



27 September 2011

The GAME Group plc Interim Results

THE GAME GROUP PLC, Europe's leading retailer of pc and video games products, today announces Interim Results for the 26 weeks ended 31 July 2011.

Commenting on the results, CEO Ian Shepherd said:

"2011 has been a very tough year for the video games industry. A combination of a cyclical low point in the industry itself and unprecedented macro-economic conditions have led to significant market revenue declines.

GAME Group has increased market share in this difficult climate as we have focussed on delivering our strategy. Nonetheless, the impact of the wider market can be seen on our first half results.

Like many other retailers, we believe that trading conditions will remain tough for the remainder of the year, and have set our plans accordingly. We are determined to again outperform a difficult market this Christmas, by using our unique specialist position to give customers the very best choice and value.

For the future, we are investing for a different video games market, with new games consoles coming to market and customers exploring new ways of playing games, including digital; online; and cloud-based gaming. The Group, through its Dedicated to Gaming strategy initiatives, is taking a leading role in these developments in order to benefit from market recovery in the coming years."

Key points

Financial:

- Group lfl down 9.9%, reflecting tough market conditions
- Increased market share in period
- Focus on generating cash and strong balance sheet in second half
- Interim dividend maintained
- Store closures on track

Operations

- Strategic progress, including accelerating digital sales and robust preowned business
- High quality Christmas software line-up
- Prepared for key Christmas selling period

Financial Overview All figures in £'m (unless stated)	26 Weeks ended 31 July 2011	26 weeks ended 31 July 2010
Group turnover	558.8	624.6
Gross profit margin (%)	24.3	26.0
Operating loss before non-recurring costs	(45.0)	(16.1)
Non-recurring costs	(3.0)	(2.7)
Operating loss	(48.0)	(18.8)
Loss before non-recurring costs and tax	(48.5)	(18.8)
Loss before tax	(51.5)	(21.5)
Basic earnings per share before non-recurring costs (pence)	(9.86)	(3.66)
Basic earnings per share (pence)	(10.72)	(4.44)
Interim dividend per share (pence)	1.88	1.88
Trading store numbers (including franchises)	1,287	1,338
Trading square footage (sq. ft. thousands)	1,344	1,394

H1 sales analysis	26 weeks to 31 July 2011	
	Total sales (%)	Lfl sales (%)
Group	(10.5)	(9.9)
UK & Ireland stores	(12.0)	(10.0)
International stores	(10.2)	(11.4)
Group Online	2.3	

*Non-recurring costs relate to strategic store change programme

Current trading sales analysis	34 weeks to 24 September 2011	
	Total sales (%)	Lfl sales (%)
Group	(11.4)	(10.4)
UK & Ireland stores	(13.3)	(11.2)
International stores	(10.1)	(10.8)
Group Online	0.4	

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CEO Statement

Overview

2011 has been a very tough year for the video games industry. A combination of a cyclical low point in the industry itself and unprecedented macro-economic conditions have led to significant market revenue declines.

GAME Group has increased market share in this difficult climate as we have focussed on delivering our strategy. Nonetheless, the impact of the wider market can be seen in our first half results.

We have two imperatives. In the short term, we need to deliver results even in a tough market. In the longer term, we need to enhance our position as the industry evolves and returns to growth.

For the key Christmas period, our unique specialist retailing skills and multi channel profile mean that we are positioned to take a leading share on the high quality line-up of new games. We also have a strong balance sheet and focus on cash generation. We will continue to drive cost and working capital disciplines across the business.

For the future, we are investing for a different video games market, with new games consoles coming to market and customers exploring new ways of playing games, including digital; online; and cloud-based gaming. The Group, through its Dedicated to Gaming strategy initiatives, is taking a leading role in these developments in order to benefit from market recovery in the coming years.

Market

Between 1 February and 31 July, the markets in which we operate showed revenue declines of 15.5%, with hardware down 13.7% and software down 16.5%.

Very few major software titles launched in the period, with only *LA Noire* achieving sales in excess of £20m in the UK. In hardware, the *Nintendo 3DS* launched satisfactorily, but slightly behind market expectations.

In the first weeks of the second half, a number of significant titles have launched including *Deus Ex: Human Revolution*, *Dead Island* and *Gears of War 3*. Sales of these titles were broadly in line with market expectations, confirming that good quality titles still attract strong consumer demand. Additionally, Nintendo and Sony have reduced their hardware prices, enabling all three manufacturers to compete at mass-market price points.

As is always the case, the next 10 weeks will be extremely important for the market as they represent some 40% of annual revenues. A range of strong games will launch, with 15 AAA titles still to come before December, and market data suggests that preorder volumes are ahead of last year for the key titles including: *Call of Duty: Modern Warfare 3*, *Battlefield 3*, *FIFA 12*, *Assassin's Creed Revelations*, *Forza 4*, *Batman: Arkham City*, and *The Legend of Zelda: Skyward Sword*.

Looking further ahead to 2012, the market is looking forward to the launch of the *Sony Playstation Vita* handheld and the *Nintendo Wii U* console in Europe.

Review of H1 performance:

Results

Group revenue for the 26 weeks ended 31 July 2011 decreased by 10.5% to £558.8m with Ifl sales down by 9.9%. In the UK and Ireland, total sales decreased by 12.0% and Ifl sales were down by 10.0%. In our International operations, total sales decreased by 10.2% and Ifl sales fell by 11.4%.

Our preowned business continues to attract value-conscious consumers, and sales declined by only 1.8% and margins increased to 39.8%. Continued strategic focus on our online operations meant that sales increased by 2.3%.

Total gross margin has declined by 170 basis points, as we responded to a competitive market by investing in customer loyalty and promotional deals.

