



19 April 2005

THE GAME GROUP PLC

Audited preliminary results for the year ended 31 January 2005

THE GAME GROUP PLC, Europe's largest specialist retailer of computer and video games software, today announces preliminary results for the year ended 31 January 2005.

FINANCIAL OVERVIEW

	Year ended 31/1/05	Year ended 31/1/04	% change
Group Turnover	£576.6m	£606.7m	-5.0
Profit before tax and goodwill amortisation	£31.9m	£24.3m	+31.3
Operating profit	£26.8m	£17.8m	+51.0
Gross profit margin	30.6%	28.8%	+6.3
Basic earnings per share	4.69p	2.95p	+59.0
Dividend per share	2.2p	2.0p	+10.0

Operational and financial highlights

- Continued strong performance in the UK and Ireland
- Profitability achieved in Continental Europe for the first time
- £6.1m returned in the year to shareholders through share buyback programme
- Strong performance achieved despite acute supply shortages of consoles over Christmas which contributed to the sales shortfall
- In the first 11 weeks of the current year to 16 April sales are up 18.1% with like for like sales up by 8.0%

Peter Lewis, Chairman, commented:-

"This was a resolute performance particularly in light of a breakdown in console hardware supplies through the key Christmas period and the consequent disruption to our customer flows.

Achieving profitability in Continental Europe earlier than expected is particularly pleasing.

This year, Nintendo DS and Sony PSP will help bridge the console generation gap. In 2006, we expect the eagerly awaited PS3 and Xbox2 to stimulate strong demand for our product."

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CHAIRMAN'S REPORT TO THE OWNERS

The Group has produced a resolute performance and consolidated its position as Europe's largest specialist retailer of video games, despite the price deflation in the market which is consistent with the maturing hardware cycle and despite the unexpected global breakdown in console hardware supplies through the key Christmas period and the consequent disruption to our customer flows.

Results

Group turnover for the 52 weeks to 31 January 2005 decreased by 5.0% to £576.6m (2004: £606.7m). Like-for-like ("lfl") sales decreased by 12.5%. In the UK and Ireland total sales were down by 9.2% and lfl sales were down by 15.5%. In Continental Europe total sales and lfl sales were up by 18.0% and 6.3% respectively. The Group gross profit margin increased from 28.8% to 30.6% as a result of greater efficiency within the business as well as a greater proportion of higher-margin software sales within the mix reflecting the shortages of console hardware during the final quarter.

Profit before tax and goodwill amortisation increased by 31.3% to £31.9 m (£24.3m). Profit before tax, goodwill amortisation and exceptional charges was £31.9m (£34.7 m) with earnings per share on the same basis of 6.35p (6.63p). Profit after tax was £16.2m (£10.6m). Basic earnings per share were 4.69p (2.95p).

Your Board is recommending a 10% increase in the total dividend for the year to 2.2p per share (2.0p). As communicated to shareholders previously, the balance between the interim and final payments was realigned in October 2004 with a doubling of the interim dividend. Thus, the final dividend is proposed at 1.2p (1.5p).

Share Buyback programme

The share buyback programme was continued and during the year 9.12m shares were purchased for cancellation at an average price of 66.9p per share returning £6.1m of cash to shareholders. In total the Group has returned £23.0m (excluding shares held in trust) to shareholders since commencing this buyback programme in 2003.

Employees

I would like to extend my personal thanks to everyone in the business for their achievements during the year and for their continued enthusiasm and commitment.

Current & Future Trading

We are now operating in a transitional trading environment as the current generation of games consoles reach maturity, with strong unit sales of both hardware and software albeit with declining selling prices and wide retail distribution. We anticipate this position to continue throughout the current year as we move towards the highly anticipated launches of the next generation consoles. However, in the meantime we will benefit from the new generation of handheld consoles launched during the current year.

The first of these, the Nintendo DS, was launched in the European market on 11 March 2005. This handheld console had a very successful launch and strong demand has continued. We expect the Sony PSP handheld to be launched in the 2nd half of this year. It has been very well received in Japan and the USA.

We saw weak trading during February followed by a very strong March, benefiting from a strong Easter software line up and, more particularly, from the launch of the Nintendo DS handheld.

Cumulatively for the first 11 weeks to 16 April 2005, total Group sales were up by 18.1%. Lfl Group sales for the same period were up by 8.0%.

In the UK and Ireland total sales and lfl sales were up by 12.9% and 5.4% respectively. In Continental Europe total sales and lfl sales were up by 46.4% and 22.0% respectively.

This sales growth has sustained the Group's market leading position but, as expected, there has been a reduction in gross margin over this period. This is due to a combination of increased sales of lower margin hardware from the Nintendo DS launch, the re-established availability of PlayStation 2's and cyclical deflation on software selling prices.

We expect that the trading environment throughout the year, but more particularly in the second half, will be challenging, as a result of strong software comparatives and ongoing price deflation. Nevertheless, we continue to expect a satisfactory trading outcome for the year as a whole.

Looking ahead we expect to benefit significantly from the launch of next generation Xbox 2 and PlayStation 3 consoles in 2006 and beyond.

Peter Lewis
Chairman

CHIEF EXECUTIVE'S REVIEW

Our performance in the year to 31 January 2005 has been positively impacted by a strong second half with our operating profit before goodwill amortisation and exceptional costs in the second half increased by almost 10% to £35.6m.

