

THE GAME GROUP PLC

RNS Release

Year ended

31 January 2010

Registered Number : 875835

THE GAME GROUP PLC

Highlights

THE GAME GROUP PLC, Europe's leading retailer of pc and video games products, today announces Preliminary Results for the 52 weeks ended 31 January 2010.

Preliminary Results for the 52 weeks ended 31 January 2010

Highlights

All figures in £'m (unless stated)	52 Weeks ended 31 January 2010	53 weeks ended 31 January 2009	Var%
Group turnover	1,772.4	1,968.6	-10.0%
Gross profit margin (%)	27.8%	26.1%	
Operating profit before non-recurring costs	94.8	130.9	-27.6%
Non-recurring costs *	6.2	6.6	
Operating profit	88.6	124.3	-28.7%
Profit before non-recurring costs and tax	90.4	124.0	-27.1%
Profit before tax	84.2	117.4	-28.2%
Basic earnings per share before non-recurring costs (pence)	19.24	26.09	-26.3%
Basic earnings per share (pence)	17.45	24.18p	-27.8%
Annual dividend per share (pence)	5.78p	5.50p	5.0%
Trading store numbers (including franchises)	1,380	1,342	2.8%
Trading square footage (sq. ft. thousands)	1,438.4	1,392.8	3.3%

* The non-recurring costs relate to the integration of Gamestation.

Financial and Operational highlights

- Profit before tax and non-recurring items of £90.4m (2009: £124.0m) is the second best performance in Group's history
- Group's gross margin improved by 170bps.
- Increased preowned revenues to £374.5m (2009: £353.4m) representing over 21% of sales; gross margin up by 260 bps to 41.7%
- Completed Gamestation integration on schedule and delivered £16m of synergies
- Reduced costs across the business by £5m in 2009/10
- Dividend increased by 5%

Management Changes:

- Lisa Morgan has stepped down as CEO and Chris Bell has been appointed interim CEO.
- UK Chief Operating Officer Terry Scicluna has also informed the Board of his intention to step down (see separate announcement).

Current trading and Outlook:

- For the 11 weeks to 17 April 2010, total Group sales and lfl sales were down by 13.3% and 14.4% respectively.
- In the UK and Ireland, total sales and lfl sales were down by 20.8% and 20.1% respectively. In our International business, total sales were up by 1.7% and lfl sales on a constant currency basis were down by 3.9%. Online was down by 3.5 per cent.

Peter Lewis, Chairman, commented:

“The Group has delivered the second best trading performance in its history with profit before taxation and non-recurring costs of £90.4 million (2009: £124.0 million). Our results were delivered against the backdrop of a very difficult trading environment, which saw the global pc and video games market decline by over 20 per cent. We outperformed the market and our performance can be attributed to our position as the market leading specialist, our strength in preowned, our multi-channel customer offer and disciplined operational management.

Complementing our traditional store offer, we are today announcing the launch of a number of initiatives to strengthen our position in the growing ecommerce and digital markets.

Whilst we remain mindful of the challenging market in which we operate, the forthcoming new technology further enhances the profile of the specialist retailer. This, together with our value driven offer to maintain a market leading position, investment in new channels to market, and our focus on cost reductions leads the Board to be confident in the Group’s future prospects.”

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Chairman's Statement

CHAIRMAN'S REPORT

Overview

The Group has delivered the second best trading performance in its history with profit before taxation and non-recurring costs of £90.4 million (2009: £124.0 million). Our results were delivered against the backdrop of a very difficult trading environment, which saw the global pc and video games market decline by over 20 per cent. We outperformed the market and our performance can be attributed to our position as the market leading specialist, our strength in preowned, our multi-channel customer offer and disciplined operational management.

We saw a decrease in the demand for consoles through the year. This was largely attributable to the Nintendo Wii which performed exceptionally well in the previous year. Strong comparables in the prior year, combined with declining hardware sales and a number of key releases moving into 2010, resulted in a decline in software sales.

The market responded well to the release of new hardware technology, the Nintendo DSi, and innovative sequels to established franchises such as Call of Duty Modern Warfare 2, FIFA 10, and Wii Sports Resort. GAME took the leading market share in sales of these products.

The challenges in the pc and video games market were exacerbated by the difficult economic conditions with customers understandably focussed on getting the very best value for money. GAME responded rapidly to these challenges by amplifying our core strengths.

These include a market leading preowned model which enables us to compete directly in a market where some competitors are using loss leading tactics. This, supported by the widest range of products, market leading promotions and offers, over 14 million Reward Card holders and a strong online proposition, enabled us to deliver recognisable value for money. We continue to believe that this is the right offering in a market where we will see continued technological advance and broadening customer appeal.

In addition, we maintained our focus on cost control and operational management. We have taken decisive action to improve operational efficiency, driving through significant cost synergies and exiting from underperforming store locations.

Results

Group turnover for the 52 weeks ended 31 January 2010 decreased by 10.0% to £1,772.4m (year ended 31 January 2009: £1,968.6m) with lfl sales down by 15.0%. In the UK and Ireland, total sales decreased by 16.6% and lfl sales were down by 17.3%. In our International operations, total sales increased by 4.8% and lfl sales fell by 10.8%. Our Online operations outperformed the rest of our business on a like for like basis although sales still decreased by 9.1%.

The Group gross margin improved by 170 basis points principally due to an increase in higher margin preowned products within the overall sales mix, up from 18% to 21%.

The Group continues to exercise strong cost control disciplines, with savings in the underlying cost base of approximately £5m. Additionally, the Group has achieved a further £6m of synergies from the Gamestation integration, bringing the total synergies for the year to £16m.

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Chairman's Statement (continued)

Group operating profit before non-recurring costs was £94.8m (2009: £130.9m). Profit before tax and non-recurring costs was £90.4m (2009: £124.0m) and basic earnings per share before non-recurring costs were 19.24p (2009: 26.09p).

Reflecting its confidence in the medium term prospects of the Group, the Board proposes a final dividend of 3.9p per share (2009: 3.71p), an increase of 5%. This will result in a full year dividend of 5.78p per share (2009: 5.5p), an increase of 5%.

Our net cash position as at 31 January 2010 decreased to £44.9m (2009: £81.4m). The decrease largely reflects a change in the timing of supplier payments, with significant payments being made just before the year end rather than just after, as they were in the prior year. On a like for like basis, our cash position is consistent with last year, and the Group continues to be cash generative with a strong balance sheet.

Business Development

Our market

With a record installed base in the UK of over 28m third generation consoles, the market has, as expected, moved towards higher margin software and peripheral products.

In the UK, hardware sales declined by over 26%. Though still the best selling format, Nintendo Wii revenues were down by over 49% (use market numbers, not GAME), compared to exceptional sales in 2008. Following price cuts, sales of PS3 and Xbox 360 hardware were down by only 6% and 19% respectively. Sales of higher margin software were down by 17%. This was again led by Nintendo formats, with software revenues for Sony PS3 and Xbox 360 formats showing an increase on those achieved in 2008 (source GfK ChartTrack).

The manufacturers are focused on producing innovative new technology for the current third generation of consoles. This year we expect to see more sophisticated motion sensor controllers from both Microsoft, "Project Natal", and Sony, "Playstation Move". These products will continue to broaden the appeal of video games and expand customer choice, with GAME being a key destination for showcasing their launches. They will require demonstration and explanation, both of which are the province of the specialist. We are seeing new entrants to our market, including mobile operators, and are extending our offer in store and online to provide our customers with even more choice.

Our Channels and Locations

GAME delivers a specialist proposition that leads on value, product range and choice, service and loyalty across all channels.

Stores: With over 1,300 stores, we are located in all of the major retail locations in the countries in which we operate. Customers seek out GAME and Gamestation stores for our specialist teams. Suppliers value the marketing power of our brand presence, store displays and instore theatre. We are also trialling changes to the look and feel of our stores, including interactive kiosks, making sure we offer a powerful retail proposition as well as a place to play and interact.

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Chairman's Statement (continued)

Global Online: We have transactional local language websites in every location in which we operate and in the UK we have three: GAME.co.uk, Gamestation.co.uk and Gameplay.co.uk. Through our ecommerce offering we are developing our digital services, led by our well established digital download site which now features over 1,000 titles. We can also be reached through a GAME iPhone app, our new presence in Playstation Home (the online portal for Playstation 3 players) called GAME Moonbase, and a new social network site called Gamesnation. A new download site for mobile phone games is in development and over the coming months we will announce our plans for other digital arenas.

UK

We end the year with 677 stores across two brands in the UK, and have maintained market leadership despite increased competition from supermarkets, online retailers and new entrants to the market.

In December 2009 we closed 19 GAME concessions in Borders stores, and since the year end we have also taken the decision to terminate our concession partnership with Debenhams and announced plans to close 18 other stores. Our strong customer base of Reward Card holders enables us to contact customers and transfer the majority of the revenues from these stores to the next nearest GAME or Gamestation. There will be no material costs from these closures.

