

**THE GAME GROUP PLC**

RNS release

Year ended

31 January 2008

<b>Year ended 31 January £ millions (unless stated)</b>	<b>2008</b>	2007
<b>Sales</b>	<b>1,491.9</b>	801.3
<b>Like for like sales %</b>	<b>41.2</b>	16.2
<b>Gross margin %</b>	<b>24.8</b>	27.2
<b>Operating profit (before non-recurring costs)*</b>	<b>82.3</b>	33.0
<b>Operating profit</b>	<b>75.2</b>	33.0
<b>Profit before taxation (before non-recurring costs)*</b>	<b>75.5</b>	29.5
<b>Profit before taxation</b>	<b>68.4</b>	29.5
<b>Full year dividend</b>	<b>4.40p</b>	2.93p
<b>Basic earnings per share</b>	<b>13.79p</b>	6.25p
<b>Earnings per share before non-recurring costs*</b>	<b>15.88p</b>	6.25p
<b>Trading store numbers (inc. Franchises)</b>	<b>1,161</b>	817
<b>Trading square footage (000s)</b>	<b>1,170</b>	875

\* There are non-recurring costs of £7.1m relating to the acquisition of Gamestation

### Operational and Financial Highlights

- Excellent sales performance with total sales growth of 86% and like for like ('lfl') sales up by 41.2%
- Record profit before tax and non-recurring costs of £75.5m, an increase of 156% on last year
- Final dividend increased by 79% to 2.97p (2007: 1.66p) resulting in the full year dividend up 50% to 4.40p (2007: 2.93p)
- Continued expansion in overseas territories – opened a net 116 new stores in four territories bringing total international stores to 512 including franchises. International operating profits more than doubled to £13.2m from £6.1m.
- Strong growth in our eCommerce businesses with turnover and operating profits up by 147% and 61% respectively.
- Successful acquisition of Gamestation's 217 store chain, bringing total number of stores in UK to 649.
- Ongoing benefit from the unprecedented range of formats available, with the Nintendo Wii and DS Lite in particular broadening the appeal of video games

### Current Trading and Outlook – FY 2008/9

- Strong current trading, with Group lfl sales up by 20.1% in the 13 weeks to 26 April, despite the Playstation 3 having launched in the comparative period last year
- Sales continue to be strong on all formats, with supply improving on the Nintendo Wii
- Gross margin expected to improve by 50 to 100 basis points driven by purchasing synergies and a slightly reduced hardware participation in the sales mix
- The integration of Gamestation will result in revenue and cost synergies in the current financial year of around £7m
- Around 100 store openings planned this year, with key focus on France, Spain and Australia
- Continued growth and development of our eCommerce proposition

Peter Lewis, Chairman, commented:-

“This is a record set of results and clearly demonstrates that we’ve taken the right steps to expand the scale and geographic reach of our specialist offer to benefit from the broadening appeal of pc and video games products.

This performance marks a transformational year with a significant improvement in a number of core business operations, further enhanced by the acquisition of Gamestation in the UK. In addition we more than doubled international operating profits and increased eCommerce operating profits by over 60%, both of which continue to be a focus for growth.

The unprecedented range of popular products has broadened the demographic appeal to new customers of all generations. It has also favourably altered the short and medium term outlook for our industry. With a large and growing installed base of hardware in the market, a strong line-up of new software launches and the benefits of full year ownership of Gamestation in prospect, the Board remains very confident in the outlook for the 53 weeks to 31 January 2009.”

A presentation to investors and analysts will be held today at 9.30am (BST) at The Lincoln Centre, 18 Lincoln's Inn Fields, London, WC2A 3ED.

A live webcast of the presentation to analysts will be available on the Company's website at [www.gamegroup.plc.uk](http://www.gamegroup.plc.uk) from 9.30am (BST) today and will be available to view on demand from approximately 2.00pm (BST).

An interview with Lisa Morgan, Chief Executive will be available from 7.00am (BST) on [www.gamegroup.plc.uk](http://www.gamegroup.plc.uk) and on [www.cantos.com](http://www.cantos.com).

Enquiries:

The GAME Group plc	Lisa Morgan Group Chief Executive	+44 (0)1256 784050
	David Thomas Deputy CEO & Group Finance Director	+44 (0)1256 784085
	Simon Soffe Head of Investor Relations and Group Communications	+44 (0)1256 784162
Brunswick	Jonathan Glass Wendel Verbeek Ash Spiegelberg	+44 (0)20 7404 5959

[www.gamegroup.plc.uk](http://www.gamegroup.plc.uk)

# THE GAME GROUP PLC

## Chairman's Statement

---

This was an outstanding year for the Group with total revenue growth of 86%. The Group's expansion was accelerated by our acquisition of Gamestation in the UK and the opening of a net 116 new GAME stores internationally. This excellent trading performance delivered a Group like for like ("lfl") performance of 41.2%. Through our ongoing focus on operational efficiency we were able to translate our excellent sales growth into a record profit before tax and non-recurring costs of £75.5m, an increase of 156% on the prior year (2007: £29.5m).

The success of our operational and financial performance is an endorsement of our strategy to expand the scale and geographic reach of our portfolio ahead of the launch of this new generation of games consoles.

### Results

Group turnover for the year to 31 January 2008 increased by 86% to £1,491.9m (2007: £801.3m) with lfl sales up by 41.2%. In the UK and Ireland total sales increased by 88% and lfl sales were up by 42.5%. In our international operations total sales and lfl sales increased by 80.2% and 37.9% respectively.

As expected, Group gross margin declined by 240 basis points compared to last year, due to lower margin hardware being a larger part of the total sales mix. Other factors included the impact of the acquisition of Gamestation, which has traditionally achieved lower margins, and the participation of our international businesses.

Group operating profit was £75.2m (2007: £33.0m), including international operating profits more than doubling to £13.2m (2007: £6.1m) and eCommerce operating profits achieving a growth of 61%, to £2.9m. Profit before tax was £68.4m (2007: £29.5m) and basic earnings per share were 13.79p (2007: 6.25p).

The Board is proposing a 79% increase in the final dividend to 2.97p (2007: 1.66p), lifting the total dividend for the year by 50% to 4.40p per share (2007: 2.93p).

Our net cash position as at 31 January was £42.1m (2007: £0.6m). The Group continues to have a strong balance sheet.

### Business Development

#### *The Market and Our Market Position*

The latest generation of consoles from all three hardware manufacturers (the Sony PS3 and PSP; the Nintendo Wii and DS Lite, and the Microsoft Xbox 360) have expanded the video games market significantly, with the Sony PS2 and pc games also remaining popular. The variety of product innovation has broadened the appeal of gaming to a wider customer base, attracting both the younger and older generations and in particular more females.

We developed the key differentiators of our business to ensure we were well positioned ahead of the launch of the latest generation of formats:

- Our well established supplier relationships allow us to source appropriate quantities of "must have" new products and present innovative offers to our customers
- GAME and Gamestation's specialist retail propositions allow us to carry the widest range of product on the high street. Consumers can experience a wide range of console hardware formats and an unprecedented software line-up
- Our well trained and knowledgeable employees are instrumental in guiding consumers to the products, deals and choices that best suit their needs
- Our GAME Reward Card scheme, to which over 10 million members have signed up since inception, gives the consumer great discounts and exclusive benefits
- Our trade-in programme and preowned product offer allow consumers to use their old games to buy new ones cheaper, and buy preowned games at a cheaper price than new.

## THE GAME GROUP PLC

### Chairman's Statement (continued)

---

We have opened stores in the right territories and the right locations. We now have 1,161 stores across two brands and five key geographic operating divisions, reflecting our expansion strategy of building our business in the most appropriate markets.

We continue to invest in our multi channel proposition to ensure we can deliver growth in the future and maintain our competitive position. Our strategy reflects customers' increasing adoption of multi channel shopping, and we have invested in this area to ensure that the qualities of the GAME brand are replicated for our eCommerce customers.

#### *Acquisitions – Gamestation*

On 2 May 2007 we acquired Gamestation, a specialist pc and video games retailer with 217 stores in the UK. The Office of Fair Trading reviewed our acquisition of Gamestation and, on 9 August 2007, referred the acquisition to the Competition Commission, from which point we operated under agreed legal "hold separate" undertakings. On 15 January 2008 the Competition Commission unconditionally cleared the transaction. The non-recurring costs of the Group complying with these requirements were £4.2m.

We have been very pleased with the performance of the Gamestation business. We originally expected synergies of £7m to be achieved in the 12 months from acquisition, however on 3 March 2008 the Board announced that it considers that these can be realised fully within the current financial year.

There will be a total non-recurring charge of approximately £7m related to integrating the acquisition, of which £2.8m has been incurred this year. Furthermore, there will be capital expenditure, required to achieve the integration, of around £4m.

We will continue to operate both GAME and Gamestation as separate brands, which will allow us to appeal to the widest range of customers that make up the pc and video game playing market.

#### *International*

Our international business has grown from small acquisitions in France and Spain in 2001 to 512 stores contributing operating profits of £13.2m (2007: £6.1m). We opened a net 116 stores in the year with 40 of these in France, 43 in Iberia, 35 in Australia and 2 closures in Scandinavia. We have also closed or acquired 14 franchises in the year. Our profitability is continuing to improve as we achieve greater economies of scale in these international markets.

## **THE GAME GROUP PLC**

### **Chairman's Statement (continued)**

---

#### *eCommerce and Digital Distribution*

The Group eCommerce turnover increased by 147% to £58m (2007: £23.5m). The operating profits increased to £2.9m from £1.8m. The capital investment in our eCommerce offering has been over £5m in the past 2 years. In the UK we launched a new website for our primary platform game.co.uk and upgraded our logistics infrastructure. We anticipate further significant growth in eCommerce turnover and operating profits this year.

All of our international businesses now have transactional websites that we will continue to evolve.

We launched a digital distribution service offering our customers the opportunity to download pc games. This is a minimal but growing part of the market.

#### **Employees**

The Group's growth and results could not have been achieved without the fantastic efforts of our employees. For many, particularly those at Gamestation and in our new stores, it was their first year in the Group and I would like to welcome and thank them and all of our other staff for their dedication and enthusiasm.

#### **Current Trading & Outlook**

The first quarter has seen a very encouraging start to the year particularly given that the comparative period in 2007 included the launch of Playstation 3.

In the first 13 weeks to 26 April 2008 the Group lfl and total sales were up by 20.1% and 64.3% respectively. In the UK and Ireland lfl sales and total sales were up by 25.6% and 78.6% respectively. In our international business lfl sales and total sales were up by 8.8% and 34.3% respectively.