Market positioning

The Video Games industry is a multi-billion dollar worldwide phenomenon. In Western Europe more money is spent on video games than is spent going to the cinema or renting videos and DVDs. One in four homes in the United Kingdom owns a PlayStation 2. The most popular video and PC game titles sell millions of units worldwide.

Over the years we have built up a strong market position in console hardware sales. Our strength, however, has always been our ability to sell software and other peripheral products as we continue to drive our unique customer proposition. Our strategy is built on these core areas:

- A dedication to delivering the highest levels of customer service and broadening our customer appeal;
- Strong brand representation in the countries in which we operate;
- Our Reward Card programme has 5.2 million members in the UK , and we continue to develop the programme in Continental Europe;
- The successful implementation of our pre-owned programme;
- A permanent focus on the sales mix, margin and efficiency of our business;
- Leveraging the expertise achieved in the UK market by building a presence in Continental Europe providing us with further scope for growth in the medium term.

During the year we have made significant progress against these objectives, including

- Opening 76 (net) new stores;
- Signing up 1.1m new Reward Card customers throughout the Group;
- Purchased Gameplay.com a specialist on-line retailer of video and PC games;
- Moved to profitability in both our on-line business and Continental Europe for the first time;
- Improving business efficiency and capability by moving to a purpose built head office and distribution centre.

Store portfolio

We have well over 600 owned and franchised stores in Europe. In the year the GAME Group has strengthened its position as the European market leader, opening 39 stores (net) in the UK and 37 (net) in our Continental European markets of France, Spain and Scandinavia.

As at 31 January	2005 Number	2004 Number
Company owned and concessions		
UK and Ireland	398	359
France	67	58
Scandinavia	53	35
Spain	49	39
Continental Europe	169	132
Franchises - Spain	53	57
Total outlets	620	548

In 2005 we expect to open between 60 and 70 stores of which around 45 will be in Continental Europe.

United Kingdom and Ireland

With openings since the year end we are now a 400-store chain in the UK and Ireland, but our sights are set on having a portfolio of 500 stores. Although the pace of opening new stores will be slower than that we experienced in 2004 we still anticipate opening 15 to 20 stores in 2005.

GAME is one of the most recognisable brands on the UK High Street. We are not only competing robustly on price but also offer the added value propositions of excellent customer service, specialist knowledge, customer loyalty and an established pre-owned programme.

We moved into our purpose built distribution centre and head office in May 2004. The move was seamless and provides us with a strong platform to enhance the efficiency of our operations and future growth.

Continental Europe

In Continental Europe we made an operating profit before goodwill amortisation and exceptional items of £0.2m (operating loss - £0.6m) which is a significant milestone and was achieved a year earlier than we anticipated. At the year end we had 169 stores on the Continent as well as 53 Spanish franchises. The owned stores in Continental Europe represent 30% of our store portfolio and 26% of our retail square footage. In 2004/05 they contributed 19.3% of Group sales and we saw strong lfl sales of 6.3%.

We have taken care to build the infrastructure in each country with the capability to service larger store portfolios, and are confident we are now starting to generate the related benefits of this investment. During the year, we relocated the distribution centre in France and in Scandinavia opened our first distribution centre to allow us to cease direct delivery by suppliers and give us greater efficiencies.

- France

The French market is a key European country for video games. We opened 9 stores in the year (2003/4 – 2 stores) and have a good pipeline of potential store openings. We anticipate opening up to 20 stores in 2005/6.

The business has performed well and we have leveraged on our UK business model to refurbish our portfolio, develop a customer loyalty scheme, improve the pre-owned offering and increase our distribution efficiency.

We have significantly reduced our operating losses in the year and anticipate being profitable in 2005/6.

- Scandinavia

We have increased our representation by opening 9 stores in Denmark and 9 in Sweden (2003/4 – 9 stores). There are a number of competitors in a fragmented marketplace and it has been a very challenging trading environment. Nevertheless, we look to reverse the operating loss during 2005/6.

- Spain

Our performance in Spain has been very encouraging. We opened 10 stores (2003/4 – 7 stores) and we have seen a very encouraging sales and operating profit performance. At the year end we had 49 stores and 53 franchises and we are the number 1 specialist in the market.

As with France we have a good pipeline for store openings and we anticipate opening up to 20 stores in 2005/6.

On-line retailing

In July 2004 we acquired Gameplay.com for a net cash consideration of £1.9m. Gameplay.com is a specialist on-line and mail order retailer of video and PC gaming products and it broadens our offering on-line for consumers. Our existing on-line channel of Game.net has also performed well during the year.

Our on-line business has achieved profitability for the first time. This year we will continue to develop our on-line appeal to both new and existing customers.

Capital Expenditure

The cash outflow on capital expenditure was £25.1m (£30.4m). Over the last two years we have spent in excess of £55m expanding our store portfolio, developing and constructing our purpose built UK distribution centre and head office, and improving our Information Technology.

	2005 £ m	2004 £ m
Store opening, refurbishment and other	16.1	11.5
Distribution centres and head offices	9.0	18.9
Total	25.1	30.4

The expenditure on our distribution centres in the UK, France and Scandinavia is now completed. Our capital expenditure in 2005/06 will be approximately £25m, which will be primarily for store opening and refurbishment programmes.

Treasury

The net debt at 31 January 2005 was £8.7m (£10.0m – net funds). The cash in hand was £7.9m (£28.4m).

The net cash inflow from operations was £33.3m (£36.1m) and GAME continues to be a highly cash generative business with low levels of debt. The Board is committed to an efficient capital structure and intends to continue to buyback shares within the limits of the existing 10% authority. The Board intends to renew this authority at the AGM in July.