We continue actively to review our UK store base, with a view to minimising store overlap and maximising opportunities from lease expiries, breaks and rent reviews. Our average lease length of 6 years for our UK stores is an advantage. By Christmas 2013, we expect the UK store portfolio to have been reduced to about 550 stores. In addition, we are investing to create the leading pc and video games website and download service in the UK.

Operationally we have continued to derive benefits from the integration of GAME and Gamestation. We have also rationalised our store and head office cost base which, in conjunction with the store closures, will result in savings of a further £5m in each of the next two years.

International

We have opened 64 stores outside the UK and closed 7, taking the total to 703 at year end. In every international location we have grown our market share.

We will continue to open stores in the markets which give us the greatest return and can deliver further benefits of scale. We plan to open between 25 and 40 stores this year, which is less than prior years.

Iberia, where we are the market leader, remains our most successful international market, and continues to grow. Gains in market share and margin are encouraging, and we continue to open stores in select locations.

We are the market leader in the Czech Republic, and the business is showing good growth and potential for entry into surrounding markets.

In Australia and France, where we are not market leader, we are reviewing the store base and brand proposition to ensure we can compete more effectively and deliver further growth.

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Chairman's Statement (continued)

In Scandinavia, we maintain the appropriate portfolio and are rationalising the support function.

In all of our locations, we aim to support our store model with a leading e-commerce offer.

Where we sell

As at 31 January		2010	2009
		Number	Number
<i>Company owned and concessions</i>			
UK and Ireland			
- GAME		423	443
- Gamestation		254	253
<i>Total UK and Ireland</i>		677	696
France		199	192
Iberia		283	258
Scandinavia		68	66
Czech Republic		29	22
<i>Total Continental Europe</i>		579	538
Australia		118	101
<i>Total International</i>		697	639
<i>Total owned and concessions</i>		1,374	1,335
<i>Franchises</i>			
France		0	1
Iberia		5	5
Australia		1	1
<i>Total franchises</i>		6	7
Total operational outlets		1,380	1,342

Treasury and Capital expenditure

Our net cash as at 31 January 2010 was £44.9m compared with £81.4m in the prior year. As noted above, the decrease reflects a change in the timing of supplier payments around the year end, and stock holding for January releases.

In the 2010/11 financial year, average net debt is anticipated to be around £60m (2009: £60m). The Board is committed to an efficient capital structure and continues to review the dividend policy and a share buyback strategy along with continued organic or acquisitive growth of the business.

We anticipate that our total capital expenditure for the current year will be around £20m to £25m (2010: £30m; 2009: £53m). Store openings and refurbishment requirements will cost between £5m and £10m. In addition, we will invest £10m in Global Online on eCommerce and digital development and information technology, and approximately £5m on distribution centre infrastructure.

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Chairman's Statement (continued)

The Board and Management

The Board announced today that Lisa Morgan has stepped down from her role as CEO to pursue other opportunities. The Board and Lisa have agreed that this is the right time for a new CEO to lead the business through the next stage in its development. The Board thanks her for her exceptional contribution through her 14 years with GAME. The Board has commenced a search for a new CEO and pending this appointment has asked Non Executive Director Chris Bell to take up the role of interim CEO.

In light of the Board's decision to commence a search for a new CEO, Terry Scicluna, UK Chief Operating Officer has informed the Board of his intention to step down. He will remain with the business through a handover period. Responsibility for the UK operating activities will be retained by Martyn Gibbs, former Managing Director of Gamestation, who was appointed GAME Group Managing Director of UK and Eire in March 2010.

In July 2009 Ben White (37) succeeded David Thomas as Group Finance Director, having been the Group's Reporting and Investor Relations Director since 2005.

In January 2010, Jean-Paul Giraud stepped down from the Board after two terms in office, and Dennis Woodside returned to the USA with Google as VP Americas Operations. In the same month, we announced the appointment of Dana Dunne (47), COO of Easyjet plc, and David Mansfield (56), former Chief Executive of Gcap plc, to our Board as non executive directors.

The three new directors bring a wealth of experience from different consumer industries and entertainment markets, all of which will further strengthen our Board.

We thank the directors who have left us for their service and contributions to the Group's direction and growth.

Employees

This has been a more challenging year for our employees throughout the Group, and I am grateful for their continued focus and professionalism. Our people are the heart of our consumer offer, and it is their dedication and support which helps us to give customers something extra in our stores and online.

Corporate Responsibility

Corporate Responsibility ("CR") is at the heart of our operations and strategy. We recognise that the way we operate within our industry and the communities that we share has a direct impact on our reputation and our brand. We are continuing to develop our CR strategy and stakeholder relationships with a view to ensuring that our behaviour and actions meet the highest standards expected by our customers and owners.

Current Trading and Outlook

In the first 11 weeks to 17 April 2010, the Group's total sales were down by 13.3% and lfl sales were down by 14.4%. Excluding the impact of the launch of the DSi in the prior year, lfl sales were down by 9.1%. Online was down by 3.5 per cent. This is in line with our expectations for the first part of the year.

In the UK and Ireland, total sales and lfl sales were down by 20.8 per cent and 20.1 per cent respectively. In our International business, total sales were up by 1.7 per cent and lfl sales on a constant currency basis were down 3.4 per cent.

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Chairman's Statement (continued)

Whilst we remain mindful of the challenging market in which we operate and that the current year will be a difficult one, the forthcoming new technology further enhances the profile of the specialist retailer. This, together with our value driven offer to maintain a market leading position, investment in new channels to market, and our focus on cost reductions leads the Board to be confident in the Group's future prospects.

Peter Lewis

Chairman

21 April 2010

The Group will release an IMS statement on 10 June, and will host a Technology Event for analysts and investors following the E3 industry conference in Los Angeles, which is scheduled for 15 to 17 June 2010.

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Chief Executive's Review

Chief Executive's Review

Due to our established specialist proposition, our business is in a strong position for the future. Central to this is our brand strategy which places our customers at the heart of everything we do. Our relationship with them is centred on a strong value message, offering the widest range of products, market leading service and rewarding loyalty.

In a market where value for money has become increasingly important, we are maintaining our competitive position through our trade-in and preowned programme and “deal of the week” and “price promotion” campaigns, which help us to compete with our competitors on price.

We ensure that our customers get the product that they want, when they want it, so that they can be the first to play, delivered through exclusive products for key new releases and first-to-market promotions, which offer customers a real point of differentiation

Our stores make the buying decision as easy as possible and, more importantly, our highly trained and knowledgeable teams provide great service to core gamers and novices alike.

We have grown our GAME Reward Card database by 17% over the last year. We now have over 14 million GAME Reward Card members around the world receiving loyalty points on everything they buy from us. The Reward Card also enables us to tailor our customer service to individual customer demands.

Through every channel and in every location in which we operate, our attributes as a specialist are at the forefront of our interaction with the customer.

Market Development

Over the short to medium term, we believe that the pc and video games market will continue to be dominated by boxed product. This is reinforced by the manufacturers who are producing peripherals for the third generation console hardware, before looking towards the fourth generation. This is positive news for the specialist as we always perform well when new boxed product technology is released.

Over the longer term, we expect to see increasing diversity in the way people play and interact – more use of digital downloading to enhance disc based games, games downloaded in their entirety, greater access to casual (free-to-play) games, and more people playing mobile games. Customers will expect a seamless service across stores, ecommerce and digital platforms. Fundamentally, however, we still believe that customers will want to access the pc and video games world through a trusted, reliable and independent provider, and we have developed a GAME branded offer for them all.

Our Strategy – Brand Proposition

To strengthen our market leading position we believe that our specialist proposition must evolve, and we must also ensure that our brands take a leading role in the longer term structural changes in the market. Our brands offer customers:

Value: We continue to give our customers value for money whenever and wherever they shop with us. Through supplier supported deals we have unique bundle deals, “deal of the week” promotions and other price campaigns on mint product throughout the year. We are supporting this value message with an increase in the frequency of sales.

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Chief Executive's Review (continued)

We continue to be the leading preowned retailer by maintaining compelling trade-in deals and offering the best prices on preowned product. By trading in product that they have already played, our customers can buy new games for less. We, in turn, sell those traded in games on to other customers at attractive prices.

These value offers are supported by our Reward Card loyalty programme, which provides points equivalent to a 2.5% discount on every purchase and 5% if you pre-order with us.

Product and range: As a leading specialist, breadth of range is fundamental to our offer. We obtain the best allocation of new release product on the day of launch and through the product's lifecycle. The products we sell are differentiated by the exclusives attached to them, both as tangible products (such as the Guitar Hero exclusive Coloured Guitar) or digital downloads (such as the exclusive race tracks in Forza Motorsport 3). The range in stores is being extended significantly through greater connectivity to our websites via interactive kiosks.

