

THE GAME GROUP PLC

RNS release

Year ended

31 January 2009

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 53 weeks ended 31 January 2009.

Preliminary Results for the 53 weeks ended 31 January 2009

Highlights

All figures in £'m (unless stated)	53 weeks ended 31 January 2009	52 weeks ended 31 January 2008	Var%
Group turnover	1,971.9	1,491.9	32.2%
Gross profit margin (%)	26.2%	24.8%	
Operating profit before non-recurring costs	133.1	82.3	61.7%
Non-recurring costs*	6.6	7.1	
Operating profit	126.5	75.2	68.3%
Profit before non-recurring costs and tax	126.2	75.5	67.2%
Profit before tax	119.6	68.4	74.9%
Basic earnings per share before non-recurring costs (pence)	26.61p	15.88p	67.6%
Basic earnings per share (pence)	24.70p	13.79p	79.1%
Annual dividend per share (pence)	5.50p	4.40p	25.0%
Trading store numbers (including franchises)	1,342	1,161	15.6%
Trading square footage (sq. ft. thousands)	1,392.8	1,170.2	19.0%

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

Operational and financial highlights

- Record sales and profits.
- Group sales growth of 32.2% and like for like ('lfl') sales up by 8.8%.
- The Group's gross margin improved by 140 basis points.
- Strong UK and International profit performance with UK operating profits up by 63% to £112.7m (before non-recurring items) and International up by 54% to £20.4m.
- eCommerce sales and operating profits rose by 85% and 109% respectively.
- Gamestation integration progressing in line with expectations with synergies of £10m delivered for FY08/09 and a further £6m expected for FY09/10.
- Final dividend increased by 25% to 3.71p.

Current trading

- Current trading is ahead of expectation coupled with gross margin improving by around 150 basis points compared to last year.
- For the 11 weeks to 18 April 2009, Total Group sales are up by 1.0% with Group lfl sales down, against very strong comparatives, by 6.3%.
- In the UK and Ireland, total sales and lfl sales were down by 2.4% and 6.6% respectively. In our International business, total sales were up by 9.9% and lfl sales on a constant currency basis were down by 5.7%. On a reported currency basis, Group lfl sales were down by 3.7%.

Peter Lewis, Chairman, said:

"These were exceptional results for the Group with a 67% increase in profit before taxation and non-recurring costs to £126.2m (2008: £75.5m) and continue a consistent growth trend for our business. The Group's basic earnings per share before non-recurring costs in the last four years have increased by a compound annual average of over 44%. The principal drivers have been third generation formats with many products now having a wider demographic appeal, the further development of our specialist credentials, successful international expansion and the many benefits arising from our acquisition of Gamestation.

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Current trading performance is ahead of our expectations and this is particularly pleasing when set against the double digit growth achieved last year. Year to date margin has also improved, up 150 basis points as a result of higher margin products within the sales mix.

The Board is confident in the outlook for the year to 31 January 2010.”

A presentation to investors and analysts will be held today at 9.00am (BST) at The Lincoln Centre, 16 Lincolns’ Inn Fields, London, WC2A 3ED.

A live webcast of the presentation to investors and analysts will be available on the Company's website at www.gamegroup.plc.uk from 9.00am (BST) today and will be available to view on demand from approximately 2.00pm (BST).

An Interview with Lisa Morgan, Chief Executive, will be available from 7.00am (BST) on www.gamegroup.plc.uk and on www.cantos.com

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Chairman's Statement

These were exceptional results for the Group with a 67% increase in profit before taxation and non-recurring costs to £126.2m (2008: £75.5m) and continue a consistent growth trend for our business. The Group's basic earnings per share before non-recurring costs in the last four years have increased by a compound annual average of over 44%. The principal drivers have been third generation formats with many products now having a wider demographic appeal, the further development of our specialist credentials, successful international expansion and the significant benefits arising from our acquisition of Gamestation.

We recognise the unusually challenging and uncertain economic conditions in which we are operating today, and whilst we are not immune to wider economic uncertainties, our record results during the crucial Christmas period provide reassurance about the appeal and resilience of the products we sell and therefore our business model. We continue to be encouraged by the ongoing demand for third generation products which is in part being driven by their broadening appeal. Video games and, in particular, our trade-in and preowned offers, which provide consumers with a way to buy games for less, offer an even more affordable alternative to many other family leisure activities. We remain committed to delivering our customers the widest choice and value for money.

Results

Group turnover for the 53 weeks ended 31 January 2009 increased by 32.2% to £1,971.9m (52 weeks ended 31 January 2008: £1,491.9m) with lfl sales up by 8.8%. In the UK and Ireland, total sales increased by 25.7% and lfl sales were up by 10.7%. In our International operations, total sales increased by 50.6% and lfl sales rose by 4.6%.

The Group's gross margin improved by 140 basis points. The overall improvement was achieved through an increase in higher margin new and preowned software within the overall sales mix, which rose from 59.7% to 62.2% and purchasing synergies from Gamestation. In addition, later in the period, we delivered efficiency and gross margin improvements from our UK preowned business.

Group operating profit before non-recurring costs was £133.1m (2008: £82.3m). Profit before tax and non-recurring costs was £126.2m (2008: £75.5m) and basic earnings per share before non-recurring costs were 26.61p (2008: 15.88p).

Your Board is proposing a final dividend of 3.71p per share, an increase of 25%. This will result in a full year dividend of 5.50p, an increase of 25%.

Our net cash position as at 31 January 2009 increased to £81.4m (2008: £42.1m). The Group continues to be very cash generative and has a strong balance sheet.

Business development

Our market and position

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

- Our well established supplier relationships allow us to source appropriate quantities of "must have" new products and present innovative offers to our customers;
- GAME and Gamestation's specialist retail proposition allows us to carry the widest range of product on the high street;
- Our well trained and knowledgeable employees are instrumental in guiding consumers to the products, deals and choices that best suit their needs;
- Our GAME Reward Card scheme has over 12 million members; and

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Chairman's Statement (continued)

- Our trade-in programme and preowned product offer allow consumers to maximise their purchases from their available cash resources.

In addition, we have opened stores in the right territories and the right locations. We now have 1,342 stores across two brands and ten countries, reflecting our strategy of building our business in the most appropriate markets.

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

We continue to target the Group's resources towards those markets with the strongest return on investment characteristics and where we believe our expertise can deliver real improvements in performance.

The third generation consoles are all in good supply. Demand has continued to be strong and the installed console base has now reached record levels at over 22.5 million in the key UK market. This level of console ownership has been achieved in just over three years, while second generation consoles took eight years to reach 17 million (source: GfK Chart Track).

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

The UK and Ireland

The market

In the final quarter of the period we saw unprecedented changes to the retail landscape as some retailers of pc and video games ceased to trade. Consequently, we are actively focused on securing further profitable market share and the early signs are encouraging.

We opened a net 47 stores in the UK and Ireland across our GAME and Gamestation brands.

Gamestation

In the UK, we are continuing to develop the distinctive dual brand position of GAME and Gamestation.

We acquired Gamestation in May 2007 and received Competition Commission clearance in January 2008. We have been very pleased with the performance of the Gamestation business in the first full year under our control and it has again exceeded our expectations.

We have continued to grow the Gamestation store portfolio with a focus on locations that are complementary to the GAME brand.

