THE GAME GROUP PLC

Formerly The Electronics Boutique Plc

Interim Results
for the six months ended 31 July 2002

Highlights

Interim Results for the six months ended 31 July 2002

- Turnover up 50% to £214.7m (2001: £143.1m) including like for like sales increase of 28.7%.
- Half year profit, before goodwill amortisation, of £3.1m compared with the loss last year of £1.9m.
- Interim dividend increased by 12.5% to 0.45p (0.40p).
- Second half like for like growth continues to be strong at 6% in the first 9 weeks to 28 September.
- Re-brand process nearing completion.
- Industry prospects outstanding with three major manufacturers promoting demand for new formats.

Peter Lewis, Chairman, said:

"This is only the third time in our history that we have made a profit in the 'low season.' It augurs well for what promises to be a record Christmas."

Chairman's account

to the owners for the six months to 31 July 2002

Dear Owner

Your Group is a seasonal business with profitability heavily weighted towards the Christmas period. So, I am delighted to announce an operating profit (before goodwill amortisation) for the first half of the year for only the third time in our history. Pre-tax profits excluding goodwill amortisation were £3.1m compared with a loss for the first half last year of £1.9m on turnover up 50% to £214.7m (2001: £143.1m). As expected gross margin eased to 28.5% (30.4%) caused primarily by the unprecedented event of two new hardware format launches in the first half of the year.

The dividend is increased again, this time by 12.5% to 0.45p (0.40p), reaffirming your Board's confidence in the future prospects for your business.

Key Events in the period

Our market was particularly active. Whilst it is unusual to make first half profits so it was unique for two major manufacturers to launch entirely new formats almost simultaneously. Microsoft XBox was launched on 14 March 2002 and GameCube on 3 May 2002. In addition, PlayStation 2 continued its astonishing growth selling at more than 2½ times the rate of its predecessor, PlayStation One, during the comparable launch period. The increased sales of the lower margin consoles impacted our gross profit percentage but, of course, they pave the way for higher margin software sales to come.

Your management was busy implementing the strategies agreed last year. The re-branding to the new GAME identity is well advanced with 115 EB Stores in the UK becoming GAME in the period. All UK stores will be converted by Christmas with the re-brand encompassing refurbishment of the stores as well as the introduction of the GAME brand store frontage. As well as the physical store changes we have implemented a number of marketing initiatives to communicate the change, including a mailing to our entire loyalty card database. Whilst the re-brand has been a large area of focus for our business, we have not allowed it to distract us from our store opening programme. Twenty new branches (net) were opened or acquired during the period with three in the UK and the balance in our newly established European markets, where the GAME format is being introduced.

At the end of July we traded from 489 stores, concessions and franchises compared with 411 a year ago. There were 293 stores and 33 concessions in the UK, 45 stores in France, 16 stores in Sweden and 102 assorted stores, franchises and gaming salons in Spain. Today we trade from 506 stores, concessions and franchises. As our store opening plans accelerate in the second half of the year, we expect this number to increase to 532 for the key Christmas trading period. In April this year we served six months notice of termination to Sainsburys in respect of the racking operations we had managed for them since June 1999. This agreement generated approximately 1% of the Group's total turnover and was not material to our results.

Despite our re-brand programme which necessitates store closures for at least two trading days, like for like sales in the six months (with no adjustment for these closures) were up 28.7% with the growth more or less the same in all our territories.

Profits (before goodwill amortisation) were made largely in the UK (£3.6m) with acquired international operations generating a small loss of £0.5m. The losses in GAME Digital reduced to £0.8m (£1.9m loss). Your Board continues to view new media as an additional marketing tool rather than as a replacement of traditional retail channels and takes a measured approach to new investment in this area.

As well as increasing our scale of operations internationally we have maintained our strong market leadership in the UK. Our Reward Card is a key part of our success in the UK with now some 3.3m holders (2.8m) who are joining at an average rate of 10,000 each week.

Treasury

Capital investment in the six month period was £8.7m (£2.9m), this increase was driven primarily by the costs incurred in the remodelling of the EB Stores to the GAME brand and our increased investment in European store openings. The charge and the provisions relating to the re-branding were included in the audited results for the year ended 31 January 2002.