Costs remain a critical focus for us, and are broadly flat year on year. We have closed overlapping stores, rationalised working hours in our stores and head office, and minimised our discretionary spend. We have worked hard to make these savings, £7.5 million in the underlying costs of the business, and these actions are offsetting investment on our strategic priorities.

The non-recurring costs relate to the store closure programme and one-off operational activities to implement our strategy.

Our net debt position as at 31 July 2011 was £91.0m (2010: £63.5m), reflecting the lower profitability of the Group. Working capital and capital expenditure remain in line with expectation.

Strategy and Operations

Given the quiet market, we focused on driving sales through tactical initiatives such as hardware bundle offers (for example Wii consoles for £99.99 when bought with any chart game), enhanced CRM activities and our preowned programme.

Our long term strategic activities are progressing well but are at an early stage in their development. In the period we have delivered the following important milestones:

Multichannel: GAME.co.uk, our main ecommerce site, was relaunched on a new web platform in late August. It is a significant improvement on our previous site. In the year to date market share remains at 19%, but we expect to see improvement in the remainder of the year. Our stated ambition is to treble our 2010 online market share by 2013, and we remain on track to achieve this.

Right stores: Stores are the hub of our customer offering in every market, but we continue to review the most efficient shape and size of our portfolios. We have closed net 26 stores since the start of the year, and continue to have a high transfer rate of 60-70% of customers from a closing store to our next nearest location or to one of our websites. Converting

footfall into sales remains a key focus for our store teams. Whilst we are making progress, we are not yet achieving our stated aim of growing conversion by 1% this year, with an actual run rate of 18.3% (2010: 18.3%). As the busy software release schedule kicks in during the second half, we remain confident that we will deliver a better performance. With a short average lease profile of 4.6 years, we have the ability to change our portfolio to match consumer behaviour.

Unique Product Range: Digital sales across the Group are accelerating rapidly: up more than 40% in the year to date. Our digital product range is expanding further, and all of our UK stores are skilled at offering customers a wide choice of downloadable titles across the three principle digital formats: Xbox Live, Sony PlayStation Network, and pc and browser games. Customers can use cash, loyalty points and traded-in products to pay for their digital items, which is not possible online. We are the first and only retailer in Europe to offer this breadth of range.

We have also added new digital partners to our range, and on 22 September we became the first games retailer in the world to announce a partnership with OnLive, the games on demand service. This will be the first subscription service that we have introduced to our product range, and demonstrates our commitment to offering customers a wide range of ways to purchase and play video games.

Our customers will be able to buy an exclusive version of 18 of the top 20 software titles from our stores and websites this Christmas, as well as three exclusive console models.

Novel ways to buy: Our preowned business continues to demonstrate strong revenues and margins. The GAME gift card service has been relaunched in the UK, giving better functionality for customers and broadening our reach, and is available in other retailers such as Clinton Cards. We are also examining a way to expand our Reward card scheme so that loyalty card points can be used to purchase digital content online, and we will provide further details as the service develops.

Strong customer relationships: Our loyalty schemes already have 18 million members and continue to grow, with 1 million customers joining this year. We have also seen the number of transactions using a loyalty card increase from 42% to 53%. We have overhauled our CRM activities to ensure that we are communicating effectively with customers to build our relationship further. The CRM team has been expanded, and we are analysing our data in new ways to ensure customers receive the most relevant information.

Current Trading and Outlook for the Full Year

In the 34 weeks to 24 September 2011, the Group's total sales were down by 11.4% and ffl sales were down by 10.4%. In the UK and Ireland, total sales and ffl sales were down by 13.3% and 11.2% respectively. In our International business, total sales were down by 10.1% and ffl sales on a constant currency basis were down 10.8%. Online sales were up by 0.4%.

The current shape of both the wider economy and the pc and video games market leaves us under no illusion about the challenges we face in the remainder of the year.

To deliver our revenue and margin targets, we will need to achieve year on year revenue growth in the second half, and a better gross margin than the first half. We are clear about the context of these requirements. In the market, we will need to see the major titles launching well and consumers' confidence returning at Christmas.

In addition to that, GAME will need to deliver:

- A leading share on all product launches. We plan to achieve this by focusing on our wide range of exclusive products, and trade-in deals.
- Increased gross margins, driven by our launch plans for the major titles, attractive Christmas console bundles and increased preowned sales.
- Continued progress in our strategic ambitions.

The performance of the new releases in the last three weeks indicates that we can deliver on these plans.

Since we last updated the market, nothing has fundamentally changed our outlook for the full year, other than wider economic conditions. Good preorder volumes indicate that customers are responding to the strength of the second half launch slate, our margin driving activities are working, and tight cost management is being maintained. Therefore we continue to target revenues down -3% to 0%, which will be a significant overperformance of the market as a whole, gross margins down 100bps, and cost savings now at levels of £6m to £9m.

Cashflow and Dividend

To protect ourselves against the backdrop of difficult trading conditions, we are taking decisive action to maintain the robust balance sheet and cash position we have always enjoyed. We anticipate that total capital expenditure for the current year will now be lower than previously guided at around £15m, and expect working capital improvements of around £15m in the full year as we improve our stock cover profile from 6.5 to 6 weeks. Given the first half trading performance, average net debt in 2011/12 financial year is expected to be £55m.

Combined with our relentless focus on costs, the refinancing we announced in February to provide us over the next three years with a £130m RCF and a £30m amortising term loan, gives us a sound foundation from which to deliver our second half plans.

Given our cash and balance sheet position, and our confidence in the Group's strategic direction, the Board proposes a flat interim dividend of 1.88p per share.

Summary

Like many other retailers, we believe that trading conditions will remain tough for the remainder of the year, and have set our plans accordingly. We are determined to again outperform a difficult market this Christmas, by using our unique specialist position to give customers the very best choice and value.

The strategic progress that we have made in the last year gives us a stronger proposition with which to tackle the short term challenges, while also building us a firm foundation for the longer term as our market changes.