Taxation

The Group tax charge is £9.9m (£7.7m). This represents an effective rate of 31% (31.6%) on the profit before amortisation of goodwill and tax. The effective rate is anticipated to be around 31% on an ongoing basis.

International Financial Reporting Standards

It is a requirement that all UK listed companies adopt International Financial Reporting Standards ("IFRS") for reporting their results for financial years beginning on or after 1 January 2005. Both the Group's July 2005 interim results and January 2006 full year results will therefore be presented under IFRS. This is purely an accounting change and will not affect the Group's business operations or underlying cash flows.

The implications of the transition to IFRS for The GAME Group plc have been reviewed and note 34 to this announcement summarises the expected principal changes arising from the transition.

Martin Long
Group Chief Executive

THE GAME GROUP PLC**Audited Consolidated Profit and Loss Account for the year ended 31 January 2005**

	Note	2005 £'000	2004 £'000
Turnover	1	576,586	606,660
Cost of sales		400,070	432,004
Gross profit		176,516	174,656
Other operating expenses	2	149,718	156,848
Operating profit before goodwill amortisation and exceptional costs		32,561	34,187
Goodwill amortisation		(5,763)	(5,962)
Exceptional costs	3	-	(10,417)
Operating profit	4	26,798	17,808
Interest receivable and similar income	5	238	764
Interest payable and similar charges	6	(902)	(264)
Profit on ordinary activities before taxation		26,134	18,308
Taxation	8	9,888	7,671
Profit on ordinary activities after taxation		16,246	10,637
Dividends	9	7,570	6,991
Retained profit for the financial year	23	8,676	3,646
Earnings per share			
- basic	10	4.69p	2.95p
- diluted	10	4.67p	2.94p
Earnings per share before amortisation of goodwill and exceptional costs			
- basic	10	6.35p	6.63p
- diluted	10	6.33p	6.61p

There are no material recognised gains or losses other than the profit attributable to shareholders' disclosed in the above profit and loss account.

All amounts relate to continuing activities.

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Audited Consolidated Balance Sheet at 31 January 2005

	Note	2005 £'000	2004 £'000
Fixed assets			
Intangible assets	11	83,573	86,659
Tangible assets	12	79,702	63,147
		163,275	149,806
Current assets			
Stocks		63,009	58,279
Debtors	13	20,879	19,475
Cash at bank and in hand		7,887	28,359
		91,775	106,113
Creditors: amounts falling due within one year	14	93,920	97,371
Net current (liabilities)/assets		(2,145)	8,742
Total assets less current liabilities		161,130	158,548
Creditors: amounts falling due after more than one year	15	13,366	15,163
Provisions for liabilities and charges			
Deferred taxation	17	946	-
Accruals and deferred income			
Leasehold property incentives	18	2,288	2,005
Net assets		144,530	141,380
Capital and reserves			
Called up share capital	19	17,008	17,336
Share premium account	20	40,218	39,198
Capital redemption reserve	22	2,016	1,560
Shares held in trust	22	(963)	-
Merger reserve	22	76,907	76,907
Profit and loss account	23	9,344	6,379
Equity shareholders' funds	21	144,530	141,380

The financial statements were approved by the Board on 19 April 2005.

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Audited Consolidated Cash Flow Statement for the year ended 31 January 2005

	Note	2005 £'000	2004 £'000
Net cash inflow from operating activities	25	33,276	36,121
Returns on investments and servicing of finance	26	(1,106)	169
Taxation		(8,115)	(9,918)
Capital expenditure	26	(25,122)	(30,364)
Acquisitions	26	(2,530)	(563)
Equity dividends paid		(8,689)	(3,855)
Net cash (outflow) before financing		(12,286)	(8,410)
Financing	26	(8,433)	(1,060)
(Decrease) in cash in the year		(20,719)	(9,470)

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

	Note	2005 £'000	2004 £'000
(Decrease) in cash in the year		(20,719)	(9,470)
Cash outflow /(inflow) from decrease /(increase) in net debt and lease financing		2,474	(14,714)
Change in net funds resulting from cash flows		(18,245)	(24,184)
New finance leases		(242)	(331)
Deferred consideration on acquisitions		(180)	(228)
Translation differences		19	(68)
Movement in net funds in year		(18,648)	(24,811)
Net funds at beginning of year		9,972	34,783
Net (debt)/ funds at end of year	27	(8,676)	9,972

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Notes to the preliminary announcement for the year ended 31 January 2005

1 Turnover, profit and net assets

Turnover, pre-tax profits and net assets all relate to computer software and video game retailing.

	Turnover		Operating profit		Net assets	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000	2005 £'000	2004 £'000
By geographical area:						
United Kingdom and Ireland	465,436	512,473	27,179	19,017	101,849	112,221
Rest of Europe	111,150	94,187	(381)	(1,209)	42,681	29,159
	<u>576,586</u>	<u>606,660</u>	<u>26,798</u>	<u>17,808</u>	<u>144,530</u>	<u>141,380</u>

Operating profit is stated after charging goodwill amortisation.

Turnover by origin and destination are not materially different.