The unprecedented range of popular products has broadened the demographic appeal to new customers of all generations. It has also favourably altered the short and medium term outlook for our industry. With a large and growing installed base of hardware in the market, a strong line-up of new software launches and the benefits of full year ownership of Gamestation in prospect, the Board remains very confident in the outlook for the 53 weeks to 31 January 2009.

**Peter Lewis**  
Chairman

## THE GAME GROUP PLC

### Chief Executive's Review

---

This has been a momentous year both for the Group and for the pc and video games industry. Our specialist business has benefited greatly, not only from a buoyant market but also from the solid foundations we have put in place.

Our acquisition of Gamestation has considerably enhanced our UK market position and given us a second specialist brand allowing access to a much wider range of customers.

Video games are now mainstream entertainment, appealing to and entertaining a broad spectrum of customers. In the UK, pc and video games sales exceeded £3.2bn in 2007, compared to £3bn sales for recorded music in the UK or £1bn for cinema receipts.

As a specialist retailer we offer a compelling shopping environment, both on the high street and online.

We offer an extensive product range, a trade-in and preowned programme, offers and promotions, and most importantly enthusiastic and knowledgeable staff to best help consumers find the products that meet their needs.

As a result, for the third consecutive year the Group reported excellent lfl sales.

#### **The GAME Group specialist proposition:**

To drive growth in every part of our business and in every market in which we operate, we put our relationship with our customer at the heart of our activities. The key components of this relationship are:

- Compelling shopping environment – Both on the high street and online we aim to deliver customers an enhanced shopping experience.
- The quality of our staff - Our staff are trained to offer advice on the broad range of products now available and are dedicated to delivering the highest levels of customer care and service.
- Product range and choice - We present the customer the widest range of pc and video games products. Our specialist buyers negotiate unique offers, leading promotions and innovative hardware packs offering excellent value.
- Preowned and trade-in programme - The ability to trade-in and buy preowned games at GAME and Gamestation is a real benefit for customers. Trading in games is a unique way for customers to save money, using their old games as currency against new purchases. Preowned games enable us to offer a wider range and better value to today's more price conscious consumer.
- Customer Loyalty and Customer Relationship Management - The GAME Reward Card gives us a unique relationship with our customers. We reward our customers with points on every purchase which can be used as discounts against future purchases. The transactional data allows us to track purchasing trends and learn about our changing needs. It also helps us plan tactical direct marketing, advertising and other campaigns to increase loyalty. Over time, we have signed up over 10 million GAME Reward Card members across the UK and our international businesses.
- eCommerce - We relaunched our eCommerce service game.co.uk in September 2007. As the UK's leading online specialist video games retailer, we offer customers a range of multi channel services that replicate the specialist service in our stores. This year the Group will increase investment to accelerate the expansion of our multi channel offer both in the UK and internationally.

These activities have served us well in building brand recognition in all the territories in which we operate and in generating a strong performance for the year. We have seen considerable growth in loyalty and membership, excellent results for mystery shopping and improvements in service across the chain.

#### Supporting the specialist proposition

To maintain our leading specialist proposition it has been vital that we ensure all elements of our support functions are working to the very highest standards:

- **Buying** - We have maintained long term and successful relationships with all of the key hardware and software suppliers in the market. This ensures we receive a good allocation of products for our customers. Together, we are able to maximise new launches and generate unique product deals and offers. Working closely with each supplier also helps us to create market leading campaigns.
- **Distribution and merchandising** - In such a fast paced market, where launch dates are key, it is crucial that products are available for the customer as fast as possible. Distribution centres for each of our business units are dedicated to moving large volumes of products quickly and efficiently to final destinations, whether that is our stores or direct to customer homes via online orders. In the UK, for example, our distribution centre despatched over 30m units in 2007, an increase of over 25% on the previous year. Our sophisticated systems and merchandising function ensures that we get the correct products in the right quantities to every destination.
- **Property management** – A major part of successful retailing is the location and management of retail outlets. Our rigorous review procedures mean that we open stores in the right demographic and geographic locations. We constantly assess store performance, ensuring that our lease commitments allow us to manage the portfolio efficiently to maximise profitability.

#### Where we sell

We deliver our specialist proposition throughout the Group worldwide, using a consistent operating model.

Outside the UK and Ireland we operate in Iberia, France, Scandinavia and Australia. Total revenues from our international businesses of £387.3m (2007: £214.9m) represented 26.0% of Group revenues. Total international sales increased by 80%, with a 37.9% increase in the Ifl sales.

**France:** All of the former Maxi-Livres book stores, which we acquired in October 2006, have now been refitted and branded as GAME and the 50 store portfolio delivered a pleasing trading performance in their first year as pc and video games specialist stores.

**Scandinavia:** Managed from our central office in Stockholm, we have stores in Sweden, Norway and Denmark in all the major retail hubs.

**Iberia:** Over the course of the year we have experienced a strong roll-out of stores, allowing us to consolidate our number one position in the market.

**Australia:** This is the newest market for the GAME business and we have achieved considerable growth over the last financial year, opening 35 new stores to make a total of 51.

We recognise that eCommerce is an important area in the pc and video games market and we will continue to invest in and develop our multi-channel proposition, building our offer online to reflect the same brand values our customers recognise and trust. In the past two years, we have invested over £5m in our eCommerce offering and will commit a further £5m this year.

## **THE GAME GROUP PLC**

### **Chief Executive's Review (continued)**

---

#### **Outlook**

The excellent performance for the year is a result of our efficient operating model, our investment in our stores, our people, our supplier relationships, and our creation of a leading specialist proposition that is designed to exceed our customers' expectations and build long-term loyalty.

We look forward to the current year with confidence. We will continue to evolve our consumer proposition, both online and in our stores, realise the benefits from the Gamestation acquisition in the UK and build further on our successful international expansion programme.

**Lisa Morgan**  
Chief Executive

## THE GAME GROUP PLC

### The Business Review

---

#### Overview:

GAME Group is Europe's leading specialist retailer of pc and video game products. The business started trading in 1991 from 11 stores in the UK, and has grown both organically and through acquisition to a 1,161 store chain as at 31 January 2008. We operate stores in nine countries, supported by eCommerce websites. Following the successful acquisition of Gamestation in 2007, we operate in the UK market under the GAME and Gamestation brands - and as GAME in all other territories.

As at 31 January		2008	2007
		Number	Number
<b><i>Company owned and concessions</i></b>			
UK and Ireland			
- GAME		414	407
- Gamestation		235	-
<i>Total UK and Ireland</i>		649	407
France		170	130
Iberia		208	165
Scandinavia		62	64
<i>Total Continental Europe</i>		440	359
Australia		51	16
<i>Total International</i>		491	375
<i>Total owned and concessions</i>		1,140	782
<b><i>Franchises</i></b>			
France		7	11
Iberia		10	18
Australia		4	6
<i>Total franchises</i>		21	35
<b>Total operational outlets</b>		<b>1,161</b>	<b>817</b>

## THE GAME GROUP PLC

### The Business Review (continued)

---

#### Our market

##### Technology:

Video game technology has evolved rapidly since Atari launched Pong in the 1970s, with present day games offering very realistic simulations and opportunities for multiple players. The current generation of games consoles are not purely for playing games. They can be used to access the web, watch films, store photos and for many other functions. The technology in our industry is evolving in a number of ways:

- To enhance the game play, graphics and content. Gamers like to experience the full game playing power of a next generation console, driving demand for ever more complex games and more realistic simulations. This, in turn, significantly increases the cost of developing new games.
- To increase the inclusivity of gaming. Some manufacturers are foregoing the race to push the technology in favour of making products that focus on simplicity and having fun.
- To extend how and where games are played. Portable consoles and online gaming allow people to challenge each other or themselves wherever they are. It is also possible to download simple games.

In the short to medium term, games manufacturers will continue to create products that realise the potential of the current consoles and their entertainment possibilities, in order to satisfy the demands of the game-playing public. Over the longer term, games are expected to feature more online play, but current technology constraints are limiting growth.

Digital distribution is another potential route to market but existing domestic broadband networks generally do not deliver speeds of more than 8 MB/sec and game file sizes are increasing, so games are slow to download. It is also difficult to store large files in a console's limited memory. For example, PS3 games can be up to 50GB in size, whereas the PS3 hard drive is limited to 40GB.

##### Geography:

There are 229 million games consoles in the top 15 markets, creating an industry worth US\$42.5bn (source IDG). The prime markets are the USA, Japan and Europe. Japan and the USA are the lead markets, and are also the national homes of the console manufacturers. In Europe the largest video game market is the UK followed by France, Spain, Germany, Italy and Scandinavia.

The US, Japanese and UK markets tend to be the most mature with consumers very aware of the products and choices available to them. The other European games markets are continuing to evolve rapidly. The Australian market shows a strong growth profile, with an installed base penetration of approximately one third of the penetration seen in the UK market.

Within these economies the games market has become part of the wider entertainment industry, competing successfully for consumer spend on entertainment. As with the wider entertainment industry, growth in the video games industry has been driven more by new technology than by the state of the wider economy.

Around the globe there are a significant number of emerging economies with the right infrastructure and customer demographic to support a successful pc and video games market.

##### Consumer:

Historically the video game consumer would have been a male in his teens or early 20s (the "core gamers"). This has changed radically in the last three years, with the arrival of many new and innovative products. Today's consoles and in particular, the Nintendo Wii and DS Lite offer a game play experience that has expanded the consumer base to include children, the over 30's and many more female players (the "mass market gamers").

This broadening of the demographic appeal of computer games is occurring in all key game playing geographic areas. As a result, hardware manufacturers and games publishers need to satisfy the demands of both the "core gamer" and the "mass market gamers".

## THE GAME GROUP PLC

### The Business Review (continued)

---

#### Products:

Typically a successful specialist video game retailer will sell a wide range of hardware, software, accessories and preowned products:

**Hardware:** The consoles used to run the software. These are manufactured and supplied by Microsoft (Xbox360), Sony (PS2, PS3 and the handheld PSP), and Nintendo (Wii and handheld DS Lite). Hardware sales drive the future purchase of software products.

**Software:** Video games for all console formats plus game software products for pc. Like other entertainment products, longstanding brands are often the most successful. Well established franchises - such as Mario from Nintendo, Halo from Microsoft, Grand Theft Auto from Rockstar, FIFA from EA, Gran Turismo from Sony and Metal Gear Solid from Konami are classed as AAA launches. The recent explosion of mass market customers has lengthened purchasing trends, and new franchises such as Brain Training from Nintendo, and Guitar Hero from Activision have achieved strong chart positions.