We achieved ongoing synergies of £10m in the 53 weeks ended 31 January 2009 of which around £8m was a reduction in cost of sales with £2m being a reduction in operating expenses. We are targeting a further £6m of synergy benefits for this year, giving an annualised rate of £16m going forward.

In order to achieve these synergies there will be a total non-recurring charge of approximately £16m related to integrating the acquisition, of which £9.5m has been incurred to date with £6.6m in the 53 weeks ended 31

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Chairman's Statement (continued)

January 2009 and £2.9m in the prior year. In addition, the total capital expenditure required to integrate the acquisition will be £7m of which £2m has been incurred in the 53 weeks to 31 January 2009.

Concessions

On 29 September 2008, GAME entered into an agreement with Borders to open 20 concessions within a number of their stores in the UK. This store-in-store concept, which is branded GAME, has broadened our consumer reach and will complement the GAME standalone stores and our other 32 concessions with retailers such as Debenhams, Selfridges, Hamleys and Fenwick. We will continue to review opportunities to expand the concession footprint.

International

The International business continues to perform well in all territories despite trading conditions deteriorating throughout the period, contributing 29.6% to the Group revenue and 16.1% to operating profit.

We opened a net 112 international stores this year with 16 of these in France, 45 in Iberia, 47 in Australia and four in Scandinavia.

As part of our international growth strategy we are continuing to buy-in or close existing franchises. During the course of the year, we completed the purchase of six of the remaining seven French franchise stores for a cost of €3.2m (£2.9m). We also bought in four of our Spanish franchises at a cost of €0.9m (£0.8m) and closed one. There are now only seven franchises within the Group.

eCommerce

Our multi-channel proposition continues to evolve very successfully and our sales and operating profits from eCommerce have grown 85% and 109% respectively to £106.8m (2008: £57.8m) and to £6.1m (2008: £2.9m). Each of our International businesses is actively participating in this area. In the period, GAME invested £8m in distribution infrastructure and further consumer facing development.

Acquisitions

On 21 August 2008, GAME acquired the Czech video games retailer JRC Czech a.s. ("JRC") for Czk112.0m (£3.6m) in cash of which Czk50.8m (£1.6m) was payable immediately and the balance is payable over the course of the next two years.

JRC, based in Prague, is the leading specialist retailer of pc and video games in the Czech Republic. JRC provides the opportunity to develop GAME's international business in Central and Eastern Europe. The company now operates 22 specialist pc and video games stores, located in the principal cities in the Czech market including six stores in Prague, and a transactional eCommerce site www.jrc.cz. It is the leading retailer in the market with market share in excess of 15%. JRC has a committed management team with more than 15 years of experience.

The Czech business has contributed £0.5m to Group operating profits in the year.

Treasury and Capital expenditure

Our net cash, as at 31 January 2009, was £81.4m compared with £42.1m in the prior year. The increase was driven by strong operating cash flows.

In the 2009/10 financial year average net debt is anticipated to be around £64m (2008: £67m). 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 store portfolio.

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Chairman's Statement (continued)

We anticipate that our total capital expenditure for the current year will be around £35m (FY08/09: £53m). Store openings, refurbishment and information technology requirements are expected to cost approximately £25m. In addition we expect to spend £5m on eCommerce development and £5m on the Gamestation integration.

The Board

On 3 July 2008, Dennis Woodside (40) was appointed as a non-executive director. Mr Woodside is a senior executive of Google and is presently the head of their North and South American operations.

On 13 January 2009, Terry Scicluna (51) was appointed to the Board as Chief Operating Officer – UK and Ireland. Terry joined GAME on 15 October 2008 and has 30 years of experience in retail including the management of multiple brands. His appointment adds further strength.

Employees

Our employees, at all levels, have worked tirelessly to engage with our customers, provide outstanding customer service and have contributed to a great financial performance through their significant efforts and enthusiasm.

It is an enormous tribute to all of our employees that GAME was awarded the prestigious accolade of Speciality Retailer of the Year 2008 at the Retail Week Awards in March 2009. On behalf of myself and the Board, I would like to thank all of our employees for contributing to our success.

Corporate Responsibility

Corporate Responsibility ("CR") is right at the heart of GAME. As a responsible retailer, we recognise that the way we operate as a business has a direct impact on our reputation and our brand. We are continuing to develop our CR strategy and our stakeholder relationships.

Current Trading and Future Prospects

We have made a very encouraging start to the financial year particularly given the strong comparative period in 2008 (when Group lfl sales were 18%) was driven by the launch of a number of popular software titles such as Mario and Sonic at the Olympic Games and Mario Kart Wii.

In the first 11 weeks to 18 April 2009 the Group total sales were up by 1.0% and lfl sales were down by 6.3%. The lfl sales reduction is less than we had anticipated and the demand remains strong.

In the UK and Ireland, total sales and lfl sales were down by 2.4% and 6.6% respectively. In our international business, total sales were up by 9.9% and lfl sales on a constant currency basis were down by 5.7%. On a reported currency basis, Group lfl sales were down by 3.7%.

Current trading performance is ahead of our expectations and this is particularly pleasing when set against the double digit growth achieved last year. Year to date margin has also improved, up 150 basis points as a result of higher margin products within the sales mix.

As a result of these factors, we anticipate gross margin for the full year will improve by 150 to 175 basis points compared to last year.

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Chairman's Statement (continued)

The unprecedented range of products has broadened the demographic appeal of gaming, attracting new customers from all generations. With a large and growing installed base of hardware in the market and a solid line up of new software launches, the Board is confident in the outlook for the year to 31 January 2010.

Peter Lewis

Chairman

22 April 2009

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Chief Executive's Review

I am pleased to report yet another strong set of results for the GAME Group despite the challenges presented by wider economic issues.

Our success is based on placing our customers at the heart of our business. Our specialist proposition is designed to give our customers a great shopping experience and encourage their loyalty so they will come back to us time and time again. We focus on offering the widest range and choice of products available, combined with quality teams on hand to give helpful friendly advice, extensive product knowledge and exceptional service. We are first-to-market with leading promotions and multi-buy campaigns.

Our trade-in programme enables our customers to access new games for less and we offer preowned products as a more affordable alternative to buying new and, through our Reward Card scheme, we consistently reward their purchases and thank them for shopping with us.

We believe we are positioned strongly to best serve customers as they seek ever better value and to differentiate our stores and websites in a constantly changing market place.

The Group has benefited from the continuing growth in the appeal of pc and video games. With a worldwide market value of nearly \$50bn (source: IDG), video games are now a significant part of customers' entertainment spend. The variety of product available offers something for everyone and, as a result, we have seen a much broader range of customers enter our stores and visit us online.

The suppliers of hardware and software publishers have recognised the diversity of demand. Over the course of our last financial year we saw the release of titles such as Grand Theft Auto IV, Call of Duty: World at War and Gears of War 2, all focused at the more traditional gamer. At the other end of the spectrum, we also saw innovative and interactive family products such as Wii Fit and Guitar Hero perform extremely well in the market place.

We have experienced central teams who work closely with our suppliers to ensure we get the right products to the right stores, in the right quantities, at the right time, they also support our store teams so that they can focus on looking after our customers.