	United Kingdom and Ireland		Rest of Europe	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Turnover	465,436	512,473	111,150	94,187
Cost of sales	317,364	360,950	82,706	71,054
Gross Profit	148,072	151,523	28,444	23,133
Other operating expenses	120,893	132,506	28,825	24,342
Operating profit before goodwill amortisation and exceptional costs	32,365	34,824	196	(637)
Goodwill amortisation	(5,186)	(5,390)	(577)	(572)
Exceptional costs	-	(10,417)	-	-
Operating profit	27,179	19,017	(381)	(1,209)
Number of stores at end of year	398	359	169	132
Trading square footage at end of year	497,340	456,355	174,749	143,231

THE GAME GROUP PLC

Notes to the preliminary announcement for the year ended 31 January 2005 (Continued)

2 Other operating expenses

	2005 £'000	2004 £'000
Selling and distribution	123,759	114,616
Administrative expenses	25,959	42,232
	<hr/> 149,718	<hr/> 156,848

Administrative expenses include goodwill amortisation of £5,763,000 (2004:£5,962,000) and exceptional costs of £nil (2004: £10,417,000) (see note 3).

3 Exceptional costs

The exceptional charge included in the comparative year reflects the effect of the following actions:

- In January 2004 the Group agreed terms with Electronics Boutique Inc (EBI) to terminate the 1995 Services Agreement between the two companies resulting in a one off payment to EBI;
- During the year ended 31 January 2004 the Group commenced the construction of a new UK Distribution and Head Office facility which was completed during the year ended 31 January 2005; and
- In January 2004 the Group announced the closure of its on-line PC games division.

The exceptional charge is made up as follows:

	2005 £'000	2004 £'000
Termination of EBI services agreement	-	8,275
Distribution Centre and Head Office relocation	-	1,959
Closure of on-line PC games division	-	226
Re-branding of UK operations	-	(43)
	<hr/> -	<hr/> 10,417

4 Operating profit

	2005 £'000	2004 £'000
This is stated after charging:		
Depreciation charge	10,020	10,170
Amortisation of intangible fixed assets	5,763	5,962
Operating lease rentals	39,341	36,108
- leasehold premises	349	346
- other	(484)	125
(Profit)/loss on disposal of fixed assets	192	194
Auditors' remuneration	87	86
- audit services		
- non-audit services		

THE GAME GROUP PLC

Notes to the preliminary announcement for the year ended 31 January 2005(Continued)

The non-audit services provided by the auditors principally relate to the provision of tax services. Included in auditors' remuneration for audit services above is £16,500 (2004: £16,500) in respect of the audit fee attributable to the parent Company.

5 Interest receivable and similar income

	2005 £'000	2004 £'000
Bank interest receivable	178	737
Other interest receivable	60	27
	<hr/> 238	<hr/> 764

6 Interest payable and similar charges

	2005 £'000	2004 £'000
On bank loans and overdrafts	1,259	509
Interest on finance leases and hire purchase contracts	34	53
Other interest	51	33
Interest capitalised	(442)	(331)
	<hr/> 902	<hr/> 264

7 Employees

Staff costs for all employees (including directors) consist of:

	2005 £'000	2004 £'000
Wages and salaries	48,463	45,564
Social security costs	6,443	5,718
Other pensions costs	681	386
	<hr/> 55,587	<hr/> 51,668

The average number of employees of the Group during the year, including directors, was as follows:

	2005 Number	2004 Number
Selling and distribution	4,191	3,795
Administration	423	419
	<hr/> 4,614	<hr/> 4,214

THE GAME GROUP PLC

Notes to the preliminary announcement for the year ended 31 January 2005 (*Continued*)

8 Taxation

(a) Analysis of charge in the year

	2005 £'000	2004 £'000
<i>Current tax</i>		
UK corporation tax	8,215	6,980
Adjustments in respect of prior periods	(300)	(122)
Overseas tax payable	673	12
	<hr/>	<hr/>
Total current tax	8,588	6,870
<i>Deferred tax</i>		
Origination and reversal of timing differences	1,300	801
	<hr/>	<hr/>
Taxation on profit on ordinary activities	9,888	7,671
	<hr/>	<hr/>

(b) Factors affecting the tax charge for the year

	2005 £'000	2004 £'000
Profit on ordinary activities before taxation	26,134	18,308
	<hr/>	<hr/>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2004: 30%)	7,840	5,492
Effect of goodwill amortisation multiplied by the standard rate of corporation tax in the UK	1,736	1,789
	<hr/>	<hr/>
	9,576	7,281
Effects of:		
Depreciation/(capital allowances) for the year in excess of capital allowances/(depreciation)	(655)	14
Other expenses not deductible for tax purposes	160	48
Movement in general provisions	-	(26)
Share options exercised	(100)	(100)
Utilisation of tax losses brought forward	(5)	(175)
Adjustments to tax charge in respect of previous periods	(300)	(122)
Other items	(88)	(50)
	<hr/>	<hr/>
Current tax charge for the year	8,588	6,870
	<hr/>	<hr/>

THE GAME GROUP PLC

Notes to the preliminary announcement for the year ended 31 January 2005 (*Continued*)

9 Dividends

	2005 Pence per share	2005 £'000	2004 Pence per share	2004 £'000
Interim paid	1.00	3,488	0.50	1,790
Final proposed	1.20	4,082	1.50	5,201
	<hr/>			
	2.20	7,570	2.00	6,991

It is proposed that the final dividend will be paid on 15 July 2005 to shareholders on the register on 24 June 2005.