**Accessories:** Hand-held controllers, steering wheels, protective cases, cables and other attachments that improve the game play experience. ‘Casual’ games are increasingly reliant on accessories to maximise the game play – including microphones for singing titles, mock guitars for music games, steering wheels for driving games and add-ons for the Wii such as the Wii Fit.

**Preowned:** Console software and hardware that is traded in for cash, credit or a discount off another purchase. Trading in games is a unique way for customers to save money, using their old games as currency against new purchases. Preowned games allow the specialist to offer a broader range and great value to today’s more price conscious consumer.

### Our business

The acquisition of Gamestation in 2007 marks a transformation in our UK business. We now have two popular retail brands appealing to both the “mass market customers” and “core gamers”. Our success under both brands is a testament to our qualities as a specialist retailer:

- A quality shopping environment – Both on the high street and online we aim to deliver customers the best shopping experience whilst maximising sales opportunities. The GAME brand provides an easy-to-shop store layout, clear signage, helpful and knowledgeable staff and offers and promotions tailored to the mass market consumer. The Gamestation brand, with its distinctive advertising, offers and mix of preowned, has a greater appeal to the core gamer. In both chains, our employees are trained to give the very highest levels of product knowledge support to the customer.
- Product range and choice – Our specialist offer allows us to present to the customer the widest range of pc and video game products on the high street. To support the range, we run special promotions, unique offers and innovative bundling campaigns. Uniquely, GAME stores offer a wide range of own brand accessories which give consumers value for money. Pre-owned products are increasingly popular with customers and represent a significant part of our business. They allow both our chains to offer competitive price points to cost-conscious consumers. Pricing and stock are controlled centrally to ensure sufficient stock levels are maintained.
- Price Offerings – We use a variety of tools to give our customers value for money. We work with suppliers to provide attractive promotions, including Deal of the Week, and Buy One Get One Free offers. Our preowned range offers lower price points, and customers can save money against their new purchases by trading in their used games. Our Reward card provides a 2.5% discount on any purchase made and 5% on many pre-orders.

## THE GAME GROUP PLC

### The Business Review (continued)

---

As outlined in the Chief Executive's Review, we have built our specialist retailer proposition by having a strong support infrastructure:

- Supplier relationships – to create unique deals and offers for the consumer;
- Sophisticated distribution and merchandising systems – to ensure we get the right quantities and type of product to meet customer demand whether online or in-store;
- Property management – to ensure we are in the right locations for maximising customer catchment and profitability;
- Customer Relationship Management tools – to ensure we respond to our customers' changing needs and market trends;
- Preowned and trade in - offering a preowned alternative to the price conscious consumers.

We replicate this strong operating chain and specialist retail proposition in each of the territories in which we operate.

#### Store profiles:

We aim to produce a standard store format across our portfolio. Most measure just over 1,000 sq.ft., although this does vary by territory. Each is merchandised to provide a great product range across all formats, clear offers and promotions and most of all an easy and satisfying shopping experience for our customers. We are constantly updating our proposition to keep up with the latest consumer trends and demands, making sure the customer remains at the heart of everything we do.

#### UK & Ireland:

##### GAME

With over 4,000 employees and 414 outlets GAME is the leading video games retailer in the UK. Stores are located in prime locations in shopping centres, high streets and out-of-town retail parks. We also have concessions including Hamleys, Selfridges, Debenhams, and Fenwicks. GAME UK is supported by a state-of-the-art distribution centre and head office facility in Basingstoke, built specifically for the Group and comprising some 196,000 sq. ft. of storage space.

##### Gamestation

The Group acquired Gamestation on 2 May 2007, with 1,800 employees and 217 stores. The majority of Gamestation stores are located in popular secondary retail sites and appeal more to the typical 'core gamer'. Gamestation opened 18 new stores in 2007, recruiting 528 new members of staff. Gamestation is supported by a head office and distribution facility in York. Distribution is managed by a third party logistics partner.

#### France:

GAME in France, where we have 170 stores, continues to grow and perform well. We are the number two specialist pc and video games retailer in the market. France is traditionally a very strong market for Nintendo, which has been reflected in its sales of the Wii and DS Lite. The French business is supported by a 16,000 sq. ft. head office and distribution centre, situated in Paris.

#### Iberia:

GAME has been the leading retailer of pc and video game products in Spain since 2006. The operational performance of the business is excellent. GAME has benefited from the rapid growth of shopping centres and is represented in every new retail development in the country. We acquired a presence in the Spanish market in 2001 and from here expanded into Portugal in 2006. The Iberian business is supported by a 31,200 sq. ft. head office and distribution centre situated in Madrid.

#### Scandinavia:

The operational performance in Sweden, Denmark and Norway continues to improve, and we are very pleased with trading in all three markets. We now have 44 stores in Sweden, 8 in Denmark 10 in Norway. The Scandinavian business is supported by a 12,500 sq ft head office and distribution centre situated in Stockholm.

## THE GAME GROUP PLC

### The Business Review (continued)

---

#### **Australia:**

Our presence in Australia has more than trebled since we acquired a local business in September 2006. Under the leadership of the experienced existing management team, we have achieved excellent progress. On acquisition we relocated the head office and distribution centre to a 16,700 sq.ft. facility in Sydney and re-branded the existing stores to GAME. We also began a rapid store opening programme taking the portfolio from 16 to 51 stores in just over a year. GAME now has stores in every state in Australia.

#### **Online retailing, online gaming and digital distribution**

ECommerce has rapidly increased its contribution to the Group and represents a significant opportunity for the future.

In the UK we operate retail websites [game.co.uk](http://game.co.uk), [gamestation.co.uk](http://gamestation.co.uk), and [gameplay.com](http://gameplay.com).

The relaunch of game.co.uk in September 2007 generated a 65% increase in traffic and a 50% rise in customers visiting and purchasing. The revised site has won awards for usability and traffic increases in the UK. In November 2007 we launched a 'click and collect' service which allows customers to order online and collect products from our stores. This new channel complements our existing digital download and games-on-demand services.

#### **Planning for future growth**

Computer game retailing is evolving rapidly through the combined impact of technological advances and an increasingly competitive high street and online market.

We aim to maintain our leading position by adhering to the core principles of our Group as a specialist retailer, and to continue to roll out new stores across appropriate markets. We plan to open around 100 new stores primarily focussed on France, Spain, and Australia.

We will continue to review opportunities in our current sectors and in new territories. We will acquire new stores and businesses providing they are a good fit with our existing outlets and the new businesses meet our criteria for capable management, sound infrastructure and good financial returns.

In the current year we expect the total capital expenditure including information technology and head office expenditure for the Group to be in the region of £40m.

We will maintain our focus on the online area of our business to ensure that we are well positioned both in terms of eCommerce and digital distribution. We aim to build on recent market share gains and increase the proportion of sales online in the Group. The successes of our relaunch of game.co.uk will be applied to other Group sites in the coming year.

#### **Corporate and social responsibility (CSR)**

CSR is right at the heart of the GAME Group. As a responsible retailer, we recognise that the way we operate as a business has a direct impact on our reputation and our brand. To be successful we must do more than just maximise profits for our shareholders and maintain the product range and choice for our customers. We need to combine these objectives with first class management of all our stakeholder relationships. This isn't an easy task. Our stakeholders may have conflicting expectations of what we should deliver.

## THE GAME GROUP PLC

### The Business Review (continued)

---

#### *Dedicated committee*

We believe we already tick a lot of CSR boxes. But in the next 12 months we will be more co-ordinated and focussed so as to improve our approach to CSR year on year. Our first step has been to form a CSR committee comprised of individuals in the business who would represent our key stakeholders and ensure their needs and expectations are met. This committee reports to the GAME Board via David Thomas, who is its CSR representative.

We recognise that CSR is not something the company can address in isolation. To be effective, our CSR policy must be linked to the way we do business. At our first meeting, the committee determined exactly who our key stakeholders were and the best way we could serve them at every stage of our operating chain. In the coming year the committee plans to report quarterly to the Board of Directors on CSR issues and to publish a fuller report on the Company website.

#### *Key stakeholders*

Our suppliers, the environment, our customers, our employees, our bankers and lenders, our shareholders and the community in which we live and operate are all stakeholders.

#### Our suppliers

Our operating chain begins with our suppliers and we need to seek reassurance that they comply with our high ethical standards. During the coming year the Committee will be developing CSR questionnaires which we will use to evaluate our suppliers' own CSR policies.

#### Distribution and the environment

We wish to make certain that our distribution methods have the minimum impact on the environment. We ensure that all of our subsidiaries comply with any relevant environmental laws and standards. We are committed to reducing our impact on the environment with a particular focus on energy consumption, waste reduction and recycling.

Our Group head office and GAME UK distribution centre was opened in Basingstoke in 2004. It is equipped with a sophisticated building management system that regulates temperature and switches off lights when not in use.

We aim to recycle as much as possible across the business and in our distribution centre alone we recycled 406.7 metric tonnes of cardboard and 6.8 metric tonnes of plastic. We are a member of a recycling programme called Recycle More, implemented by Valpack Limited, a packaging waste compliance scheme company.

A key feature of our operating processes is that we are able to repair damaged CDs, through our own in-house operations, and we deal with damaged hardware by using third party sources. Both these actions reduce the level of electrical waste, a target for the European Union Waste Directive.

#### Stores and the environment

As we open new stores they are fitted with the latest energy-saving technology, including digital inverter air conditioning, energy-efficient lighting and single switch control - which minimises energy consumption when the store is closed.

## THE GAME GROUP PLC

### The Business Review (continued)

---

#### Quality employees

Our employees play an important role in every part of our operating chain. We are committed to equal opportunities for everyone. All our employment decisions, policies and practices are made without regard to an individual's gender, race, colour, religion, creed, sexual preference or national origin. We are also dedicated to the provision of equal opportunities for all disabled persons able to discharge job duties and functions required as part of their employment in the Group.

#### *Our Working Environment*

The GAME Group places considerable emphasis on providing a relaxed, safe and healthy workplace for all of our employees.

- We do not tolerate any act of sexual or racial harassment for whatever reason at any level in the organisation.
- It is our policy to do all that is reasonably practicable to ensure a safe and healthy environment. We provide instructions, training, supervision and information to enable all employees to perform their work safely. We comply with all laws of health and safety and take all possible steps to ensure that everyone in our stores and places of work is safe. We are committed to a system of monitoring and recording our health and safety performance so that we can continually improve it.
- We offer a fully-serviced canteen and "Chill Out Zone" – a leisure room containing the latest hardware consoles and games – to allow the staff to enjoy breaks and free time outside office hours should they wish.

