

30 September 2008



THE GAME GROUP PLC, Europe's leading retailer of PC and video games products, today announces interim results for the six months ended 31 July 2008.

## Interim Results for the six months ended 31 July 2008

### Highlights

All figures in £'m (unless stated)	Six months ended 31/7/08	Six months ended 31/7/07
Group turnover	743.4	482.4
Gross profit margin (%)	27.0	25.8
Operating profit before non-recurring costs	39.0	6.2
Non-recurring costs	3.0	1.4
Profit before non-recurring costs and tax	36.4	2.7
Profit before tax	33.4	1.3
Basic earnings per share before non-recurring costs (pence)	7.66	0.67
Basic earnings per share (pence)	6.78	0.27
Interim dividend per share (pence)	1.79	1.43
Trading store numbers	1,245	1,084
Trading square footage (sq. ft.thousands)	1,296	1,123

### Operational and financial highlights

- Record first half profit of £36.4m before non-recurring costs and tax (2007: £2.7m)
- Strong sales performance across the Group with total sales growth of 54.1% and like for like ('lfl') sales ahead by 22.2%
- Good international performance with sales up 64.2% and lfl sales up 17.4%
- Gross margin up by 120 basis points for the half year compared to the same period last year (see full year guidance below)
- Gamestation integration progressing better than anticipated and we are on track to deliver £9m of synergies in the current year an increase of £2m from our prior guidance (see full year guidance below)
- Further broadening our reach with an acquisition, post the half year, in the Czech Republic of a 19 store specialist retail chain and a 33 store concession deal with Borders in the UK
- Store portfolio will be over 1,300 by the key Christmas trading season compared to 1,150 at the same time last year
- Strong balance sheet and minimal gearing
- Interim dividend increased by 25% to 1.79p
- Current trading remains good with total sales increase of 14.6% and lfl increase of 4.9% for the 8 weeks to 20 September (Prior year total sales lfl for the comparable period up by 44.9%) (see full year guidance below).

## Revised Guidance

- Due to a strong performance to date and positive outlook, we have raised our guidance for the Group's full year LFL sales performance from 5-10% to 8-12%
- Gross margin growth guidance (including the gross margin benefit of the Gamestation synergies) for the full year raised to 80 – 110 basis points ('bps') from 50 - 100 bps
- Gamestation synergy guidance raised for the current year from £7m to £9m and a total of £14m of annualised benefits expected in the year to 31 January 2010

Peter Lewis, Chairman, said:

"I am very pleased to report a record first half for the Group with a very significant increase in profit before taxation and non-recurring costs to £36.4m (2007: £2.7m). The business has performed extremely well with both turnover and profit growth throughout the Group.

We deliver a compelling customer experience. Our specialist proposition is centred around customer service, our pre-owned offer, our Reward Card and our online capabilities, all of which have contributed to this success.

The third generation consoles are all in good supply. Demand has continued to be strong and the installed console base now stands at over 17.3 million in the key UK market. This level of console ownership has been achieved in just three years compared to second generation consoles which took a seven year period from 2000 until 2007 to reach similar levels.

Due to a strong performance to date, a broad and growing installed base of console ownership, and a strong pipeline of new and innovative software, we have raised our guidance for the Group's full year LFL sales performance from 5-10% to 8-12%.

We recognise the extraordinarily challenging and uncertain market conditions in which we are operating today, and we cannot be immune to wider economic uncertainties. However, we continue to be encouraged by the ongoing demand for third generation hardware and software which is in part being driven by the broadening demographic appeal. In addition, playing games provides a more affordable alternative to many other family leisure activities and we remain committed to delivering our customers the widest choice and value for money.

We look forward to the key Christmas trading period and remain confident in the outlook for the Group."

A presentation to investors and analysts will be held today at 9.30am (BST) at The City Presentation Centre, 4 Chiswell Street, EC1Y 4UP.

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).

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## **CHAIRMAN'S REPORT**

I am very pleased to report a record first half for the Group with a very significant increase in profit before taxation and non-recurring costs to £36.4m (2007: £2.7m). The business has performed extremely well with both turnover and profit growth throughout the Group.

We deliver a compelling customer experience. Our specialist proposition is centred around customer service, our pre-owned offer, our Reward Card and our online capabilities, all of which have contributed to this success.

We recognise the extraordinarily challenging and uncertain market conditions in which we are operating today, and we cannot be immune to wider economic uncertainties. However, we continue to be encouraged by the ongoing demand for third generation hardware and software which is in part being driven by the broadening demographic appeal. In addition, playing games provides a more affordable alternative to many other family leisure activities and we remain committed to delivering our customers the widest choice and value for money.

### **Results**

Group turnover for the six months to 31 July 2008 increased by 54.1% to £743.4m (2007: £482.4m) with lfl sales up by 22.2%. In the UK and Ireland, total sales increased by 50.4% and lfl sales were up by 24.2%. In our international operations, total sales and lfl sales increased by 64.2% and 17.4% respectively.

We had previously forecast an improvement in gross margin of 50 to 100 basis points but we actually achieved a 120 basis point improvement with gross margin increasing to 27%. This arose from an increase in higher margin software within the overall sales mix and, to a limited extent, better purchasing terms for Gamestation.

Group operating profit was £36.0m (2007: £4.8m). Profit before tax was £33.3m (2007: £1.4m) and basic earnings per share were 6.78p (2007: 0.27p).