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Chief Executive's Review (continued)

Where our stores are located

As at 31 January		2009	2008
		Number	Number
<i>Company owned and concessions</i>			
UK and Ireland			
- GAME		443	414
- Gamestation		253	235
<i>Total UK and Ireland</i>		696	649
France		192	170
Iberia		258	208
Scandinavia		66	62
Czech Republic		22	-
<i>Total Continental Europe</i>		538	440
Australia		101	51
<i>Total International</i>		639	491
<i>Total owned and concessions</i>		1,335	1,140
<i>Franchises</i>			
France		1	7
Iberia		5	10
Australia		1	4
<i>Total franchises</i>		7	21
Total operational outlets		1,342	1,161

The continued focus on our specialist proposition has resulted in the best revenue and profit performance we have ever delivered in each of our UK, International and online operations.

UK

In the UK we trade from over 690 stores through our GAME and Gamestation brands. The two brands appeal to different sets of customers, with Gamestation targeting the more traditional core gamer and GAME the family. They complement each other extremely well and as a result they both traded very successfully last year, delivering 70% of Group revenue and 84% of Group operating profit.

The UK games' retail environment has changed considerably over the course of the year, with both Woolworths and Zavvi going into administration and withdrawing from the High Street. We are well placed to benefit from these changes.

We further expanded our concession partnerships to gain access to new markets and customers. GAME concessions were opened in 20 Borders book stores across the UK – providing a relatively low-cost route to expand into new locations and reach even more customers.

It was our first full year of trading the Gamestation brand, following our acquisition of the business in May 2007. Gamestation has exceeded our expectations and we have continued to develop the brand and open new stores in appropriate locations. We expect to see further profit improvements as we complete the integration in 2009.

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Chief Executive's Review (continued)

International

We trade from nearly 650 stores in eight international territories – France, Spain, Portugal, Sweden, Denmark, Norway, Australia and the Czech Republic. Our acquisition of JRC, a 19 store pc and video games business based in Prague marked our first entry into Central Europe.

We had a busy store opening programme, with a net 134 stores opened outside the UK which included the buy-in of ten franchises. The size of our store portfolios, coupled with the GAME specialist offer and the capabilities of our local management teams, have enabled us to trade the GAME brand successfully in every country in which we operate. Our international businesses continue to perform well and contributed £583.3m to revenue and £20.4m to our overall operating profit.

Online

We are extremely focused on further developing our multi-channel offer. We operate transactional eCommerce websites in all the countries in which we trade. Over the course of the last two years we have invested nearly £12m into our websites and online back office infrastructure. This has given us a credible eCommerce offering that generated £106.8m of revenue this year and positions us well to continue our growth trend in this area and benefit from future technological advances.

Our specialist proposition

Regardless of where we trade, our success is founded on delivering our unique specialist proposition which puts the customer at the centre of our activities.

Our specialist proposition is founded on our desire to provide an experience that consistently exceeds our customer's expectations, builds relationships with them, and better understands their needs.

This is underpinned by an impressive, purpose-built, infrastructure and support network.

Our core attributes include:

- Employees – We recruit and train employees, with a passion for games and an aptitude for retail, who are dedicated to giving our customers the highest levels of services and advice. With such a broad range of products, requiring varying levels of technical know-how, we pride ourselves on matching each customer to the most relevant purchase.
- Product and range – The market is now in its third generation of hardware, comprising three consoles (Sony PS3, Microsoft Xbox360 and the Nintendo Wii) and two handhelds (Sony PSP and Nintendo DS). As a leading specialist we receive significant quantities of hardware products. As well as offering a full compliment of console bundles, we offer a large range of software and peripherals, including our own brand accessories. We use our expertise and customer insight to generate unique product offers and deals. We offer customers what they want at prices they can afford.
- Trade-in and Preowned - The ability to trade-in and buy preowned games at GAME and Gamestation provides a material benefit for customers, particularly in today's tougher economic climate. Trading-in games is a unique way for customers to save money, using their old games as currency against new purchases. Preowned games enable us to offer a wider range and better value to today's more price-conscious consumer, allowing them to buy products at prices lower than our competitors.

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Chief Executive's Review (continued)

- Customer Loyalty – Over 25,000 new customers are joining our reward card scheme every week. Both our GAME and Gamestation brands have built up significant levels of customer loyalty. The GAME Reward Card helps us to communicate with, and reward, up to 12 million customers and we intend to launch a similar programme for Gamestation. Through the Card our customers get points on every purchase, which can be used as discounts against future purchases. The transactional data allows us to learn more about our customers and their shopping trends, enabling us to continually refine and target our offers.

Our specialist proposition is further underpinned by:

- Property – With over 1,340 stores in the Group, we have strong relationships with landlords and good access to new stores which is a key component of good property strategy management.

In each of the countries in which we operate, we identify the very best store locations for our customers that we believe will give us the best returns on our investment. We constantly review store performance and manage our estate to maximise our customer reach and our profitability.

- Ecommerce – We aim to have an online offering that matches the quality and reputation of our stores. In whichever way the consumer wants to shop with us, our product offer, availability and standards of service are consistently high.
- Business relationships – To provide customers with our range of products and offers, it is vital that we maintain long term and successful relationships with all the key hardware and software suppliers. We are committed to working in partnership to constantly improve our specialist proposition.
- Distribution – Our distribution centres are dedicated to moving products quickly and efficiently to final destinations, whether that is large volumes to our stores or small individual packages direct to customers' homes via online orders. Our state of the art systems and merchandising function ensures that we get the correct products in time to every destination, which is key to our customers' needs.

We aim to continually improve our offering and stay ahead of our competition by spotting trends and opportunities and by evolving our offer accordingly. At the same time, we constantly evaluate and invest in those aspects of our business that give us the greatest returns for the future.

Our customer focus is delivered daily by our committed employees. We pride ourselves on providing a great place to work: we recruit strong retailers, give them excellent training in customer service and product knowledge and they get the opportunity to work in a fun environment, in a constantly evolving industry. We encourage our employees to seek opportunities within the business with the result that many of our talented people within both stores and head office have been promoted through the ranks.

Summary

The strength of our performance in the 53 weeks to 31 January 2009 was entirely attributable to our employees and our credentials as a specialist retailer - we will continue to nurture and develop these. We will also look to grow our store portfolio organically with 70 to 80 new stores planned for this year, continue to realise the benefits of the Gamestation acquisition and further enhance our business online.

We recognise that the outlook for the wider global economy remains uncertain. However, we have seen the pc and video games market expand to record levels. It is now a key part of mass market entertainment. Console ownership continues to grow and innovative products continue to attract new customers and we are confident about our prospects going forward.

Lisa Morgan
Chief Executive

THE GAME GROUP PLC

Financial Review

Profit and Loss Account Revenue

Total sales increased by 32.2% from £1,492m to £1,972m and lfl sales increased by 8.8%.

Average sales per annum per sq. ft. increased by £141 to £1,416.

Gross Margin

Overall gross margin was 26.2% compared to a prior year margin of 24.8%. This increase in gross margin was in line with our expectations. It was 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 30.8% from £237.3m to £310.3m, excluding Gamestation and non-recurring costs, and as a percentage of sales were 15.7% compared to 15.9% last year. On a cash basis our operating expenditure has increased year on year but this is in line with the increase in volumes traded across our business. The decrease in operating costs as a percentage of sales is a testament to our ability to control our expenditure across the operating chain.