#### *Employee Rewards*

We offer a variety of financial rewards across the business to ensure that staff see a direct benefit from the effort and commitment they put into our business. The mainstream rewards are:

- Long service awards: The Group has a scheme of awards designed to recognise and reward employees for the length of service.
- Sharesave: The Group believes in its employees sharing in the success of the business and operates a sharesave scheme for all employees.
- Sales incentives and management bonus: The Group believes that sales incentives and bonus schemes will help focus our people on the achievement of key objectives and reward them for contributing to the success of the Group.
- Share option scheme and performance share plan: The Group operates a share option scheme and performance share plan which are designed to aid employee retention and align the objectives of our senior management with those of our shareholders.

#### *Career development*

We recognise the importance of employee continuity in generating a knowledgeable and driven workforce and are committed to enhancing the skills of our people. We offer external courses as well as our own bespoke training programme, EIP (Excellence In People), as structured methods of training within the business.

We are also keen to support our employees in understanding the qualities of the latest technologies on the market, by offering them discounts on purchases and providing a lending library. This greater knowledge of our products helps our teams to advise our customers on their purchases.

## THE GAME GROUP PLC

### The Business Review (continued)

---

#### *Employee feedback*

- We positively encourage feedback from our people and use an annual survey to measure our success as employers. We have also introduced a Bright Ideas scheme, which rewards employees for ideas that will enhance our working environment or our operating performance.
- Our newsletter keeps employees up to date with business related activities. This is supplemented by internal annual conferences, which give us a chance to communicate with our store management and field teams and congratulate them face to face.

#### Customer relationships

Our primary aim is to ensure that our customers are given the products, range, choices and offers that best suit their particular requirements. However we are also mindful of the need to take great care to sell age-related games appropriately, only to the customers for whom they are intended. We take our responsibility very seriously and we are actively engaged with the Entertainment and Leisure Software Publishers Association (ELSPA), the Video Standards Council (VSC) and the Entertainment Retailers' Association (ERA).

Our employees receive regular training in the importance of complying with our own internal policy and legislative requirements. They are empowered and encouraged to challenge customers and demand proof of age. To monitor the success of our training we employ mystery shopper processes which help us sustain our track record in avoiding under-age selling.

#### Business support

The GAME business is supported by its shareholders, its bankers and lenders. We attach great importance to the effectiveness of our communications with these stakeholders and we aim to provide all the financial and strategic information they need on a regular basis. We do this through presentations and by the publication of information on our website. We are proud that our relationships with our financial partners go back many years.

#### Our responsibility to the community

We want to be a positive influence within the communities in which we operate and, throughout 2007, we have donated a number of pc and video games to non-profit making bodies and official charities in sectors including education, community health and welfare and the environment. We have donated to both Asthma UK and NCH.

We do not donate to any political party or religious groups.

## THE GAME GROUP PLC

### The Business Review (continued)

---

#### CSR case studies:

##### *Case study: helping children*

In August 2007 a team of 20 GAME employees contributed to the John Waterhouse Project in Kenilworth, a residential project run by leading children's charity NCH. The project provides short breaks for young people with severe learning or physical disabilities. The volunteers redecorated and transformed bedrooms and bathrooms, and donated a range of games consoles and software. The makeover was part of a wider initiative that saw GAME employees raise over £30,000 for the charity. Other events included a GAME team completing the Great North Run and a summer fundraising fete at the GAME head office.

##### *Case study: rewarding Excellence*

With such talented people at GAME, we like to reward and promote best practice. In 2007 we introduced Bonus Bonds - vouchers awarded on the spot by regional managers when an individual employee has delivered excellent customer service. Over £20,000 of Bonus Bonds were handed out in 2007. Team excellence is also rewarded. Every month the best performing store in each of the 22 GAME regions is given £200 to spend on a team night out. We reward great ideas too, with a monthly £250 prize to the best 'Bright Idea' submitted by a team member, and five runners-up prizes of £50.

##### *Case study: saving energy*

Reducing waste cuts costs. The GAME Group office and distribution facilities in Basingstoke were purpose-built in 2004 using the latest energy saving technologies. Motion detectors are used throughout the buildings to switch off lights when they're not needed. No heating or light is used overnight when the buildings are empty. All cardboard and pallets used in the distribution centre are recycled.

##### *Case study: protecting consumers*

GAME Group is committed to enforcing age ratings on video games to ensure the right games are sold to the right customers. In 2007 the British Prime Minister commissioned psychologist Dr Tanya Byron to review measures that protect children from mature content in video games and on the internet. GAME contributed by attending all of the relevant consultations with the Byron team, both to reinforce our support for age ratings and to see what we could do better. Published in March 2008, The Byron Review recognised the critical role of specialist retailers to raise awareness of the rating systems and train staff appropriately. GAME will continue to work with partners in the games industry and with customers, to implement the review's recommendations and ensure that our measures to sell games responsibly are robust, well understood and frequently tested.

# THE GAME GROUP PLC

## The Business Review (continued)

---

### FINANCIAL RESULTS

#### Profit and Loss Account

##### Revenue

During the year Group revenue increased by 86% to £1,492m from £801m last year. Lfl sales increased by 41% with new store openings, excluding Gamestation, contributing a 14% increase.

Average sales per annum per sq. ft. increased by £359 to £1,275.

##### Gross Margin

Overall gross margin was 24.8% compared to a prior year margin of 27.2%. This decline in gross margin was in line with our expectations. It was caused by the increased participation of hardware in our sales mix, the acquisition of Gamestation, with its lower margin operating model, and the participation from our overseas businesses.

##### Operating Expenses

Total operating costs have increased by 28% from £184.8m to £237.3m, excluding Gamestation and non-recurring costs, and as a percentage of sales were 20% compared to 23% last year. On a cash basis our operating expenditure has increased year on year but this is in line with the increase in volumes traded across our business. The decrease in operating costs as a percentage of sales is a testament to our ability to control our expenditure across the operating chain.

##### Profit before tax

We achieved a profit before tax of £68.4m compared to a profit before tax of £29.5m for last year.

##### Taxation

The effective rate of Corporation Tax was 31.0% (2007: 28.3%) and we have continued to provide deferred taxation in line with IAS 12.

##### Earnings per share

Basic earnings per share were 13.79p compared to 6.25p last year, an increase of 121%. Diluted earnings per share were 13.65p compared to 6.20p last year, an increase of 120%.

##### Dividend

The Board is recommending a final dividend of 2.97p per share, which will give a total dividend for the period of 4.40p compared to 2.93p last year an increase of 50%. The dividend will be paid on 18th July 2008, to shareholders on the register at the 30th May 2008.

## THE GAME GROUP PLC

### The Business Review (continued)

---

#### Balance Sheet

#### Capital Expenditure

Capital expenditure in the period, excluding acquisitions, amounted to £40m. The majority of this expenditure was undertaken to open new stores in the UK, the rest of Europe and Australia. Additionally we invested in the IT infrastructure across the Group, enhanced our distribution facilities in the UK and France and relocated our Head Office and distribution centre in Australia. In summary:

Capital Expenditure	2008 £m	2007 £m
Stores	25	12
Refits	5	3
Web	4	1
Infrastructure	6	6
Total	<u>40</u>	<u>22</u>

#### Stock

Stock at the end of the period represented £127k per owned store compared to £108k for the same period last year. The increase in the average stock holding per store reflects the fact that we were holding higher levels of hardware product to meet ongoing consumer demand and that the unit cost of stock has increased with the launch of PS3 in March 2007, a next generation product that commands a higher retail price point.

#### Cash flow

Net cash generated by operations was £172m compared to £35m last year. The significant increase on the prior year can be attributed both to the strong operating performance of the business and the timing of supplier payments at the year end. With the GAME Group operating on a 52 week year, the year end payment to suppliers fell after our year end date of 26<sup>th</sup> January 2008. Immediately following the year end the Group made payments to suppliers to the value of approximately £90m.

**THE GAME GROUP PLC****Consolidated Income Statement for the year ended 31 January 2008**

	Note	2008 £'000	2007 £'000
Revenue	1	1,491,914	801,306
Cost of sales		1,122,337	583,563
Gross profit		369,577	217,743
Other operating expenses	2	294,385	184,778
Operating profit before non-recurring costs		82,340	32,965
Non-recurring costs	3	(7,148)	-
Operating profit	4	75,192	32,965
Finance income	5	1,511	247
Finance costs	6	(8,341)	(3,719)
Profit before taxation		68,362	29,493
Taxation	8	21,183	8,353
Profit for the year attributable to equity holders of the parent		47,179	21,140
Earnings per share			
- basic	10	13.79p	6.25p
- diluted	10	13.65p	6.20p

All amounts relate to continuing activities

# THE GAME GROUP PLC

## Consolidated Balance Sheet at 31 January 2008

	Note	2008 £'000	2007 £'000
<b>Non-current assets</b>			
Property, plant & equipment	11	130,662	100,995
Intangible assets	12	172,871	101,522
Deferred tax asset	18	-	1,111
		<u>303,533</u>	<u>203,628</u>
<b>Current assets</b>			
Inventories	13	145,041	84,587
Trade and other receivables	14	53,845	28,258
Cash and cash equivalents		137,899	48,286
		<u>336,785</u>	<u>161,131</u>
<b>Total assets</b>		<u>640,318</u>	<u>364,759</u>
<b>Current liabilities</b>			
Trade and other payables	15	315,498	150,095
Short term borrowings	16	-	15,359
Current portion of long term borrowings	16	38,038	4,477
Leasehold property incentives	19	846	592
Current tax liabilities		15,862	5,003
		<u>370,244</u>	<u>175,526</u>
<b>Non-current liabilities</b>			
Long term borrowings	16	57,809	27,827
Leasehold property incentives	19	6,414	4,070
Deferred tax liabilities	18	1,929	-
		<u>66,152</u>	<u>31,897</u>
<b>Total liabilities</b>		<u>436,396</u>	<u>207,423</u>
<b>Net assets</b>		<u>203,922</u>	<u>157,336</u>
<b>Equity attributable to equity holders of the parent</b>			
Share capital	20	17,167	17,003
Share premium account	21	44,848	42,286
Capital redemption reserve	22	2,223	2,223
Shares held in trust	22	(4,403)	(1,176)
Merger reserve	22	76,907	76,907
Foreign exchange reserve	22	5,904	(3,759)
Retained Earnings	22	61,276	23,852
		<u>203,922</u>	<u>157,336</u>