Your Board is declaring an interim dividend of 1.79p per share, an increase of 25%.

Our net debt position as at 31 July 2008 more than halved from the prior year July to £57.8m (2007: £127.5m). The Group continues to be very cash generative and has a strong balance sheet.

## **Business development**

### ***Our market and position***

The Group is now well positioned in five key international territories – UK and Ireland, France, Iberia, Scandinavia and Australia with a total of 1,245 outlets trading at 31 July 2008.

We continue to target the Group's resources towards those markets with the strongest return characteristics and where we believe our expertise can deliver real improvements in performance. We are continuing to build the Group's online capability in tandem with the growth of the store portfolio.

The third generation consoles are all in good supply. Demand has continued to be strong and the installed console base now stands at over 17.3 million in the key UK market. This level of console ownership has been achieved in just three years compared to second generation consoles which took a seven year period from 2000 until 2007 to reach similar levels.

An expanded base of hardware in the market leads to more software being sold, both to the more traditional gamer and to new customers entering the market for the first time. The consumer appeal of PC and video games is broadening with more women and families, younger children and older people buying games in our stores.

The manufacturers and publishers of PC and video games are continuing to stimulate this broader audience by creating and launching fun and interactive games such as Nintendo Wii Fit, Electronic Arts Rockband and Activision's Guitar Hero World Tour.

### ***The UK and Ireland***

In the UK, we are continuing to evolve the distinctive dual brand position of GAME and Gamestation. A thorough analysis of the combined portfolio and the consumer offering has reinforced the value of a dual brand strategy as each brand can appeal to separately identifiable consumer segments.

We acquired Gamestation in May 2007 and received Competition Commission clearance in January 2008. We have been very pleased with the performance of the Gamestation business which has exceeded our expectations.

The Gamestation store portfolio continues to grow with a focus on locations that are complementary to the GAME brand.

We originally expected synergies of £7m to be achieved in the 12 months from acquisition. However the Board now considers that ongoing synergies of £9m can be achieved in the 53 weeks to 31 January 2009 and a further £5m, giving an annual rate of £14m, in the year to 31 January 2010. The synergies will both increase gross margin and reduce operating expenses. Of the £9m in the current year around £1.5m will be a reduction in operating expenses which will increase to around £5m in the year to January 2010.

There will be an increased total non-recurring charge of approximately £10m related to integrating the acquisition, of which £3m was incurred last year and £5.5m will be incurred this year with the balance in 2009. In addition, the total capital expenditure required to integrate and enhance the acquisition will be £5m with £4m incurred in the current year.

### ***Borders***

On 29 September 2008, GAME entered into a concession agreement with Borders to open up to 33 concessions within Borders stores in the UK. The agreement was reached after a successful trial in six stores. A further 14 stores will be opened by Christmas 2008 with the balance by September 2009.

This store-in-store concept, which will be branded GAME, will help to broaden our consumer reach and will complement the GAME standalone stores and our other 31 concessions within retailers such as Debenhams, Selfridges, Hamleys and Fenwick.

### ***International***

The International business continues to perform well in all territories, contributing 29% to the Group revenue and 10% of operating profit. Our profitability is continuing to improve as we achieve greater economies of scale in these international markets.

We opened a net 71 international stores in the first half with 17 of these in France, 33 in Iberia, 21 in Australia with the Scandinavia store portfolio remaining at 62 stores.

As part of our international growth strategy we are continuing to buy-in or close existing franchises. On 2 July 2008, we completed the purchase of five of the remaining seven French franchise stores for a cost of €1.8m (£1.43m).

### ***Czech Republic***

On 21 August 2008, GAME acquired the Czech video games retailer "JRC" for Czk122.5m (£3.95m) in cash of which Czk61.75m (£2m) was payable immediately and the balance is payable over the course of the next two years.

JRC, based in Prague, is the leading specialist retailer of PC and video games in the Czech Republic. JRC provides the opportunity to develop GAME's international business in Central and Eastern Europe. The company operates 19 specialist PC and video games stores, located in the principal cities in the Czech market including six stores in Prague, and transactional e-Commerce site [www.jrc.cz](http://www.jrc.cz). It is the leading retailer in the market with market share in excess of 15%. JRC has a committed management team with more than 15 years of experience.

In the financial year to 31 December 2007 JRC reported EBITDA of £625k (2006: £195k) and sales of £6.8m (2006: £5.2m). We believe this acquisition will be earnings enhancing for the Group within the first year.

## Treasury

Our net debt as at 31 July 2008 was £57.8m (31 July 2007 - £127.5m) (31 January 2008 - £42.1m net cash), the reduction being driven by strong operating cashflows.

In the 2008/09 financial year average net debt is anticipated to be around £67m (2007: £82m). The Board is committed to an efficient capital structure and continues to review the dividend policy and a share buyback strategy along with the continued organic or acquisitive growth of the store portfolio.

We anticipate that our total capital expenditure for the year on store openings, refurbishment and information technology requirements, will be around £40m. In addition we will spend £7m on eCommerce development and £4m on the Gamestation integration.

## Store Portfolio

During the period the Group has opened or acquired 97 stores and closed six stores as part of the Group's ongoing portfolio management.