Profit before tax

We achieved a profit before tax of £119.6m compared to a profit before tax of £68.4m for last year.

Taxation

The effective rate of Corporation Tax was 28.6% (2008: 31.0%) and we have continued to provide deferred taxation in line with IAS 12.

Earnings per share

Basic earnings per share were 24.70p compared to 13.79p last year, an increase of 79%. Diluted earnings per share were 24.62p compared to 13.65p last year, an increase of 80%.

Dividend

The Board is recommending a final dividend of 3.71p per share, which will give a total dividend for the period of 5.50p compared to 4.40p last year an increase of 25%. The dividend will be paid on 17th July 2009, to shareholders on the register at the 29th May 2009.

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Financial Review (continued)

Balance Sheet

Capital Expenditure

Capital expenditure in the period, excluding acquisitions, amounted to £53m. Approximately half of this expenditure was undertaken to open new 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	2009	2008
		£m	£m
	Stores	29	25
	Refits	7	5
	Web	8	4
	Infrastructure	9	6
	Total	53	40

Stock

Stock at the end of the period represented £136k per owned store compared to £127k for the same period last year. The increase in the average stock holding per store reflects the fact that we were holding higher levels of hardware product to meet ongoing consumer demand.

Cash flow

Net cash generated by operations was £118m compared to £172m last year. This reflects a very strong year on year trading performance offset by the movements in working capital. In particular, our trade creditor payments schedule has normalised with payments, to the majority of our suppliers for December deliveries, made just after the year end in both years.

Reporting

In the coming year we will adopt IFRIC 13 on Customer Loyalty Programmes. This requires 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 is likely to result in a charge to the profit and loss for 2009/10 of £1m; and a prior year adjustment for the 2008/09 profit and loss of £3m.

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 a formal property market valuation. We have assessed the carrying value, based on a representative sample of properties, as at 31 January 2009 and concluded that there is no material diminution in value. The carrying value of the key money in our books is approximately £31m. We will continue to review the position in 2009.

THE GAME GROUP PLC**Consolidated Income Statement for the 53 weeks ended 31 January 2009**

	Note	2009 £'000	2008 £'000
Revenue	1	1,971,905	1,491,914
Cost of sales		1,455,151	1,122,337
		<u> </u>	<u> </u>
Gross profit		516,754	369,577
Other operating expenses	2	390,214	294,385
		<u> </u>	<u> </u>
Operating profit before non-recurring costs		133,128	82,340
Non-recurring costs	3	(6,588)	(7,148)
		<u> </u>	<u> </u>
Operating profit	4	126,540	75,192
Finance income	5	1,805	1,511
Finance costs	6	(8,732)	(8,341)
		<u> </u>	<u> </u>
Profit before taxation		119,613	68,362
Taxation	8	34,173	21,183
		<u> </u>	<u> </u>
Profit for the year attributable to equity holders of the parent		85,440	47,179
		<u> </u>	<u> </u>
Earnings per share			
- basic	10	24.70p	13.79p
- diluted	10	24.62p	13.65p
		<u> </u>	<u> </u>

All amounts relate to continuing activities

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Consolidated Balance Sheet at 31 January 2009

	Note	2009 £'000	2008 £'000
Non-current assets			
Property, plant & equipment	11	165,609	130,662
Intangible assets	12	182,267	172,871
Deferred tax asset	18	2,738	-
		<u>350,614</u>	<u>303,533</u>
Current assets			
Inventories	13	181,965	145,041
Trade and other receivables	14	55,465	53,845
Cash and cash equivalents		139,614	137,899
		<u>377,044</u>	<u>336,785</u>
Total assets		<u>727,658</u>	<u>640,318</u>
Current liabilities			
Trade and other payables	15	343,809	315,498
Current portion of long term borrowings	16	26,325	38,038
Leasehold property incentives	19	904	846
Current tax liabilities		26,037	15,862
		<u>397,075</u>	<u>370,244</u>
Non-current liabilities			
Long term borrowings	16	31,847	57,809
Leasehold property incentives	19	8,328	6,414
Deferred tax liabilities	18	-	1,929
		<u>40,175</u>	<u>66,152</u>
Total liabilities		<u>437,250</u>	<u>436,396</u>
Net assets		<u>290,408</u>	<u>203,922</u>
Equity attributable to equity holders of the parent			
Share capital	20	17,316	17,167
Share premium account	21	46,462	44,848
Capital redemption reserve	22	2,248	2,223
Shares held in trust	22	(6,451)	(4,403)
Merger reserve	22	76,907	76,907
Foreign exchange reserve	22	23,454	5,904
Retained earnings	22	130,472	61,276
		<u>290,408</u>	<u>203,922</u>

THE GAME GROUP PLC

Consolidated Statement of Recognised Income and Expense for the 53 weeks ended 31 January 2009

	Note	2009 £'000	2008 £'000
Exchange differences on translation of foreign currency net investments in subsidiary undertakings		17,550	9,663
Deferred income tax on share based payments		(442)	22
Current tax on share based payments		1,789	-
		<hr/>	<hr/>
Total income and expense recognised directly in equity		18,897	9,685
Profit on ordinary activities after taxation		85,440	47,179
		<hr/>	<hr/>
Total recognised income and expense for the year attributable to equity holders	22	104,337	56,864
		<hr/> <hr/>	<hr/> <hr/>

THE GAME GROUP PLC

Consolidated Cash Flow Statement for the 53 weeks ended 31 January 2009

	Note	2009 £'000	2008 £'000
Cash flow from operating activities			
Operating profit		126,540	75,192
Equity settled share-based payment expense		1,968	1,204
Depreciation and amortisation		28,901	20,587
Loss on disposal of non current assets		146	286
Market value movement on financial instrument		211	(139)
		<hr/>	<hr/>
		157,766	97,130
Decrease /(Increase) in trade and other receivables		212	(20,772)
Increase in inventories		(30,293)	(28,562)
Increase in trade and other payables		26,326	143,645
Increase in leasehold incentives		1,573	532
		<hr/>	<hr/>
Cash generated from operations		155,584	191,973
Finance costs paid		(8,732)	(8,341)
Corporation tax paid		(28,844)	(11,580)
		<hr/>	<hr/>
Net cash from operating activities		118,008	172,052
		<hr/>	<hr/>
Cash flows from investing activities			
Acquisitions	23	(6,804)	(80,941)
Purchase of property, plant and equipment		(48,727)	(37,218)
Purchase of intangible assets		(4,718)	(2,703)
Proceeds from sale of equipment		1,128	205
Finance income received		1,805	1,511
		<hr/>	<hr/>
Net cash used in investing activities		(57,316)	(119,146)
		<hr/>	<hr/>
Cash flows from financing activities			
Proceeds from issue of share capital		1,740	2,726
Shares purchased for Trust		(3,828)	(3,667)
Purchase of own shares		(1,241)	-
Net (payment of) / proceeds from Term Loan		(25,000)	80,000
Net payment of other long term borrowings		(13,765)	(15,902)
Payment of finance lease liabilities		(393)	(550)
Dividends paid		(16,490)	(10,541)
		<hr/>	<hr/>
Net cash used in financing activities		(58,977)	52,066
		<hr/>	<hr/>
Net increase in net cash and cash equivalents		1,715	104,972
Cash and cash equivalents at beginning of year		137,899	32,927
		<hr/>	<hr/>
Cash and cash equivalents at end of year	24	139,614	137,899
		<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 2009 or 2008, but is derived from those Accounts. Statutory accounts for 2008 have been delivered to the Register of Companies and those for 2009 will be delivered following the Company's Annual General Meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain statements under the Companies Act 1985, s 237 (2) or (3).