## THE GAME GROUP PLC

### Consolidated Statement of Recognised Income and Expense for the year ended 31 January 2008

---

	Note	2008 £'000	2007 £'000
Exchange differences on translation of foreign currency net investments in subsidiary undertakings		9,663	(3,571)
Deferred income tax on share based payments		22	1,272
		<hr/>	<hr/>
Total income and expense recognised directly in equity		9,685	(2,299)
Profit on ordinary activities after taxation		47,179	21,140
		<hr/>	<hr/>
Total recognised income and expense for the year attributable to equity holders	22	56,864	18,841
		<hr/> <hr/>	<hr/> <hr/>

# THE GAME GROUP PLC

## Consolidated Cash Flow Statement for the year ended 31 January 2008

	Note	2008 £'000	2007 £'000
<b>Cash flow from operating activities</b>			
Operating profit		75,192	32,965
Equity settled share-based payment expense		1,204	1,202
Depreciation and amortisation		20,587	12,813
Loss on disposal of non current assets		286	728
Impairment of assets/goodwill		-	-
Market value movement on financial instrument		(139)	183
		<u>97,130</u>	<u>47,891</u>
Increase in trade and other receivables		(20,772)	(11,514)
Increase in inventories		(28,562)	(13,139)
Increase in trade and other payables		143,645	20,257
Increase in leasehold incentives		532	101
		<u>191,973</u>	<u>43,596</u>
Cash generated from operations		191,973	43,596
Finance costs paid		(8,341)	(3,719)
Corporation tax paid		(11,580)	(5,002)
		<u>172,052</u>	<u>34,875</u>
<b>Net cash from operating activities</b>			
<b>Cash flows from investing activities</b>			
Acquisitions	23	(80,941)	(9,000)
Purchase of property, plant and equipment		(37,218)	(20,431)
Purchase of intangible assets		(2,703)	(1,322)
Proceeds from sale of equipment		205	897
Finance income received		1,511	247
		<u>(119,146)</u>	<u>(29,609)</u>
<b>Net cash used in investing activities</b>			
<b>Cash flows from financing activities</b>			
Proceeds from issue of share capital		2,726	1,767
Shares purchased for Trust		(3,667)	-
Proceeds from long term borrowings		64,098	9,881
Repayments of long term borrowings		-	(12,673)
Repayments of short term borrowings		-	-
Payment of finance lease liabilities		(550)	(462)
Dividends paid		(10,541)	(8,947)
		<u>52,066</u>	<u>(10,434)</u>
<b>Net cash used in financing activities</b>			
<b>Net increase/(decrease) in net cash and cash equivalents</b>			
Cash and cash equivalents at beginning of year		32,927	38,095
		<u>104,972</u>	<u>(5,168)</u>
<b>Cash and cash equivalents at end of year</b>	24	<u>137,899</u>	<u>32,927</u>

## **THE GAME GROUP PLC**

### **Statement of Accounting Policies**

---

The financial information set out above and in the accompanying notes, does not constitute the Company's statutory accounts for the years ended 31 January 2008 or 2007, but is derived from those Accounts. Statutory accounts for 2007 have been delivered to the Register of Companies and those for 2008 will be delivered following the Company's annual general meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain statements under the Companies Act 1985, s 237 (2) or (3).

#### **Basis of Preparation**

The accounting reference date of The GAME Group plc and all of its subsidiary undertakings (the "Group") is 31 January. The comparative year's results are for the 52 week period ended 27 January 2007. The current year's results are for the 52 week period ended 26 January 2008.

The consolidated financial statements incorporate the results of the Group made up to 31 January 2008. The Group has used the acquisition method of accounting to consolidate the results of subsidiary undertakings. The results of subsidiary undertakings are included from the date of acquisition.

The group consolidated financial statements have been prepared in accordance with the Companies Act 1985 as applicable to companies reporting under IFRS and those IFRS and IFRIC interpretations issued and effective and endorsed by the European Union as at the time of preparing these financial statements.

# THE GAME GROUP PLC

## Notes to the Financial Statements for the year ended 31 January 2008

### 1 Revenue, profit and net assets

Revenue, pre-tax profits and net assets all relate to computer software and video game retailing and the Group's operations are organised and managed by geographic location only. Management consider the geographical locations split between the UK and Ireland and Other EU countries ("Other EU"). The non-EU element of "Other EU", Norway and Australia, is an insignificant proportion of the category.

Revenue by origin and destination are not materially different.

	<b>United Kingdom and Ireland 2008 £'000</b>	<b>Other EU 2008 £'000</b>	<b>United Kingdom and Ireland 2007 £'000</b>	<b>Other EU 2007 £'000</b>
Revenue	1,104,657	387,257	586,361	214,945
Cost of sales	829,630	292,707	423,848	159,715
Gross profit	275,027	94,550	162,513	55,230
Other operating expenses	205,913	81,324	135,684	49,094
Operating profit before non-recurring costs	69,114	13,226	26,829	6,136
Non-recurring costs	7,148	-	-	-
Operating profit	61,966	13,226	26,829	6,136
Finance income/costs	(5,891)	(939)	(2,914)	(558)
Taxation	(17,747)	(3,436)	(6,734)	(1,619)
Profit after tax	38,328	8,851	17,181	3,959

#### Other segmental information:

Goodwill and other intangibles	151,267	21,604	82,729	18,793
Other Assets	259,839	207,608	156,718	106,519
Assets	411,106	229,212	239,447	125,312
Liabilities	233,117	203,279	89,743	117,680
Net assets	177,989	25,933	149,704	7,632
Capital expenditure	15,576	24,345	9,199	12,136
Depreciation and amortisation	12,886	7,701	8,710	4,103
Share Based Payment Expense	1,204	-	1,202	-

**THE GAME GROUP PLC**

**Notes to the Financial Statements for the year ended 31 January 2008 (continued)**

**1 Revenue, profit and net assets (continued)**

	<b>Year ended 31 January 2008</b>	<b>Year ended 31 January 2007</b>
	<b>£'000</b>	<b>£'000</b>
<b>Turnover by territory</b>		
United Kingdom and Ireland	1,104,657	586,361
France	141,183	81,204
Iberia	175,808	97,744
Scandinavia	43,485	30,912
Australia	26,781	5,085
	<u>1,491,914</u>	<u>801,306</u>
<b>Stores by territory</b>	<b>Number</b>	<b>Number</b>
United Kingdom and Ireland	649	407
France	170	130
Iberia	208	165
Scandinavia	62	64
Australia	51	16
	<u>1,140</u>	<u>782</u>
<b>Franchises</b>		
France	7	11
Iberia	10	18
Australia	4	6
	<u>21</u>	<u>35</u>
<b>Trading square footage by territory at year end</b>	<b>Sq ft</b>	<b>Sq ft</b>
United Kingdom and Ireland	712,408	518,230
France	162,014	128,571
Iberia	177,427	141,809
Scandinavia	59,729	64,961
Australia	58,639	21,611
	<u>1,170,217</u>	<u>875,182</u>

## THE GAME GROUP PLC

### Notes to the Financial Statements for the year ended 31 January 2008 (continued)

#### 2 Other operating expenses

	<b>2008</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>
Selling and distribution	234,450	156,066
Administrative expenses	59,935	28,712
	<hr/>	<hr/>
	294,385	184,778
	<hr/>	<hr/>

Administrative expenses include non-recurring costs of £7,147,721 (2007: £nil) (see note 3).

#### 3 Non-recurring costs

In the current year administrative expenses include non-recurring costs of £7,147,721 (2007: £nil). Of these non-recurring costs, £2,957,051 was in relation to integration planning fees on the acquisition of Gamestation and £4,190,670 was incurred in dealing with the merger control review of the Gamestation acquisition by the Office of Fair Trading and subsequently by the Competition Commission (see note 23).

#### 4 Operating profit

	<b>2008</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>
This is stated after charging:		
Depreciation charge	18,583	12,068
Amortisation of intangible fixed assets	2,004	745
Operating lease rentals		
- leasehold premises	65,569	48,235
- other	1,214	427
Loss on disposal of non current assets	286	728
Auditors' remuneration		
- Fees payable to the company's auditor for the audit of the company's annual accounts	87	72
- Fees payable to the company's auditors and its associates for other services:		
The audit of the company's subsidiaries, pursuant to legislation	294	253
- other services supplied pursuant to legislation	44	53
- other services relating to tax	117	74
- Recruitment and remuneration services	31	-
- All other services	11	-
	<hr/>	<hr/>

#### 5 Finance income

	<b>2008</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>
Interest income on financial assets classified as loans and receivables	1,511	247
	<hr/>	<hr/>
	1,511	247
	<hr/>	<hr/>

Notes to the Financial Statements for the year ended 31 January 2008 (continued)

**6 Finance costs**

	<b>2008</b> <b>£'000</b>	<b>2007</b> <b>£'000</b>
Interest expense for finance lease and hire purchase arrangements	102	120
Interest expense for borrowings at amortised cost	8,223	3,560
Other interest	16	39
	<hr/>	<hr/>
Finance costs	8,341	3,719
	<hr/> <hr/>	<hr/> <hr/>

**7 Employees**

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

	<b>2008</b> <b>£'000</b>	<b>2007</b> <b>£'000</b>
Wages and salaries	101,878	61,590
Social security costs	12,831	8,302
Other pension costs	743	551
Share-based payment expense (see note 20)	1,204	1,202
	<hr/>	<hr/>
	116,656	71,645
	<hr/> <hr/>	<hr/> <hr/>

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

	<b>2008</b> <b>Number</b>	<b>2007</b> <b>Number</b>
Selling and distribution	7,271	4,648
Administration	688	500
	<hr/>	<hr/>
	7,959	5,148
	<hr/> <hr/>	<hr/> <hr/>

**THE GAME GROUP PLC**

**Notes to the Financial Statements for the year ended 31 January 2008 (continued)**

**8 Taxation**

**(a) Analysis of charge in the year**

	<b>2008</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>
<i>Current tax</i>		
UK corporation tax	19,615	7,696
Adjustments in respect of prior periods	(1,191)	(1,269)
Overseas tax payable	3,436	1,619
	<hr/>	<hr/>
Total current tax	21,860	8,046
<i>Deferred tax</i>		
Current year movement	(191)	307
Adjustment to estimated recoverable deferred tax asset arising in previous period	825	-
Prior year movement	(1,274)	-
Change in tax rates	(37)	-
	<hr/>	<hr/>
Taxation on profit on ordinary activities	21,183	8,353
	<hr/> <hr/>	<hr/> <hr/>

**(b) Factors affecting the tax charge for the year**

	<b>2008</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>
Profit on ordinary activities before taxation	68,362	29,493
	<hr/> <hr/>	<hr/> <hr/>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2007: 30%)	20,509	8,848
	<hr/>	<hr/>
Effects of:		
Expenses not deductible for tax purposes	1,441	651
Effect of foreign tax rates	439	239
Tax losses incurred but unutilised in the year	471	109
Adjustment to estimated recoverable deferred tax asset arising in previous period	825	-
Adjustments to tax charge in respect of previous periods	(2,465)	(1,269)
Other items	(37)	(225)
	<hr/>	<hr/>
Tax charge for the year	21,183	8,353
	<hr/> <hr/>	<hr/> <hr/>

The Group has approximately £20m (2007: £20m) of unrelieved trading losses available for offset against future taxable profits of certain Group companies.