	31 July 2008	31 July 2007	31 January 2008
	Number	Number	Number
<i>Company owned and concessions</i>			
UK and Ireland			
- GAME – Stores	386	377	381
- GAME - Concessions	37	33	33
- Gamestation	246	223	235
	669	633	649
France	187	161	170
Iberia	241	183	208
Scandinavia	62	61	62
Total Continental Europe	490	405	440
Australia	72	22	51
<i>International</i>	562	427	491
<i>Total owned and concessions</i>	1,231	1,060	1,140
<i>Franchises</i>			
France	2	7	7

Iberia	10	12	10
Australia	2	5	4
Total franchises	14	24	21
Total operational outlets	1,245	1,084	1,161

Ahead of the key Christmas trading period we aim to have 440 GAME and 250 Gamestation stores in UK and Ireland, 500 stores and 10 franchises in Europe and 100 owned stores and one franchise in Australia.

### **eCommerce**

We continue to focus on our multi-channel proposition and our sales from eCommerce have grown 80% year on year to £32m (£18m) with every international business actively participating in this area. This year, GAME is on track to invest £7m in distribution infrastructure and consumer facing development.

### **The Board**

On 3 July 2008, Dennis Woodside was appointed as a non-executive director. Mr Woodside (39) is the Managing Director of Google for the UK, Ireland and Benelux. He has a wealth of experience in the internet arena and has a deep understanding of online retailing. His consultancy experience with McKinseys and his legal training will also bring complementary skills to the Board.

### **Staff and Management**

Our staff and management have once again delivered a great performance through their significant efforts and enthusiasm. I would like to thank them all.

### **Corporate Social Responsibility**

Corporate and Social Responsibility (“CSR”) is right at the heart of GAME.

As a responsible retailer, we recognise that the way we operate as a business has a direct impact on our reputation and our brand. We are continuing to develop our CSR strategy and our stakeholder relationships.

### **Current Trading and Future Prospects**

We have had a fantastic first eight months of the year.

Consumer demand remains strong for all formats. Sony launched an 80Gb version of their PS3 on 22 August and Microsoft reduced the recommended retail price of the entry level Xbox 360 to a mass market price point of £129 from £159 on 23 September 2008. The Nintendo Wii and DS Lite continue to be sought after and demand for software such as Wii Fit and Mario Kart is still exceeding supply.

The UK installed base of third generation platforms now exceeds 17.3 million and we expect this to have reached an unprecedented base of around 21 million by Christmas 2008. The rapidly growing installed base will continue to stimulate the sale of software. Once again the line-up from October for Christmas is very strong with annual releases such as FIFA09 and Need for Speed, sequels such as Gears of War 2 and Call of Duty 5 and exciting new franchises including Mirrors Edge from Electronic Arts, Lips from Microsoft and Little Big Planet from Sony.

In the eight weeks ended 20 September 2008 (the comparable period as reported last year when Group lfl sales were up by 44.9%) total Group sales were up by 14.6% with the UK and Ireland and international total sales up by 8.5% and 32.5% respectively. For the same period Group lfl sales were up by 4.9%, with the UK and Ireland lfl sales up by 4.6% and international lfl sales up by 5.9%.

In the 34 weeks to 20 September total Group sales were up by 39% with the UK and Ireland and International up by 38.2% and 41.2% respectively. For the same period Group lfl sales were up by 17.5%, with the UK and Ireland lfl sales up by 18.6% and International lfl sales up by 14.4%.

Due to a strong performance to date, a broad and growing installed base of console ownership, and a strong pipeline of new and innovative software, we have raised our guidance for the Group's full year LFL sales performance from 5-10% to 8-12%. We now anticipate that gross margin for the year to 31 January 2009 will increase by 80 to 110 basis points as higher margin software becomes a larger part of the sales mix compared to last year and we achieve further purchasing and stock efficiencies.

We look forward to the key Christmas trading period and remain confident in the outlook for the Group.

**Peter Lewis**

Chairman

30 September 2008

**GAME Group Plc**  
**Unaudited Condensed Consolidated Income Statement**  
**for the six months ended 31 July 2008**

	Notes	Six months ended 31 July 2008 Unaudited	Six months ended 31 July 2007 Unaudited	Year ended 31 January 2008 Audited
		£'000	£'000	£'000
<b>Revenue</b>	2	<b>743,385</b>	482,363	1,491,914
Cost of sales		<u>542,720</u>	<u>357,895</u>	<u>1,122,337</u>
<b>Gross profit</b>		<b>200,665</b>	124,468	369,577
Other operating expenses	3	<u>164,694</u>	<u>119,634</u>	<u>294,385</u>
<b>Operating profit before non-recurring costs</b>		<b>39,016</b>	6,198	82,340
Non-recurring costs	3	<u>(3,045)</u>	<u>(1,364)</u>	<u>(7,148)</u>
<b>Operating profit</b>		<b>35,971</b>	4,834	75,192
Finance income		<b>828</b>	330	1,511
Finance costs		<u>(3,490)</u>	<u>(3,805)</u>	<u>(8,341)</u>
<b>Profit before taxation</b>		<b>33,309</b>	1,359	68,362
Taxation	4	<u>9,903</u>	<u>421</u>	<u>21,183</u>
<b>Profit for the period attributable to equity holders of the parent</b>		<b>23,406</b>	938	47,179
<b>Earnings per share - basic</b>	6	6.78p	0.27p	13.79p
<b>- diluted</b>	6	<u>6.75p</u>	<u>0.27p</u>	<u>13.65p</u>