Net cash outflow from operating activities was £7.4m (£16.2m). Net cash balances were £14.7m (£8.3m) and we expect to generate strong positive cash flow in the second half of the year.

Staff at all levels

The most important differentiation between service businesses is the people who work in them – the people who make it work. Your Board is appreciative of the contribution of everyone involved in our progress and is pleased to use this opportunity to give public thanks for their increasingly successful efforts.

Agreement with Electronics Boutique Inc "EBI"

Following legal advice that a change of control in the ownership of "EBI" had occurred, we initiated on 2 April 2002 a declaratory action so as to determine the precise legal position. Under the 10 year Services Agreement, which runs to January 2006, we are obligated to pay "EBI" a management fee equivalent to 1% of UK turnover. The hearing began on 30 September. Whatever the result, it may well be subject to appeal, and we do not expect a final resolution until sometime in the New Year. We will make an announcement as soon as the outcome is known.

Current and Future Trading

Our industry is driven by new technology and new software releases. This summer was a quiet period for new releases and yet we have generated like for like sales growth of 6% in the 9 weeks to 28 September, resulting in cumulative like for like sales growth for the year to date of 23%. The Christmas trading period will see an exceptional line up of new releases to drive sales and there are additional factors likely to lead to a record Christmas:–

- In August PlayStation 2 (PS2) and XBox were both reduced in price by their manufacturers from £199 to £169 and £159 respectively.
- This reduction, combined with the other new console, GameCube, currently priced at £129, is almost certain to increase still further demand for hardware and therefore software and accessories this Christmas.
- The installed base in the UK of PS2, XBox and GameCube is estimated at 2.65m*, 250,000* and 260,000* respectively. By comparison the long established PlayStation One (PS One) has an estimated ownership of 6.8 million so with current PS2

significantly outstripping the historic sales rate of PS One, the prospects for sustained long term sales are excellent. The industry expects that over time sales of PS2 will comfortably surpass those of its predecessor.

- To take advantage of the new consoles there is an abundance of exciting new software titles to come, with in the forefront, Lord of the Rings – The Two Towers, James Bond 007: NightFire, Harry Potter and the Chamber of Secrets (all from Electronic Arts), Splinter Cell (Ubisoft) and Mario Sunshine (Nintendo) to name just a few.
- This will be the first Christmas for sales of this year's two new consoles and combined with the growing influence of the PS2, we expect to see a record marketing spend in our industry supporting our expectations of strong demand for software.

With over 40 store openings planned for the second half we will trade at Christmas this year from 532 points of sale including our owned stores, concessions, franchises and gaming salons. Given this background we are confident of another year of significant progress.

Peter Lewis
Chairman

3 October 2002

* Source: ChartTrack/Manufacturers

Profit and loss

Unaudited consolidated profit and loss account for the six months ended 31 July 2002

	Notes	**Six months ended 31 July 2002 Unaudited £'000**	Six months ended 31 July 2001 Unaudited £'000	Year ended 31 January 2002 Audited £'000
Turnover		**214,664**	143,105	453,776
Cost of sales		**153,388**	99,601	318,201
Gross profit		**61,276**	43,504	135,575
Other operating expenses	1	**61,779**	48,145	115,355
Operating profit/(loss) before goodwill amortisation and re-branding costs		**2,693**	(1,963)	31,179
Goodwill amortisation		**(3,196)**	(2,678)	(5,716)
Re-branding costs		**–**	–	(5,243)
Operating (loss)/profit		**(503)**	(4,641)	20,220
Net interest receivable		**423**	29	364
(Loss)/profit on ordinary activities before taxation		**(80)**	(4,612)	20,584
Taxation on (loss)/profit on ordinary activities	3	**1,013**	(630)	8,566
(Loss)/profit on ordinary activities after taxation		**(1,093)**	(3,982)	12,018
Dividends – equity	4	**1,667**	1,472	2,954
(Loss)/profit for the period		**(2,760)**	(5,454)	9,064
(Loss)/earnings per share – basic	5	**(0.30p)**	(1.13p)	3.33p
– diluted	5	**(0.30p)**	(1.13p)	3.23p
Earnings/(loss) per share before goodwill amortisation – basic	5	**0.57p**	(0.37p)	4.91p
– diluted	5	**0.56p**	(0.37p)	4.76p
Number of stores trading (including concessions)				
At beginning of period		**389**	311	311
At end of period		**404**	332	389