Statement of Directors' Responsibilities

The Directors confirm, to the best of their knowledge and belief, that this condensed consolidated set of interim financial statements have 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 the DTR 4.2.7 and DTR 4.2.8 namely:

- an indication of important events that have occurred during the six months ended 31 July 2011 and their impact on the condensed consolidated financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions in the six months ended 31 July 2011 and any material changes in the related party transactions described in the last Annual Report.

A copy of the Company's 2011 Annual Report and Accounts is available on GAME's website www.gamegroup.plc.uk.

By order of the Board

Ben White
Director

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27 September 2011

Unaudited Condensed Consolidated Statement of Comprehensive (Loss)/Income

for the six months ended 31 July 2011

		Six months ended 31 July 2011 Unaudited £'000	Six months ended 31 July 2010 Unaudited £'000	Year ended 31 January 2011 Audited £'000
Revenue	Note 2	558,800	624,550	1,625,034
Cost of sales		422,825	462,461	1,197,638
Gross profit		135,975	162,089	427,396
Other operating expenses	3	183,992	180,901	398,921
Operating (loss) / profit before non-recurring costs		(45,035)	(16,106)	43,208
Non-recurring costs	3	(2,982)	(2,706)	(14,733)
Operating (loss) / profit		(48,017)	(18,812)	28,475
Finance income		73	161	375
Finance costs		(3,522)	(2,822)	(5,745)
(Loss) / Profit before taxation		(51,466)	(21,473)	23,105
Taxation	4	14,227	6,072	(7,452)
(Loss) / Profit for the year attributable to equity holders of the parent		(37,239)	(15,401)	15,653
Other comprehensive income:				
Exchange differences on translating foreign operations		2,850	(3,531)	2,921
Differences on valuation of Swaps under hedge accounting		(260)		
Deferred income tax on share-based payments		-	-	370
Income tax on share-based payments		-	-	37
Other comprehensive income / (expense) for the period, net of tax		2,590	(3,531)	3,328
Total comprehensive (expense) / income for the period attributable to equity holders of the parent		(34,649)	(18,932)	18,981
Earnings per share – basic	6	(10.72)p	(4.44)p	4.51p
– diluted	6	(10.72)p	(4.44)p	4.51p

All amounts relate to continuing activities

Unaudited Condensed Consolidated Balance Sheet

as at 31 July 2011

	Note	As at 31 July 2011 Unaudited £'000	Restated As at 31 July 2010 Unaudited £'000	As at 31 January 2011 Audited £'000
Non-current assets				
Property, plant and equipment	7	98,222	123,907	109,122
Intangible assets	8	211,750	210,000	209,875
Deferred tax asset		3,647	3,614	3,647
		313,619	337,521	322,644
Current assets				
Inventories		144,787	144,168	149,915
Trade and other receivables	9	46,229	44,712	48,538
Current tax debtor		10,597	832	-
Cash and cash equivalents		40,964	48,995	151,243
		242,577	238,707	349,696
Total assets		556,196	576,228	672,340
Current liabilities				
Trade and other payables	10	133,562	156,897	294,570
Current portion of long-term borrowings	11	109,241	96,784	15,875
Leasehold property incentives		1,485	1,347	1,869
Current tax liabilities		-	-	7,755
		244,288	255,028	320,069
Non-current liabilities				
Long-term borrowings	11	22,722	15,714	15,559
Leasehold property incentives		9,746	10,246	9,718
		32,468	25,960	25,277
Total liabilities		276,756	280,988	345,346
Net assets		279,440	295,240	326,994
Equity attributable to equity holders of the parent				
Share capital	13	17,373	17,361	17,373
Share premium account	14	47,086	46,950	47,086
Capital redemption reserve		2,248	2,248	2,248
Shares held in trust		(3,629)	(4,199)	(3,629)
Hedge Accounting Reserve		(260)	-	-
Merger reserve		76,907	76,907	76,907
Foreign exchange reserve		33,145	23,843	30,295
Retained earnings		106,570	132,130	156,714
Total equity		279,440	295,240	326,994

Approved and authorised for issue by the Board on 27 September 2011

Ben White
Director

Unaudited Condensed Statement of Changes in Equity

for the six months ended 31 July 2011

	Share Capital	Share Premium	Capital Redemption Reserve	Hedge Accounting Reserve	Shares held in Trust	Merger Reserve	Retained Earnings	Foreign Exchange Reserve	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 February 2011	17,373	47,086	2,248	-	(3,629)	76,907	156,714	30,295	326,994
Exchanges differences on translation of foreign currency net investment in subsidiaries	-	-	-	-	-	-	-	2,850	2,850
Differences on valuation of Swaps under hedge accounting	-	-	-	(260)	-	-	-	-	(260)
Income tax on share-based Payments									
- Deferred tax	-	-	-	-	-	-	-	-	-
- Current tax	-	-	-	-	-	-	-	-	-
Other comprehensive income/(expense)	-	-	-	(260)	-	-	-	2,850	2,590
Loss for the period	-	-	-	-	-	-	(37,239)	-	(37,239)
Total comprehensive income/(expense)	-	-	-	(260)	-	-	(37,239)	2,850	(34,649)
Issue of shares	-	-	-	-	-	-	-	-	-
Purchase of shares	-	-	-	-	-	-	-	-	-
Exercise of options	-	-	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	(13,422)	-	(13,422)
Share-based payment expense	-	-	-	-	-	-	517	-	517
At 31 July 2011	17,373	47,086	2,248	(260)	(3,629)	76,907	106,570	33,145	279,440