10 Earnings per share

The calculation of earnings per share for the year ended 31 January 2005 is based on the profit after taxation of £16,246,000 (2004: £10,637,000). The calculation of basic earnings per share and diluted earnings per share is based on a weighted average number of 346,434,502 (2004: 360,539,590) 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 2005	346,434,502	1,232,926	347,667,428
Year ended 31 January 2004	360,539,590	1,081,655	361,621,245

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

	2005 Pence per share	2004 Pence per share
Basic earnings per share	4.69	2.95
Amortisation of goodwill	1.66	1.66
Exceptional costs	-	2.02
	<hr/>	
Basic earnings per share before amortisation of goodwill and exceptional costs	6.35	6.63

THE GAME GROUP PLC

Notes to the preliminary announcement for the year ended 31 January 2005 (*Continued*)

11 Intangible assets

	Goodwill £'000
<i>Cost</i>	
At 1 February 2004	112,889
Additions	2,657
Exchange adjustment	27
	<hr/>
At 31 January 2005	115,573
	<hr/> <hr/>
<i>Amortisation</i>	
At 1 February 2004	26,230
Amortisation charge for the year	5,763
Exchange adjustment	7
	<hr/>
At 31 January 2005	32,000
	<hr/> <hr/>
<i>Net book value</i>	
At 31 January 2005	83,573
	<hr/> <hr/>
At 31 January 2004	86,659
	<hr/> <hr/>

THE GAME GROUP PLC

Notes to the preliminary announcement for the year ended 31 January 2005 (Continued)

12 Tangible fixed assets

	Freehold land & property £'000	Short leasehold land and property £'000	Improvements to leasehold property £'000	Fixtures, fittings and equipment £'000	Total £'000
<i>Cost</i>					
At 1 February 2004	17,482	14,065	27,842	41,316	100,705
Additions	1,992	5,225	7,216	11,857	26,290
Acquisitions	-	-	-	1,134	1,134
Disposals	-	(190)	(1,338)	(5,408)	(6,936)
Exchange adjustment	-	89	109	97	295
At 31 January 2005	19,474	19,189	33,829	48,996	121,488
<i>Depreciation</i>					
At 1 February 2004	-	3,273	10,697	23,588	37,558
Charge for the year	134	608	2,805	6,473	10,020
Acquisitions	-	-	-	1,082	1,082
Disposals	-	(324)	(1,299)	(5,313)	(6,936)
Exchange adjustment	-	8	22	32	62
At 31 January 2005	134	3,565	12,225	25,862	41,786
<i>Net book value</i>					
At 31 January 2005	19,340	15,624	21,604	23,134	79,702
At 31 January 2004	17,482	10,792	17,145	17,728	63,147

The net book value of tangible fixed assets includes an amount of £638,000 (2004: £953,000) in respect of assets held under finance lease and hire purchase contracts. The related depreciation charge for the year was £518,000 (2004: £601,000).

The amount of interest capitalised during the year amounted to £442,000 (2004:£331,000), bringing the total amount of capitalised interest to date to £773,000. The related depreciation charge for the year was £10,000 (2004:£nil).

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Notes to the preliminary announcement for the year ended 31 January 2005 (*Continued*)

13 Debtors

	2005	2004
	£'000	£'000
Amounts falling due within one year:		
Trade debtors	8,970	8,345
Other debtors	1,730	1,229
VAT recoverable	-	546
Deferred tax asset (see note 17)	-	354
Prepayments and accrued income	10,179	9,001
	<hr/>	<hr/>
	20,879	19,475
	<hr/> <hr/>	<hr/> <hr/>

14 Creditors: amounts falling due within one year

	2005	2004
	£'000	£'000
Bank loan (£1,750,000 secured see note 15)	2,091	2,411
Bank overdraft	691	444
Trade creditors	53,094	46,020
Other creditors	1,725	1,296
Tax and social security costs	2,198	1,986
VAT payable	12,300	10,478
Dividends payable	4,082	5,201
Corporation tax	2,369	1,900
Obligations under finance leases and hire purchase contracts	235	369
Accruals and deferred income	15,135	27,266
	<hr/>	<hr/>
	93,920	97,371
	<hr/> <hr/>	<hr/> <hr/>

The accruals and deferred income in 2004 included £8,275,000 in relation to the EBI settlement (see note 3).

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Notes to the preliminary announcement for the year ended 31 January 2005 (*Continued*)

15 Creditors: amounts falling due after more than one year

	2005 £'000	2004 £'000
Bank loans (secured)	12,702	14,448
Other loans	495	495
Obligations under finance leases and hire purchase contracts	169	220
	<hr/>	<hr/>
	13,366	15,163
	<hr/>	<hr/>
Analysis of borrowings:		
Finance lease and hire purchase contracts are repayable as follows:		
In more than 1 year but not more than 2 years	126	171
In more than 2 years but not more than 5 years	43	49
	<hr/>	<hr/>
	169	220
	<hr/>	<hr/>
Other loans are repayable as follows:		
In more than 1 year but not more than 2 years	495	495
	<hr/>	<hr/>
Bank loans are repayable as follows:		
In more than 1 year but not more than 2 years	1,750	1,750
In more than 2 years but not more than 5 years	5,250	5,250
After 5 years	5,702	7,448
	<hr/>	<hr/>
	12,702	14,448
	<hr/>	<hr/>

£14,452,000 of the bank loans are secured by a fixed charge over the new Head Office and Distribution facility and by a floating charge over all remaining UK assets.

THE GAME GROUP PLC

Notes to the preliminary announcement for the year ended 31 January 2005 (*Continued*)

16 Financial instruments

The directors review any requirement for interest rate hedging during the year dependent upon the level of borrowings.