**GAME Group Plc**  
**Unaudited Condensed Consolidated Balance Sheet**  
**at 31 July 2008**

	Notes	As at 31 July 2008 Unaudited £'000	As at 31 July 2007 Unaudited £'000	As at 31 January 2008 Audited £'000
<b>Non current assets</b>				
Property, plant and equipment	7	144,928	114,035	130,662
Intangible assets	8	175,566	166,286	172,871
Deferred tax asset		-	1,666	-
		<u>320,494</u>	<u>281,987</u>	<u>303,533</u>
<b>Current assets</b>				
Inventories		184,045	120,490	145,041
Trade and other receivables	9	61,825	45,614	53,845
Cash and cash equivalents		62,647	26,479	137,899
		<u>308,517</u>	<u>192,583</u>	<u>336,785</u>
<b>Total assets</b>		<u>629,011</u>	<u>474,570</u>	<u>640,318</u>
<b>Current liabilities</b>				
Trade and other payables	10	261,716	153,964	315,498
Short-term borrowings		-	5,081	-
Current portion of long term borrowings	11	63,439	67,855	38,038
Leasehold property incentives		713	735	846
Corporation tax liabilities		14,030	2,842	15,862
		<u>339,898</u>	<u>230,477</u>	<u>370,244</u>
<b>Non current liabilities</b>				
Long-term borrowings	11	57,030	81,087	57,809
Leasehold property incentives		7,094	5,978	6,414
Deferred tax liabilities		1,929	-	1,929
		<u>66,053</u>	<u>87,065</u>	<u>66,152</u>
<b>Total liabilities</b>		<u>405,951</u>	<u>317,542</u>	<u>436,396</u>
<b>Net assets</b>		<u>223,060</u>	<u>157,028</u>	<u>203,922</u>
<b>Equity attributable to equity holders of the parent</b>				
Share capital	13	17,314	17,135	17,167
Share premium account	14	46,435	44,213	44,848
Capital redemption reserve	15	2,249	2,223	2,223
Shares held in Trust	15	(5,315)	(1,176)	(4,403)
Merger reserve	15	76,907	76,907	76,907
Foreign exchange reserve	15	13,323	(2,011)	5,904
Retained Earnings	15	72,147	19,737	61,276
<b>Shareholders' funds</b>		<u>223,060</u>	<u>157,028</u>	<u>203,922</u>

Approved and authorised for issue by the Board on 30  
September 2008

D Thomas  
Director

**GAME Group Plc**  
**Unaudited Condensed Consolidated**  
**Statement of Recognised Income & Expense**  
**for the six months ended 31 July 2008**

	Notes	<b>Six months ended 31 July 2008 Unaudited £'000</b>	Six months ended 31 July 2007 Unaudited £'000	Year ended 31 January 2008 Audited £'000
Exchange differences on translation of foreign currency net investments in subsidiary undertakings		7,419	1,748	9,663
Deferred income tax on share-based payments		-	-	22
<b>Total income and expense recognised directly in equity</b>		<b>7,419</b>	1,748	9,685
Profit on ordinary activities after taxation		23,406	938	47,179
<b>Total recognised income and expense for the year attributable to equity holders</b>		<b>30,825</b>	2,686	56,864

**GAME Group Plc**  
**Unaudited Condensed Consolidated Cash Flow**  
**Statement**  
**for the six months ended 31 July 2008**

	Notes	<b>Six months ended 31 July 2008 Unaudited £'000</b>	Six months ended 31 July 2007 Unaudited £'000	Year ended 31 January 2008 Audited £'000
<b>Cash flows from operating activities</b>				
Operating profit		<b>35,971</b>	4,834	75,192
Equity-settled share-based payment expense		<b>828</b>	583	1,204
Depreciation and amortisation		<b>12,632</b>	8,855	20,587
Loss on disposal of non-current assets		<b>(212)</b>	611	286
Market value movement on financial instrument		<b>205</b>	102	(139)
		<b>49,424</b>	14,985	97,130
Increase in trade and other receivables		<b>(7,980)</b>	(12,542)	(20,772)
(Increase)/decrease in inventories		<b>(38,806)</b>	(4,010)	(28,562)
(Decrease)/increase in trade and other payables		<b>(51,926)</b>	(19,601)	143,645
(Decrease)/increase in leasehold incentives		<b>547</b>	(14)	532
Cash generated from operations		<b>(48,741)</b>	(21,182)	191,973
Finance costs paid		<b>(3,490)</b>	(3,804)	(8,341)
Corporation tax paid		<b>(11,735)</b>	(2,582)	(11,580)
<b>Net cash from operating activities</b>		<b>(63,966)</b>	<b>(27,568)</b>	<b>172,052</b>
<b>Cash flows from investing activities</b>				
Acquisitions	16	<b>(1,595)</b>	(80,314)	(80,941)
Purchase of property, plant and equipment		<b>(20,475)</b>	(14,579)	(37,218)
Purchase of intangible assets		<b>(2,605)</b>	(1,110)	(2,703)
Proceeds from sale of equipment		<b>455</b>	-	205
Finance income received		<b>828</b>	330	1,511
<b>Net cash used in investing activities</b>		<b>(23,392)</b>	<b>(95,673)</b>	<b>(119,146)</b>
<b>Cash flows from financing activities</b>				
Proceeds from issue of share capital		<b>1,710</b>	2,058	2,726
Purchase of own shares		<b>(1,241)</b>	-	-
Shares purchased for Trust		<b>(2,692)</b>	-	(3,667)
Proceeds from long term borrowing		<b>25,124</b>	52,173	64,098
Proceeds from short term borrowing		-	63,421	-
Payment of finance lease liabilities		<b>(503)</b>	(304)	(550)
Dividends paid		<b>(10,292)</b>	(5,636)	(10,541)
<b>Net cash used in financing activities</b>		<b>12,106</b>	<b>111,712</b>	<b>52,066</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(75,252)</b>	<b>(11,529)</b>	<b>104,972</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>137,899</b>	32,927	32,927
<b>Cash and cash equivalents at end of period</b>	12	<b>62,647</b>	<b>21,398</b>	<b>137,899</b>