We are increasing the range of own brand products, Gameware, to provide our customers with more choice at cheaper prices. These products are largely peripheral items, such as controllers.

Our teams are gearing up for the launch of Sony's Playstation Move and Microsoft's "Project Natal" in the second half of 2010. These new peripherals will each be supported with a new software range and our brands are positioned to be the lead launch partners in Europe with the most comprehensive range and volume of products, combined with in store demonstrations and specialist advice.

Service: Our employees offer expert advice to consumers in an increasingly complex market. We continue to champion new technology launches and enhance our support service. To do this we are continuing to invest in our employee training programmes (Xcite and Smile). All employees receive thorough training in retail which, when combined with their genuine enthusiasm for pc and video games, gives us a competitive advantage.

We are enhancing our ecommerce and digital services with such items as gift selectors, exclusive product reviews and demonstrations. Our ecommerce offering is more than just a virtual shop window, it acts to inform, compare and advise, creating a sense of community with our customers.

Loyalty: Our loyalty scheme, the GAME Reward Card, has given us great insight into our customers and provided real savings to its members. We are increasing membership benefits and personalisation to continue to build trust between ourselves and our customers. We are furthering our target audience through the launch of a loyalty card in Gamestation before the end of the year.

These changes to our commercial offer will give us the points of difference to compete against the price and offer-led propositions on the high street, in the supermarkets and online.

Our Strategy – Infrastructure and Support

Location and technology

Consumers are buying and playing pc and video games through a variety of different channels. Boxed products are still overwhelmingly the most popular with customers, but playing games online and via digital downloads, although less than 1% of sales today, will become an increasingly important part of it in the future.

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Chief Executive's Review (continued)

GAME is constantly updating its customer offer to continue its lead in this evolving market. There is a GAME offering in every channel and our objective is to offer customers the same value and service wherever they choose to shop and interact with us.

Stores: remain central to our offer, delivering over 94% of our revenues. We strongly believe that stores will continue to have a very significant role in pc and video games retailing.

We actively manage our store portfolio in each of our territories, to create a store footprint that is appropriately matched to local market conditions. As non-boxed revenues increase, we are reducing the number of overlapping outlets in the UK, targeting 550 stores by Christmas 2013. The profile of our leases will allow us to do this. We are also limiting store openings in our existing international locations, but will continue to look at new markets if they show the right return characteristics.

Our stores are a place to experience games, and the format is evolving to cater for their changing needs and the incoming new technology. We are trialling interactive kiosks and improved ecommerce connectivity in selected stores to expand further the range with thousands more product lines and enhanced the customer experience.

To deal with the transactional volumes through our stores, we continually upgrade our IT infrastructure. As part of this we are installing both customer conversion technology and top-up card activation capabilities within our outlets.

Ecommerce: is an important part of our customer offering, delivering over 5% of our revenues. Through our websites we can offer the same services as in our stores, plus a substantially enhanced range, online-only offers and additional marketing and support, i.e. Click and Collect, to our customers and stores. We are launching two ecommerce initiatives to develop this opportunity further.

To give our customers a seamless brand experience we are introducing a new "Websphere" ecommerce platform over the next two years, linking all of our territories and stores to provide a universal online portal, and fully connected infrastructure. This will help customers by increasing the efficiency of product targeting and searching, and will support GAME's marketing efforts by increasing awareness of both new releases and back catalogue software. It will also give us a single view of customer behaviour across our stores and websites, and help us improve our services further. GAME will invest £5m this year and the next in this ecommerce platform.

Our websites around the world receive 112 million visits per annum. This, coupled with our Reward Card programme, already gives us one of the largest communities of video gamers in the world. Now we are building on this position by creating a social networking site, Gamesnation, which is currently in beta testing with thousands of members to increase brand awareness further and to appeal to a wider target audience.

Digital: revenues are small, less than 1% of turnover, but are a growing part of our business. The digital market is still very disparate, and activity is currently limited by technological capacity and customer appetite. However, as digital revenues form a larger part of the market over the next five years, we believe that both customers and manufacturers want a trusted brand to act as the independent aggregator. Consequently we continue to grow our digital pc download offer, which is now the largest in Europe with over 1,000 titles available.

This gives us invaluable insight into customer demands as we extend our digital offer. We can be reached through a GAME iPhone app which was launched in 2009 and we have become the first video games retailer to have a presence in Sony Playstation Home (the online portal for 12 million Playstation 3 players). Over the coming months we will announce our plans for other digital arenas.

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Chief Executive's Review (continued)

We continue to participate in online gameplay, selling time cards, add-ons and a wide range of peripherals to maximise the gameplay experience.

Our focus continues to be on our customers, ensuring that for every service they want to use we can provide functionality, either by building it ourselves or by involving a partner such as Metaboli. In every case we will also provide extensive advice and full after-sales care.

Business relationships

To provide customers with all the product and offers they want from a specialist it is vital that we maintain long-term and successful relationships with all of our partners. We are committed to working with our suppliers to continually improve our specialist proposition and we have recently appointed a Group Commercial Strategy Director to work with our partners at a global level, further strengthening our relationships, delivering joint benefits of scale and enhancing our customer proposition in every territory and channel in which we operate.

By seeking exclusives for all major titles we have a competitive point of difference, and where those exclusives are digital content we are building a brand image in the digital arena.

Distribution

In all of our markets, the majority of new products are sold in the first weeks of launch, so immediate availability, and timely replenishment, is crucial to our credibility. GAME Group has purpose-built distribution facilities in all territories to ensure that products reach customers at the right time. Distribution centres support our stores, as well as our direct to home solutions.

Multi-channel

The actions we are undertaking will give us a genuine multi-channel proposition that will make us the aggregator of choice for customers wherever they want to shop and however they want to interact with pc and video games.

Summary

The resilience of our performance last year was entirely attributable to our credentials as a specialist retailer, which gives us many competitive advantages. We have clearly identified plans to move these forward, and in so doing will address and outpace the current competitive pressures that we face and position ourselves for the longer term changes in our market place.

Whilst we recognise that the outlook for the wider global economy remains uncertain and that we face a difficult current year, we believe that our value led offer positions us well and with our ongoing cost discipline, we are confident about our prospects going forward.

Chris Bell
Interim Chief Executive

THE GAME GROUP PLC

Finance Review

Profit and Loss Account

Revenue

Total sales decreased by 10.0% from £1,969m to £1,772m and lfl sales decreased by 15.0%.

Average sales per annum per sq. ft. decreased by £181 to £1,232.

Gross Margin

Overall gross margin was 27.8% compared to a prior year margin of 26.1%. This increase in gross margin was in line with our expectations. It was principally caused by the increased participation of new software and preowned product in our sales mix and the buying synergies we have been able to deliver through the acquisition of GAME and Gamestation.

Operating Expenses

Total operating costs have increased by 3.6% from £383.6m to £397.9m, excluding non-recurring costs, and as a percentage of sales were 22.4% compared to 19.5% last year. On a cash basis our selling and distribution related expenditure has increased year on year but this is in line with the increase in outlets traded across our business. This was offset by a decrease in administration costs, a testament to our ability to control our overheads across the operating chain.

Profit before tax

We achieved a profit before tax of £84.2m compared to a profit before tax of £117.4m for last year.

Taxation

The effective rate of Corporation Tax was 28.2% (2007: 28.7%) and we have continued to provide for deferred taxation in line with IAS 12.

Earnings per share

Basic earnings per share were 17.45p compared to 24.18p last year, a decrease of 27.8%. Diluted earnings per share were 17.42p compared to 24.10p last year, a decrease of 27.7%.

Dividend

The Board is recommending a final dividend of 3.90p per share, which will give a total dividend for the period of 5.78p compared to 5.50p last year an increase of 5%. The dividend will be paid on 16th July 2010, to shareholders on the register at the 25 June 2010.

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Financial Review (continued)

Balance Sheet

Capital Expenditure

Capital expenditure in the period, excluding acquisitions, amounted to £30m. Almost half of this expenditure was invested in new and refurbished stores internationally and in the UK. Additionally we invested in the IT infrastructure, distribution facilities and web operations across the Group. In summary:

Capital Expenditure	31 Jan 2010	31 Jan 2009
	£m	£m
Stores	10	29
Refits	3	7
Web	5	8
Infrastructure	12	9
Total	30	53

Stock

Stock at the end of the period represented £128k per owned store compared to £136k for the same period last year. The decrease in the average stock holding per store reflects the fact that we were holding lower levels of hardware product to meet ongoing consumer demand.

Cash flow

Net cash generated by operations was £13m compared to £118m last year. This reflects the reduction in year on year trading performance together with the movements in working capital. In particular, our trade creditor payments schedule saw a lesser proportion of December deliveries paid after the year end, while our VAT creditor reduced in line with lower rates and lower final quarter sales. These effects reversed in February 2010 with lower payments being required.