Notes to the Financial Statements for the year ended 31 January 2008 (continued)

9 Dividends

	2008 Pence per share	2008 £'000	2007 Pence per share	2007 £'000
Final paid	1.66	5,636	1.38	4,661
Interim paid	1.43	4,905	1.27	4,286
		<u>10,541</u>		<u>8,947</u>

It is proposed that a final dividend of 2.97p will be paid on 18 July 2008 to shareholders on the register on 30 May 2008.

10 Earnings per share

The calculation of earnings per share for the year ended 31 January 2008 is based on the profit after taxation of £47,178,969 (2007: £21,140,000). The calculation of basic earnings per share is based on a weighted average number of 342,198,365 (2007: 338,469,975) 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 2008	342,198,365	3,405,544	345,603,909
Year ended 31 January 2007	338,469,975	2,355,027	340,825,002

Additional disclosure has been provided in respect of earnings per share before non-recurring costs as the directors believe this gives a better view of ongoing maintainable earnings in the prior year.

	2008 Pence	2007 Pence
Basic earnings per share	13.79	6.25
Non-recurring costs	2.09	0.00
	<u>15.88</u>	<u>6.25</u>

THE GAME GROUP PLC

Notes to the Financial Statements for the year ended 31 January 2008 (continued)

11 Property, plant and equipment

	Freehold land and property £'000	Short leasehold land and property £'000	Improvements to leasehold property £'000	Fixtures, fittings and equipment £'000	Total £'000
<b>Group</b>					
<i>Cost</i>					
<b>At 31 January 2006</b>	19,474	29,295	41,747	48,621	139,137
Additions	-	3,802	9,936	6,692	20,430
Acquisitions	-	3,810	382	879	5,071
Disposals	-	(1,040)	(800)	(2,180)	(4,020)
Exchange adjustment	-	(621)	(523)	(384)	(1,528)
<b>At 31 January 2007</b>	19,474	35,246	50,742	53,628	159,090
Additions	1,089	5,071	18,091	12,967	37,218
Acquisitions	-	-	13,629	5,848	19,477
Disposals	-	(25)	(1,873)	(1,683)	(3,581)
Exchange adjustment	-	2,851	2,572	1,609	7,032
<b>At 31 January 2008</b>	20,563	43,143	83,161	72,369	219,236
<i>Accumulated Depreciation and Impairment</i>					
<b>At 31 January 2006</b>	545	5,666	15,182	27,094	48,487
Charge for the year	389	1,080	4,507	6,092	12,068
Acquisitions	-	-	-	200	200
Disposals	-	-	(526)	(1,841)	(2,367)
Exchange adjustment	-	(16)	(117)	(160)	(293)
<b>At 31 January 2007</b>	934	6,730	19,046	31,385	58,095
Charge for the year	389	1,335	8,145	8,714	18,583
Acquisitions	-	-	9,639	3,880	13,519
Disposals	-	(375)	(1,434)	(1,266)	(3,075)
Exchange adjustment	-	89	631	732	1,452
<b>At 31 January 2008</b>	1,323	7,779	36,027	43,445	88,574
<i>Carrying Amount</i>					
<b>At 31 January 2008</b>	19,240	35,364	47,134	28,924	130,662
At 31 January 2007	18,540	28,516	31,696	22,243	100,995
At 31 January 2006	18,929	23,629	26,565	21,527	90,650

## **THE GAME GROUP PLC**

### **Notes to the Financial Statements for the year ended 31 January 2008 (continued)**

---

#### **11 Property, plant and equipment (continued)**

The net book value of tangible fixed assets includes an amount of £1,358,429 (2007: £2,304,000) in respect of assets held under finance lease and hire purchase contracts, and these are recorded in fixtures, fittings and equipment. The related depreciation charge for the year was £1,284,695 (2007: £579,000). The main finance leases are for EPOS equipment and motor vehicles.

The amount of interest capitalised during the year amounted to £nil (2007: £nil), bringing the total amount of capitalised interest to date to £741,500. The related depreciation charge for the year was £31,500 (2007: £31,500).

**THE GAME GROUP PLC**

**Notes to the Financial Statements for the year ended 31 January 2008 (continued)**

**12 Intangible fixed assets**

	<b>Goodwill</b>	<b>Other</b>	<b>Total</b>
	<b>£'000</b>	<b>Intangibles</b>	<b>£'000</b>
		<b>£'000</b>	<b>£'000</b>
<b>Group</b>			
<i>Cost</i>			
<b>At 31 January 2006</b>	94,358	5,031	99,389
Acquisitions	4,261	242	4,503
Additions	417	905	1,322
Foreign exchange adjustment	(208)	(15)	(223)
Disposals	-	(10)	(10)
	<hr/>	<hr/>	<hr/>
<b>At 31 January 2007</b>	98,828	6,153	104,981
Acquisitions	52,770	18,050	70,820
Additions	-	2,703	2,703
Foreign exchange adjustment	519	65	584
Disposals	-	(8)	(8)
	<hr/>	<hr/>	<hr/>
<b>At 31 January 2008</b>	152,117	26,963	179,080
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<i>Amortisation</i>			
<b>At 31 January 2006</b>	-	2,664	2,664
Acquisitions	-	63	63
Charge for the period	-	745	745
Foreign exchange adjustment	3	(11)	(8)
Disposals/impairments	-	(5)	(5)
	<hr/>	<hr/>	<hr/>
	3	3,456	3,459
<b>At 31 January 2007</b>	-	711	711
Acquisitions	-	711	711
Charge for the period	-	2,004	2,004
Foreign exchange adjustment	32	52	84
Disposals/impairments	-	(49)	(49)
	<hr/>	<hr/>	<hr/>
<b>At 31 January 2008</b>	35	6,174	6,209
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<i>Carrying Amount</i>			
<b>At 31 January 2008</b>	152,082	20,789	172,871
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 January 2007	98,825	2,697	101,522
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 January 2006	94,358	2,367	96,725
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**12 Intangible fixed assets (continued)**

Other intangible assets comprise computer software and costs associated with the Group's web domains and brand valuations in relation to GAME Australia and Gamestation.

Goodwill principally relates to the GAME and Gamestation brands. The goodwill is allocated, for impairment testing purposes, to cash generating units as follows:

	<b>£'000</b>
UK and Ireland	131,688
Other	20,394
Total	<u>152,082</u>

The carrying value of goodwill has been assessed on a value-in-use basis. The key assumptions for the calculations are those regarding growth rates and expected changes to selling prices and direct costs. The growth rates are based on industry forecasts, changes in selling prices and direct costs are based on past practices and expectations of future changes in the market. The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next 3 years and extrapolates cash flows for no more than 13 years using a steady growth rate applicable to the relevant market. This rate does not exceed the average long-term growth rate for the relevant markets. The cash flows were discounted using pre-tax discount rates between 8% and 13% dependent on the territories concerned and GAME's operations in those territories. No impairments were recognised in the year.

## THE GAME GROUP PLC

### Notes to the Financial Statements for the year ended 31 January 2008 (Continued)

#### 13 Inventories

	<b>2008</b> <b>£'000</b>	<b>2007</b> <b>£'000</b>
Finished goods and goods held for resale	145,041	84,587

The directors consider that the replacement value of inventories is not materially different from their carrying value. The stock provision in the current year is £11,748,000 (2007: £6,741,000).

#### 14 Trade and other receivables

	<b>2008</b> <b>£'000</b>	<b>2007</b> <b>£'000</b>
Amounts falling due within one year:		
Trade receivables	18,921	9,179
Other receivables	14,050	4,355
VAT recoverable	324	108
	<hr/>	<hr/>
Total trade and other receivables	33,295	13,642
Prepayments and accrued income	20,550	14,616
	<hr/>	<hr/>
	53,845	28,258
	<hr/>	<hr/>

A large proportion of the trade receivables of the Group relates to customers using credit cards or similar arrangements to purchase goods. GAME bears no risk of recovery and as a result, the risk of impairment of accounts receivable is not considered by the directors to be significant.

As at 31 January 2008 and 31 January 2007 there were no amounts which were past due and no amounts which were impaired.

#### 15 Trade and other payables

	<b>2008</b> <b>£'000</b>	<b>2007</b> <b>£'000</b>
Amounts falling due within one year:		
Trade payables	192,529	95,580
Other payables	7,838	4,699
Tax and social security costs	4,039	2,890
VAT payable	50,206	21,573
Accruals and deferred income	60,886	25,353
	<hr/>	<hr/>
	315,498	150,095
	<hr/>	<hr/>

Trade payables are non-interest bearing and are normally settled on 60-day terms.