Consolidated balance sheet

Unaudited consolidated balance sheet as at 31 July 2002

	Notes	**As at 31 July 2002 Unaudited £'000**	As at 31 July 2001 Unaudited £'000	As at 31 January 2002 Audited £'000
Fixed assets				
Intangible	6	**110,068**	97,578	112,720
Tangible	7	**30,346**	22,642	25,975
		140,414	120,220	138,695
Current assets				
Stocks		**39,249**	33,057	37,746
Debtors	8	**21,976**	14,558	15,529
Cash at bank and in hand		**15,652**	8,319	35,885
		76,877	55,934	89,160
Creditors: amounts falling due within one year	9	**63,563**	48,004	73,183
Net current assets		**13,314**	7,930	15,977
Total assets less current liabilities		**153,728**	128,150	154,672
Creditors: amounts falling due after more than one year	10	**4,466**	4,584	4,621
Accruals and deferred income				
Leasehold property incentives		**1,457**	1,322	1,149
Net assets		**147,805**	122,244	148,902
Capital and reserves				
Called up share capital		**18,820**	18,404	18,520
Share premium account		**37,680**	35,673	36,463
Shares to be issued		**11,232**	–	11,232
Other reserves		**76,907**	76,907	76,907
Profit and loss account		**3,166**	(8,740)	5,780
Equity shareholders' funds		**147,805**	122,244	148,902

Approved by the Board on 3 October 2002.

M Long
Director

Consolidated cash flow

Unaudited consolidated cash flow statement for the six months ended 31 July 2002

	Notes	**Six months ended 31 July 2002 Unaudited £'000**	Six months ended 31 July 2001 Unaudited £'000	Year ended 31 January 2002 Audited £'000
Net cash (outflow)/inflow from operating activities	11	**(7,384)**	(16,248)	29,712
Returns on investments and servicing of finance		**423**	29	364
Taxation		**(4,429)**	(1,721)	(6,504)
Capital expenditure and financial investment		**(8,863)**	(1,618)	(7,036)
Acquisitions		**(268)**	(5,511)	(12,845)
Equity dividends paid		**(1,482)**	(1,151)	(2,623)
Cash (outflow)/inflow before financing		**(22,003)**	(26,220)	1,068
Financing		**803**	18,588	18,866
(Decrease)/increase in cash in the period	12	**(21,200)**	(7,632)	19,934

Notes to the interim results

1 Other operating expenses

	Six months ended 31 July 2002 Unaudited £'000	Six months ended 31 July 2001 Unaudited £'000	Year ended 31 January 2002 Audited £'000
Selling and distribution	**47,932**	38,721	90,852
Administrative expenses	**10,651**	6,746	18,787
Goodwill amortisation	**3,196**	2,678	5,716
	61,779	48,145	115,355

2 Results of prior year acquisitions

The effect of the acquisitions made during the year ended 31 January 2002 on the operating results for the six months ended 31 July 2002 are as follows:

	Six months ended 31 July 2002 Acquired Unaudited £'000
Turnover	**23,566**
Cost of sales	**18,097**
Gross profit	**5,469**
Other operating expenses	**5,884**
Operating (loss)/profit before goodwill amortisation	**(415)**

Notes to interim results continued

3 Taxation

	Six months ended 31 July 2002 Unaudited £'000	Six months ended 31 July 2001 Unaudited £'000	Year ended 31 January 2002 Audited £'000
Current year			
UK corporation tax	**1,013**	–	9,179
Adjustments in respect of prior periods	**–**	–	18
Overseas tax payable	**–**	–	49
Total current tax	**1,013**	–	9,246
Deferred tax:			
Origination and reversal of timing differences	**–**	(630)	(680)
	1,013	(630)	8,566

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

4 Dividends

	Six months ended 31 July 2002 Unaudited £'000	Six months ended 31 July 2001 Unaudited £'000	Year ended 31 January 2002 Audited £'000
Ordinary dividends			
Interim 0.45p per ordinary share (2001: 0.40p)	**1,667**	1,472	1,472
Final 0.40p per ordinary share	**–**	–	1,482
	1,667	1,472	2,954

The interim dividend is payable on 29 November 2002 to shareholders on the register on 8 November 2002.