Unaudited Condensed Statement of Changes in Equity

for the six months ended 31 July 2010

	Share Capital	Share Premium	Capital Redemption Reserve	Shares held in Trust	Merger Reserve	Retained Earnings	Foreign Exchange Reserve	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 February 2010	17,333	46,662	2,248	(3,395)	76,907	164,426	27,374	331,555
Exchanges differences on translation of foreign currency net investment in subsidiaries	-	-	-	-	-	-	(3,531)	(3,531)
Income tax on share-based payments								
- Deferred tax	-	-	-	-	-	-	-	-
- Current tax	-	-	-	-	-	-	-	-
Other comprehensive expense	-	-	-	-	-	-	(3,531)	(3,531)
Loss for the period	-	-	-	-	-	(15,401)	-	(15,401)
Total comprehensive expense	-	-	-	-	-	(15,401)	(3,531)	(18,932)
Issue of shares	28	288	-	-	-	-	-	316
Purchase of shares	-	-	-	(1,925)	-	-	-	(1,925)
Exercise of options	-	-	-	1,121	-	(1,121)	-	-
Dividends paid	-	-	-	-	-	(13,541)	-	(13,541)
Share-based payment credit	-	-	-	-	-	(2,233)	-	(2,233)
At 31 July 2010	17,361	46,950	2,248	(4,199)	76,907	132,130	23,843	295,240

Audited Condensed Statement of Changes in Equity

for the year ended 31 January 2011

	Share Capital £'000	Share Premium £'000	Capital Redemption Reserve £'000	Shares held in Trust £'000	Merger Reserve £'000	Retained Earnings £'000	Foreign Exchange Reserve £'000	Total £'000
At 1 February 2010	17,333	46,662	2,248	(3,395)	76,907	164,426	27,374	331,555
Exchange differences on translation of foreign currency net investment in subsidiaries	-	-	-	-	-	-	2,921	2,921
Income tax on share-based payments								
- Deferred tax	-	-	-	-	-	370	-	370
- Current tax	-	-	-	-	-	37	-	37
Other comprehensive income	-	-	-	-	-	407	2,921	3,328
Profit for the period	-	-	-	-	-	15,653	-	15,653
Total comprehensive income	-	-	-	-	-	16,060	2,921	18,981
Issue of shares	40	424	-	-	-	-	-	464
Purchase of shares	-	-	-	(1,926)	-	-	-	(1,926)
Exercise of options	-	-	-	1,692	-	(1,692)	-	-
Dividends paid	-	-	-	-	-	(20,073)	-	(20,073)
Share-based payment credit	-	-	-	-	-	(2,007)	-	(2,007)
At 31 January 2011	17,373	47,086	2,248	(3,629)	76,907	156,714	30,295	326,994

Unaudited Condensed Consolidated Statements of Cash Flows

for the six months ended 31 July 2011

	Six months Ended 31 July 2011 Unaudited £'000	Restated	Year
		Six months ended 31 July 2010 Unaudited £'000	31 January 2011 Audited £'000
Cash flow from operating activities			
Operating (loss) / profit	(48,017)	(18,812)	28,475
Equity-settled share-based payment expense/(credit)	517	(2,233)	(2,007)
Depreciation and amortisation	14,884	14,737	30,521
Impairment of goodwill	-	-	3,354
Loss / (profit) on disposal of non-current assets	149	(689)	4,800
Market value movement on financial instrument	314	-	5
	(32,153)	(6,997)	65,148
Decrease in trade and other receivables	2,310	3,604	(236)
Decrease in inventories	5,127	31,878	27,750
Decrease in trade and other payables	(160,915)	(102,334)	38,623
Increase / (decrease) in leasehold incentives	(356)	204	198
Cash (absorbed by) / generated from operations	(185,987)	(73,645)	131,483
Finance costs paid	(3,522)	(2,822)	(5,745)
Corporation tax paid	(4,157)	(7,685)	(14,359)
Net cash from operating activities	(193,666)	(84,152)	111,379
Cash flows from investing activities			
Purchase of property, plant and equipment	(1,712)	(8,021)	(9,763)
Purchase of intangible assets	(3,192)	(2,752)	(7,909)
Proceeds from sale of equipment	1,110	1,544	2,396
Finance income received	73	161	375
Net cash used in investing activities	(3,721)	(9,068)	(14,901)
Cash flows from financing activities			
Proceeds from issue of share capital	-	316	464
Shares purchased for Trust	-	(1,925)	(1,926)
Payment of Term Loan	(33,340)	(8,330)	(8,330)
Proceeds from Term Loan	30,000	-	-
Receipt /(payment) of other long-term borrowings	103,944	79,709	(1,023)
Payment of finance lease liabilities	(74)	(142)	(475)
Dividends paid	(13,422)	(13,541)	(20,073)
Net cash used in financing activities	87,108	56,087	(31,363)
Net decrease in net cash and cash equivalents	(110,279)	(37,133)	65,115
Cash and cash equivalents at beginning of period	151,243	86,128	86,128
Cash and cash equivalents at end of period	40,964	48,995	151,243

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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 2012. 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.

The results for the six months ended 31 July 2011 and the comparative results for the six months ended 31 July 2010 are unaudited. The financial information for the year ended 31 January 2011 does not constitute the full statutory accounts for that period. The Annual Report and Financial Statements for the year ended 31 January 2011 have been filed with the Registrar of Companies. The Independent Auditors' Report on the Annual Report and Financial Statements for the year ended 31 January 2011 was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

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 2011. There have been no changes in 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 Droit au Bail; lease costs; the valuation of goodwill and acquired intangible assets; share-based payments and taxation. These also relate to inventory valuation where the most complex area of judgement is in respect of any obsolescence provision required. These are assessed based on the stock of each item compared to demand.

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.

Changes in accounting policies

In the current year, the Group has revised its policy for hedge accounting. The Group uses derivative financial instruments to hedge its exposure to cash flow interest rate risks. Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at fair value.

