	<hr/>
	1.00	3,758	0.80	2,954
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

It is proposed that the final dividend will be paid on 18 July 2003 to shareholders on the register on 27 June 2003.

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Notes to the preliminary announcement for the year ended 31 January 2003

5 Earnings per share

The calculation of earnings per share for the year ended 31 January 2003 is based on the profit after taxation of £16,557,000 (2002: £12,018,000). The calculation of basic earnings per share and diluted earnings per share is based on a weighted average number of 376,009,811 (2002: 360,919,032) shares in issue during the year. The number of shares used in these calculations and the reconciliation of denominators used for basic and diluted earnings per share calculations is set out in the table below:

	Basic	Effect of share options	Diluted
Year ended 31 January 2003	376,009,811	4,164,972	380,174,783
Year ended 31 January 2002	360,919,032	11,491,326	372,410,358

Additional disclosure has been provided in respect of earnings per share before amortisation of goodwill as the Directors believe this gives a better view of ongoing maintainable earnings.

	2003 Pence	2002 Pence
Basic earnings per share	4.40	3.33
Amortisation of goodwill	1.58	1.58
	<hr/>	<hr/>
Basic earnings per share before amortisation of goodwill	5.98	4.91
	<hr/> <hr/>	<hr/> <hr/>

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Notes to the preliminary announcement for the year ended 31 January 2003

6 Intangible assets

Group	Goodwill £'000
<i>Cost</i>	
At 1 February 2002	127,389
Additions	328
Fair value adjustments	(267)
Adjustment to deferred consideration payable	(14,732)
Exchange adjustment	34
	<hr/>
At 31 January 2003	112,752
	<hr/> <hr/>
<i>Amortisation</i>	
At 1 February 2002	14,669
Amortisation charge for the year	5,923
	<hr/>
At 31 January 2003	20,592
	<hr/> <hr/>
<i>Net book value</i>	
At 31 January 2003	92,160
	<hr/> <hr/>
At 31 January 2002	112,720
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Notes to the preliminary announcement for the year ended 31 January 2003

7 Tangible fixed assets

	Land and property £'000	Improvements to leasehold property £'000	Fixtures, fittings and equipment £'000	Total £'000
<i>Cost</i>				
At 1 February 2002	9,387	15,214	36,992	61,593
Additions	2,988	7,327	12,479	22,794
Acquisitions	-	46	14	60
Fair value adjustments	985	-	(168)	817
Reclassification of acquired assets	-	2,839	(2,839)	-
Disposals	(242)	(1,990)	(9,725)	(11,957)
Exchange adjustment	183	(1)	298	480
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 January 2003	13,301	23,435	37,051	73,787
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<i>Depreciation</i>				
At 1 February 2002	2,546	7,536	25,536	35,618
Charge for the year	460	1,903	5,499	7,862
Reclassification of acquired assets	-	1,722	(1,722)	-
Disposals	(194)	(1,899)	(9,488)	(11,581)
Exchange adjustment	5	-	141	146
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 January 2003	2,817	9,262	19,966	32,045
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<i>Net book value</i>				
At 31 January 2003	10,484	14,173	17,085	41,742
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 January 2002	6,841	7,678	11,456	25,975
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

THE GAME GROUP PLC**Notes to the preliminary announcement for the year ended 31 January 2003****8 Debtors**

	Unaudited 2003 £'000	Audited 2002 £'000
Amounts falling due within one year:		
Trade debtors	4,224	5,026
Other debtors	2,221	850
VAT	672	516
Corporation tax	137	150
Deferred tax asset	1,155	1,152
Prepayments and accrued income	9,114	7,835
	<u>17,523</u>	<u>15,529</u>

9 Creditors: amounts falling due within one year

	Unaudited 2003 £'000	Audited 2002 £'000
Bank loan	936	1,185
Bank overdraft	587	-
Trade creditors	32,396	35,626
Other creditors	746	307
Tax and social security costs	1,905	1,713
VAT payable	13,963	9,995
Dividends payable	2,065	1,482
Corporation tax	5,085	5,465
Obligations under finance leases and hire purchase contracts	533	621
Accruals and deferred income	13,707	16,289
Deferred consideration	-	500
	<u>71,923</u>	<u>73,183</u>

10 Creditors: amounts falling due after more than one year

	Unaudited 2003 £'000	Audited 2002 £'000
Deferred consideration	-	3,000
Other loans	991	991
Obligations under finance leases and hire purchase contracts	370	630
	<u>1,361</u>	<u>4,621</u>

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Notes to the preliminary announcement for the year ended 31 January 2003

11 Shares to be issued

In accordance with the terms of the agreement to purchase ABC Games International S.A. deferred consideration of up to EUR.18,294,000 (£11,232,000) was payable dependent upon the results of the acquired subsidiary undertaking during the period from the date of acquisition to 31 January 2003.

Based on the performance to date the Directors do not believe any of this additional consideration will become payable. As a result the deferred consideration payable has been released in full.

12 Share buy backs

On 28 January 2003, 1,000,000 shares were repurchased for cancellation by the company at a cost of £310,000.

Since the year end a further 10,450,000 shares were repurchased for cancellation by the company at a cost of £3,924,500.

13 The results and summary balance sheet incorporates the unaudited results of THE GAME GROUP PLC and all its subsidiaries made up to 31 January 2003 and have been prepared on a basis consistent with the audited financial statements for the year ended 31 January 2002.

14 The results for the year ended 31 January 2002 have been extracted from the audited financial statements for that year which have been filed with the Registrar of Companies. The auditors' report on these accounts was unqualified and did not contain statements under s237(2) or (3) of the Companies Act 1985.

15 The financial information contained in this preliminary announcement does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985.

16 The Report and Accounts will be posted to shareholders at least 21 days before the Annual General Meeting and copies will be available from the Company Secretary at Charter Court, Third Avenue, Southampton, SO15 0AP.