(a) Interest rate and currency of borrowings

The currency and interest rate exposure of the Group's borrowings is shown below:

	2005 £'000	2004 £'000
Floating rate Euro borrowings	1,032	1,105
Floating rate Sterling borrowings	4,856	5,537
Fixed rate Sterling borrowings	10,495	11,745
	<hr/>	<hr/>
	16,383	18,387
	<hr/> <hr/>	<hr/> <hr/>

The floating rate borrowings comprise bank borrowings and leases bearing interest rates based upon LIBOR and EURIBOR. The interest rate on £10,000,000 (2004:£11,250,000) of the fixed rate Sterling borrowings is 4.535%. The interest rate has been fixed through the use of an interest rate swap agreement. The gains made on this agreement have not been material. The interest rate on £495,000 (2004:£495,000) of the fixed rate Sterling borrowing is 6% and is due for repayment on 31 July 2006. The interest rates on the fixed rate financial liabilities have been fixed for the life of the liability. The weighted average interest rate of the fixed rate financial liabilities is 4.604% (2004:4.593%).

(b) Interest rate and currency of cash balances

The currency and interest rate exposure of the Group's floating rate cash balances is shown below:

	2005 £'000	2004 £'000
Sterling	2,347	26,006
Euro	4,978	1,462
Swedish Krona	475	891
Danish Krone	87	-
	<hr/>	<hr/>
	7,887	28,359
	<hr/> <hr/>	<hr/> <hr/>

The floating rate assets comprise bank accounts bearing interest rates based upon LIBOR and EURIBOR. There are no fixed rate financial assets.

THE GAME GROUP PLC

Notes to the preliminary announcement for the year ended 31 January 2005 (*Continued*)

16 Financial instruments (*Continued*)

(c) Fair value of financial instruments

Set out below is an analysis of all the Group's financial instruments by category. The fair value of floating rate borrowings is the historical cost because the interest rate payments are based on market value.

	2005 £'000	2004 £'000
Cash	7,887	28,359
Short term debt and current portion of long term debt	(3,017)	(3,224)
Long-term debt	(13,366)	(15,163)

There is no material difference between the book value and current value of these financial instruments.

(d) The Group had no material monetary assets or liabilities that are not denominated in the functional currency of the operating unit involved.

(e) As at 5 April 2005, the Group had undrawn working capital facilities available to it of £30.2m (2004: £20 million) and EUR. 0.6m (2004: EUR.1.8 million) which expire within twelve months. There are no significant conditions attached to these facilities.

17 Deferred taxation

	2005 £'000	2004 £'000
Accelerated capital allowances	(2,026)	(326)
General provisions	31	31
Provision for reverse premiums received	209	209
Tax losses carried forward	840	440

Deferred taxation (liability)/ asset (946) 354

At 1 February 2004 354 1,155
Deferred tax charge in the profit and loss account for the year (see note 8) (1,300) (801)

At 31 January 2005 (946) 354

THE GAME GROUP PLC

Notes to the preliminary announcement for the year ended 31 January 2005 (*Continued*)

18 Leasehold property incentives

Rent free periods and reverse premiums

	£'000
At 1 February 2004	2,005
Rent free periods and reverse premiums received during the year	940
Released to profit and loss account	(657)
	<hr/>
At 31 January 2005	2,288
	<hr/> <hr/>

19 Called up share capital

	2005		2004	
	£'000	Number	£'000	Number
<i>Authorised</i>				
Ordinary shares of 5p	24,000	480,000,000	24,000	480,000,000
	<hr/> <hr/>			
<i>Allotted, called up and fully paid</i>				
Ordinary shares of 5p	17,008	340,155,950	17,336	346,718,763
	<hr/> <hr/>			

(a) Shares issued

During the year, 2,557,187 (2004: 1,473,040) shares were issued to employees exercising share options granted under various option schemes. The total consideration received on the exercise of these options was £1,148,000 (2004: £527,000).

Between the year end and 5 April 2005, a further 299,500 shares have been issued to employees exercising share options granted under various option schemes. The total consideration received on the exercise of these options was 176,114.

(b) Shares purchased

During the year, 9,120,000 shares (2004: 30,200,000 shares) were repurchased for cancellation by the Company at a cost of £6,143,825 (2004: £16,533,255).

THE GAME GROUP PLC

Notes to the preliminary announcement for the year ended 31 January 2005 (Continued)

20 Share premium account

	£'000
At 1 February 2004	39,198
Arising on issue of shares during the year (net of expenses)	1,020
	<hr/>
At 31 January 2005	40,218
	<hr/> <hr/>

21 Reconciliation of movements in equity shareholders' funds

	2005	2004
	£'000	£'000
Profit on ordinary activities after taxation	16,246	10,637
Dividends payable	(7,570)	(6,991)
Issue of shares during the year	1,148	759
Purchase of own shares for cancellation	(6,144)	(16,533)
Shares held in trust	(963)	-
Translation differences on foreign currency net investments in subsidiary undertakings	433	923
	<hr/>	<hr/>
Net additions/(deductions) to equity shareholders' funds	3,150	(11,205)
Equity shareholders' funds at beginning of year	141,380	152,585
	<hr/>	<hr/>
Equity shareholders' funds at end of year	144,530	141,380
	<hr/> <hr/>	<hr/> <hr/>

22 Other reserves

	£'000
Merger reserve	
At 1 February 2004 and 31 January 2005	76,907
	<hr/> <hr/>
Capital redemption reserve	
At 1 February 2004	1,560
Arising during the year	456
	<hr/>
At 31 January 2005	2,016
	<hr/> <hr/>
Shares held in trust	
Arising during the year end and at 31 January 2005	(963)
	<hr/> <hr/>
Number of shares held at 31 January 2005	1,450,000
	<hr/>

THE GAME GROUP PLC

Notes to the preliminary announcement for the year ended 31 January 2005 (Continued)

22 Other reserves (continued)

The Employee Benefit Trust was established in January 2002 to provide for the future obligations of the Company for share awards under the Performance Share Plan and other share based plans. Under the scheme the trustee, BDO Guernsey Trustees Limited, purchase the Company's ordinary shares in the open market.