## THE GAME GROUP PLC

### Notes to the Financial Statements for the year ended 31 January 2008 (continued)

#### 16 Borrowings

	<b>2008</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>
<b>Short term:</b>		
Bank overdrafts	-	15,359
	<u>          </u>	<u>          </u>
<b>Long term:</b>		
Current portion:		
Bank loans	37,515	3,835
Obligations under finance leases and hire purchase contracts	523	642
	<u>          </u>	<u>          </u>
	38,038	4,477
	<u>          </u>	<u>          </u>
Non current portion:		
Bank loans	56,897	26,479
Obligations under finance leases and hire purchase contracts	912	1,348
	<u>          </u>	<u>          </u>
	57,809	27,827
	<u>          </u>	<u>          </u>
The borrowings are repayable as follows:		
On demand or within one year	37,515	19,194
In one to two years	25,924	2,796
In more than two years but less than five years	30,973	17,683
After five years	-	6,000
	<u>          </u>	<u>          </u>
	94,412	45,673
	<u>          </u>	<u>          </u>
The finance leases are repayable as follows:		
On demand or within one year	523	642
In one to two years	712	577
In more than two years but less than five years	200	771
After five years	-	-
	<u>          </u>	<u>          </u>
	1,435	1,990
	<u>          </u>	<u>          </u>

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

# THE GAME GROUP PLC

## Notes to the Financial Statements for the year ended 31 January 2008 (continued)

### 17 Financial Instruments

#### Categories of financial instruments

Financial assets	Loans and Receivables	
	2008 £'000	2007 £'000
<b>Current financial assets</b>		
Trade and other receivables (Note 14)	33,295	13,642
Net cash and cash equivalents (Note 24)	137,899	32,927
	<hr/>	<hr/>
	171,194	46,569
	<hr/>	<hr/>
<b>Financial Liabilities</b>		
	<b>Financial liabilities measured at amortised cost</b>	
	<b>2008 £'000</b>	<b>2007 £'000</b>
<b>Current financial liabilities</b>		
Trade and other payables (Note 15)	315,498	150,095
Loans and borrowings (Note 16)	38,038	4,477
	<hr/>	<hr/>
Total current financial liabilities	353,536	154,572
<b>Non-current financial liabilities</b>		
Loans and borrowings (Note 16)	57,809	27,827
	<hr/>	<hr/>
Total non-current financial liabilities	57,809	27,827
	<hr/>	<hr/>
Total financial liabilities	411,345	182,399
	<hr/>	<hr/>

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

The maximum exposure to credit risk at the reporting date is represented by the carrying value of the financial assets in the balance sheet.

## THE GAME GROUP PLC

### Notes to the Financial Statements for the year ended 31 January 2008 (continued)

---

#### 17 Financial Instruments (continued)

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:

	<b>2008</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>
Floating rate Euro borrowings	14,412	14,188
Floating rate Sterling borrowings	81,164	33,475
Floating rate AUD borrowings	271	-
	<hr/>	<hr/>
	95,847	47,663
	<hr/> <hr/>	<hr/> <hr/>

The floating rate borrowings comprise bank borrowings and finance leases bearing interest rates based upon LIBOR and EURIBOR.

The Group holds a Revolving Credit Facility (RCF) of £70m to be used for general corporate and working capital purposes. As at 31 January 2008 an amount of €15m was drawn down for use in Spain. The interest rate on the RCF is based on LIBOR and EURIBOR.

The floating rate sterling borrowings comprise an £80m Term Loan taken out in order to fund the purchase of Gamestation and refinance the existing debt at GAME. The interest rate on the loan is based on LIBOR. The first repayment was made in January 2008 and three further annual instalments are due.

The terms of the loan facility indicates a fixed charge over the freehold property and a floating charge over assets.

## THE GAME GROUP PLC

### Notes to the Financial Statements for the year ended 31 January 2008 (continued)

#### 17 Financial Instruments (continued)

##### (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:

	<b>2008</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>
Sterling	84,840	32,705
Euro	47,237	12,440
Swedish Krona	1,757	2,359
Danish Krone	147	106
Norwegian Krone	490	462
Australian Dollar	3,428	214
	<hr/>	<hr/>
	137,899	48,286
	<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.

##### (c) Sensitivity analysis

The sensitivity analyses below are based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur and changes in some of the assumptions may be correlated, for example, a change in interest rate and a change in foreign currency interest rates. The sensitivity analysis prepared by management for foreign currency risk and interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

At 31 January 2008, if interest rates on the floating rate borrowings denominated in sterling had been 100 basis points higher with all other variables held constant, profit after tax for the period would be £1,037,910 lower (2007: £468,461 lower).

At 31 January 2008, if interest rates on the floating rate borrowings denominated in euros had been 100 basis points higher with all other variables held constant, profit after tax for the period would be £173,231 lower (2007: £106,797 lower).

The directors consider that 100 basis points is the maximum likely change to sterling and euro interest rates over the next year, being the period up to the next point at which the Group expects to make these disclosures. The directors do not consider that any reasonably possible change in the interest rates attached to the Australian dollar debt would have a significant effect on the Group.

The tables in (a) and (b) above present financial liabilities and assets denominated in foreign currencies held by the group in 2008 and 2007. If the euro weakened or strengthened by 10% against sterling, with all other variables held constant, profit after tax and equity would move by £352,146. If the Australian dollar weakened or strengthened by 10% against sterling, with all other variables held constant, profit after tax and equity would move by £205,562.

## THE GAME GROUP PLC

### Notes to the Financial Statements for the year ended 31 January 2008 (continued)

---

#### 17 Financial Instruments (continued)

(d) Fair value of borrowings and financial assets

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

	<b>2008</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>
Trade and other receivables	33,295	13,642
Net cash and cash equivalents	137,899	32,927
Current portion of long term debt	(38,038)	(4,477)
Non current portion of long-term debt	(57,809)	(27,827)
	<u>          </u>	<u>          </u>

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

- (e) The Group had no material monetary assets or liabilities that are not denominated in the functional currency of the operating unit involved.
- (f) As at 1 April 2008, the Group had undrawn working capital facilities available to it of £15.9 million (2007: £48.8 million) and Euro nil (2007: Euro nil). There are no significant conditions attached to these facilities.

# THE GAME GROUP PLC

## Notes to the Financial Statements for the year ended 31 January 2008 (continued)

---

### 17 Financial Instruments (continued)

#### Capital risk management

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 16, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 20, 21 and 22.

#### Gearing ratio

It is the Group's policy to maintain its gearing ratio within the range of 0-100% (2007: 0-100%). The Group's gearing ratio at the balance sheet date is shown below:

	<b>2008</b> <b>£'000</b>	<b>2007</b> <b>£'000</b>
Debt (i)	95,847	32,304
Trade and other payables	315,498	150,095
Net cash and cash equivalents	(137,899)	(32,927)
	<hr/>	<hr/>
Net debt	273,446	149,472
	<hr/>	<hr/>
	<b>2008</b> <b>£'000</b>	<b>2007</b> <b>£'000</b>
Equity (ii)	203,922	157,336
	<hr/>	<hr/>
<b>Capital and net debt</b>	<b>477,368</b>	<b>306,808</b>
	<hr/>	<hr/>
Gearing ratio	57%	49%

(i) Debt is defined as current and non-current portion of long term debt, as detailed in note 16.

(ii) Equity includes all capital and reserves of the Group.

**THE GAME GROUP PLC****Notes to the Financial Statements for the year ended 31 January 2008 (continued)**

---

**18 Deferred taxation**

	<b>2008</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>
Accelerated capital allowances	(1,369)	(2,896)
Tax losses carried forward	-	825
Share options	2,615	2,340
Other temporary and deductible differences	(3,175)	842
	<hr/>	<hr/>
Deferred tax (liability) / asset	(1,929)	1,111
	<hr/>	<hr/>
At 1 February 2007	1,111	3
Acquisition of subsidiary	(3,739)	143
Deferred tax charge in the income statement for the year (note 8)	677	(307)
Deferred tax taken to equity	22	1,272
	<hr/>	<hr/>
At 31 January 2008	(1,929)	1,111
	<hr/>	<hr/>

**THE GAME GROUP PLC**

**Notes to the Financial Statements for the year ended 31 January 2008 (continued)**

**19 Leasehold property incentives**

Rent free periods and reverse premiums	<b>2008</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>
At 1 February 2007	4,662	4,345
Rent free periods and reverse premiums received during the year	3,239	713
Released to profit and loss account	(641)	(396)
	<hr/>	<hr/>
<b>At 31 January 2008</b>	<b>7,260</b>	<b>4,662</b>
	<hr/> <hr/>	<hr/> <hr/>
Due within one year	846	592
Due greater than one year	6,414	4,070
	<hr/>	<hr/>
<b>At 31 January 2008</b>	<b>7,260</b>	<b>4,662</b>
	<hr/> <hr/>	<hr/> <hr/>

**20 Called up share capital**

	<b>2008</b>		<b>2007</b>	
	<b>£'000</b>	<b>Number</b>	<b>£'000</b>	<b>Number</b>
<i>Authorised</i>				
Ordinary shares of 5p	24,000	480,000,000	24,000	480,000,000
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Allotted, called up and fully paid</i>				
Ordinary shares of 5p	17,167	343,344,566	17,003	340,071,161
	<hr/>	<hr/>	<hr/>	<hr/>

a) Shares issued

During the year, 3,273,405 (2007: 3,162,746) shares were issued to employees exercising share options granted under various option schemes. The total consideration received on the exercise of these options was £2,725,551 (2007: £1,767,256).

Between the year end and 1 April 2008, a further 1,523,576 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 £1,059,743.

b) Shares purchased

No shares were repurchased for cancellation by the Company during the current and prior years.

c) Trust shares

During the year 1,892,460 shares (2007: no shares) were purchased at a cost of £3,666,622 (2007: £nil). These shares are to be used wholly and exclusively to pay LTIP awards when they become due for payment.