5 (Loss)/earnings per share

The calculation of loss per share for the six months ended 31 July 2002 is based on the loss after taxation of £1,093,000 (2001 interim: loss after taxation of £3,982,000; full year: profit after taxation of £12,018,000). The calculation of the earnings per share before goodwill amortisation is based on a profit of £2,103,000 (2001 interim: loss of £1,304,000; full year: profit of £17,734,000). The calculation of basic loss per share is based on a weighted average number of shares in issue during the period of 370,399,899 (2001 interim: 352,832,708; full year: 360,919,032). The calculation of diluted loss per share is based on a weighted average number of shares in issue during the period of 375,144,225 (2001 interim: 352,832,708; full year 372,410,358).

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

	Basic Number	Effect of Share options Number	Diluted Number
31 July 2002	**370,399,899**	**4,744,326**	**375,144,225**
31 July 2001	352,832,708	–	352,832,708
31 January 2002	360,919,032	11,491,326	372,410,358

6 Goodwill

	As at 31 July 2002 Unaudited **£'000**	As at 31 July 2001 Unaudited £'000	As at 31 January 2002 Audited £'000
Net book value at beginning of period	**112,720**	93,382	93,382
Amortisation for period	**(3,196)**	(2,678)	(5,716)
Other movements	**544**	6,874	25,054
Net book value at end of period	**110,068**	97,578	112,720

Goodwill arising on acquisitions of subsidiary undertakings is capitalised as an intangible fixed asset and either amortised over the useful life, when this can be identified, or amortised over a period of 20 years or less.

Notes to interim results continued

7 Tangible fixed assets

	As at 31 July 2002 Unaudited £'000	As at 31 July 2001 Unaudited £'000	As at 31 January 2002 Audited £'000
Cost			
At beginning of period	**61,593**	47,553	47,553
Acquisitions	**35**	1,090	7,471
Additions	**8,683**	1,854	8,435
Foreign exchange adjustment	**170**	(60)	(97)
Disposals	**(6,375)**	(1,049)	(1,769)
At end of period	**64,106**	49,388	61,593
Depreciation			
At beginning of period	**35,618**	23,499	23,499
Acquisitions	**–**	398	3,209
Charge for the period	**4,152**	3,731	7,489
Accelerated depreciation charge	**–**	–	2,913
Foreign exchange adjustment	**51**	(12)	(36)
Disposals	**(6,061)**	(870)	(1,456)
At end of period	**33,760**	26,746	35,618
Net book value	**30,346**	22,642	25,975

The disposals during the six months ended 31 July 2002 are exceptional, and relate primarily to the disposal of certain fixed assets in the EB stores that have been refurbished and re-branded to GAME.

8 Debtors

	As at 31 July 2002 Unaudited £'000	As at 31 July 2001 Unaudited £'000	As at 31 January 2002 Audited £'000
Amounts falling due within one year:			
Trade debtors	**4,912**	2,338	5,026
Other debtors	**536**	–	850
VAT	**541**	–	516
Corporation tax	**157**	–	150
Deferred tax asset	**1,152**	472	1,152
Prepayments and accrued income (principally rent & rates)	**14,678**	11,748	7,835
	21,976	14,558	15,529

9 Creditors: amounts falling due within one year

	As at 31 July 2002 Unaudited £'000	As at 31 July 2001 Unaudited £'000	As at 31 January 2002 Audited £'000
Bank overdraft	**967**	–	–
Bank loan	**1,070**	–	1,185
Trade creditors	**33,239**	29,666	35,626
Other creditors	**850**	260	307
Taxation and social security costs	**1,330**	626	1,713
VAT payable	**4,914**	3,339	9,995
Dividends payable	**1,667**	1,472	1,482
Corporation tax	**2,094**	1,042	5,465
Obligations under finance leases and hire purchase contracts	**536**	347	621
Accruals and deferred income	**16,646**	11,002	16,289
Deferred consideration	**250**	250	500
	63,563	48,004	73,183