## **Notes to the interim results**

### **1 General**

The GAME Group plc is a company incorporated, domiciled and registered in England and Wales and is listed on the London Stock Exchange. The address of its registered office is Unity House, Telford Road, Basingstoke, RG21 6YJ.

#### **Basis of preparation**

The financial information presented in this interim report has been prepared in accordance with the accounting policies the Group expects to be applicable at 31 January 2009. The interim report has been prepared in accordance with those IFRS and IFRIC interpretations issued and effective as at the time of preparing the statement, and with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34, Interim Financial Reporting, as adopted by the European Union. In line with this standard, the financial statements are referred to as condensed.

#### **Accounting policies**

The accounting policies used in preparing the Interim Report are as set out in the statutory accounts for the year ended 31 January 2008. There have been no changes in accounting policies and accounting estimates.

#### **Estimates and judgements**

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Significant items subject to such assumptions and estimates include the useful lives of assets, the measurement and recognition of provisions, the recognition of deferred tax assets and liabilities for potential corporation tax. The most critical accounting policies in determining the financial condition and results of the Group are those requiring the greatest degree of subjective or complex judgements. These relate to inventory valuation; lease costs; the valuation of goodwill and acquired intangible assets; share-based payments and taxation. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

## Notes to the interim results

### 1 General (continued)

#### Adoption of new and revised Standards

##### *Standards and Interpretations effective in the current period*

IFRIC 13 “Customer Loyalty Programmes” is effective for financial statements commencing after 1 July 2008 although this interpretation is not yet endorsed by the EU. The Directors are considering the impact of the adoption of this interpretation for the financial year ended 31 January 2010.

##### *Standards and Interpretations in issue not yet adopted*

The International Accounting Standards Board and the International Financial Reporting Interpretations Committee have issued the following standards and interpretations to be applied to financial statements with periods commencing on or after the following dates:

International Accounting Standards (IAS/IFRS)	Effective Date
IAS 1* Presentation of Financial statements amendment	01/01/2009
IFRS 8 Operating Segments	01/01/2009
IAS 23* Borrowing costs amendment	01/01/2009
IAS 32* Financial Instruments: Presentation amendment	01/01/2009
IFRS 2* Share-based payments amendment	01/01/2009
IFRS 3* Business Combinations amendment and complementary amendments to IAS 27 Consolidated and Separate Financial Statements	01/07/2009
IAS 39* Financial Instruments: Recognition and measurement: Eligible Hedged Items amendment	01/07/2009
IFRS 5* Non-current assets held for sale and discontinued operations amendment	01/01/2010
IAS 7* Statement of cash flows amendment	01/01/2010
IAS 18* Revenue amendment	01/01/2010
IAS 36* Impairment of assets amendment	01/01/2010
IAS 38* Intangible assets amendment	01/01/2010
International Financial Reporting Interpretations Committee (IFRIC)	Effective Date
IFRIC 12* Service Concession Arrangements	01/01/2008
IFRIC 14*, IAS 19* ‘The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction’	01/01/2008
IFRIC 13* Customer Loyalty Programmes	01/07/2008
IFRIC 16* Hedges of a Net Investment in a Foreign Operation	01/01/2009
IFRIC 15* Agreements for the Construction of Real Estate	01/01/2009

\*These standards and interpretations are not endorsed by the EU at present.

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the group’s financial statements in the period of initial application.

## Notes to the interim results

### 2 Revenue and operating profit

	<b>United Kingdom &amp; Ireland</b>	<b>Other EU</b>	United Kingdom & Ireland	Other EU	United Kingdom & Ireland	Other EU
	<b>31 July 2008</b>	<b>31 July 2008</b>	31 July 2007	31 July 2007	31 January 2008	31 January 2008
	<b>£'000</b>	<b>£'000</b>	£'000	£'000	£'000	£'000
Revenue	<b>528,495</b>	<b>214,890</b>	351,457	130,906	1,104,657	387,257
Cost of sales	<b>383,701</b>	<b>159,019</b>	259,229	98,666	829,630	292,707
Gross profit	<b>144,794</b>	<b>55,871</b>	92,228	32,240	275,027	94,550
Other operating expenses	<b>109,263</b>	<b>52,386</b>	84,276	33,994	205,913	81,324
Operating profit/(loss) before non-recurring costs	<b>35,531</b>	<b>3,485</b>	7,952	(1,754)	69,114	13,226
Non-recurring costs	<b>3,045</b>	<b>-</b>	1,364	-	7,148	-
Operating profit/(loss)	<b>32,486</b>	<b>3,485</b>	6,588	(1,754)	61,966	13,226