Derivatives are classified either as derivatives in effective hedges or held for trading. It is anticipated that, generally, all hedging arrangements will be 'highly effective' within the meaning of IAS 39 and that the criteria necessary for applying hedge accounting will be met. Hedges are assessed on an ongoing basis to ensure they continue to be effective.

The gain or loss on the portion of an instrument that qualifies as an effective hedge of cash flow interest rate risk is recognised directly in other comprehensive income. The gain or loss on derivative financial instruments which are classified as held for trading, because they are not effective hedges, is recognised in the income statement.

In the prior year, the Group revised its accounting policy for the classification of Droit au Bail (a type of French key money). The balance of £32,533,000 at 31 January 2010 was previously classified within "Short leasehold land and property" as the payments confer onto the Group many rights similar to those associated with a leasehold. These assets are assessed as having an indefinite useful life and the carrying value is tested for impairment. In light of proposed amendments to accounting for leases, the nature of these assets has been reviewed and the accounting policy revised to classify Droit au Bail within Intangible Assets.

There was no effect on the equity, or results of the Group arising from the revision of this policy. The financial position and cash flows for the period to 31 July 2010 of the Group have been re-stated to show the revised disclosure within Non-current Assets.

Notes to the Interim Results

1 General (continued)

Adoption of new and revised standards

Standards and interpretations effective in the current period

In the current period the Group has adopted the following standards:

<u>International Accounting Standards (IAS/IFRS)</u>		<u>Effective Date</u>
IFRS 1	First-time adoption of IFRS amendment	01/07/2010
IAS 24	Related Party Disclosures amendment	01/01/2011
	Improvements to IFRSs	Various

There has been no effect on the results, cash flows, financial position of the Group or their presentation as a result of the adoption of these standards.

Two interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current year as follows:

<u>International Financial Reporting Interpretations Committee (IFRIC)</u>		<u>Effective Date</u>
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	01/07/2010
IFRIC 14 and IAS 19	The limit on a defined benefit asset, minimum funding requirements and their interaction amendment	01/01/2011

The adoption of these Interpretations has not led to any changes in the Group's accounting policies.

Notes to the Interim Results (continued)

1 General (continued)

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
IFRS 7*	Disclosure of transfers of financial assets amendment	01/07/2011
IFRS 1*	Severe hyperinflation and removal of fixed dates for first-time adopters amendment	01/07/2011
IAS 12*	Deferred tax: recovery of underlying assets amendment	01/01/2012
IAS 1*	Presentation of Items of Other Comprehensive Income Amendment	01 /07/2012
IFRS 9*	Financial Instruments	01/01/2013
IFRS 10*	Consolidated Financial Statements	01/01/2013
IFRS 11*	Joint Arrangements	01/01/2013
IFRS 12*	Disclosure of Interests in Other Entities	01/01/2013
IFRS 13*	Fair Value Measurement	01/01/2013
IAS 27*	Separate Financial Statements Amendment	01/01/2013
IAS 28*	Investments in Associates and Joint Ventures Amendment	01/01/2013
IAS 19*	Employee Benefits Amendment	01/01/2013

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

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

Notes to the Interim Results (continued)

2 Revenue, profit and net assets

Revenue, pre-tax profits and net assets all relate to the retail of pc and video game products and the Group's operations are organised and managed by geographic location only. Management consider the reportable operating segments in accordance with IFRS 8 to be split between the UK and Ireland Stores, International Stores, and Global Online. Management do not consider there to be any major individual customers of the Group.

Revenue by origin and destination are not materially different. Inter-segment transactions between operating segments are entered into on an arms-length basis in a manner similar to transactions with third parties.

The Group's business is seasonal with the key trading period being the Christmas season.

	United Kingdom and Ireland stores Six months ended 31 July 2011 Unaudited £'000	International stores Six months ended 31 July 2011 Unaudited £'000	Global online Six months ended 31 July 2011 Unaudited £'000	Total Six months ended 31 July 2011 Unaudited £'000
Revenue	310,024	214,106	34,670	558,800
Cost of sales	229,700	159,432	33,693	422,825
Gross profit	80,324	54,674	977	135,975
Other operating expenses excluding inter-segment expenses	(101,434)	(74,944)	(4,632)	(181,010)
Inter-segment expenses	-	-	-	-
Operating loss before non-recurring costs	(21,110)	(20,270)	(3,655)	(45,035)
Non-recurring costs	(2,297)	(685)	-	(2,982)
Operating loss	(23,407)	(20,955)	(3,655)	(48,017)
Net finance costs excluding inter-segment	(3,213)	(236)	-	(3,449)
Inter-segment finance costs	2,363	(2,363)	-	-
Taxation	6,793	6,636	798	14,227
Loss after tax	(17,464)	(16,918)	(2,857)	(37,239)
Other segmental information:				
Goodwill and other intangibles	151,075	54,116	6,559	211,750
Other assets	127,380	209,970	7,096	344,446
Assets	278,455	264,086	13,655	556,196
Liabilities	(107,525)	(167,730)	(1,501)	(276,756)
Net assets	170,930	96,356	12,154	279,440
Capital expenditure	2,164	1,104	1,636	4,904
Depreciation and amortisation	7,505	5,546	1,833	14,884
Share-based payment expense	517	-	-	517

Notes to the Interim Results (continued)