Basis of Preparation

The accounting reference date of The GAME Group plc and all of its subsidiary undertakings (the "Group") is 31 January. The comparative year's results are for the 52 week period ended 26 January 2008. The current year's results are for the 53 week period ended 31 January 2009.

The consolidated financial statements incorporate the results of the Group made up to 31 January 2009. The Group has used the acquisition method of accounting to consolidate the results of subsidiary undertakings. The results of subsidiary undertakings are included from the date of acquisition.

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

THE GAME GROUP PLC

Notes to the Financial Statements for the 53 weeks ended 31 January 2009

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 geographical locations split between the UK and Ireland and International. The Directors are of the view that there is only one identifiable business segment; retailing.

Revenue by origin and destination are not materially different.

	United Kingdom and Ireland 2009 £'000	International 2009 £'000	United Kingdom and Ireland 2008 £'000	International 2008 £'000
Revenue	1,388,634	583,271	1,104,657	387,257
Cost of sales	1,015,077	440,074	829,630	292,707
Gross profit	373,557	143,197	275,027	94,550
Other operating expenses	260,810	122,816	205,913	81,324
Operating profit before non-recurring costs	112,747	20,381	69,114	13,226
Non-recurring costs	6,588	-	7,148	-
Operating profit	106,159	20,381	61,966	13,226
Finance income/costs	(6,453)	(474)	(5,891)	(939)
Taxation	(28,787)	(5,386)	(17,747)	(3,436)
Profit after tax	70,919	14,521	38,328	8,851

Other segmental information:

Goodwill and other intangibles	155,023	27,244	151,267	21,604
Other assets	287,237	258,154	259,839	207,608
Assets	442,260	285,398	411,106	229,212
Liabilities	275,695	161,555	233,117	203,279
Net assets	166,565	123,843	177,989	25,933
Capital expenditure	24,526	28,919	15,576	24,345
Depreciation and amortisation	16,822	12,079	12,886	7,701
Share based payment expense	1,968	-	1,204	-

THE GAME GROUP PLC

Notes to the Financial Statements for the 53 weeks ended 31 January 2009 (continued)

1 Revenue, profit and net assets (continued)

	2009		2008	
	£'000		£'000	
	Total	% of Total	Total	% of Total
Revenue				
Hardware	555,369	28.2%	466,187	31.2%
Software	873,835	44.3%	633,808	42.5%
New hardware and software	1,429,204	72.5%	1,099,995	73.7%
Preowned	353,409	17.9%	257,285	17.2%
Other	189,292	9.6%	134,634	9.1%
Total	1,971,905	100.0%	1,491,914	100.0%

	2009		2008	
	£'000		£'000	
	Total	% of Total	Total	% of Total
Gross Margin				
New hardware and software	319,058	61.8%	234,360	63.4%
Preowned	138,176	26.7%	94,871	25.7%
Other	59,520	11.5%	40,346	10.9%
Total	516,754	100.0%	369,577	100.0%

	2009	2008
	%	%
	Total	Total
Gross Margin		
New hardware and software	22.3%	21.3%
Preowned	39.1%	36.9%
Other	31.4%	30.0%
Total Group	26.2%	24.8%

THE GAME GROUP PLC

Notes to the Financial Statements for the 53 weeks ended 31 January 2009 (continued)

1 Revenue, profit and net assets (continued)

	53 weeks ended 31 January 2009	52 weeks ended 31 January 2008
	£'000	£'000
Turnover by territory		
United Kingdom and Ireland	1,388,634	1,104,657
France	196,397	141,183
Iberia	265,237	175,808
Scandinavia	53,429	43,485
Australia	63,662	26,781
Czech Republic	4,546	-
	<u>1,971,905</u>	<u>1,491,914</u>
Stores by territory		
	Number	Number
United Kingdom and Ireland	696	649
France	192	170
Iberia	258	208
Scandinavia	66	62
Australia	101	51
Czech Republic	22	-
	<u>1,335</u>	<u>1,140</u>
Franchises		
France	1	7
Iberia	5	10
Australia	1	4
	<u>7</u>	<u>21</u>
Trading square footage by territory at year end		
	Sq ft	Sq ft
United Kingdom and Ireland	808,322	712,408
France	177,729	162,014
Iberia	218,395	177,427
Scandinavia	62,367	59,729
Australia	113,417	58,639
Czech Republic	12,611	-
	<u>1,392,841</u>	<u>1,170,217</u>

THE GAME GROUP PLC

Notes to the Financial Statements for the 53 weeks ended 31 January 2009 (continued)

2 Other operating expenses

	2009 £'000	2008 £'000
Selling and distribution	304,428	234,450
Administrative expenses	85,786	59,935
	<hr/>	<hr/>
	390,214	294,385
	<hr/> <hr/>	<hr/> <hr/>

Administrative expenses include non-recurring costs of £6,587,603 (2008: £7,147,721) (see note 3).

3 Non-recurring costs

In the current year administrative expenses include non-recurring costs of £6,587,603 in relation to integration costs following the acquisition of Gamestation. In the prior year, non-recurring costs totalled £7,147,721; £2,957,051 was in relation to integration fees on the acquisition of Gamestation and £4,190,670 was incurred dealing with the merger control review of the Gamestation acquisition by the Office of Fair Trading and Competition Commission

4 Operating profit

	2009 £'000	2008 £'000
This is stated after charging:		
Depreciation charge	25,264	18,583
Amortisation of intangible fixed assets	3,637	2,004
Operating lease rentals		
- leasehold premises	82,392	65,569
- other	1,627	1,214
Loss on disposal of non current assets	146	286
Auditors' remuneration		
- Fees payable to the company's auditor for the audit of the company's annual accounts	85	87
- Fees payable for the audit of the company's subsidiaries, pursuant to legislation	330	294
- other services supplied pursuant to legislation	32	44
- other services relating to tax	178	117
- Recruitment and remuneration services	-	31
- All other services	70	11
	<hr/>	<hr/>

5 Finance income

	2009 £'000	2008 £'000
Interest income on financial assets classified as loans and receivables	1,805	1,511
	<hr/>	<hr/>
	1,805	1,511
	<hr/> <hr/>	<hr/> <hr/>

THE GAME GROUP PLC

Notes to the Financial Statements for the 53 weeks ended 31 January 2009 (continued)

6 Finance costs

	2009	2008
	£'000	£'000
Interest expense for finance lease and hire purchase arrangements	35	102
Interest expense for borrowings at amortised cost	8,667	8,223
Other interest	30	16
	<hr/>	<hr/>
Finance costs	8,732	8,341
	<hr/> <hr/>	<hr/> <hr/>

7 Employees

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

	2009	2008
	£'000	£'000
Wages and salaries	127,001	101,878
Social security costs	16,807	12,831
Other pension costs	1,445	743
Share-based payment expense	1,968	1,204
	<hr/>	<hr/>
	147,221	116,656
	<hr/> <hr/>	<hr/> <hr/>