23 Profit and loss account

	£'000
At 1 February 2004	6,379
Translation differences on foreign currency net investments in subsidiary undertakings	433
Share buy back (see note 19)	(6,144)
Retained profit for the financial year	8,676
	<hr/>
At 31 January 2005	9,344
	<hr/> <hr/>

The cumulative amount of goodwill resulting from acquisitions in previous years prior to the adoption of FRS10 (Goodwill and intangible assets) which has been eliminated against Group reserves, net of goodwill attributable to disposals before 31 January 2005, is £9,639,000 (2004: £9,639,000).

24 Acquisitions

Current year acquisitions

In July 2004 the Group acquired Gameplay (GB) Limited (Gameplay.com), an award winning on-line and mail order retailer of video games, computer software and associated products for a total consideration of £2,294,000 (including £180,000 of deferred consideration that is payable subject to certain discretionary criteria).

During the year the Group also acquired the trade and assets of three CentroMAIL franchises in Spain, as well as incurring certain costs relating to the French deferred consideration dispute.

Prior year acquisitions

In the previous year the Group acquired the trade and assets of two further CentroMAIL franchises in Spain, as well as releasing the £228,000 deferred consideration payment on account payable to the Spanish vendors. No further deferred consideration is payable in respect of the acquisitions of CentroMAIL.

25 Reconciliation of operating profit to net cash inflow from operating activities

	2005	2004
	£'000	£'000
Operating profit	26,798	17,808
Depreciation	10,020	10,170
Amortisation of intangible assets	5,763	5,962
(Profit)/loss on disposal of tangible fixed assets	(484)	125
Increase in stocks	(4,479)	(19,944)
Increase in debtors	(1,717)	(2,890)
(Decrease)/increase in creditors	(2,908)	24,618
Increase in leasehold property incentives	283	272
	<hr/>	<hr/>
	33,276	36,121
	<hr/> <hr/>	<hr/> <hr/>

THE GAME GROUP PLC

Notes to the preliminary announcement for the year ended 31 January 2005 (Continued)

26 Analysis of cash flows for headings netted in the cash flow statement

	2005	2004
	£'000	£'000
Returns on investments and servicing of finance		
Interest received	238	764
Interest paid	(1,310)	(542)
Interest element of finance leases and hire purchase contracts	(34)	(53)
Net cash (outflow)/inflow from returns on investments and servicing of finance	(1,106)	169
Capital expenditure		
Purchase of fixed assets	(25,606)	(31,514)
Sale of tangible fixed assets	484	1,150
Net cash outflow from capital expenditure	(25,122)	(30,364)
Acquisitions		
Purchase of subsidiary undertakings	(2,953)	(563)
Net cash acquired with subsidiary undertakings	423	-
Net cash outflow from acquisitions	(2,530)	(563)
Financing		
Issue of ordinary share capital	1,148	759
Share buyback – for cancellation	(6,144)	(16,533)
Share buyback – held in Trust	(963)	-
Long term loans received	-	17,446
Long term loans repaid	(1,746)	(1,744)
Short term loans repaid	(301)	(343)
Capital element of finance leases and hire purchase contracts	(427)	(645)
Net cash outflow from financing	(8,433)	(1,060)

27 Analysis of net(debt)/ funds

	Cash at bank	Overdrafts	Debt due <1 year	Debt due >1 year	Finance leases	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 February 2004	28,359	(444)	(2,411)	(14,943)	(589)	9,972
Cashflow	(20,895)	(247)	301	1,746	427	(18,668)
Cash acquired	423	-	-	-	-	423
Non cash changes	-	-	(180)	-	(242)	(422)
Exchange movements	-	-	19	-	-	19
At 31 January 2005	7,887	(691)	(2,271)	13,197	(404)	(8,676)

During the year, the Group entered into new finance lease arrangements in respect of assets with a total capital cost of £242,000 (2004: £331,000).

28 Operating lease commitments

The Group leases certain land and buildings on short term leases. The rents payable under these leases are subject to re-negotiation at various intervals specified in the leases. Annual lease commitments under non-cancellable operating leases were as follows:

	Motor vehicles	Land & buildings	Motor vehicles	Land & buildings
	2005	2005	2004	2004
	£'000	£'000	£'000	£'000
Operating leases which expire:				
Within one year	-	1,055	-	854
In two to five years	278	4,737	349	3,304
After five years	-	34,156	-	32,973
	278	39,948	349	37,131

The average remaining term on operating leases over land and buildings in the UK and Ireland is 9.2 years.

The operating leases over land and buildings in Continental European operations have lengths of term for a maximum period of 9 years.

