

CHAIRMAN'S REPORT

Results

The Group has made an operating loss before goodwill amortisation of £3.1m in the first half of the year compared to a profit of £1.8m in the previous year. This reflects a reversion to our more usual trading pattern after seeing profitable results in the first half of the last couple of years, being driven by new hardware launches.

Group turnover for the six months ended 31 July 2004 was £213.0 million (£231.0 million). As anticipated, like-for-like sales for the period decreased by 13.6%. As the Board indicated in July, there were no new hardware launches in the first half of this year, whereas last year benefited from the launch of the Gameboy Advance SP. However, gross profit margin increased from 28.7% to 30.3%, as a result of an increase of software within the overall sales mix and improved buying terms.

The loss before tax was £5.9 million (£0.8 million). Basic loss per share was 1.42p (0.40p).

Your Board is doubling the interim dividend from 0.5p to 1.0p per share. As stated in the full year results in April, the Board has initiated a progressive dividend policy and, subject to investment requirements, proposes that future annual dividend cover (excluding goodwill amortisation) will be in the range of 3.0 times to 4.0 times. The Board expects to maintain a slight second half weighting to the total dividend.

Share Buyback

In the previous financial year, the Company exercised its authority to buy back shares and purchased 30.2 million shares at an average price of 54.75p per share for cancellation. The Board intends to actively pursue a further share buyback within the limits of the existing 10% authority, which they intend to renew at the AGM next July.

Acquisitions

In July 2004 the Group acquired Gameplay (GB) Limited, an award winning online and mail order retailer of video games, computer software and associated products.

Our existing ecommerce site GAME.net continues to trade well. This acquisition enables us to broaden our consumer demographics and further enhance our online capabilities.

Business overview

Our market position

GAME has firmly maintained its position as the number one retailer of video games in Europe.

Our strategy is built on five key areas:

- A commitment to excellence in customer service;
- Our Reward Card;
- The successful implementation of new trading processes and campaigns, such as pre-owned;
- Product expertise and commercial terms focus to ensure that our operational success is converted into cash profit; and
- Building a presence in Continental Europe and leveraging on the expertise gained in the UK marketplace to provide further scope for continued growth in the medium term.

Store portfolio

The Group has undertaken an accelerated opening programme in the first half of the year. We have opened 43 stores and closed 6 stores as part of our ongoing portfolio management.

As at	31 July 2004	31 July 2003	31 January 2004
	Number	Number	Number
Company owned and concessions			
UK and Ireland	388	340	359
Continental Europe	140	123	132
Franchises	56	55	57
Total outlets	584	518	548

We expect to have 400 UK stores open ahead of the key Christmas 2004 trading period. We are confident that our new store openings are enhancing our existing store business.

UK and Ireland

Having highlighted the relative weakness of the product release schedule earlier in the year we have seen our UK and Irish business perform well in a challenging trading environment, maintaining our market leading position.

We have continued to develop our consumer appeal through a very high standard of customer service and a uniquely broad product range. The market has an ever increasing number of participants across the retailing spectrum. However, we believe that our focus and scale provide us with a major competitive advantage.

Our Reward Card programme now has over 5 million members, which is an increase of 20% on last year. We have implemented a new and greatly improved pre-owned system which has increased the sales and profit mix of pre-owned within our business.

Continental Europe

Our businesses in France, Scandinavia and Spain are now well positioned. We have largely completed the building of management teams and appropriate infrastructures. We are building a pipeline of potential new stores whilst developing our relationships with suppliers.

In France we expect a significant reduction in the trading losses compared to last year.

We anticipate that, collectively, these businesses will generate profits in the financial year 2006.

Distribution Centre and Head Office

In May we moved into our new head office in Basingstoke and commenced the move of our distribution centre to the same location. The transition was completed on schedule in August. We have invested in a highly automated warehouse management system which will improve our efficiency, capability and speed of response to our customers.