Reporting

During the year we adopted IFRIC 13 on Customer Loyalty Programmes. This required the business to recognise an element of revenue on accounting for Loyalty Card points, where previously we have only recognised the cost of those points. This has resulted in a charge to the profit and loss for 2008/09 of £1.8m.

When entering in to leases in France, businesses are required to pay key money (called "Droit au bail" in France). The key money is not depreciated but the carrying value is assessed annually on the basis of formal property market valuations. We have assessed the carrying value, based on a representative sample of properties, as at 31 January 2010 and concluded that there is no material diminution in value. The carrying value of the key money in our books is approximately £31m (2009: £31m). We will continue to review the position in 2010/11.

Ben White
Group Finance Director

Directors' responsibility statement

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the group, and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report and Directors' Remuneration Report which comply with the requirements of the Companies Act 2006. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss for the group for that period.

The Directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 2006. The Directors are also required to prepare financial statements for the Group in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and Article 4 of the IAS Regulation. The Directors have chosen to prepare financial statements for the Company in accordance with UK Generally Accepted Accounting Practice.

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. The financial statements are published on the Group's web-site (www.gamegroup.plc.uk) in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's web-site is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Group financial statements

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires the Directors to:

- consistently select and apply appropriate accounting policies;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union,, subject to any material departures disclosed and explained in the financial statements;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

THE GAME GROUP PLC

Report of the Directors for the year ended 31 January 2010

Parent Company financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

Directors' responsibility statement pursuant to DTR4

The Directors confirm to the best of their knowledge:

- The Group financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and Article 4 of the IAS Regulation and give a true and fair view of the assets, liabilities, financial position and profit and loss of the group.
- The Annual Report includes a fair review of the development and performance of the business and the financial position of the Group and the Parent Company, together with a description of the principal risks and uncertainties that they face.

THE GAME GROUP PLC

Consolidated Statement of Comprehensive Income for the year ended 31 January 2010

	Note	2010 £'000	Restated 2009 £'000
Revenue	1	1,772,358	1,968,604
Cost of sales		1,279,666	1,454,097
Gross profit		492,692	514,507
Other operating expenses	2	404,102	390,214
Operating profit before non-recurring costs		94,789	130,881
Non-recurring costs	3	(6,199)	(6,588)
Operating profit	4	88,590	124,293
Finance income	5	538	1,805
Finance costs	6	(4,917)	(8,732)
Profit before taxation		84,211	117,366
Taxation	8	23,744	33,716
Profit for the year attributable to equity holders of the parent		60,467	83,650
Other comprehensive income:			
Exchange differences on translating foreign operations		3,920	17,550
Deferred income tax on share-based payments		(1,078)	(442)
Income tax on share-based payments		596	1,789
Other comprehensive income for the year, net of tax		3,438	18,897
Total comprehensive income for the year attributable to equity holders of the parent		63,905	102,547
Earnings per share			
- basic	10	17.45p	24.18p
- diluted	10	17.42p	24.10p

All amounts relate to continuing activities

THE GAME GROUP PLC

Consolidated Balance Sheet at 31 January 2010

Registered Number : 875835

	Note	2010 £'000	Restated 2009 £'000	Restated 2008 £'000
Non-current assets				
Property, plant & equipment	11	161,121	165,609	130,662
Intangible assets	12	180,135	182,267	172,871
Deferred tax asset	18	3,614	4,004	-
		<u>344,870</u>	<u>351,880</u>	<u>303,533</u>
Current assets				
Inventories	13	176,045	181,965	145,041
Trade and other receivables	14	48,316	55,465	53,845
Cash and cash equivalents		86,128	139,614	137,899
		<u>310,489</u>	<u>377,044</u>	<u>336,785</u>
Total assets		<u>655,359</u>	<u>728,924</u>	<u>640,318</u>
Current liabilities				
Trade and other payables	15	258,203	349,182	318,624
Current portion of long-term borrowings	16	17,361	26,325	38,038
Leasehold property incentives	19	1,341	904	846
Corporation tax liabilities		12,943	26,037	15,862
		<u>289,848</u>	<u>402,448</u>	<u>373,370</u>
Non-current liabilities				
Long-term borrowings	16	23,908	31,847	57,809
Leasehold property incentives	19	10,048	8,328	6,414
Deferred tax liabilities	18	-	-	1,120
		<u>33,956</u>	<u>40,175</u>	<u>65,343</u>
Total liabilities		<u>323,804</u>	<u>442,623</u>	<u>438,713</u>
Net assets		<u>331,555</u>	<u>286,301</u>	<u>201,605</u>
Equity attributable to equity holders of the parent				
Share capital	20	17,333	17,316	17,167
Share premium account	21	46,662	46,462	44,848
Capital redemption reserve	22	2,248	2,248	2,223
Shares held in Trust	22	(3,395)	(6,451)	(4,403)
Merger reserve	22	76,907	76,907	76,907
Foreign exchange reserve	22	27,374	23,454	5,904
Retained earnings	22	164,426	126,365	58,959
		<u>331,555</u>	<u>286,301</u>	<u>201,605</u>
Total equity		<u>331,555</u>	<u>286,301</u>	<u>201,605</u>

THE GAME GROUP PLC

Consolidated Balance Sheet at 31 January 2010 (continued)

The financial statements were approved by the Board of Directors and authorised for issue on 21 April 2010 and were signed on its behalf by:

Ben White
Director

THE GAME GROUP PLC

Statement of changes in equity for the year ended 31 January 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 2008	17,167	44,848	2,223	(4,403)	76,907	61,276	5,904	203,922
Restatement	-	-	-	-	-	(2,317)	-	(2,317)
At 1 February 2008 after restatement	17,167	44,848	2,223	(4,403)	76,907	58,959	5,904	201,605
Exchanges differences on translation of foreign currency net investment in subsidiaries	-	-	-	-	-	-	17,550	17,550
Income tax on share-based payments								
- Deferred tax	-	-	-	-	-	(442)	-	(442)
- Current tax	-	-	-	-	-	1,789	-	1,789
Net income recognised directly in equity	-	-	-	-	-	1,347	17,550	18,897
Net income recognised in income statement	-	-	-	-	-	83,650	-	83,650
Total recognised income and expense	-	-	-	-	-	84,997	17,550	102,547
Issue of shares	126	1,614	-	-	-	-	-	1,740
Purchase of shares	-	-	-	(3,828)	-	-	-	(3,828)
Exercise of options	-	-	-	1,828	-	(1,828)	-	-
Dividends paid	-	-	-	-	-	(16,490)	-	(16,490)
Share buyback	(25)	-	25	-	-	(1,241)	-	(1,241)
Share-based payments	-	-	-	-	-	1,968	-	1,968
Net-settled options	48	-	-	(48)	-	-	-	-
At 1 February 2009	17,316	46,462	2,248	(6,451)	76,907	126,365	23,454	286,301
Exchanges differences on translation of foreign currency net investment in subsidiaries	-	-	-	-	-	-	3,920	3,920
Income tax on share-based payments								
- Deferred tax	-	-	-	-	-	(1,078)	-	(1,078)
- Current tax	-	-	-	-	-	596	-	596
Net income recognised directly in equity	-	-	-	-	-	(482)	3,920	3,438
Net income recognised in income statement	-	-	-	-	-	60,467	-	60,467
Total recognised income and expense	-	-	-	-	-	59,985	3,920	63,905
Issue of shares	17	200	-	-	-	-	-	217
Purchase of shares	-	-	-	(1,893)	-	-	-	(1,893)
Exercise of options	-	-	-	4,949	-	(4,949)	-	-
Dividends paid	-	-	-	-	-	(19,366)	-	(19,366)
Share-based payments	-	-	-	-	-	2,391	-	2,391
At 31 January 2010	17,333	46,662	2,248	(3,395)	76,907	164,426	27,374	331,555