	<b>Six months ended 31 July 2008 Unaudited £'000</b>	Six months ended 31 July 2007 Unaudited £'000	Year ended 31 January 2008 Audited £'000
<b>Turnover by territory</b>			
United Kingdom and Ireland	<b>528,495</b>	351,457	1,104,657
France	<b>78,475</b>	47,793	141,183
Iberia	<b>97,819</b>	60,773	175,808
Scandinavia	<b>19,853</b>	16,464	43,485
Australia	<b>18,743</b>	5,876	26,781
	<b>743,385</b>	482,363	1,491,914
<b>Stores by territory</b>			
United Kingdom and Ireland	<b>669</b>	633	649
France	<b>187</b>	161	170
Iberia	<b>241</b>	183	208
Scandinavia	<b>62</b>	61	62
Australia	<b>72</b>	22	51
	<b>1,231</b>	1,060	1,140
<b>Franchises</b>			
France	<b>2</b>	7	7
Iberia	<b>10</b>	12	10
Australia	<b>2</b>	5	4
	<b>14</b>	24	21
<b>Trading square footage by territory</b>			
United Kingdom and Ireland	<b>781,294</b>	729,655	712,408
France	<b>173,548</b>	154,867	162,014
Iberia	<b>199,921</b>	153,079	177,427
Scandinavia	<b>59,729</b>	59,923	59,729
Australia	<b>81,566</b>	25,238	58,639
	<b>1,296,058</b>	1,122,762	1,170,217

## Notes to the interim results

### 3 Other operating expenses

	Six months ended 31 July 2008 Unaudited £'000	Six months ended 31 July 2007 Unaudited £'000	Year ended 31 January 2008 Audited £'000
Selling and distribution	137,768	100,646	234,450
Administrative expenses	26,926	18,988	59,935
	<b>164,694</b>	<b>119,634</b>	<b>294,385</b>

In the current year administrative expenses include non-recurring costs of £3,044,635 (2007 interim: £1,364,000; full year: £7,147,721) in relation to integration fees following the acquisition of Gamestation.

### 4 Taxation

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

	Six months ended 31 July 2008 Unaudited £'000	Six months ended 31 July 2007 Unaudited £'000	Year Ended 31 January 2008 Audited £'000
<b>Current year</b>			
UK corporation tax	8,701	421	19,615
Adjustments in respect of prior periods	-	-	(1,191)
Overseas tax payable	1,202	-	3,436
<b>Total current tax</b>	<b>9,903</b>	<b>421</b>	<b>21,860</b>
Deferred tax:			
Current year movement	-	-	(191)
Adjustment to estimated recoverable deferred tax asset arising in previous period	-	-	825
Prior year movement	-	-	(1,274)
Change in tax rates	-	-	(37)
	<b>9,903</b>	<b>421</b>	<b>21,183</b>

### 5 Dividends

	Six months ended 31 July 2008 Unaudited £'000	Six months ended 31 July 2007 Unaudited £'000	Year ended 31 January 2008 Audited £'000
<b>Ordinary dividends</b>			
Final Paid	10,292	5,636	5,636
Interim Paid	-	-	4,905
	<b>10,292</b>	<b>5,636</b>	<b>10,541</b>

The interim dividend in relation to the period ended 31 July 2008 was declared on 30 September 2008 and is payable on 27 November 2008 to shareholders on the register on 31 October 2008. This dividend is therefore not included above.

## Notes to the interim results

### 6 Earnings per share

The calculation of earnings per share for the six months ended 31 July 2008 is based on the profit after taxation of £23,406,000 (2007 interim: £938,000; full year: £47,179,000). The calculation of the earnings per share before non-recurring costs is based on a profit of £26,451,000 (2007 interim: £2,302,000; full year: £54,327,000). The calculation of basic earnings per share is based on a weighted average number of shares in issue during the period of 345,472,823 (2007 interim: 341,617,905; full year: 342,198,365). The calculation of diluted earnings per share is based on a weighted average number of shares in issue during the period of 346,734,921 (2007 interim: 345,436,165; full year: 345,603,909).

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

	<b>Basic</b>	<b>Effect of share options</b>	<b>Diluted</b>
	<u>Number</u>	<u>Number</u>	<u>Number</u>
<b>31 July 2008</b>	<b>345,472,823</b>	<b>1,262,098</b>	<b>346,734,921</b>
31 July 2007	341,617,905	3,818,260	345,436,165
31 January 2008	342,198,365	3,405,544	345,603,909

There are no anti-dilutive share options in the current or prior years.