In August, our French operation moved into a new head office and distribution centre in Paris. Our Swedish operation has moved to a new head office in Stockholm and is setting up a new distribution facility which will be operational during October and will replace the previously used direct supplier deliveries to our stores in Sweden.

Treasury

Capital Expenditure of £14.3m in the half year included £6.2m for the completion of our new distribution centre and head office in Basingstoke. We anticipate that our total capital expenditure for the year will be around £27m.

Our net debt is £20m (31 July 2003 - £2.5m). The change in position is primarily explained by the financing for the new distribution centre and head office in Basingstoke and the payment of the EBI settlement in February 2004. The Group maintains a conservative balance sheet structure.

Staff and Management

Our staff and management have worked tirelessly in a challenging trading environment to ensure that GAME has performed well. We thank them all.

Current and future trading

In August 2004 prices of the Playstation 2 and Xbox consoles were reduced to a selling value of around £100. They were previously retailing at £139 and £129 respectively. These price reductions have broadened their market appeal. In the first few weeks after the price reduction, the market has seen a three-fold increase in total units of these formats sold compared to the weeks preceding the price point reduction. Nintendo has also recently reduced the price of Gameboy Advance SP by 22% to £70.

In addition, Microsoft has announced the October launch of the Xbox Crystal console, and Sony has announced the launch of PSTwo in November which is a new slim-line version of the existing console.

We expect the trend of improved hardware volume and related software sales to continue during the second half as a result of these price cuts and new hardware model launches.

The second half has already benefited from the anticipated improvement in software releases.

Sales of Doom 3 in August were very encouraging followed by strong performances in September from Burnout 3 and Sims 2. The final quarter will see major releases of proven franchises such as GTA – San Andreas, Halo 2, The Getaway 2, Gran Turismo 4 and FIFA 2005.

In the 9 weeks to 2 October like for like sales are up by 1.6%. The UK and Ireland like for like sales are down by 0.6% with a good performance from Continental Europe which is up by 15.1%. Total sales for the 9 week period are up by 9.8% compared with last year. We still anticipate that like for like sales will be down on last year for both the second half and the full year. The gross margin for the year will continue to show improvement on last year but, as a result of mix, not at such a significant level as the 160 basis point improvement for the first half.

As we prepare for the crucial Christmas trading period, we believe we have a strong and competitive offering. The group has shown its ability to trade strongly in an increasingly competitive arena and there is a very strong software release schedule in the second half. We continue to expect a satisfactory trading outcome for the year as a whole.

Furthermore, the Board of GAME is confident regarding the medium term outlook as Sony have recently confirmed that the European launch of their new handheld product 'PSP' is scheduled for the first half of 2005, as is the Nintendo Dual Screen. The release dates of Xbox 2 and Playstation 3 have not yet been scheduled but are anticipated in calendar year 2006. These new generation platforms will take gaming to a new level.

**Unaudited consolidated profit and loss account
for the six months ended 31 July 2004**

	Notes	Six months ended 31 July 2004 Unaudited	Six months ended 31 July 2003 Unaudited	Year ended 31 January 2004 Audited
		£'000	£'000	£'000
Turnover		212,959	231,015	606,660
Cost of sales		148,358	164,710	432,004
Gross profit		64,601	66,305	174,656
Other operating expenses	1	70,498	67,358	156,848
Operating (loss)/profit before goodwill amortisation and exceptional costs				
		(3,052)	1,800	34,187
Goodwill amortisation		(2,845)	(2,853)	(5,962)
Exceptional costs		-	-	(10,417)
Operating (loss)/profit		(5,897)	(1,053)	17,808
Net interest (payable)/receivable		(28)	259	500
(Loss)/profit on ordinary activities before taxation		(5,925)	(794)	18,308
Taxation on (loss)/profit on ordinary activities	2	(968)	675	7,671
(Loss)/profit on ordinary activities after taxation		(4,957)	(1,469)	10,637
Dividends	3	3,488	1,790	6,991
(Loss)/profit for the period		(8,445)	(3,259)	3,646
(Loss)/earnings per share - basic	4	(1.42p)	(0.40p)	2.95p
- diluted	4	(1.42p)	(0.40p)	2.94p
(Loss)/earnings per share before goodwill amortisation and exceptional costs - basic	4	(0.61p)	0.38p	6.63p
- diluted	4	(0.61p)	0.38p	6.61p
Number of stores trading (including concessions)				
At beginning of period		491	449	449
At end of period		528	463	491