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

	2009	2008
	Number	Number
Selling	9,571	7,271
Administration	879	688
	<hr/>	<hr/>
	10,450	7,959
	<hr/> <hr/>	<hr/> <hr/>

THE GAME GROUP PLC

Notes to the Financial Statements for the 53 weeks ended 31 January 2009 (continued)

8 Taxation

(a) Analysis of charge in the year

	2009	2008
	£'000	£'000
<i>Current tax</i>		
UK corporation tax	34,235	19,615
Adjustments in respect of prior periods	190	(1,191)
Overseas tax payable	4,903	3,436
	<hr/>	<hr/>
Total current tax	39,328	21,860
<i>Deferred tax</i>		
Current year movement	(5,194)	(191)
Adjustment to estimated recoverable deferred tax asset arising in previous period	-	825
Prior year movement	39	(1,274)
Change in tax rates	-	(37)
	<hr/>	<hr/>
Taxation on profit on ordinary activities	34,173	21,183
	<hr/> <hr/>	<hr/> <hr/>

(b) Factors affecting the tax charge for the year

	2009	2008
	£'000	£'000
Profit on ordinary activities before taxation	119,613	68,362
	<hr/> <hr/>	<hr/> <hr/>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28.3% (2008: 30%)	33,884	20,509
	<hr/>	<hr/>
Effects of:		
Expenses not deductible for tax purposes	1,892	1,441
Effect of foreign tax rates	538	439
Tax losses incurred and (utilised)/not utilised in the year	(1,903)	471
Adjustment to estimated recoverable deferred tax asset arising in previous period	-	825
Adjustments to tax charge in respect of previous periods	229	(2,465)
Other items	(467)	(37)
	<hr/>	<hr/>
Tax charge for the year	34,173	21,183
	<hr/> <hr/>	<hr/> <hr/>

The Group has approximately £16 million (2008: £20 million) of unrelieved trading losses available for offset against future taxable profits of certain Group companies.

THE GAME GROUP PLC

Notes to the Financial Statements for the 53 weeks ended 31 January 2009 (continued)

9 Dividends

	2009 Pence per share	2009 £'000	2008 Pence per share	2008 £'000
Final paid	2.97	10,292	1.66	5,636
Interim paid	1.79	6,198	1.43	4,905
		<hr/>		<hr/>
		16,490		10,541
		<hr/> <hr/>		<hr/> <hr/>

It is proposed that a final dividend of 3.71p will be paid on 17 July 2009 to shareholders on the register on 29 May 2009.

10 Earnings per share

The calculation of earnings per share for the 53 weeks ended 31 January 2009 is based on the profit after taxation of £85,440,116 (2008: £47,178,969). The calculation of basic earnings per share is based on a weighted average number of 345,895,311 (2008: 342,198,365) 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 2009	345,895,311	1,128,717	347,024,028
Year ended 31 January 2008	342,198,365	3,405,544	345,603,909

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.

	2009 Pence	2008 Pence
Basic earnings per share	24.70	13.79
Non-recurring costs per share	1.91	2.09
	<hr/>	<hr/>
Basic earnings per share before non-recurring costs	26.61	15.88
	<hr/> <hr/>	<hr/> <hr/>

THE GAME GROUP PLC

Notes to the Financial Statements for the 53 weeks ended 31 January 2009 (continued)

11 Property, plant and equipment

	Freehold land and property £'000	Short leasehold land and property £'000	Improvements to leasehold property £'000	Fixtures, fittings and equipment £'000	Total £'000
Group					
<i>Cost</i>					
At 31 January 2007	19,474	35,246	50,742	53,628	159,090
Additions	1,089	5,071	18,091	12,967	37,218
Acquisitions	-	-	13,629	5,848	19,477
Disposals	-	(25)	(1,873)	(1,683)	(3,581)
Exchange adjustment	-	2,851	2,572	1,609	7,032
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
<i>Accumulated Depreciation and Impairment</i>					
At 31 January 2007	934	6,730	19,046	31,385	58,095
Charge for the year	389	1,335	8,145	8,714	18,583
Acquisitions	-	-	9,639	3,880	13,519
Disposals	-	(375)	(1,434)	(1,266)	(3,075)
Exchange adjustment	-	89	631	732	1,452
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
<i>Carrying Amount</i>					
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
At 31 January 2007	18,540	28,516	31,696	22,243	100,995

THE GAME GROUP PLC

Notes to the Financial Statements for the 53 weeks ended 31 January 2009 (continued)

11 Property, plant and equipment (continued)

The net book value of tangible fixed assets includes an amount of £1,217,221 (2008: £1,358,429) 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 £579,056 (2008: £1,284,695). The main finance leases are for EPOS equipment and motor vehicles.

The amount of interest capitalised during the year amounted to £nil (2008: £nil), bringing the total amount of capitalised interest to date to £741,500. The related depreciation charge for the year was £31,500 (2008: £31,500).

THE GAME GROUP PLC

Notes to the Financial Statements for the 53 weeks ended 31 January 2009 (continued)

12 Intangible fixed assets

	Goodwill	Brands	Computer Software	Total
	£'000	£'000	£'000	£'000
Group				
<i>Cost</i>				
At 31 January 2007	98,828	1,002	5,151	104,981
Acquisitions	52,770	16,300	1,750	70,820
Additions	-	-	2,703	2,703
Foreign exchange adjustment	519	689	(624)	584
Disposals	-	-	(8)	(8)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 January 2008	152,117	17,991	8,972	179,080
Acquisitions	6,233	187	122	6,542
Additions	306	25	4,433	4,764
Foreign exchange adjustment	2,001	44	112	2,157
Disposals	-	(83)	(24)	(107)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 January 2009	<u>160,657</u>	<u>18,164</u>	<u>13,615</u>	<u>192,436</u>
<i>Amortisation</i>				
At 31 January 2007	3	136	3,320	3,459
Acquisitions	-	-	711	711
Charge for the period	-	984	1,020	2,004
Foreign exchange adjustment	32	-	52	84
Disposals/impairments	-	-	(49)	(49)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 January 2008	35	1,120	5,054	6,209
Acquisitions	-	5	68	73
Charge for the period	-	1,155	2,482	3,637
Foreign exchange adjustment	170	(4)	84	250
Disposals/impairments	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 January 2009	<u>205</u>	<u>2,276</u>	<u>7,688</u>	<u>10,169</u>
<i>Carrying Amount</i>				
At 31 January 2009	<u>160,452</u>	<u>15,888</u>	<u>5,927</u>	<u>182,267</u>
At 31 January 2008	<u>152,082</u>	<u>16,871</u>	<u>3,918</u>	<u>172,871</u>
At 31 January 2007	<u>98,825</u>	<u>866</u>	<u>1,831</u>	<u>101,522</u>

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	25,419
Total	<u>160,452</u>

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

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 53 weeks ended 31 January 2009 (continued)

13 Inventories

	2009	2008
	£'000	£'000
Finished goods and goods held for resale	181,965	145,041

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 £20,338,000 (2008: £11,748,000).

14 Trade and other receivables

	2009	2008
	£'000	£'000
Amounts falling due within one year:		
Trade receivables	16,197	18,921
Other receivables	22,066	14,050
VAT recoverable	64	324
	<u> </u>	<u> </u>
Total trade and other receivables	38,327	33,295
Prepayments and accrued income	17,138	20,550
	<u> </u>	<u> </u>
	<u>55,465</u>	<u>53,845</u>

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 2009 and 31 January 2008 there were no amounts which were past due and no amounts which were impaired.