## THE GAME GROUP PLC

### Notes to the Financial Statements for the year ended 31 January 2008 (continued)

---

#### 21 Share premium account

	<b>2008</b> <b>£'000</b>	<b>2007</b> <b>£'000</b>
Amount subscribed for share capital in excess of nominal value.		
At 1 February 2007	42,286	40,677
Arising on issue of shares during the year (net of expenses)	2,562	1,609
	<hr/>	<hr/>
<b>At 31 January 2008</b>	<b>44,848</b>	<b>42,286</b>
	<hr/> <hr/>	<hr/> <hr/>

**THE GAME GROUP PLC**

**Notes to the Financial Statements for the year ended 31 January 2008 (continued)**

**22 Reconciliation of Changes in Equity**

	Share Capital	Share Premium	Capital Redemption Reserve	Shares held in Trust	Merger Reserve	Retained Earnings	Foreign Exchange Reserve	Total
At 1 February 2006	16,845	40,677	2,223	(963)	76,907	9,185	(188)	144,686
Exchanges differences on translation of foreign currency net investment in subsidiaries	-	-	-	-	-	-	(3,571)	(3,571)
Deferred income tax on share based payments credited to equity	-	-	-	-	-	1,272	-	1,272
Net income recognised directly in equity	-	-	-	-	-	1,272	(3,571)	(2,299)
Net income recognised in income statement	-	-	-	-	-	21,140	-	21,140
Total recognised income and expense	-	-	-	-	-	22,412	(3,571)	18,841
Issue of shares	158	1,609	-	-	-	-	-	1,767
Purchase of shares	-	-	-	-	-	-	-	-
Dividends payable	-	-	-	-	-	(8,947)	-	(8,947)
Shares held in Trust	-	-	-	(213)	-	-	-	(213)
Share based payments	-	-	-	-	-	1,202	-	1,202
At 1 February 2007	17,003	42,286	2,223	(1,176)	76,907	23,852	(3,759)	157,336
Exchanges differences on translation of foreign currency net investment in subsidiaries	-	-	-	-	-	-	9,663	9,663
Deferred income tax on share based payments credited to equity	-	-	-	-	-	22	-	22
Net income recognised directly in equity	-	-	-	-	-	22	9,663	9,685
Net income recognised in income statement	-	-	-	-	-	47,179	-	47,179
Total recognised income and expense	-	-	-	-	-	47,201	9,663	56,864
Issue of shares	164	2,562	-	-	-	-	-	2,726
Purchase of shares	-	-	-	(3,667)	-	-	-	(3,667)
Exercise of options	-	-	-	440	-	(440)	-	-
Dividends payable	-	-	-	-	-	(10,541)	-	(10,541)
Share based payments	-	-	-	-	-	1,204	-	1,204
<b>At 31 January 2008</b>	<b>17,167</b>	<b>44,848</b>	<b>2,223</b>	<b>(4,403)</b>	<b>76,907</b>	<b>61,276</b>	<b>5,904</b>	<b>203,922</b>

## THE GAME GROUP PLC

### Notes to the Financial Statements for the year ended 31 January 2008 (continued)

---

**Share Capital** - The amount subscribed for share capital at nominal value

**Share Premium** - The amount subscribed for share capital in excess of nominal value

**Capital Redemption Reserve** - relates to the capital redemption reserve; amounts transferred from share capital on redemption of issued shares.

**Shares held in Trust** - relates to shares held in trust, being the weighted average cost of own shares held in treasury and by the ESOP Trust, 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, purchases the Company's ordinary shares in the open market.

**Merger Reserve** - relates to the merger reserve which holds the share premium arising on the share for share exchange on acquisition of Game Plc.

**Retained Earnings** - relates to retained earnings, being the cumulative net gains and losses recognised in the consolidated income statements.

**Foreign Exchange Reserve** - relates to the foreign exchange reserve, which holds gains/losses arising on re-translating the net assets of overseas operations into sterling since 1 February 2004.

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.

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 2008, is £9,639,000 (2007: £9,639,000).

## THE GAME GROUP PLC

### Notes to the Financial Statements for the year ended 31 January 2008 (continued)

#### 23 Acquisitions

##### Current year acquisitions

On 2 May 2007 the Group acquired 100% of the share capital of the UK pc and video games retailer Gamestation. On acquisition Gamestation operated 217 owned stores throughout the UK. The business was acquired for an initial consideration of £76m and a post completion deferred payment of £7.6m, to reflect cash of £4.3m and other working capital, plus fees of £2.6m.

	<b>Book value £'000</b>	<b>Adjustment £'000</b>	<b>Fair Value £'000</b>
Property, plant and equipment	5,871	-	5,871
Inventories	31,892	(744)	31,148
Trade and other receivables	4,813	-	4,813
Trade and other payables	(24,060)	(1,109)	(25,169)
Cash and cash equivalents	4,289	-	4,289
Tax asset	530	(4,428)	(3,898)
Intangible fixed assets	1,039	-	1,039
Total net assets	<u>24,374</u>	<u>(6,281)</u>	<u>18,093</u>
Initial cash consideration			76,000
Deferred consideration			7,603
Costs of acquisition			<u>2,641</u>
Goodwill and intangibles			<u>68,151</u>

The goodwill arising on acquisition of Gamestation is attributable to the anticipated profitability of the distribution of the Group's products and the anticipated future operating synergies from the combination. The following factors have contributed to the recognition of goodwill:

- The acquired workforce
- The expected synergies from acquisition

From the date of acquisition Gamestation added £273m to turnover and £12m to operating profit.

If the acquisition had been completed on the first day of the financial year, group revenues for the year would have been increased by £67m and the group profit attributable to equity holders of the parent would have been decreased by £1.5m.

## THE GAME GROUP PLC

### Notes to the Financial Statements for the year ended 31 January 2008 (continued)

#### 23 Acquisitions (continued)

##### Current year acquisitions

On 1 July 2007 Engine Technology Systems SL, a subsidiary of Game Group PLC, acquired 100% of the share capital of the Spanish retailer Mail Vigo which owned a GAME Spanish franchise. On acquisition Mail Vigo operated three owned stores throughout Spain. The business was acquired for an initial consideration of £413k.

In addition four Spanish franchises were acquired - Vigo Pontevedra, Fuengirola, Valladolid and Coruna - for a total consideration of £512k.

	<b>Mail Vigo Fair value £'000</b>	<b>Spanish franchises Fair value £'000</b>	<b>Gamestation Fair value £'000</b>	<b>Total Fair value £'000</b>
Property, plant and equipment	87	-	5,871	5,958
Inventories	169	236	31,148	31,553
Trade and other receivables	19	-	4,813	4,832
Trade and other payables	(240)	(250)	(25,169)	(25,659)
Cash and cash equivalents	94	-	4,289	4,383
Long term borrowings	(109)	-	-	(109)
Tax asset	-	-	(3,898)	(3,898)
Intangible fixed assets - goodwill	393	526	51,851	52,770
Intangible fixed assets - brand	-	-	16,300	16,300
Intangible fixed assets - other	-	-	1,039	1,039
Total purchase price	<u>413</u>	<u>512</u>	<u>86,244</u>	<u>87,169</u>
Cash and cash equivalents	(94)	-	(4,289)	(4,383)
Non-cash	-	-	(1,845)	(1,845)
Cash flows on acquisition net of cash acquired	<u>319</u>	<u>512</u>	<u>80,110</u>	<u>80,941</u>

From the date of acquisition Mail Vigo, Vigo Pontevedra, Fuengirola, Valladolid and Coruna added £1,544k, £271k, £785k, £222k, and £294k to turnover respectively and £237k, £36k, £113k, £9k and £31k to operating profit respectively.

If these acquisitions, other than Gamestation, had been completed on the first day of the financial year, it is not anticipated that the operating profit would have been materially different. No fair value adjustments were required on these acquisitions.

23 Acquisitions (continued)

Prior year acquisitions

On 19 September 2006 the Group acquired 100% of the share capital of the Australian retailer, The Games Wizards (“TGW”). TGW operated 14 owned stores and 8 franchises at the time of the acquisition. On 9 October 2006 the Group acquired the trade and assets of the Norwegian retailer, Spiderman TV Spiel Specialisen AS. Spiderman operated 10 stores at the time of acquisition. On 13 November 2006 the Group acquired 50 stores from the French book retailer Maxi-Livre. In Spain five franchises were bought back in to the business.

	TGW Acquisition £'000	Spiderman Acquisition £'000	Maxi-Livre Acquisition £'000	Spain Acquisition £'000	Total Acquisition £'000
Property, plant and equipment	1,010	51	3,810	-	4,871
Inventories	808	552	-	236	1,596
Trade and other receivables	143	-	-	-	143
Trade and other payables	(1,873)	-	-	(177)	(2,050)
Cash and cash equivalents	(1,803)	-	-	-	(1,803)
Long term borrowings	-	-	-	-	-
Deferred tax asset	-	-	-	-	-
Intangible fixed assets - goodwill	3,476	244	-	690	4,410
Intangible fixed assets – other	30	-	-	-	30
	-----	-----	-----	-----	-----
Total purchase price	1,791	847	3,810	749	7,197
Deferred consideration	-	-	-	-	-
Cash and cash equivalents	1,803	-	-	-	1,803
	-----	-----	-----	-----	-----
Cash flows on acquisition net of cash acquired	3,594	847	3,810	749	9,000
	-----	-----	-----	-----	-----

From the date of acquisition TGW, Spiderman, Maxi-Livre and the Spanish franchises added £5.1m, £1.3m, £0.1m and £1.1m to turnover respectively and £(30)k, £60k, £(20k) and £157k to operating profit respectively.

If these acquisitions had been completed on the first day of the financial year, it is not anticipated that the operating profit would have been materially different. Fair value adjustments were made to the Australian balance sheet to reflect the write-down of historic goodwill in the business and the value in use of certain of the fixed assets. No fair value adjustments were required on the other acquisitions.

## THE GAME GROUP PLC

### Notes to the Financial Statements for the year ended 31 January 2008 (continued)

#### 24 Analysis of net funds

	<b>2008</b> <b>£'000</b>	<b>2007</b> <b>£'000</b>
Cash and cash equivalents	137,899	48,286
Short term borrowings	-	(15,359)
	<hr/>	<hr/>
Net cash and cash equivalents	137,899	32,927
Current portion of long term borrowings	(38,038)	(4,477)
Long term borrowings	(57,809)	(27,827)
	<hr/>	<hr/>
Net funds	42,052	623
	<hr/> <hr/>	<hr/> <hr/>

During the year, the Group entered into new finance lease arrangements in respect of assets with a total capital cost of £279,695 (2007: £2,245,000).

#### 25 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. At the balance sheet date, the Group has outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	<b>Motor vehicles 2008 £'000</b>	<b>Land &amp; buildings 2008 £'000</b>	<b>Motor vehicles 2007 £'000</b>	<b>Land &amp; buildings 2007 £'000</b>
The total future minimum lease payments are due as follows:				
Not later than one year	189	486	291	36,786
Later than one year but not later than five years	352	53,396	434	142,103
Later than five years	-	402,460	-	197,953
	<hr/>	<hr/>	<hr/>	<hr/>
	541	456,342	725	376,842
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The average remaining term on operating leases over land and buildings in the UK and Ireland is 7.5 years.

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

**26 Related party transactions**

There were no related party transactions within the year or prior year.

**27 Risks**

The principal risks and uncertainties facing the Group have been and are as at the date of this report:

**Competition**

The Group faces strong competition from a diverse range of competitors including supermarkets, online retailers, conventional high street retailers and independents. The Group expects increased competition from food retailers who are expanding their range of non-food items.

**Seasonality**

The Group's business is highly seasonal with the key trading period being the Christmas season. Turnover, operating profit and cash flow may be adversely impacted by variations in demand during this period.

**Technology**

Playing games online is a growing part of the market, whereby software content is sent digitally, direct from the publisher to the gamer. This may lead to reduced product sales for mainline retailers.