	<b>As at 31 July 2008 Unaudited Pence</b>	<b>As at 31 July 2007 Unaudited Pence</b>	<b>As at 31 January 2008 Audited Pence</b>
<b>Basic earnings per share</b>	<b>6.78</b>	0.27	13.79
<b>Non-recurring costs</b>	<b>0.88</b>	0.40	2.09
Basic earnings per share before non-recurring costs	<b>7.66</b>	0.67	15.88

## Notes to the interim results

### 7 Property, plant and equipment

	As at 31 July 2008 <u>Unaudited</u> £'000	As at 31 July 2007 Unaudited £'000	As at 31 January 2008 Audited £'000
<b>Cost</b>			
At 31 January 2008	219,236	159,090	159,090
Additions	20,475	14,579	37,218
Acquisitions	149	19,239	19,477
Disposals	(1,016)	(724)	(3,581)
Foreign exchange adjustment	5,936	1,300	7,032
At 31 July 2008	<u>244,780</u>	<u>193,484</u>	<u>219,236</u>
<b>Depreciation</b>			
At 31 January 2008	88,574	58,095	58,095
Charge for the period	10,749	8,192	18,583
Acquisitions	-	13,353	13,519
Disposals	(854)	(474)	(3,075)
Foreign exchange adjustment	1,383	283	1,452
At 31 July 2008	<u>99,852</u>	<u>79,449</u>	<u>88,574</u>
<b>Carrying amount</b>	<u>144,928</u>	<u>114,035</u>	<u>130,622</u>

### 8 Intangible fixed assets

	As at 31 July 2008 <u>Unaudited</u> £'000	As at 31 July 2007 Unaudited £'000	As at 31 January 2008 Audited £'000
<b>Cost</b>			
At 31 January 2008	179,080	104,981	104,981
Acquisitions	1,211	65,089	70,820
Additions	2,605	1,110	2,703
Foreign exchange adjustment	958	121	584
Disposals	(102)	-	(8)
At 31 July 2008	<u>183,752</u>	<u>171,301</u>	<u>179,080</u>
<b>Amortisation</b>			
At 31 January 2008	6,209	3,459	3,459
Acquisitions	-	877	711
Charge for the period	1,883	664	2,004
Foreign exchange adjustment	115	15	84
Disposals	(21)	-	(49)
At 31 July 2008	<u>8,186</u>	<u>5,015</u>	<u>6,209</u>
<b>Carrying amount</b>	<u>175,566</u>	<u>166,286</u>	<u>172,871</u>

## Notes to the interim results

### 9 Trade and other receivables

	As at 31 July 2008 <u>Unaudited</u>	As at 31 July 2007 Unaudited	As at 31 January 2008 Audited
	£'000	£'000	£'000
Amounts falling due within one year:			
Trade receivables	10,739	10,360	18,921
Other receivables	16,205	8,291	14,050
VAT recoverable	804	221	324
Total trade and other receivables	<u>27,748</u>	<u>18,872</u>	<u>33,295</u>
Prepayments and accrued income	<u>34,077</u>	<u>26,742</u>	<u>20,550</u>
	<u><u>61,825</u></u>	<u><u>45,614</u></u>	<u><u>53,845</u></u>

### 10 Trade and other payables

	As at 31 July 2008 <u>Unaudited</u>	As at 31 July 2007 Unaudited	As at 31 January 2008 Audited
	£'000	£'000	£'000
Amounts falling due within one year:			
Trade payables	169,792	96,584	192,529
Other payables	10,814	4,659	7,838
Tax and social security costs	4,293	2,770	4,039
VAT payable	21,531	15,669	50,206
Accruals and deferred income	<u>55,286</u>	<u>34,282</u>	<u>60,886</u>
	<u><u>261,716</u></u>	<u><u>153,964</u></u>	<u><u>315,498</u></u>

## Notes to the interim results

### 11 Long term borrowings

	As at 31 July 2008 Unaudited £'000	As at 31 July 2007 Unaudited £'000	As at 31 January 2008 Audited £'000
<b>Current portion</b>			
Bank loans	62,963	67,256	37,515
Obligations under finance leases and hire purchase contracts	476	599	523
	<u>63,439</u>	<u>67,855</u>	<u>38,038</u>
<b>Non-current portion</b>			
Bank loans	56,573	80,000	56,897
Obligations under finance leases and hire purchase contracts	457	1,087	912
	<u>57,030</u>	<u>81,087</u>	<u>57,809</u>

### 12 Analysis of net (debt)/funds

	As at 31 July 2008 Unaudited £'000	As at 31 July 2007 Unaudited £'000	As at 31 January 2008 Audited £'000
Cash and cash equivalents	62,647	26,479	137,899
Short-term borrowings	-	(5,081)	-
Net cash and cash equivalents	<u>62,647</u>	<u>21,398</u>	<u>137,899</u>
Current portion of long-term borrowings	(63,439)	(67,855)	(38,038)
Long-term borrowings	(57,030)	(81,087)	(57,809)
Net (debt)/funds	<u>(57,822)</u>	<u>(127,544)</u>	<u>42,052</u>

## Notes to the interim results

### 13 Called-up share capital

	2008		2007	
	£'000	Number	£'000	Number
<i>Authorised</i>				
Ordinary shares of 5p	<u>24,000</u>	<u>480,000,000</u>	<u>24,000</u>	<u>480,000,000</u>
<i>Allotted, called-up and fully paid</i>				
Ordinary shares of 5p	<u>17,314</u>	<u>346,282,946</u>	<u>17,135</u>	<u>342,698,757</u>

#### Shares issued

During the half year 2,938,380 shares (2007 interim: 2,599,943; full year: 3,273,405) were issued to employees exercising share options granted under various option schemes. The total consideration received on the exercise of these options was £1,732,846 (2007 interim: £2,058,437; full year: £2,725,551).