THE GAME GROUP PLC

Consolidated Statement of Cash Flows for the year ended 31 January 2010

	Note	2010 £'000	Restated 2009 £'000
Cash flow from operating activities			
Operating profit		88,590	124,293
Equity settled share-based payment expense		2,391	1,968
Depreciation and amortisation		32,898	28,901
Loss on disposal of non current assets		2,734	146
Market value movement on financial instrument		81	211
		<hr/>	<hr/>
Decrease in trade and other receivables		126,694	155,519
Decrease/(increase) in inventories		6,869	212
Increase/(decrease) in trade and other payables		7,220	(30,293)
Increase in leasehold incentives		(87,860)	28,573
		1,757	1,573
		<hr/>	<hr/>
Cash generated from operations		54,680	155,584
Finance costs paid		(4,917)	(8,732)
Corporation tax paid		(36,626)	(28,844)
		<hr/>	<hr/>
Net cash from operating activities		13,137	118,008
		<hr/>	<hr/>
Cash flows from investing activities			
Acquisitions	23	-	(6,804)
Purchase of property, plant and equipment		(26,322)	(48,727)
Purchase of intangible assets		(3,568)	(4,718)
Proceeds from sale of equipment		455	1,128
Finance income received		538	1,805
		<hr/>	<hr/>
Net cash used in investing activities		(28,897)	(57,316)
		<hr/>	<hr/>
Cash flows from financing activities			
Proceeds from issue of share capital		217	1,740
Shares purchased for Trust		(1,893)	(3,828)
Purchase of own shares		-	(1,241)
Payment of Term Loan		(63,330)	(25,000)
Proceeds from Term Loan		50,000	-
Net payment of other long term borrowings		(2,935)	(13,765)
Payment of finance lease liabilities		(419)	(393)
Dividends paid		(19,366)	(16,490)
		<hr/>	<hr/>
Net cash used in financing activities		(37,726)	(58,977)
		<hr/>	<hr/>
Net increase in net cash and cash equivalents		(53,486)	1,715
Cash and cash equivalents at beginning of year		139,614	137,899
		<hr/>	<hr/>
Cash and cash equivalents at end of year	24	86,128	139,614
		<hr/> <hr/>	<hr/> <hr/>

THE GAME GROUP PLC

Statement of Accounting Policies

The financial information set out above and in the accompanying notes, does not constitute the Company's statutory accounts for the years ended 31 January 2010 or 2009, but is derived from those Accounts. Statutory accounts for 2009 have been delivered to the Register of Companies and those for 2010 will be delivered following the Company's Annual General Meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain statements under the Companies Act 2006, s 237 (2) or (3).

The Independent Auditors' report on the 2009 accounts was unqualified and did not contain a statement under 237(2) or 237(3) of the Companies Act 1985. The Independent Auditors' report on the 2010 accounts was unqualified* and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

* did not draw attention to any matters by way of emphasis

Basis of Preparation

The accounting reference date of The GAME Group plc and all of its subsidiary undertakings (the "Group") is 31 January. The comparative year's results are for the 53 week period ended 31 January 2009. The current year's results are for the 52 week period ended 30 January 2010.

The consolidated financial statements incorporate the results of the Group made up to 31 January 2010. The Group has used the acquisition method of accounting to consolidate the results of subsidiary undertakings. The results of subsidiary undertakings are included from the date of acquisition.

The Group consolidated financial statements have been prepared in accordance with the Companies Act 2006 as applicable to companies reporting under IFRS and those IFRSs and IFRIC interpretations issued and effective and endorsed by the European Union as at the time of preparing these financial statements.

THE GAME GROUP PLC

Notes to the Financial Statements for the year ended 31 January 2010

1 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.

	United Kingdom and Ireland 2010 £'000	International Stores 2010 £'000	Global Online 2010 £'000	Total 2010 £'000
Revenue	1,072,698	602,556	97,104	1,772,358
Cost of sales	(751,296)	(447,373)	(80,997)	(1,279,666)
Gross profit	321,402	155,183	16,107	492,692
Other operating expenses excluding inter-segment expenses	(240,044)	(146,633)	(11,226)	(397,903)
Inter-segment expenses	3,331	(3,331)	-	-
Operating profit before non-recurring costs	84,689	5,219	4,881	94,789
Non-recurring costs	(6,199)	-	-	(6,199)
Operating profit	78,490	5,219	4,881	88,590
Net Finance costs excluding inter-segment	(4,184)	(195)	-	(4,379)
Inter-segment finance costs	2,544	(2,544)	-	-
Taxation	(20,321)	(3,423)	-	(23,744)
Profit after tax	56,529	(943)	4,881	60,467

Other segmental information:

Goodwill and other intangibles	153,649	25,974	512	180,135
Other assets	212,043	253,185	9,996	475,224
Assets	365,692	279,159	10,508	655,359
Liabilities	(166,077)	(149,524)	(8,203)	(323,804)
Net assets	199,615	129,635	2,305	331,555
Capital expenditure	11,013	14,333	4,544	29,890

Depreciation and amortisation	15,908	14,751	2,239	32,898
Share based payment expense	<u>2,391</u>	<u>-</u>	<u>-</u>	<u>2,391</u>

THE GAME GROUP PLC

Notes to the Financial Statements for the year ended 31 January 2010 (continued)

1 Revenue, profit and net assets (continued)

	United Kingdom and Ireland 2009 £'000	International Stores 2009 £'000	Global Online 2009 £'000	Total 2009 £'000
Revenue	1,286,642	575,172	106,790	1,968,604
Cost of sales	(932,434)	(434,914)	(86,749)	(1,454,097)
Gross profit	354,208	140,258	20,041	514,507
Other operating expenses excluding inter-segment expenses	(247,627)	(122,037)	(13,962)	(383,626)
Inter-segment expenses	7,182	(7,182)	-	-
Operating profit before non-recurring costs	113,763	11,039	6,079	130,881
Non-recurring costs	(6,588)	-	-	(6,588)
Operating profit	107,175	11,039	6,079	124,293
Net Finance costs excluding inter-segment	(6,453)	(474)	-	(6,927)
Inter-segment finance costs	4,370	(4,370)	-	-
Taxation	(28,330)	(5,386)	-	(33,716)
Profit after tax	76,762	809	6,079	83,650

Other segmental information:

Goodwill and other intangibles	154,362	27,134	771	182,267
Other assets	280,987	258,154	7,516	546,657
Assets	435,349	285,288	8,287	728,924
Liabilities	(271,113)	(164,674)	(6,836)	(442,623)
Net assets	164,236	120,614	1,451	286,301
Capital expenditure	20,152	28,805	4,488	53,445
Depreciation and amortisation	15,451	12,059	1,391	28,901
Share based payment expense	1,968	-	-	1,968

THE GAME GROUP PLC

Notes to the Financial Statements for the year ended 31 January 2010 (continued)

1 Revenue, profit and net assets (continued)

	2010		2009	
	£'000	% of Total	£'000	% of Total
	Total		Total	
Revenue				
Hardware	433,748	24.5	555,369	28.2
Software	730,800	41.2	873,835	44.4
New hardware and software	1,164,548	65.7	1,429,204	72.6
Preowned	374,485	21.1	353,409	18.0
Other	233,325	13.2	185,991	9.4
Total	1,772,358	100.0	1,968,604	100.0

	2010		2009	
	£'000	% of Total	£'000	% of Total
	Total		Total	
Gross Margin				
New hardware and software	257,362	52.2	319,058	62.0
Preowned	156,007	31.7	138,176	26.9
Other	79,323	16.1	57,273	11.1
Total	492,692	100.0	514,507	100.0

	2010	2009
	%	%
	Total	Total
Gross Margin		
New hardware and software	22.1%	22.3%
Preowned	41.7%	39.1%
Other	34.0%	30.8%
Total Group	27.8%	26.1%

THE GAME GROUP PLC

Notes to the Financial Statements for the year ended 31 January 2010 (continued)

1 Revenue, profit and net assets (continued)

	Year ended 31 January 2010	53 weeks ended 31 January 2009
	£'000	£'000
Turnover by territory		
United Kingdom and Ireland	1,072,698	1,286,642
France	187,291	194,855
Iberia	288,342	260,389
Scandinavia	49,962	52,631
Australia	69,705	62,751
Czech Republic	7,256	4,546
Total Stores	1,675,254	1,861,814
Total Online	97,104	106,790
Total Turnover	1,772,358	1,968,604
Stores by territory		
	Number	Number
United Kingdom and Ireland	677	696
France	199	192
Iberia	283	258
Scandinavia	68	66
Australia	118	101
Czech Republic	29	22
	1,374	1,335
Franchises		
France	0	1
Iberia	5	5
Australia	1	1
	6	7
Trading square footage by territory at year end		
	Sq ft	Sq ft
United Kingdom and Ireland	797,594	808,322
France	185,172	177,729
Iberia	236,045	218,395
Scandinavia	69,575	62,367
Australia	132,564	113,417
Czech Republic	17,483	12,611
	1,438,433	1,392,841

THE GAME GROUP PLC

Notes to the Financial Statements for the year ended 31 January 2010 (continued)

2 Other operating expenses

	2010	2009
	£'000	£'000
Selling and distribution	324,198	304,428
Administrative expenses	79,904	85,786
	<u>404,102</u>	<u>390,214</u>

Administrative expenses include non-recurring costs of £6,199,486 (2009: £6,587,603) (see note 3).

3 Non-recurring costs

In the current year administrative expenses include non-recurring costs of £6,199,486 (2009: £6,587,603) in relation to integration costs following the acquisition of Gamestation.