**Unaudited consolidated balance sheet
as at 31 July 2004**

	Notes	As at 31 July 2004 Unaudited £'000	As at 31 July 2003 Unaudited £'000	As at 31 January 2004 Audited £'000
Fixed assets				
Intangible	5	85,662	89,553	86,659
Tangible	6	71,847	51,334	63,147
		<u>157,509</u>	<u>140,887</u>	<u>149,806</u>
Current assets				
Stocks		48,969	43,610	58,279
Debtors	7	24,210	21,875	19,475
Cash at bank and in hand		1,838	8,862	28,359
		<u>75,017</u>	<u>74,347</u>	<u>106,113</u>
Creditors: amounts falling due within one year	8	<u>83,123</u>	<u>62,554</u>	<u>97,371</u>
Net current (liabilities)/assets		<u>(8,106)</u>	<u>11,793</u>	<u>8,742</u>
Total assets less current liabilities		<u>149,403</u>	<u>152,680</u>	<u>158,548</u>
Creditors: amounts falling due after more than one year	9	14,630	7,925	15,163
Accruals and deferred income				
Leasehold property incentives		2,278	1,592	2,005
Net assets		<u>132,495</u>	<u>143,163</u>	<u>141,380</u>
Capital and reserves				
Called up share capital		17,439	17,899	17,336
Share premium account		40,022	38,625	39,198
Capital redemption reserve		1,560	935	1,560
Other reserves		76,907	76,907	76,907
Profit and loss account	10	(3,433)	8,797	6,379
Equity shareholders' funds		<u>132,495</u>	<u>143,163</u>	<u>141,380</u>

Approved by the Board on 5 October 2004.

M Long
Director

**Unaudited consolidated cash flow statement
for the six months ended 31 July 2004**

	Notes	Six months ended 31 July 2004 Unaudited	Six months ended 31 July 2003 Unaudited	Year ended 31 January 2004 Audited
		£'000	£'000	£'000
Net cash (outflow)/inflow from operating activities	11	(6,480)	(8,868)	36,121
Returns on investments and servicing of finance		(28)	259	169
Taxation		(3,209)	(4,965)	(9,918)
Capital expenditure and financial investment		(14,159)	(12,968)	(30,364)
Acquisitions		(1,602)	(278)	(563)
Equity dividends paid		(5,201)	(2,065)	(3,855)
Cash outflow before financing		(30,679)	(28,885)	(8,410)
Financing				
- share buyback		-	(8,218)	(16,533)
- other		(25)	8,025	15,473
Decrease in cash in the period	12	(30,704)	(29,078)	(9,470)

Notes to the interim results

1 Other operating expenses

	Six months ended 31 July 2004 Unaudited	Six months ended 31 July 2003 Unaudited	Year ended 31 January 2004 Audited
	£'000	£'000	£'000
Selling and distribution	57,702	52,997	114,616
Administrative expenses	9,951	11,508	36,270
Goodwill amortisation	2,845	2,853	5,962
	<u>70,498</u>	<u>67,358</u>	<u>156,848</u>

2 Taxation

	Six months ended 31 July 2004 Unaudited	Six months ended 31 July 2003 Unaudited	Year Ended 31 January 2004 Audited
	£'000	£'000	£'000
Current year			
UK corporation tax	-	1,208	6,980
Adjustments in respect of prior periods	-	-	(122)
Overseas tax payable	6	6	12
Total current tax	6	1,214	6,870
Deferred tax:			
Origination and reversal of timing differences	(974)	(539)	801
	<u>(968)</u>	<u>675</u>	<u>7,671</u>

The UK corporation tax charge has been included at a corporation tax rate in line with the previous year.