#### Share purchased

During the year 500,000 shares (2007 interim: nil; full year: nil) were purchased for cancellation by the Company.

#### Trust shares

During the year 1,000,000 shares (2007 interim: nil; full year: 1,892,460) were purchased at a cost of £2,692,310 (2007 interim: £nil; full year: £3,666,622). These shares are to be used wholly and exclusively to pay LTIP awards when they become due for payment.

### 14 Share Premium account

	As at 31 July 2008 Unaudited £'000	As at 31 July 2007 Unaudited £'000	As at 31 January 2008 Audited £'000
Amount subscribed for share capital in excess of nominal value			
At 1 February	<b>44,848</b>	42,286	42,286
Arising on issue of shares during the year (net of expenses)	<b>1,587</b>	1,927	2,562
	<u><b>46,435</b></u>	<u>44,213</u>	<u>44,848</u>

Notes to the interim results

15 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 2007	17,003	42,286	2,223	(1,176)	76,907	23,852	(3,759)	157,336
Exchange differences on translation of foreign currency net investment in subsidiaries	-	-	-	-	-	-	1,748	1,748
Net income recognised directly in equity	-	-	-	-	-	-	1,748	1,748
Net income recognised in income statement	-	-	-	-	-	938	-	938
Total recognised income and expense	-	-	-	-	-	938	1,748	2,686
Issue of shares	132	1,927	-	-	-	-	-	2,059
Dividends paid	-	-	-	-	-	(5,636)	-	(5,636)
Share based payments	-	-	-	-	-	583	-	583
<b>At 31 July 2007</b>	<b>17,135</b>	<b>44,213</b>	<b>2,223</b>	<b>(1,176)</b>	<b>76,907</b>	<b>19,737</b>	<b>(2,011)</b>	<b>157,028</b>
At 1 February 2008	17,167	44,848	2,223	(4,403)	76,907	61,276	5,904	203,922
Exchange differences on translation of foreign currency net investment in subsidiaries	-	-	-	-	-	-	7,419	7,419
Net income recognised directly in equity	-	-	-	-	-	-	7,419	7,419
Net income recognised in income statement	-	-	-	-	-	23,406	-	23,406
Total recognised income and expense	-	-	-	-	-	23,406	7,419	30,825
Issue of shares	123	1,587	-	-	-	-	-	1,710
Purchase of shares	-	-	-	(2,692)	-	-	-	(2,692)
Exercise of options	-	-	-	1,830	-	(1,830)	-	-
Dividends paid	-	-	-	-	-	(10,292)	-	(10,292)
Share based payments	-	-	-	-	-	828	-	828
Share buyback	(26)	-	26	-	-	(1,241)	-	(1,241)
Net settled options	50	-	-	(50)	-	-	-	-
<b>At 31 July 2008</b>	<b>17,314</b>	<b>46,435</b>	<b>2,249</b>	<b>(5,315)</b>	<b>76,907</b>	<b>72,147</b>	<b>13,323</b>	<b>223,060</b>

## **Notes to the interim results**

### **16 Acquisitions**

#### **Current period acquisitions**

On 2 July 2008 ABC Games International S.A., a subsidiary of GAME Group plc, acquired five French franchises for a total consideration of £1.4 million, reflecting cash of £0.3m and other working capital. The value of net assets at acquisition has been calculated at £0.6 million, generating an intangible assets value of £0.8 million.

During the period the trade and assets of two Spanish franchises were acquired by Engine Tecnology Systems SL, a subsidiary of GAME Group plc. Centro Fotografico Salmantino was acquired on 26 May 2008 for a total consideration of £0.2m and Machinami Games was acquired on 18 July 2008 for a total consideration of £0.3m. The value of net assets at acquisition has been calculated at £0.1m, generating an intangible assets value of £0.4m.

The results of these operations have been incorporated from the date of acquisition and no fair value adjustments were required.

### **17 Post Balance Sheet Events**

On 21 August 2008, the Group acquired 100% of the share capital of the Czech pc and video games retailer JRC. On acquisition, JRC owned 19 specialist pc and video games stores located in the principal cities in the Czech market and transactional e-commerce site [www.jrc.cz](http://www.jrc.cz). The business was acquired for an initial consideration of £3.95m payable in two instalments with £2.0m payable immediately and the balance over the course of the next two years.

Due to the proximity of this transaction to the interim period end, the disclosures as required by IFRS 3 paragraph 67 have not been presented as it is impracticable to do so.

### **18 Related party transactions**

There were no related party transactions within the period.

## **Notes to the interim results**

### **19 Risks**

The principal risks and uncertainties facing the Group for the remaining six months of the year 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.

### **20 This interim report was approved by the Board of Directors on 30 September 2008**

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

The comparatives for the full year ended 31 January 2008 are not the Company's full statutory accounts for that year. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified, did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain a statement under section 237(2)-(3) of the Companies Act 1985.

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

#### **Statement of Directors' Responsibilities**

The directors confirm, to the best of their knowledge and belief, that this condensed set of financial statements has been prepared in accordance with IAS 34 as adopted by the European Union, and that the interim management report herein includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8. The directors of GAME Group plc are listed in the Company's 2008 Annual Report and Accounts.

By order of the Board

David Thomas  
Director  
30 September 2008