4 Operating profit

	2010	2009
	£'000	£'000
This is stated after charging:		
Depreciation charge	28,593	25,264
Amortisation of intangible fixed assets	4,305	3,637
Operating lease rentals	87,775	82,392
- leasehold premises		
- other	1,289	1,627
Loss on disposal of non current assets	2,734	146
Auditors' remuneration	75	85
- Fees payable to the company's auditor for the audit of the company's annual accounts		
- Fees payable for the audit of the company's subsidiaries, pursuant to legislation	355	330
- other services supplied pursuant to legislation	33	32
- other services relating to tax	294	178
- Recruitment and remuneration services	-	-
- All other services	169	70
	<u> </u>	<u> </u>

5 Finance income

	2010	2009
	£'000	£'000
Interest income on financial assets classified as loans and receivables	538	1,805
	<u>538</u>	<u>1,805</u>

THE GAME GROUP PLC

Notes to the Financial Statements for the year ended 31 January 2010 (continued)

6 Finance costs

	2010 £'000	2009 £'000
Interest expense for finance lease and hire purchase arrangements	49	35
Interest expense for borrowings at amortised cost	4,866	8,667
Other interest	2	30
	<hr/>	<hr/>
Finance costs	4,917	8,732
	<hr/> <hr/>	<hr/> <hr/>

7 Employees

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

	2010 £'000	2009 £'000
Wages and salaries	135,070	127,001
Social security costs	18,710	16,807
Other pension costs	1,700	1,445
Share-based payment expense (see Note 20g)	2,391	1,968
	<hr/>	<hr/>
	157,871	147,221
	<hr/> <hr/>	<hr/> <hr/>

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

	2010 Number	2009 Number
Selling	9,775	9,571
Administration	817	879
	<hr/>	<hr/>
	10,592	10,450
	<hr/> <hr/>	<hr/> <hr/>

THE GAME GROUP PLC

Notes to the Financial Statements for the year ended 31 January 2010 (continued)

8 Taxation

(a) Analysis of charge in the year	2010 £'000	2009 £'000
<i>Current tax</i>		
UK corporation tax	22,192	34,235
Adjustments in respect of prior periods	(1,950)	190
Overseas tax payable	4,192	4,903
	<hr/>	<hr/>
Total current tax	24,434	39,328
<i>Deferred tax</i>		
Current year movement	(1,695)	(5,651)
Prior year movement	1,005	39
	<hr/>	<hr/>
Taxation on profit on ordinary activities	23,744	33,716
	<hr/> <hr/>	<hr/> <hr/>
 (b) Factors affecting the tax charge for the year		
	2010 £'000	2009 £'000
Profit on ordinary activities before taxation	84,211	117,366
	<hr/>	<hr/>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28.0% (2009: 28.3%)	23,579	33,247
	<hr/>	<hr/>
Effects of:		
Expenses not deductible for tax purposes	1,698	1,892
Effect of foreign tax rates	283	538
Tax losses incurred and (utilised)/not utilised in the year	(1,128)	(1,705)
Adjustments to tax charge in respect of previous periods	(946)	229
Other items	258	(485)
	<hr/>	<hr/>
Tax charge for the year	23,744	33,716
	<hr/> <hr/>	<hr/> <hr/>

The Group has approximately £54 million (2009: £31 million) of unrelieved trading losses available for offset against future taxable profits of certain Group companies. Of these losses, £11.4m (2009: £4.5m) has been provided which represents a recognised deferred tax asset of £3.1m (2009:£1.6m). There are unprovided tax losses of £42.6m (2009:£26.5m). Deferred tax assets have not been recognised in respect of these losses as there is uncertainty over future taxable profits against which these can be offset.

9 Dividends

	2010 Pence per share	2010 £'000	2009 Pence per share	2009 £'000
Final paid	3.71	12,849	2.97	10,292
Interim paid	1.88	6,517	1.79	6,198
		<u>19,366</u>		<u>16,490</u>

It is proposed that a final dividend of 3.90p will be paid on 16 July 2010 to shareholders on the register on 25 June 2010.

10 Earnings per share

The calculation of earnings per share for the year ended 31 January 2010 is based on the profit after taxation of £60,467,009 (2009: £83,650,000). The calculation of basic earnings per share is based on a weighted average number of 346,512,537 (2009: 345,895,311) shares in issue during the year. The number of shares used in these calculations and the reconciliation of denominators used for basic and diluted earnings per share calculations is set out in the table below:

	Basic	Effect of share options	Diluted
Year ended 31 January 2010	346,512,537	677,327	347,189,864
Year ended 31 January 2009	345,895,311	1,128,717	347,024,028

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.

	2010 Pence	2009 Pence
Basic earnings per share	17.45	24.18
Non-recurring costs per share	1.79	1.91
	<u>19.24</u>	<u>26.09</u>
Basic earnings per share before non-recurring costs	19.24	26.09
Diluted earnings per share	<u>17.42p</u>	<u>24.10p</u>

There are 648,948 antidilutive share options in the current year (2009: nil).

11 Property, plant and equipment

	Freehold land and property £'000	Short Leasehold land and Property £'000	Improvements to leasehold property £'000	Fixtures, fittings and equipment £'000	Total £'000
Group					
<i>Cost</i>					
At 31 January 2008	20,563	43,143	83,161	72,369	219,236
Additions	110	4,090	19,085	25,442	48,727
Acquisitions	125	224	33	224	606
Disposals	(13)	(423)	(2,326)	(1,915)	(4,677)
Exchange adjustment	9	6,126	6,419	3,298	15,852
	-----	-----	-----	-----	-----
At 31 January 2009	20,794	53,160	106,372	99,418	279,744
Additions	178	3,174	6,770	16,200	26,322
Acquisitions					
Disposals	(362)	(615)	(2,648)	(3,393)	(7,018)
Exchange adjustment	10	(1,277)	(356)	1,743	120
	-----	-----	-----	-----	-----
At 31 January 2010	20,620	54,442	110,138	113,968	299,168
	=====	=====	=====	=====	=====
<i>Accumulated Depreciation and Impairment</i>					
At 31 January 2008	1,323	7,779	36,027	43,445	88,574
Charge for the year	581	1,663	11,578	11,442	25,264
Acquisitions	71	-	7	85	163
Disposals	(16)	(338)	(1,068)	(2,087)	(3,509)
Exchange adjustment	(116)	255	1,987	1,517	3,643
	-----	-----	-----	-----	-----
At 31 January 2009	1,843	9,359	48,531	54,402	114,135
Charge for the year	464	1,831	10,939	15,359	28,593
Acquisitions					
Disposals	(146)	(255)	(1,845)	(2,387)	(4,633)
Exchange adjustment	4	(63)	(221)	232	(48)
	-----	-----	-----	-----	-----
At 31 January 2010	2,165	10,872	57,404	67,606	138,047
	-----	-----	-----	-----	-----
<i>Carrying Amount</i>					
At 31 January 2010	18,455	43,570	52,734	46,362	161,121
	-----	-----	-----	-----	-----
At 31 January 2009	18,951	43,801	57,841	45,016	165,609
	-----	-----	-----	-----	-----
At 31 January 2008	19,240	35,364	47,134	28,924	130,662
	-----	-----	-----	-----	-----

11 Property, plant and equipment (continued)

The net book value of tangible fixed assets includes an amount of £323,485 (2009: £1,217,221) in respect of assets held under finance lease and hire purchase contracts, and these are recorded in fixtures, fittings and equipment. The related depreciation charge for the year was £893,736 (2009: £579,056). The main finance leases are for EPOS equipment.

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Notes to the Financial Statements for the year ended 31 January 2010 (continued)

12 Intangible fixed assets

	Goodwill	Brands	Computer Software	Total
	£'000	£'000	£'000	£'000
Group				
<i>Cost</i>				
At 31 January 2008	152,117	17,991	8,972	179,080
Additions	306	25	4,433	4,764
Acquisitions	6,233	187	122	6,542
Disposals	-	(83)	(24)	(107)
Exchange adjustment	2,001	44	112	2,157
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 January 2009	160,657	18,164	13,615	192,436
Additions	-	10	3,558	3,568
Acquisitions	-	-	-	-
Disposals	-	-	(2,460)	(2,460)
Exchange adjustment	(461)	48	(120)	(533)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 January 2010	160,196	18,222	14,593	193,011
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<i>Amortisation</i>				
At 31 January 2008	35	1,120	5,054	6,209
Charge for the year	-	1,155	2,482	3,637
Acquisitions	-	5	68	73
Disposals/impairments	-	-	-	-
Exchange adjustment	170	(4)	84	250
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 January 2009	205	2,276	7,688	10,169
Charge for the year	-	1,257	3,048	4,305
Acquisitions	-	-	-	-
Disposals/impairments	-	-	(1,656)	(1,656)
Exchange adjustment	(24)	7	75	58
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 January 2010	181	3,540	9,155	12,876
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<i>Carrying Amount</i>				
At 31 January 2010	160,015	14,682	5,438	180,135
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 January 2009	160,452	15,888	5,927	182,267
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 January 2008	152,082	16,871	3,918	172,871
	<hr/>	<hr/>	<hr/>	<hr/>

12 Intangible fixed assets (continued)

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

	£'000
UK and Ireland	135,033
International	24,982
Total	<u>160,015</u>

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

To cause the carrying value of any of the Group's business units to exceed their recoverable amount would require material and significant adverse changes in one or a number of the assumptions made. The Board do not consider these to be reasonably possible changes.