15 Trade and other payables

	2009	2008
	£'000	£'000
Amounts falling due within one year:		
Trade payables	216,156	192,529
Other payables	6,895	7,838
Tax and social security costs	8,930	4,039
VAT payable	45,359	50,206
Accruals and deferred income	66,469	60,886
	<u> </u>	<u> </u>
	<u>343,809</u>	<u>315,498</u>

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

THE GAME GROUP PLC

Notes to the Financial Statements for the 53 weeks ended 31 January 2009 (continued)

16 Borrowings

	2009	2008
	£'000	£'000
Long term:		
Current portion:		
Bank loans	25,948	37,515
Obligations under finance leases and hire purchase contracts	377	523
	<u>26,325</u>	<u>38,038</u>
Non current portion:		
Bank loans	31,183	56,897
Obligations under finance leases and hire purchase contracts	664	912
	<u>31,847</u>	<u>57,809</u>
The borrowings are repayable as follows:		
On demand or within one year	25,948	37,515
In one to two years	31,183	25,924
In more than two years but less than five years	-	30,973
After five years	-	-
	<u>57,131</u>	<u>94,412</u>
The finance leases are repayable as follows:		
On demand or within one year	377	523
In one to two years	221	712
In more than two years but less than five years	443	200
After five years	-	-
	<u>1,041</u>	<u>1,435</u>

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

THE GAME GROUP PLC

Notes to the Financial Statements for the 53 weeks ended 31 January 2009 (continued)

17 Financial Instruments

Financial risk management

Categories of financial instruments

Financial assets	Loans and Receivables	
	2009 £'000	2008 £'000
Current financial assets		
Trade and other receivables (Note 14)	38,327	33,295
Net cash and cash equivalents (Note 24)	139,614	137,899
	<u>177,941</u>	<u>171,194</u>
	<u><u>177,941</u></u>	<u><u>171,194</u></u>
Financial Liabilities		
	Financial liabilities measured at amortised cost	
	2009 £'000	2008 £'000
Current financial liabilities		
Trade and other payables (Note 15)	343,809	315,498
Loans and borrowings (Note 16)	26,325	38,038
Total current financial liabilities	<u>370,134</u>	<u>353,536</u>
	<u><u>370,134</u></u>	<u><u>353,536</u></u>
Non-current financial liabilities		
Loans and borrowings (Note 16)	31,847	57,809
Total non-current financial liabilities	<u>31,847</u>	<u>57,809</u>
	<u><u>31,847</u></u>	<u><u>57,809</u></u>
Total financial liabilities	<u><u>401,981</u></u>	<u><u>411,345</u></u>

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

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

THE GAME GROUP PLC

Notes to the Financial Statements for the 53 weeks ended 31 January 2009 (continued)

17 Financial Instruments (continued)

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

(a) Interest rate and currency of borrowings

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

	2009	2008
	£'000	£'000
Floating rate Euro borrowings	2,131	14,412
Floating rate Sterling borrowings	56,041	81,164
Floating rate AUD borrowings	-	271
	<hr/>	<hr/>
	58,172	95,847
	<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 £70 million to be used for general corporate and working capital purposes. As at 31 January 2009 an amount of €nil (2008: €15 million) 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 £55 million Term Loan taken out in order to fund the purchase of Gamestation and refinance the existing debt at GAME. The interest rate on the loan is based on LIBOR. The second repayment was made in January 2009 and two further instalments are due.

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

THE GAME GROUP PLC

Notes to the Financial Statements for the 53 weeks ended 31 January 2009 (continued)

17 Financial Instruments (continued)

(b) Interest rate and currency of cash balances

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

	2009	2008
	£'000	£'000
Sterling	109,254	84,840
Euro	21,765	47,237
Swedish Krona	3,377	1,757
Danish Krone	624	147
Norwegian Krone	1,115	490
Australian Dollar	3,157	3,428
Czech Koruna	322	-
	<hr/>	<hr/>
	139,614	137,899
	<hr/> <hr/>	<hr/> <hr/>

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

(c) Sensitivity analysis

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

At 31 January 2009, 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 £1,137,427 lower (2008: £1,037,910 lower).

At 31 January 2009, 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 £145,682 lower (2008: £173,231 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 2009 and 2008. If the euro weakened or strengthened by 10% against sterling, with all other variables held constant, profit after tax and equity would reduce by £850,255 (2008: reduce by £352,146).

THE GAME GROUP PLC

Notes to the Financial Statements for the 53 weeks ended 31 January 2009 (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.

	2009	2008
	£'000	£'000
Trade and other receivables	38,327	33,295
Net cash and cash equivalents	139,614	137,899
Current portion of long term debt	(26,325)	(38,038)
Non current portion of long term debt	(31,847)	(57,809)
	<u> </u>	<u> </u>

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

- (e) The Group had no material monetary assets or liabilities that are not denominated in the functional currency of the operating unit involved.
- (f) As at 30 March 2009, the Group had undrawn working capital facilities available to it of £32.0 million (2008: £20.8 million) and Euro nil (2008: Euro nil). There are no significant conditions attached to these facilities.

17 Financial Instruments (continued)

Capital risk management

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

Gearing ratio

It is the Group's policy to maintain its gearing ratio within the range of 0-100% (2008: 0-100%). The Group's gearing ratio at the balance sheet date is shown below:

	2009	2008
	£'000	£'000
Debt (i)	58,172	95,847
Trade and other payables	343,809	315,498
Net cash and cash equivalents	(139,614)	(137,899)
	<hr/>	<hr/>
Net debt	262,367	273,446
	<hr/>	<hr/>
	2009	2008
	£'000	£'000
Equity (ii)	290,408	203,922
	<hr/>	<hr/>
Capital and net debt	552,775	477,368
	<hr/>	<hr/>
Gearing ratio	47%	57%

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

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

THE GAME GROUP PLC**Notes to the Financial Statements for the 53 weeks ended 31 January 2009 (continued)**

18 Deferred taxation

	2009	2008
	£'000	£'000
Accelerated capital allowances	68	(1,369)
Tax losses carried forward	1,596	-
Share options	2,123	2,615
Other temporary and deductible differences	(1,049)	(3,175)
	<hr/>	<hr/>
Deferred tax asset / (liability)	2,738	(1,929)
	<hr/>	<hr/>
At 1 February 2008	(1,929)	1,111
Acquisition of subsidiary	(46)	(3,739)
Deferred tax charge in the income statement for the year (Note 8)	5,155	677
Deferred tax taken to equity	(442)	22
	<hr/>	<hr/>
At 31 January 2009	2,738	(1,929)
	<hr/>	<hr/>

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Notes to the Financial Statements for the 53 weeks ended 31 January 2009 (continued)

19 Leasehold property incentives

Rent free periods and reverse premiums	2009 £'000	2008 £'000
At 1 February	7,260	4,662
Rent free periods and reverse premiums received during the year	3,240	3,239
Released to profit and loss account	(1,268)	(641)
	<hr/>	<hr/>
At 31 January	9,232	7,260
	<hr/> <hr/>	<hr/> <hr/>
Due within one year	904	846
Due greater than one year	8,328	6,414
	<hr/>	<hr/>
At 31 January	9,232	7,260
	<hr/> <hr/>	<hr/> <hr/>

20 Called up share capital

	2009		2008	
	£'000	Number	£'000	Number
<i>Authorised</i>				
Ordinary shares of 5p	24,000	480,000,000	24,000	480,000,000
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Allotted, called up and fully paid</i>				
Ordinary shares of 5p	17,316	346,323,657	17,167	343,344,566
	<hr/>	<hr/>	<hr/>	<hr/>

a) Shares issued

During the year, 3,479,091 (2008: 3,273,405) shares were issued to employees exercising share options granted under various option schemes. The total consideration received on the exercise of these options was £1,763,287 (2008: £2,725,551).