2 Revenue, profit and net assets (continued)

	United Kingdom and Ireland stores Six months ended 31 July 2010 Re-stated Unaudited £'000	International stores Six months ended 31 July 2010 Re-stated Unaudited £'000	Global online Six months ended 31 July 2010 Re-stated Unaudited £'000	Total Six months ended 31 July 2010 Re-stated Unaudited £'000
Revenue	352,253	238,409	33,888	624,550
Cost of sales	(254,538)	(177,855)	(30,068)	(462,461)
Gross profit	97,715	60,554	3,820	162,089
Other operating expenses excluding inter-segment expenses	(99,276)	(73,468)	(5,451)	(178,195)
Inter-segment expenses	-	-	-	-
Operating loss before non-recurring costs	(1,561)	(12,914)	(1,631)	(16,106)
Non-recurring costs	-	(2,706)	-	(2,706)
Operating loss	(1,561)	(15,620)	(1,631)	(18,812)
Net finance costs excluding inter-segment	(2,582)	(79)	-	(2,661)
Inter-segment finance costs	1,638	(1,638)	-	-
Taxation	3,112	2,613	347	6,072
Profit / (loss) after tax	607	(14,724)	(1,284)	(15,401)
Other segmental information:				
Goodwill and other intangibles	141,577	59,039	9,384	210,00
Other assets	133,174	220,315	12,739	366,228
Assets	274,751	279,354	22,123	576,228
Liabilities	(96,564)	(173,814)	(10,610)	(280,988)
Net assets	178,187	105,540	11,513	295,240
Capital expenditure	1,260	3,074	6,439	10,773
Depreciation and amortisation	8,010	5,389	1,338	14,737
Share-based payment credit	(2,233)	-	-	(2,233)

Notes to the Interim Results (continued)**2 Revenue, profit and net assets (continued)**

	United Kingdom and Ireland stores Year ended 31 January 2011 Audited £'000	International stores Year ended 31 January 2011 Audited £'000	Global online Year ended 31 January 2011 Audited £'000	Total Year ended 31 January 2011 Audited £'000
Revenue	935,320	594,566	95,148	1,625,034
Cost of sales	(673,286)	(442,821)	(81,531)	(1,197,638)
Gross profit	262,034	151,745	13,617	427,396
Other operating expenses excluding inter-segment expenses	(223,222)	(149,170)	(11,796)	(384,188)
Inter-segment expenses	3,619	(3,619)	-	-
Operating profit / (loss) before non-recurring costs	42,431	(1,044)	1,821	43,208
Non-recurring costs	-	(14,733)	-	(14,733)
Operating profit / (loss)	42,431	(15,777)	1,821	28,475
Net finance costs excluding inter-segment	(5,208)	(162)	-	(5,370)
Inter-segment finance costs	3,503	(3,503)	-	-
Taxation	(5,384)	(2,068)	-	(7,452)
Profit / (loss) after tax	35,342	(21,510)	1,821	15,653
Other segmental information:				
Goodwill and other intangibles	155,693	53,584	598	209,875
Other assets	189,088	258,600	14,777	462,465
Assets	344,781	312,184	15,375	672,340
Liabilities	(143,482)	(201,500)	(364)	(345,346)
Net assets	201,299	110,684	15,011	326,994
Capital expenditure	8,222	5,032	4,418	17,672
Depreciation and amortisation	15,774	12,079	2,668	30,521
Impairment of goodwill	-	3,354	-	3,354
Share-based payment credit	(2,007)	-	-	(2,007)

Notes to the Interim Results (continued)**2 Revenue, profit and net assets (continued)**

	Six months ended 31 July 2011 Total £'000		Six months ended 31 July 2010 Total £'000	
		% of Total		% of Total
Revenue				
Hardware	98,463	17.6	115,830	18.5
Software	212,781	38.1	249,070	39.9
New hardware and software	311,244	55.7	364,900	58.4
Preowned	168,366	30.1	171,497	27.5
Other	79,190	14.2	88,153	14.1
Total	558,800	100.0	624,550	100.0

	Six months ended 31 July 2011 Total £'000		Six months ended 31 July 2010 Total £'000	
		% of Total		% of Total
Gross margin				
New hardware and software	51,966	38.2	70,813	43.7
Preowned	66,990	49.3	66,100	40.8
Other	17,019	12.5	25,176	15.5
Total	135,975	100.0	162,089	100.0

	Six months ended 31 July 2011 Total %	Six months ended 31 July 2010 Total %
Gross margin		
New hardware and software	16.7	19.4
Preowned	39.8	38.5
Other	21.5	28.6
Total Group	24.3	26.0

Notes to the Interim Results (continued)**2 Revenue, profit and net assets (continued)**

	Six months ended 31 July 2011 Unaudited £'000	Six months ended 31 July 2010 Unaudited £'000	Year ended 31 January 2011 Audited £'000
Revenue by territory			
United Kingdom and Ireland	310,024	352,253	935,320
France	57,397	65,259	163,441
Iberia	108,970	115,092	300,823
Scandinavia	17,326	21,786	48,963
Australia	26,240	32,861	71,568
Czech Republic	4,173	3,411	9,771
Total Stores	524,130	590,662	1,529,886
Total Online	34,670	33,888	95,148
Total Revenue	558,800	624,550	1,625,034
	Number	Number	Number
Stores by territory			
United Kingdom and Ireland	615	635	639
France	195	198	197
Iberia	292	287	287
Scandinavia	62	68	65
Australia	92	118	93
Czech Republic	30	31	31
	1,286	1,337	1,312
Franchises			
Australia	1	1	1
	1	1	1
	Sq ft	Sq ft	Sq ft
Trading square footage by territory			
United Kingdom and Ireland	737,452	756,292	760,591
France	182,589	183,622	183,547
Iberia	238,971	236,988	236,389
Scandinavia	64,035	69,575	67,209
Australia	103,039	129,304	104,050
Czech Republic	18,021	18,494	18,494
	1,344,107	1,394,275	1,370,280

Notes to the Interim Results (continued)

3 Other operating expenses

	Six months ended 31 July 2011 Unaudited £'000	Six months ended 31 July 2010 Unaudited £'000	Year ended 31 January 2011 Audited £'000
Selling and distribution	152,472	156,306	316,078
Administrative expenses	31,520	24,595	82,843
	183,992	180,901	398,921

Administrative expenses include non-recurring costs of £2,982,146 (2010 interim: £2,706,251; full year £14,732,620). Current year non-recurring costs relate to strategic store change programme. Prior year interim and full year non-recurring costs relate to the restructuring of the Australian and French businesses.