3 Dividends

	Six months ended 31 July 2004 Unaudited	Six months ended 31 July 2003 Unaudited	Year Ended 31 January 2004 Audited
	£'000	£'000	£'000
Ordinary dividends			
Interim 1.0 p per ordinary share (2003: 0.50p)	3,488	1,790	1,790
Final 1.50p per ordinary share	-	-	5,201
	<u>3,488</u>	<u>1,790</u>	<u>6,991</u>

The interim dividend is payable on 26 November 2004 to shareholders on the register on 5 November 2004.

Notes to the interim results

4 (Loss)/earnings per share

The calculation of loss per share for the six months ended 31 July 2004 is based on the loss after taxation of £4,957,000 (2003 interim: loss after taxation of £1,469,000; full year: profit after taxation of £10,637,000). The calculation of the earnings per share before goodwill amortisation and exceptional costs is based on a loss of £2,112,000 (2003 interim: profit of £1,384,000; full year: profit of £27,016,000). The calculation of basic loss per share is based on a weighted average number of shares in issue during the period of 348,493,095 (2003 interim: 363,823,016; full year: 360,539,590). The calculation of diluted loss per share is based on a weighted average number of shares in issue during the period of 348,493,095 (2003 interim: 364,621,789; full year 361,621,245).

Reconciliation of denominators used for basic and diluted loss per share calculations:

	<u>Basic</u> Number	<u>Effect of</u> <u>share options</u> Number	<u>Diluted</u> Number
31 July 2004	348,493,095	-	348,493,095
31 July 2003	363,823,016	798,773	364,621,789
31 January 2004	360,539,590	1,081,655	361,621,245

5 Goodwill

	<u>As at</u> <u>31 July</u> <u>2004</u> <u>Unaudited</u> <u>£'000</u>	<u>As at</u> <u>31 July</u> <u>2003</u> <u>Unaudited</u> <u>£'000</u>	<u>As at</u> <u>31 January</u> <u>2004</u> <u>Audited</u> <u>£'000</u>
Net book value at beginning of period	86,659	92,160	92,160
Amortisation for period	(2,845)	(2,853)	(5,962)
Other movements	1,848	246	461
Net book value at end of period	<u>85,662</u>	<u>89,553</u>	<u>86,659</u>

Goodwill arising on acquisitions of subsidiary undertakings is capitalised as an intangible fixed asset and either amortised over the useful life, when this can be identified, or amortised over a period of 20 years or less.

Notes to the interim results

6 Tangible fixed assets

	As at 31 July 2004 Unaudited £'000	As at 31 July 2003 Unaudited £'000	As at 31 January 2004 Audited £'000
Cost			
At beginning of period	100,705	73,787	73,787
Acquisitions	50	25	25
Additions	14,345	13,171	32,176
Foreign exchange adjustment	(733)	1,292	826
Disposals	(1,742)	(1,018)	(6,109)
At end of period	<u>112,625</u>	<u>87,257</u>	<u>100,705</u>
Depreciation			
At beginning of period	37,558	32,045	32,045
Charge for the period	4,859	4,545	10,170
Foreign exchange adjustment	(182)	276	177
Disposals	(1,457)	(943)	(4,834)
At end of period	<u>40,778</u>	<u>35,923</u>	<u>37,558</u>
Net book value	<u>71,847</u>	<u>51,334</u>	<u>63,147</u>

Included above is the purchase of land at Basingstoke, and construction costs to date, in relation to the new Distribution and Head Office facility. A total of £23,635,000 has been incurred to date with £6,153,000 of this included within additions during the period.