Between the year end and 1 April 2009, no shares have been exercised.

b) Shares purchased

During the year, 500,000 shares (2008: nil) were repurchased for cancellation by the Company at a cost of £1,240,950 (2008 : £nil).

c) Trust shares

During the year 1,800,000 shares (2008: 1,892,460 shares) were purchased at a cost of £3,828,470 (2008: £3,666,622). These shares are to be used wholly and exclusively to pay LTIP awards when they become due for payment.

THE GAME GROUP PLC

Notes to the Financial Statements for the 53 weeks ended 31 January 2009 (continued)

21 Share premium account

	2009 £'000	2008 £'000
Amount subscribed for share capital in excess of nominal value.		
At 1 February	44,848	42,286
Arising on issue of shares during the year (net of expenses)	1,614	2,562
	<hr/>	<hr/>
At 31 January	46,462	44,848
	<hr/> <hr/>	<hr/> <hr/>

THE GAME GROUP PLC

Notes to the Financial Statements for the 53 weeks ended 31 January 2009 (continued)

22 Reconciliation of Changes in Equity

	Share Capital	Share Premium	Capital Redemption Reserve	Shares held in Trust	Merger Reserve	Retained Earnings	Foreign Exchange Reserve	Total
At 1 February 2007	17,003	42,286	2,223	(1,176)	76,907	23,852	(3,759)	157,336
Exchanges differences on translation of foreign currency net investment in subsidiaries	-	-	-	-	-	-	9,663	9,663
Deferred income tax on share based payments credited to equity	-	-	-	-	-	22	-	22
Net income recognised directly in equity	-	-	-	-	-	22	9,663	9,685
Net income recognised in income statement	-	-	-	-	-	47,179	-	47,179
Total recognised income and expense	-	-	-	-	-	47,201	9,663	56,864
Issue of shares	164	2,562	-	-	-	-	-	2,726
Purchase of shares	-	-	-	(3,667)	-	-	-	(3,667)
Exercise of options	-	-	-	440	-	(440)	-	-
Dividends paid	-	-	-	-	-	(10,541)	-	(10,541)
Share based payments	-	-	-	-	-	1,204	-	1,204
At 1 February 2008	17,167	44,848	2,223	(4,403)	76,907	61,276	5,904	203,922
Exchanges differences on translation of foreign currency net investment in subsidiaries	-	-	-	-	-	-	17,550	17,550
Income tax on share based payments	-	-	-	-	-	(442)	-	(442)
- Deferred tax	-	-	-	-	-	1,789	-	1,789
- Current tax	-	-	-	-	-	-	-	-
Net income recognised directly in equity	-	-	-	-	-	1,347	17,550	18,897
Net income recognised in income statement	-	-	-	-	-	85,440	-	85,440
Total recognised income and expense	-	-	-	-	-	86,787	17,550	104,337
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 31 January 2009	17,316	46,462	2,248	(6,451)	76,907	130,472	23,454	290,408

THE GAME GROUP PLC

Notes to the Financial Statements for the 53 weeks ended 31 January 2009 (continued)

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

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

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

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

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

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

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

The 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 2009, is £9,639,000 (2008: £9,639,000).

THE GAME GROUP PLC

Notes to the Financial Statements for the 53 weeks ended 31 January 2009 (continued)

23 Acquisitions

Current 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 e-commerce site www.jrc.cz.

	Book value £'000	Adjustment £'000	Fair Value £'000
Property, plant and equipment	216	-	216
Inventories	903	(48)	855
Trade and other receivables	203	(40)	163
Long-term debtors	88	-	88
Trade and other payables	(1,282)	(32)	(1,314)
Cash and cash equivalents	(210)	-	(210)
Intangible fixed assets – goodwill	234	(234)	-
Intangible fixed assets – brand	18	164	182
Total net assets / (liabilities)	<u>170</u>	<u>(190)</u>	<u>(20)</u>
Initial cash consideration			1,633
Deferred consideration			1,998
Goodwill			<u>3,651</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.

THE GAME GROUP PLC

Notes to the Financial Statements for the 53 weeks ended 31 January 2009 (continued)

23 Acquisitions (continued)

Current year acquisitions

On 2 July 2008 ABC Games International S.A., a subsidiary of GAME Group plc, acquired five French franchises for a total consideration of £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 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.

The results of these operations have been incorporated from the date of acquisition.

	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 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.

THE GAME GROUP PLC

Notes to the Financial Statements for the 53 weeks ended 31 January 2009 (continued)

23 Acquisitions (continued)

Prior year acquisitions

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

On 1 July 2007 Engine Tecnología Systems SL, a subsidiary of Game Group PLC, acquired 100% of the share capital of the Spanish retailer Mail Vigo which owned a GAME Spanish franchise. On acquisition Mail Vigo operated three owned stores throughout Spain. The business was acquired for an initial consideration of £413,000.

In addition four Spanish franchises were acquired - Vigo Pontevedra, Fuengirola, Valladolid and Coruna - for a total consideration of £512,000.

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

From the date of acquisition Mail Vigo, Vigo Pontevedra, Fuengirola, Valladolid and Coruna added £1,544,000, £271,000, £785,000, £222,000, and £294,000 to turnover respectively and £237,000, £36,000, £113,000, £9,000 and £31,000 to operating profit respectively. If these acquisitions had been completed on the first day of the financial year, it is not anticipated that the operating profit would have been materially different. No fair value adjustments were required on these acquisitions.

From the date of acquisition Gamestation added £273 million to turnover and £12 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 £67 million and the Group profit attributable to equity holders of the parent would have been decreased by £1.5 million.

THE GAME GROUP PLC

Notes to the Financial Statements for the 53 weeks ended 31 January 2009 (continued)

24 Analysis of net funds

	2009 £'000	2008 £'000
Cash and cash equivalents	139,614	137,899
Net cash and cash equivalents	139,614	137,899
Current portion of long term borrowings	(26,325)	(38,038)
Long term borrowings	(31,847)	(57,809)
Net funds	81,442	42,052

During the year, the Group entered into new finance lease arrangements in respect of assets with a total capital cost of £443,270 (2008: £279,695).

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 2009 £'000	Land & buildings 2009 £'000	Motor vehicles 2008 £'000	Land & buildings 2008 £'000
The total future minimum lease payments are due as follows:				
Not later than one year	88	1,495	189	486
Later than one year but not later than five years	980	83,507	352	53,396
Later than five years	95	384,509	-	402,460
	1,163	469,511	541	456,342

The average remaining term on operating leases over land and buildings is 6 years.

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