Notes to the Interim Results (continued)

4 Taxation

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

	Six months ended 31 July 2011 Unaudited £'000	Six months ended 31 July 2010 Unaudited £'000	Year ended 31 January 2011 Audited £'000
Current tax			
UK corporation tax (credit) / expense	(14,140)	(7,249)	7,513
Adjustments in respect of prior periods	-	-	(5,182)
Overseas tax payable	(87)	1,177	4,784
Total current tax	(14,227)	(6,072)	7,115
Deferred tax			
Current year movement	-	-	(641)
Change in tax rates	-	-	173
Prior year movement	-	-	805
Total deferred tax	-	-	337
Taxation on profit on ordinary activities	(14,227)	(6,072)	7,452

Notes to the Interim Results (continued)

5 Dividends

	Six months ended 31 July 2011 Unaudited £'000	Six months ended 31 July 2010 Unaudited £'000	Year ended 31 January 2011 Audited £'000
Ordinary dividends			
Final paid	13,422	13,541	13,541
Interim paid	-	-	<u>6,532</u>
	13,422	13,541	<u>20,073</u>

The interim dividend in relation to the period ended 31 July 2011 of 1.88p per share (31 July 2010: 1.88p per share) was declared on 27 September 2011 and is payable on 17 November 2011 to shareholders on the register on 21 October 2011. This dividend is therefore not included in the above.

Notes to the Interim Results (continued)**6 Earnings per share**

The calculation of earnings per share for the six months ended 31 July 2011 is based on the loss after taxation of £37,238,599 (2010 interim: loss £15,400,763; full year profit £15,652,502). The calculation of basic earnings per share is based on a weighted average number of shares in issue during the period of 347,461,388 (2010 interim: 346,899,493; full year: 347,170,991). 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
31 July 2011	347,461,388	87,688	347,549,076
31 July 2010	346,899,493	156,558	347,056,051
31 January 2011	347,170,991	38,242	347,209,233

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.

	As at 31 July 2011 Unaudited Pence	As at 31 July 2010 Unaudited Pence	As at 31 January 2011 Audited Pence
Basic earnings per share	(10.72)	(4.44)	4.51
Non-recurring costs per share	0.86	0.78	4.24
Basic earnings per share before non-recurring costs	(9.86)	(3.66)	8.75
Diluted earnings per share	(10.72)	(4.44)	4.51
Non-recurring costs per share	0.86	0.78	4.24
Diluted earnings per share before non-recurring costs	(9.86)	(3.66)	8.75

There are 863,435 anti-dilutive share options in the current period (2010 interim: 653,297; full year 475,452).

Notes to the Interim Results (continued)**7 Property, plant and equipment**

	As at 31 July 2011 Unaudited £'000	As at 31 July 2010 Unaudited Restated £'000	As at 31 January 2011 Audited £'000
Cost			
Balance brought forward	261,873	266,635	266,635
Additions	1,712	8,021	9,763
Disposals	(6,731)	(2,336)	(18,657)
Foreign exchange adjustment	2,670	(1,541)	4,132
Balance carried forward	259,524	270,779	261,873
Depreciation			
Balance brought forward	152,751	138,047	138,047
Charge for the period	12,921	11,578	25,404
Disposals	(5,742)	(1,929)	(12,201)
Foreign exchange adjustment	1,372	(824)	1,501
Balance carried forward	161,302	146,872	152,751
Carrying amount	98,222	123,907	109,122

Notes to the Interim Results (continued)**8 Intangible fixed assets**

	As at 31 July 2011 Unaudited £'000	As at 31 July 2010 Unaudited Restated £'000	As at 31 January 2011 Audited £'000
Cost			
Balance brought forward	226,418	225,544	225,544
Additions	3,192	2,752	7,909
Disposals	(322)	(450)	(4,776)
Foreign exchange adjustment	1,012	(1,803)	(2,259)
Balance carried forward	230,300	226,043	226,418
Depreciation			
Balance brought forward	16,543	12,876	12,876
Charge for the period	1,963	3,159	5,117
Disposals/impairments	(52)	-	(682)
Foreign exchange adjustment	96	8	(768)
Balance carried forward	18,550	16,043	16,543
Carrying amount	211,750	210,000	209,875

Notes to the Interim Results (continued)**9 Trade and other receivables**

	As at 31 July 2011 Unaudited £'000	As at 31 July 2010 Unaudited £'000	As at 31 January 2011 Audited £'000
Amounts falling due within one year:			
Trade receivables	11,752	13,895	11,660
Other receivables	15,457	12,123	14,852
VAT recoverable	632	1,616	-
Total trade and other receivables	27,841	27,634	26,512
Prepayments and accrued income	18,388	17,078	22,026
	46,229	44,712	48,538

10 Trade and other payables

	As at 31 July 2011 Unaudited £'000	As at 31 July 2010 Unaudited £'000	As at 31 January 2011 Audited £'000
Amounts falling due within one year:			
Trade payables	77,919	83,645	201,009
Other payables	8,011	11,021	9,619
Tax and social security costs	4,444	5,450	8,022
VAT payables	11,768	13,315	32,792
Accruals and deferred income	31,420	43,466	43,128
	133,562	156,897	294,570

Notes to the Interim Results (continued)**11 Long-term borrowings**

	As at 31 July 2011 Unaudited £'000	As at 31 July 2010 Unaudited £'000	As at 31 January 2011 Audited £'000
Current portion			
Bank loans	109,167	96,424	15,727
Obligations under finance leases and hire purchase contracts	74	360	148
	109,241	96,784	15,875
Non-current portion			
Bank loans	22,722	15,594	15,559
Obligations under finance leases and hire purchase contracts	-	120	-
	22,722	15,714	15,559

