FINANCIAL HIGHLIGHTS

	2008	2007
Revenue	**£110.3m**	£109.5m
Operating profit - pre-exceptional and pre-royalties receivable	**£3.2m**	£0.8m
Royalties receivable	**£1.7m**	£1.4m
Operating profit - pre-exceptional	**£4.9m**	£2.2m
Exceptional items - cost reduction programme	**£(2.4)m**	£(4.0)m
Operating profit/(loss)	**£2.5m**	£(1.8)m
Pre-tax profit/(loss)	**£1.1m**	£(2.6)m
Discontinued operations - loss for the year	**£(1.2)m**	£(0.3)m
Year end net borrowings	**£10.1m**	£10.2m
Loss per share	**(2.4)p**	(11.2)p
Dividend per share	**-**	4.95p

Contents

CHAIRMAN'S PREAMBLE

We have had a better year. Not as good as we would like, not as good as it will be, but better nevertheless. The better year is due, of course, to our new chief executive, Mark Wells. Mark has worked here since the turn of the century and has gradually made himself the leader the business needs. I didn't so much give him the role as watch while he took it away from me. We complement each other very well. I still have responsibility for the vision and direction of the business - I plot and set the course. Mark does all the hard work required to get us there - he captains the ship. Mark is also a walking, talking exemplar of the attitudes we value so much here.

Those attitudes are:

- An absolute belief that it is better to do what is right rather than what is easy
- A determination to be cheerful and confident and passionate about this, the best of all possible jobs
- A problem solving ethic based on our belief that we can do anything
- An ego-free environment, especially at senior levels, that ensures we always put the business (and therefore our owners) first
- An absolute commitment to our niche market business model
- An absolute commitment to the ever improving quality of our products and services
- No fear

In order to help everyone here live up to these ambitious and aspirational objectives we are developing a (small) Academy. I have direct and immediate responsibility for that Academy. Doing what is right is very easy to say, but extremely hard to do. The developmental sessions the Academy organises are designed to provide that help.

The return to growth has also been assisted by the US business, and a lot of credit must go to the head of that business - Ernie Baker. He has been working tirelessly for many, many months to re-instil the simple disciplines we need and recruit the right kind of people for our future, and all the while displaying and championing the attitudes and behaviours we ask of all our staff. As you will see we have not had such great success in Continental Europe. I expect to be extolling their virtues next year. Or else.

❖

As the years have passed our life as a public company has gone through several phases. We are now in one that seems destined to be the quo that will be our status for a long time. Once upon a time, when we were, sadly, fashionable, many and varied were our owners. Today just four own, cumulatively, over 60% of our stock. They are the Nomad Partnership, Phoenix, Investec and Schroder. Three of that four bought more stock in the last year. I mention this to allow me to talk about the distinction between these, our owners, and a mythical beast called 'The Market'. The Market is not an entity, it is not a person in the legal sense. It is a collective noun. As with all collective nouns it covers a great deal of ground and includes a wide range of attitudes and expectations. You cannot please all of the people all of the time. Abraham Lincoln said that. You cannot please all of The Market at all. I said that*. I can now discuss the business on first name terms rather than presenting to a thousand anonymous institutions. In the future, as in the past, we will be concerned with what our owners think, but not what we are told The Market thinks. When you hear the words 'The Market' think: Jabberwocky! It helps.

In order to visit the people who own most of the business we do not need an old fashioned 'City' road show any more. Each year it gets more pointless going to London to do the rounds and one year soon we will stop. At the same time we will stop briefing analysts. They are all very clever people who don't need us to tell them what to write. One job the 'City' road show never did well was helping the many hundreds of small shareholders understand us better. I have been concerned about this for many years. Why should a few broker picked institutions get better treatment than individuals? They may not own many shares but they deserve (and have a legal right to) exactly the same information as the institutions. We cannot visit all of them, but we can ask them to visit us.

This year the AGM will be a little different. The AGM can become an annual event which has little purpose other than a statutory requirement that can descend into an administrative chore and then pass too quickly, compared with the effort owners have made to get there (Games Workshop's shortest formal meeting has been 8 minutes 32 seconds). This year will be our first attempt at making it a good day out for our owners to encourage them to come and see us, meet the people who do all the important stuff, walk around, have a modest lunch and with luck and a nod towards Omaha, shop in our splendid world's best Games Workshop Hobby centre. Come one, come all. Roll up, roll up. We are doing it for you and if it works well we will do it every year.

❖

As we return to growth we are also returning to the time when we will once more have truly surplus cash and thus the necessity of returning that cash to our owners. This is therefore a good time to rehearse what I mean by truly surplus cash. It means what is left after we have invested properly in the future of the business, and paid off our debt. That means there will be no dividends paid in the next 12 months.

However, as you well know, we have a highly cash generative business model. We are also developing a management team with great strength in depth to manage it, and we expect to deliver an excellent return on investment to our owners for a very long time.