Notes to interim results continued

10 Creditors: amounts falling due after more than one year

	As at 31 July 2002 Unaudited £'000	As at 31 July 2001 Unaudited £'000	As at 31 January 2002 Audited £'000
Deferred consideration	**3,022**	3,250	3,000
Other loans	**1,020**	984	991
Obligations under finance leases and hire purchase contracts	**424**	350	630
	4,466	4,584	4,621

The Group has total bank facilities in excess of £20 million.

11 Reconciliation of operating (loss)/profit to net cash (outflow)/inflow from operating activities

	Six months ended 31 July 2002 Unaudited £'000	Six months ended 31 July 2001 Unaudited £'000	Year ended 31 January 2002 Audited £'000
Operating (loss)/profit	**(503)**	(4,641)	20,220
Amortisation of intangible assets	**3,196**	2,678	5,716
Loss on disposal of tangible fixed assets	**308**	112	121
Depreciation	**4,152**	3,731	10,402
Foreign exchange loss on non-monetary assets	**91**	70	–
Increase in stocks	**(1,419)**	(3,993)	(6,596)
Increase in debtors	**(6,566)**	(4,108)	(3,287)
(Decrease)/increase in creditors	**(6,951)**	(9,969)	3,437
(Increase)/decrease in leasehold property incentives	**308**	(128)	(301)
Net cash (outflow)/inflow from operating activities	**(7,384)**	**(16,248)**	**29,712**

12 Reconciliation of net cash flow to movement in net funds

	Six months ended 31 July 2002 Unaudited	Six months ended 31 July 2001 Unaudited	Year ended 31 January 2002 Audited
	£'000	£'000	£'000
(Decrease)/increase in cash in the period	**(21,200)**	(7,632)	19,934
Cash (inflow)/outflow from (increase)/decrease in debt and lease financing	**714**	(741)	(113)
Change in net funds resulting from cash flows	**(20,486)**	(8,373)	19,821
Loans and finance leases acquired with subsidiary undertaking	**–**	–	(1,363)
New finance leases	**(45)**	(169)	(1,207)
Deferred consideration on acquisition	**–**	–	(3,500)
Translation differences	**(64)**	–	27
Movement in net funds in the period	**(20,595)**	(8,542)	13,778
Net funds at start of period	**28,958**	15,180	15,180
Net funds at end of period	**8,363**	6,638	28,958

13 This interim report was approved by the Board of Directors on 3 October 2002.

The interim financial information has been prepared on the basis of the accounting policies set out in the Annual Report for the year ended 31 January 2002.

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

The financial information for the year ended 31 January 2002 is an extract from the latest group accounts. The accounts received an unqualified auditor's report and have been filed with the Registrar of Companies.

Copies of this Interim Report are being posted to shareholders and are available from the Company's office at Link House, Ellesfield Avenue, Bracknell, Berkshire RG12 8TB.

Independent review
report to The Game Group Plc

Introduction

We have been instructed by the Company to review the financial information for the six months ended 31 July 2002 on pages 6 to 15. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the Directors. The Directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as test of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial statements.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 July 2002.

BDO Stoy Hayward
Chartered Accountants
London

3 October 2002

Directors and Advisers

Directors	Peter D Lewis *Non-executive Chairman* John M Steinbrecher *Group Chief Executive* Martin Long ACIS *Deputy Chief Executive and Chief Financial Officer* Lisa J Morgan *Commercial Director* Sir Richard Greenbury *Non-executive Director* Albert J Scardino *Non-executive Director* William R Slee *Non-executive Director*
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Solicitors	Clifford Chance, LLP, 200 Aldersgate Street London EC1A 4JJ Speechly Bircham 6 St Andrews Street London EC4A 3LX
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