29 Contingent liabilities

Acquisition of ABC Games International SA

On 23 March 2004, a claim for Euro 22.8m (comprising Euro 18.3m of deferred consideration (earn out) and Euro 4.5m for damages) was made against Game (Stores) Limited, a member of the Group, under the sale and purchase agreement relating to the acquisition on 8 October 2001 of the French company, ABC Games International SA. The maximum amount of deferred consideration (earn out) in the original sale and purchase agreement was Euro 18.3m.

The amount of deferred consideration payable was contingent on the financial performance of the acquired entity from the date of acquisition to 31 January 2003. The directors consider, and reported in the Annual Report and Accounts for the year ended 31 January 2003, that the post acquisition performance of the acquired entity did not meet the necessary financial performance targets to require any payments to be made for the deferred consideration.

The directors have taken legal advice and have now submitted their response to the court. The directors consider that the claim is without merit and accordingly no provision has been made in the financial statements.

THE GAME GROUP PLC

Notes to the preliminary announcement for the year ended 31 January 2005 (*Continued*)

- 30** The results and the summary balance sheet incorporates the audited results of THE GAME GROUP PLC and all its subsidiaries made up to 31 January 2005 and have been prepared on a basis consistent with the audited financial statements for the year ended 31 January 2004. The auditors report on these accounts was unqualified and did not contain statements under s237(2) or (3) of the Companies Act 1985. These accounts will be filed with the Registrar of Companies in due course.
- 31** The results of the year ended 31 January 2004 have been extracted from the audited financial statements for that year which have been filed with the Registrar of Companies. The auditor's report on these accounts was unqualified and did not contain statements under s237(2) or (3) of the Companies Act 1985.
- 32** The financial information contained in this preliminary announcement does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985.
- 33** 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 Unity House, Telford Road, Basingstoke, Hants RG21 6YJ.

34 International Financial Reporting Standards

It is a requirement that all UK listed companies adopt International Financial Reporting Standards ("IFRS") for reporting their results for financial years beginning on or after 1 January 2005. Both the Group's July 2005 interim results and January 2006 full year results will therefore be presented under IFRS. As this change in reporting also relates to all comparatives the Group's effective date of transition will be the 1 February 2004. This is purely an accounting change and will not affect the Group's business operations or underlying cash flows.

The implications of the transition from UK GAAP to IFRS for the GAME Group plc have been reviewed and detailed below is a summary of the expected principal changes arising from the transition.

Share-based payment

Under IFRS where the Group enters into share-based payment transactions, such as awarding share options to employees, a charge to the profit and loss account must be made equal to their fair value when granted. In order to quantify the charge, an option pricing model will be used.

Under UK GAAP, an expense only has to be recognised if options are awarded with an exercise price less than the market price of the share at the date of grant, this means that no expense has to date been recognized through the profit and loss as options have traditionally been granted with an exercise price equal to the share price at the date of grant.

Under a relief given on first time adoption of IFRS, a charge is not required in respect of options granted on or before 7 November 2002, or which have vested by 1 January 2005.

Goodwill

Goodwill is not amortised under IFRS, rather it is tested for impairment at the date of transition and annually thereafter. However, the amount of goodwill arising on each business combination in the future is likely to be significantly lower than in the past due to the need to recognise many more types of intangibles such as trademarks, customer lists and customer relations, many of which will have to be amortised.

Under a relief given on first time adoption of IFRS, the Group does not need to reopen business combinations prior to the date of transition.

THE GAME GROUP PLC

Notes to the preliminary announcement for the year ended 31 January 2005 (*Continued*)

Dividends

Under IFRS, dividends are accrued in the period in which they become payable. This means that dividends declared after the year-end (i.e. final dividends) will not be shown as a liability at the year-end nor will they be charged to the profit and loss account until payable.

Deferred taxation

Under UK GAAP, deferred taxation is provided on all timing differences, except those that relate to revaluations where no sale is in process, or where it is probable that rollover relief or losses will be applied to the gain and also to the remittance of retained earnings of overseas subsidiaries, except where no dividends have been accrued as receivable at the balance sheet date. Under IFRS, deferred tax is provided on all differences where the tax base of an asset or liability differs from its carrying amount in the balance sheet except those arising from goodwill that is not deductible for tax purposes, or the initial recognition of assets and liabilities from a transaction that is not a business combination and affects neither accounting nor taxable profit when the transaction occurs.

Leases

Under IFRS, a property lease is treated as a lease of 2 separate assets: the land and the buildings. Where it is considered that the risks and rewards of the buildings component have passed to the Group, it will be necessary to treat this component of the lease as a finance lease. As land has an indefinite useful economic life, it is unlikely this component will ever be considered a finance lease.

It is noted that most property leases, certainly in the UK, are institutional leases with regular rent reviews and that the useful economic lives of the buildings are generally greater than the lease period, therefore the Group does not expect there to be a significant impact on the Group's financial results although a full review will be performed.

Foreign exchange

The Group's treatment for the purposes of consolidating the results of overseas operations already complies with IFRS in that the transactions are translated at the actual rate of exchange when transactions are entered into.

However, under IFRS exchange differences arising on retranslating the results and net assets of overseas operations must be taken to a separate reserve in the balance sheet rather than to the profit and loss reserve as is the current case.

Derivatives

All derivatives must be on balance sheet at fair value. Changes in the fair value of derivatives must be recognised in the profit and loss account, giving rise to potential volatility in reported results.

IFRS also has a concept of "embedded derivatives". These are features or clauses contained in a contract that could cause some of the contractual cash flows to vary in a way similar to a stand-alone derivative. A review will be performed to ascertain whether any material contracts of the Group contain such clauses.