7 Debtors

	As at 31 July 2004 Unaudited £'000	As at 31 July 2003 Unaudited £'000	As at 31 January 2004 Audited £'000
Amounts falling due within one year:			
Trade debtors	4,783	2,541	8,345
Other debtors	805	1,676	1,229
VAT	18	896	546
Corporation tax	2,111	134	-
Deferred tax asset	1,328	1,694	354
Prepayments and accrued income (principally rent & rates)	15,165	14,934	9,001
	<u>24,210</u>	<u>21,875</u>	<u>19,475</u>

Notes to the interim results

8 Creditors: amounts falling due within one year

	As at 31 July 2004 Unaudited	As at 31 July 2003 Unaudited	As at 31 January 2004 Audited
	£'000	£'000	£'000
Bank overdraft	4,627	555	444
Bank loans	2,185	2,045	2,411
Other loans	-	496	-
Trade creditors	46,728	34,138	46,020
Other creditors	2,227	1,291	1,296
Taxation and social security costs	2,040	1,906	1,986
VAT payable	3,774	3,664	10,478
Dividends payable	3,488	1,790	5,201
Corporation tax	-	1,331	1,900
Obligations under finance leases and hire purchase contracts	239	533	369
Accruals and deferred income	17,815	14,805	27,266
	<u>83,123</u>	<u>62,554</u>	<u>97,371</u>

9 Creditors: amounts falling due after more than one year

	As at 31 July 2004 Unaudited	As at 31 July 2003 Unaudited	As at 31 January 2004 Audited
	£'000	£'000	£'000
Bank loans	13,948	7,168	14,448
Other loans	495	495	495
Obligations under finance leases and hire purchase contracts	187	262	220
	<u>14,630</u>	<u>7,925</u>	<u>15,163</u>

10 Profit and loss account

The reduction in the profit and loss account from the 31 January 2004 to the 31 July 2004, is explained by the loss for the period of £8,445,000 and foreign exchange movements of £1,367,000.

Notes to the interim results

11 Reconciliation of operating (loss)/ profit to net cash (outflow)/ inflow from operating activities

	Six months ended 31 July 2004 Unaudited £'000	Six months ended 31 July 2003 Unaudited £'000	Year ended 31 January 2004 Audited £'000
Operating (loss)/profit	(5,897)	(1,053)	17,808
Amortisation of intangible assets	2,845	2,853	5,962
Loss on disposal of tangible fixed assets	207	71	125
Depreciation	4,859	4,545	10,170
Decrease/(increase) in stocks	9,397	(5,275)	(19,944)
Increase in debtors	(1,605)	(3,816)	(2,890)
(Decrease)/increase in creditors	(16,559)	(6,052)	24,618
Increase/(decrease) in leasehold property incentives	273	(141)	272
Net cash (outflow)/inflow from operating activities	(6,480)	(8,868)	36,121

12 Reconciliation of net cash flow to movement in net (debt)/funds

	Six months Ended 31 July 2004 Unaudited £'000	Six months ended 31 July 2003 Unaudited £'000	Year Ended 31 January 2004 Audited £'000
Decrease in cash in the period	(30,704)	(29,078)	(9,470)
Cash outflow/(inflow) from decrease/(increase) in debt and lease financing	952	(7,901)	(14,714)
Change in net funds resulting from cash flows	(29,752)	(36,979)	(24,184)
New finance leases	(108)	(199)	(331)
Deferred consideration on acquisitions	(180)	-	(228)
Translation differences	45	(69)	(68)
Movement in net funds in the period	(29,995)	(37,247)	(24,811)
Net funds at start of period	9,972	34,783	34,783
Net (debt)/ funds at end of period	(20,023)	(2,464)	9,972

13 This interim report was approved by the Board of Directors on 5 October 2004

The interim financial information has been prepared on the basis of the accounting policies set out in the Annual Report for the year ended 31 January 2004.

The interim financial information does not comprise statutory accounts as defined in Section 240 of the Companies Act 1985.

The financial information for the year ended 31 January 2004 is an extract from the latest group accounts, which have been filed with the Registrar of Companies. The accounts received an unqualified auditor's report and did not contain a statement under section 237 (2) or (3) of the Companies Act 1985.

Copies of this Interim Report are being posted to shareholders and are available from the Company's office at Unity House, Telford Road, Basingstoke, Hampshire RG21 6YJ.