THE GAME GROUP PLC

Notes to the Financial Statements for the year ended 31 January 2010 (continued)

13 Inventories

	2010 £'000	2009 £'000
Finished goods and goods held for resale	176,045	181,965

The directors consider that the replacement value of inventories is not materially different from their carrying value. The stock provision in the current year is £24,905,000 (2009: £20,338,000).

14 Trade and other receivables

	2010 £'000	2009 £'000
Amounts falling due within one year:		
Trade receivables	16,022	16,197
Other receivables	13,134	22,066
VAT recoverable	-	64
	<hr/>	<hr/>
Total trade and other receivables	29,156	38,327
Prepayments and accrued income	19,160	17,138
	<hr/>	<hr/>
	48,316	55,465
	<hr/>	<hr/>

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

As at 31 January 2010 and 31 January 2009 there were no amounts which were past due and no amounts which were impaired.

The fair values of trade and other receivables are the same as book values as credit risk has been addressed as part of impairment provisioning and due to the short term nature of the amounts receivable they are not subject to other fluctuations in market rates.

15 Trade and other payables

	2010	Restated	Restated
	£'000	2009	2008
		£'000	£'000
Amounts falling due within one year:			
Trade payables	159,441	216,156	192,529
Other payables	6,041	6,895	7,838
Tax and social security costs	5,924	8,930	4,039
VAT payable	34,091	45,359	50,206
Accruals and deferred income	52,706	71,842	64,012
	<u>258,203</u>	<u>349,182</u>	<u>318,624</u>

Trade payables are non-interest bearing and are normally settled on 30 days following the end of the month of receipt.

Book values approximate to fair value at 31 January 2010 and 31 January 2009 due to the short term nature of these items and taking into account the credit risk of the Group. The difference between the book and fair values is not considered to be material.

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Notes to the Financial Statements for the year ended 31 January 2010 (continued)

16 Borrowings

	2010	2009
	£'000	£'000
Long term:		
Current portion:		
Bank loans	16,864	25,948
Obligations under finance leases and hire purchase contracts	497	377
	<u>17,361</u>	<u>26,325</u>
Non current portion:		
Bank loans	23,782	31,183
Obligations under finance leases and hire purchase contracts	126	664
	<u>23,908</u>	<u>31,847</u>
The borrowings are repayable as follows:		
On demand or within one year	16,864	25,948
In one to two years	15,736	31,183
In more than two years but less than five years	8,046	-
	<u>40,646</u>	<u>57,131</u>
The finance leases are repayable as follows:		
On demand or within one year	497	377
In one to two years	126	221
In more than two years but less than five years	-	443
After five years	-	-
	<u>623</u>	<u>1,041</u>
The gross contractual maturity of financial liabilities is as follows:		
On demand or within one year	18,662	27,574
In one to two years	16,581	32,102
In more than two years but less than five years	8,140	-
Less: interest due	(2,114)	(1,504)
	<u>41,269</u>	<u>58,172</u>

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

17 Financial Instruments

Categories of financial instruments

Financial assets	Loans and Receivables	
	2010 £'000	2009 £'000
Current financial assets		
Trade and other receivables (Note 14)	29,156	38,327
Net cash and cash equivalents (Note 24)	86,128	139,614
	115,284	177,941
	115,284	177,941
Financial Liabilities		
	Financial liabilities measured at amortised cost	
	2010 £'000	2009 £'000
Current financial liabilities		
Trade and other payables (Note 15)	258,203	349,182
Loans and borrowings (Note 16)	17,361	26,325
Total current financial liabilities	275,564	375,507
Non-current financial liabilities		
Loans and borrowings (Note 16)	23,908	31,847
Total non-current financial liabilities	23,908	31,847
	23,908	31,847
Total financial liabilities	299,472	407,354

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

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

17 Financial Instruments (continued)

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

(a) Interest rate and currency of borrowings

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

	2010	2009
	£'000	£'000
Floating rate Euro borrowings	1,128	2,131
Floating rate Sterling borrowings	40,141	56,041
	<hr/>	<hr/>
	41,269	58,172
	<hr/> <hr/>	<hr/> <hr/>

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

The Group holds a Revolving Credit Facility (RCF) of £125 million to be used for general corporate and working capital purposes. As at 31 January 2010 an amount of €nil (2009: €nil) was drawn down for use in Spain. The interest rate on the RCF is based on LIBOR and EURIBOR.

The floating rate sterling borrowings comprise a £41.7 million Term Loan taken out in order to refinance the existing debt at GAME. The interest rate on the loan is based on LIBOR. The second repayment is due in July 2010 and four further instalments are due.

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

17 Financial Instruments (continued)

(b) Interest rate and currency of cash balances

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

	2010	2009
	£'000	£'000
Sterling	45,500	109,254
Euro	26,783	21,765
Swedish Krona	4,473	3,377
Danish Krone	229	624
Norwegian Krone	806	1,115
Australian Dollar	7,447	3,157
Czech Koruna	890	322
	<hr/>	<hr/>
	86,128	139,614
	<hr/>	<hr/>

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

(c) Sensitivity analysis

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

At 31 January 2010, if interest rates on the floating rate borrowings denominated in sterling had been 100 basis points higher with all other variables held constant, profit after tax for the period would be £1,131,051 lower (2009: £1,137,427 lower).

At 31 January 2010, if interest rates on the floating rate borrowings denominated in euros had been 100 basis points higher with all other variables held constant, profit after tax for the period would be £271,576 lower (2009: £145,682 lower).

The directors consider that 100 basis points is the maximum likely change to sterling and euro interest rates over the next year, being the period up to the next point at which the Group expects to make these disclosures.

The tables in (a) and (b) above present financial liabilities and assets denominated in foreign currencies held by the group in 2010 and 2009. If the euro weakened or strengthened by 10% against sterling, with all other variables held constant, profit after tax and equity would reduce by £331,991 (2009: reduce by £850,255).

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Notes to the Financial Statements for the year ended 31 January 2010 (continued)

17 Financial Instruments (continued)

(d) Fair value of borrowings and financial assets

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

	2010	2009
	£'000	£'000
Trade and other receivables	29,156	38,327
Net cash and cash equivalents	86,128	139,614
Current portion of long term debt	(17,361)	(26,325)
Non current portion of long-term debt	(23,908)	(31,847)
	<u> </u>	<u> </u>

The Directors believe that as they are short term, the fair values for all items, other than long term debt, equate to their book value.

The fair values of both current and non-current bank borrowings are based on cash flows discounted using rates based on the applicable market rate. The discount rate applied were within the range 3% to 4% (2009: 2% to 3%).

- (e) The Group had no material monetary assets or liabilities that are not denominated in the functional currency of the operating unit involved.
- (f) As at 30 March 2010, the Group had undrawn working capital facilities available to it of £54.8 million (2009: £32.0 million). There are no significant conditions attached to these facilities.
- (g) The Group has entered into standby letters of credit to the value of £2,029,205 (2009: £NIL). In this respect, the Group treats these letters of credit as a contingent liability until such time as it becomes probable that the Group will be required to make a payment under the terms of the letters.