12 Analysis of net (debt) / funds

	As at 31 July 2011 Unaudited £'000	As at 31 July 2010 Unaudited £'000	As at 31 January 2011 Audited £'000
Cash and cash equivalents	40,964	48,995	151,243
Net cash and cash equivalents	40,964	48,995	151,243
Current portion of long-term borrowings	(109,241)	(96,784)	(15,875)
Long-term borrowings	(22,722)	(15,714)	(15,559)
Net (debt) / funds	(90,999)	(63,503)	119,809

Notes to the Interim Results (continued)**13 Called-up share capital**

	2011		2010	
	£'000	Number	£'000	Number
Authorised				
Ordinary shares of 5p	24,000	480,000,000	24,000	480,000,000
Allotted, called-up and fully paid				
Ordinary shares of 5p	17,373	347,461,388	17,361	347,213,312

Shares issued

During the period, no (2010 interim: 554,145; full year: 802,221) shares were issued to employees exercising share options granted under various option schemes. The total consideration received on the exercise of these options was £nil (2010 interim: £315,879; full year: £464,158).

Trust shares

During the period no shares (2010 interim: 2,000,000; full year: 2,000,000) were purchased at a cost of £nil (2010 interim: £1,925,800; full year: £1,925,800). These shares are to be used wholly and exclusively to pay LTIP awards when they become due for payment.

Trust shares comprise 3,297,275 (2010 interim: 3,684,073; full year: 3,297,275) 5p ordinary shares. The market value of these shares at 31 July 2011 is £923,237 (2010 interim: £2,652,533; full year: £2,209,174).

14 Share Premium account

	As at 31 July 2011 Unaudited £'000	As at 31 July 2010 Unaudited £'000	As at 31 January 2011 Audited £'000
Amount subscribed for share capital in excess of nominal value			
At 1 February	47,086	46,662	46,662
Arising on issue of shares during the year (net of expenses)	-	288	424
	47,086	46,950	47,086

15 Related party transactions

There were no related party transactions within the period.

Notes to the Interim Results (continued)

16 Principal risks and uncertainties

Risk at GAME

Our Board believes that recognising and managing risks is the key to an effectively run business. The monitoring of risk is delegated to the Audit Committee which has tasked the business with capturing and reporting on risk in a consistent manner across the Group. The methodology is both bottom up, with detailed risk reports on all operating matters being sent from each territory, and top down, with senior management identifying all risks that could potentially prevent us from delivering our agreed strategy. Every identified risk is examined and mitigating activities are put in place. A risk report is presented to the Audit Committee half yearly.

Risk Type	Impact	Risk Mitigation
<p>Technology</p> <p>Speed of change and growth of technology in the market place</p>	<p>The digital world is evolving quickly. If we do not adapt to the changes we run the risk of failing to deliver a truly multichannel offering to our customers.</p>	<p>We are investing in the mobile and digital future to ensure we can serve our customers in whichever medium they wish to purchase games, be that digital download, web or in store.</p>
<p>Competition</p> <p>The pc and video games market continues to be an attractive place to do business. Our competition comes in many guises. A relatively new entrant to the games market is found in the mobile operators selling directly to consumers whilst supermarkets continue to discount heavily or run short-term loss leading campaigns on newly released products. We also have our more traditional competition from other specialists and online players.</p>	<p>If we are unable to compete we run the risk of losing our customers and our market share.</p>	<p>We use a suite of specialist tools to give customers great value. We recognise that this is not always direct price cuts.</p> <p>This is where our position as a specialist in the market place must give us the edge. We strive to find exclusive offerings for our customers that they cannot get anywhere else. Our preowned offerings, trade-in promotions and the use of loyalty card points as currency allows our customers to enjoy popular and new products at great value.</p>
<p>Reputational</p> <p>We have built up customer loyalty over many years. GAME and Gamestation are trusted brands.</p> <p>Our customers demand that we stock the broadest range of products but trust us to sell those products appropriately. Some of our video games, for instance, are age restricted and mis-selling is illegal.</p> <p>Through our loyalty card programmes we have built up a valuable database of information about our customers. Our customers give us personal information so that we can keep them up to date with offers and new releases of interest to them. It is vital that this data is protected and secure.</p>	<p>Damage to our reputation could lead to loss of revenue and shareholder value.</p>	<p>We protect our reputation by ensuring that our staff are highly trained and know their obligations to protect and respect our customers.</p> <p>We demand that our teams follow regular rigorous training programmes, and adhere to strict policies and procedures relating to age-rated products, and data protection.</p>

Notes to the Interim Results (continued)

16 Principal risks and uncertainties (continued)

Risk Type	Impact	Risk Mitigation
Major Business Interruption	Like all businesses any disruption to our capacity to do business will affect our profitability.	All parts of our business, in every territory, have put together business continuity plans to ensure we are able to trade through challenges. This was put to the test recently in the UK when adverse weather conditions close to Christmas threatened to disrupt our supply chains. Our processes worked, and business interruption was minimised.
People and Change	Business change cannot be delivered if we fail to attract, develop and retain the right people in the right roles.	Every aspect of the Group's reward and development programmes is regularly reviewed to ensure that it keeps pace with our business needs and market conditions. Our Group HR Director works closely with the Remuneration Committee to ensure best practice across the Group.

Directors and advisers

Directors

Christopher Bell Non-Executive Chairman
Ian Shepherd Chief Executive
Ben White ACA Group Finance Director
Ishbel Macpherson Senior Non-Executive Director
Dana Dunne Non-Executive Director
Martin Davies Non-Executive Director
Russ Shaw Non-Executive Director

Secretary

Vivienne Hemming ACIS

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