17 Financial Instruments (continued)

Capital risk management

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

Gearing ratio

It is the Group's policy to maintain its gearing ratio within the range of 0-100% (2009: 0-100%). The Group's gearing ratio at the balance sheet date is shown below:

	2010 £'000	2009 £'000
Debt (i)	41,269	58,172
Trade and other payables	258,203	349,182
Net cash and cash equivalents	(86,128)	(139,614)
	<hr/>	<hr/>
Net debt	213,344	267,740
	<hr/>	<hr/>
	2010 £'000	2009 £'000
Equity (ii)	331,555	286,301
	<hr/>	<hr/>
Capital and net debt	544,899	554,041
	<hr/>	<hr/>
Gearing ratio	39%	48%

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

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

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Notes to the Financial Statements for the year ended 31 January 2010 (continued)

18 Deferred taxation

	2010	2009
	£'000	£'000
Accelerated capital allowances	(470)	68
Tax losses carried forward	3,113	1,596
Share options	1,399	2,123
Other temporary and deductible differences	(428)	217
	<hr/>	<hr/>
Deferred tax asset	3,614	4,004
	<hr/>	<hr/>
At 1 February 2009	4,004	(1,120)
Acquisition of subsidiary	-	(46)
Deferred tax charge in the income statement for the year (note 8)	690	5,612
Deferred tax taken to equity	(1,078)	(442)
Other items	(2)	-
	<hr/>	<hr/>
At 31 January 2010	3,614	4,004
	<hr/>	<hr/>

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Notes to the Financial Statements for the year ended 31 January 2010 (continued)

19 Leasehold property incentives

Rent free periods and reverse premiums	2010	2009
	£'000	£'000
At 1 February	9,232	7,260
Rent free periods and reverse premiums received during the year	3,311	3,240
Released to profit and loss account	(1,154)	(1,268)
	<u> </u>	<u> </u>
At 31 January	11,389	9,232
	<u> </u>	<u> </u>
Due within one year	1,341	904
Due greater than one year	10,048	8,328
	<u> </u>	<u> </u>
At 31 January	11,389	9,232
	<u> </u>	<u> </u>

20 Called up share capital

	2010		2009	
	£'000	Number	£'000	Number
<i>Authorised</i>				
Ordinary shares of 5p	24,000	480,000,000	24,000	480,000,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<i>Allotted, called up and fully paid</i>				
Ordinary shares of 5p	17,333	346,659,167	17,316	346,323,657
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

a) Shares issued

During the year, 335,510 (2009: 3,479,091) shares were issued to employees exercising share options granted under various option schemes. The total consideration received on the exercise of these options was £216,799 (2009: £1,740,436).

Between the year end and 1 April 2010, no shares have been exercised.

b) Shares purchased

During the year no shares (2009: 500,000) were repurchased for cancellation by the Company at a cost of £nil (2009: £1,240,950).

c) Trust shares

During the year 1,450,000 shares (2009: 1,800,000 shares) were purchased at a cost of £1,893,495 (2009: £3,828,470). These shares are to be used wholly and exclusively to pay LTIP awards when they become due for payment.

Trust shares comprise 2,368,001 (2009: 3,129,834) 5p ordinary shares. The market value of these shares at 31 January 2010 is £2,178,561 (2009: £4,491,312).

THE GAME GROUP PLC

Notes to the Financial Statements for the year ended 31 January 2010 (continued)

21 Share premium account

	2010	2009
	£'000	£'000
Amount subscribed for share capital in excess of nominal value.		
At 1 February	46,462	44,848
Arising on issue of shares during the year (net of expenses)	200	1,614
	<hr/>	<hr/>
At 31 January	46,662	46,462
	<hr/> <hr/>	<hr/> <hr/>

22 Reserves

Share Capital - the amount subscribed for share capital at nominal value.

Share Premium - the amount subscribed for share capital in excess of nominal value.

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

Shares held in Trust - relates to shares held in trust, being the weighted average cost of own shares held in treasury and by the ESOP Trust, the Employee Benefit Trust was established in January 2002 to provide for the future obligations of the Company for share awards under the Performance Share Plan and other share based plans. Under the scheme the trustee, BDO Guernsey Trustees Limited, purchases the Company's ordinary shares in the open market.

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

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

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

The cumulative amount of goodwill resulting from acquisitions in previous years prior to the adoption of FRS10 (Goodwill and intangible assets) which has been eliminated against Group reserves, net of goodwill attributable to disposals before 31 January 2010, is £9,639,000 (2009: £9,639,000).

THE GAME GROUP PLC

Notes to the Financial Statements for the year ended 31 January 2010 (continued)

23 Acquisitions

Current year acquisitions

During the period there were no acquisitions.

Prior year acquisitions

On 21 August 2008, the Group acquired 100% of the share capital of the Czech pc and video games retailer JRC Czech a.s. On acquisition, JRC Czech a.s. owned 19 specialist pc and video games stores located in the principal cities in the Czech market and transactional eCommerce site www.jrc.cz.

On 2 July 2008 ABC Games International S.A., a subsidiary of GAME Group plc, acquired five French franchises for a total consideration of £2.2 million, reflecting cash of £0.6 million and other working capital. In addition, on 21 August 2008, a further franchise was acquired for an initial consideration of £0.7 million.

During the prior period the trade and assets of four Spanish franchises were acquired by Engine Tecnology Systems SL, a subsidiary of GAME Group plc, for a total consideration of £0.8 million.

	French franchises Fair value £'000	Spanish franchises Fair value £'000	JRC Fair value £'000	Total Fair value £'000
Property, plant and equipment	263	18	216	497
Inventories	262	390	855	1,507
Trade and other receivables	-	-	163	163
Long-term debtors	-	-	88	88
Trade and other payables	(221)	(331)	(1,314)	(1,866)
Cash and cash equivalents	684	-	(210)	474
Intangible fixed assets - goodwill	1,882	700	3,651	6,233
Intangible fixed assets - brand	-	-	182	182
Total purchase price	<u>2,870</u>	<u>777</u>	<u>3,631</u>	<u>7,278</u>
Cash and cash equivalents	(684)	-	210	(474)
Cash flows on acquisition net of cash acquired	<u>2,186</u>	<u>777</u>	<u>3,841</u>	<u>6,804</u>

From the date of acquisition JRC added £4.5 million to turnover and £0.5 million to operating profit. If the acquisition had been completed on the first day of the financial year, Group revenues for the year would have been increased by £4.1 million and the Group profit attributable to equity holders of the parent would have been decreased by £13,000.

From the date of acquisition the French franchises added £2.3 million to turnover and £338,000 to operating profit. From the date of acquisition the Spanish franchises added £1.5 million to turnover and £160,000 to operating profit. If these acquisitions had been completed on the first day of the financial year, it is not anticipated that the operating profit would have been materially different. No fair value adjustments were required on these acquisitions.

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Notes to the Financial Statements for the year ended 31 January 2010 (continued)

24 Analysis of net funds

	2010 £'000	2009 £'000
Cash and cash equivalents	86,128	139,614
Net cash and cash equivalents	86,128	139,614
Current portion of long term borrowings	(17,361)	(26,325)
Long term borrowings	(23,908)	(31,847)
Net funds	44,859	81,442

During the year, the Group did not enter into any new finance lease arrangements in respect of assets (2009: new finance lease arrangements totalled £443,270).

25 Operating lease commitments

The Group leases certain land and buildings on short term leases. The rents payable under these leases are subject to re-negotiation at various intervals specified in the leases. At the balance sheet date, the Group has outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Motor vehicles 2010 £'000	Land & buildings 2010 £'000	Motor vehicles 2009 £'000	Land & buildings 2009 £'000
The total future minimum lease payments are due as follows:				
Not later than one year	91	4,093	88	1,495
Later than one year but not later than five years	795	110,805	980	83,507
Later than five years	-	326,950	95	384,509
	886	441,848	1,163	469,511

The average remaining term on operating leases over land and buildings is 5 years.

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

26 Related Party Transactions

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

27 Risks

Global Economic Conditions

There is a high degree of uncertainty in the global economy, with issues around government and bank liquidity, business failures, and rising unemployment rates. We recognise that all of these factors may have an impact on our customers' willingness or ability to spend.

Our trading performance to date suggests that compared to some sectors of retailing we are not being as significantly impacted by these wider economic issues. We will continue to put forward compelling product offers to meet the more value conscious demands of our consumers.

Technology

As with music and DVD entertainment, the opportunity exists for pc and video games to be distributed digitally via the internet. Pc games which tend to have smaller file sizes are available from a number of websites whereas video games digital content is offered in a limited way via official format channels, e.g. Microsoft's Xbox Live service.

As broadband technology improves there is a risk that more gamers start playing their games online. This will reduce the number of people buying boxed product from retailers such as ourselves.

Given the ever increasing size of pc and video games (up to 50Gb), the existing broadband infrastructure in all of the countries in which we operate is not currently sufficient to allow total online play. Additionally, we have recognised the increasing prominence of eCommerce and digital downloading and we have invested in state-of-the-art eCommerce websites.

Competition

The pc and video games market has become an increasingly attractive proposition for retailers. We have seen new entrants to the market place, including specialists, existing generalists and supermarkets and online players.

We believe that the specialist has all of the attributes to succeed in the pc and video games market place. We measure our stores' performance against specific KPIs to ensure our proposition is always appealing and relevant to consumers.

Seasonality

The Group's business is 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.

The Group works closely with suppliers to secure stock and implement high profile preorder campaigns in advance of all major releases. The Group also undertakes extensive marketing campaigns to drive consumer awareness, and flexes headcount in store to maximise the sales potential.

Reputation

As a specialist retailer our customers demand that we stock the broadest range of product. This means that we deal with a variety of video games, for example age restricted products. Mis-selling such titles is illegal. To mitigate any issues that may arise through the mis-selling of these games we employ the very highest levels of training throughout our organisation.