Tom Kirby
Chairman

* Thank you Bob Dylan

BUSINESS REVIEW

Overview

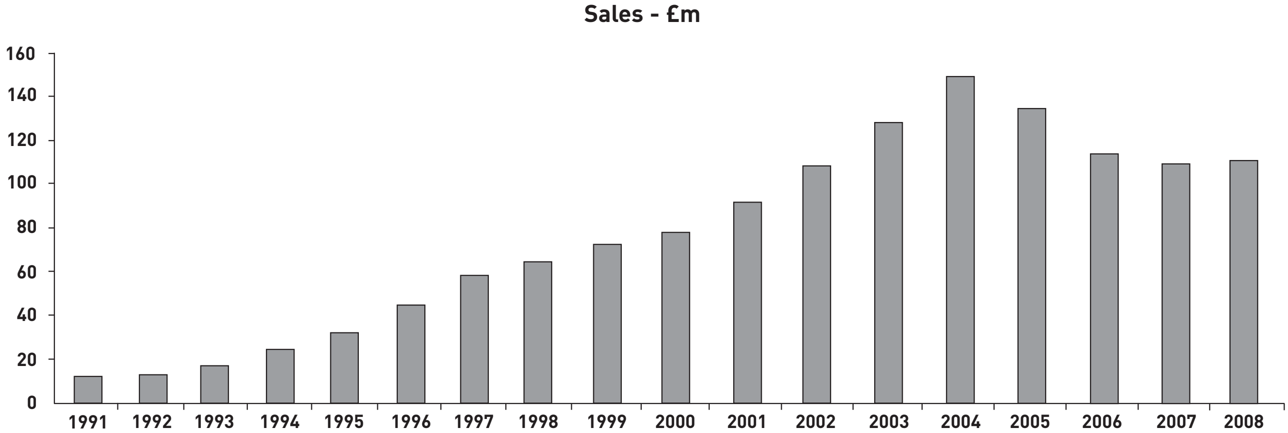
These results are encouraging. We have maintained our sales in spite of closing 22 Games Workshop Hobby centres, we have re-established sales growth in the UK, the Americas and Asia Pacific, our gross margins remain strong and our cost reduction programme is delivering the overhead reductions we expected. We have begun to work to improve our capital utilisation, in particular our working capital in the UK and US. We also believe that the right managerial and operational steps are being taken in Continental Europe.

The business is in a different place to where it was 12 months ago. Having taken tough decisions and decisive action on costs, we have refocused and redoubled our efforts on maximising the value of our business for its owners. Key to this is our strategy of growing the Games Workshop Hobby profitably throughout the world. To ensure that all of our resources are applied to that strategy, we have divested our peripheral value diluting activities (Sabertooth card games, role-playing games, board games) and entered into a value creating licence agreement with Fantasy Flight to pursue these other opportunities.*

Last year Tom referred to a 'steely determination in the business to put things right'. That steely determination is embedded in our attitude to costs, to performance and to driving the return on equity capital which we know that this business can generate in the future.

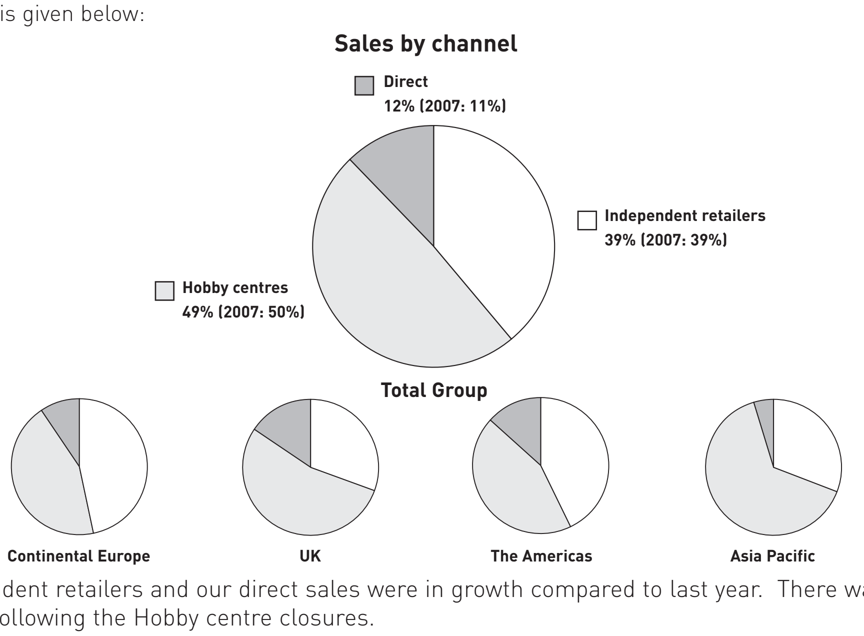
Sales

Sales in the year under review amounted to £110.3 million. The chart below sets out this result in the context of the annual development of the Group's sales from continuing operations:



Sales by channel

The Games Workshop Hobby is supported and promoted by our own Games Workshop Hobby centres, through which 49% of sales were made in 2007/8. As we continue to develop the Hobby, we opened 8 new Hobby centres during the year and closed 22 (of which 16 were unprofitable stores closed as a result of the cost reduction programme), taking our total at the end of May 2008 to 334. We expect to grow the number of Hobby centres each year in the future. Sales are also made through independent retailers and direct, via the internet and mail order. An analysis of sales for 2007/8 by channel for each of the geographical sectors is given below:



Our sales to independent retailers and our direct sales were in growth compared to last year. There was a slight decline in Hobby centre sales following the Hobby centre closures.

* Following the disposal of our card games (including collectible card games), role-playing games and board games activities during the year, these activities have been reclassified in this annual report as discontinued operations.

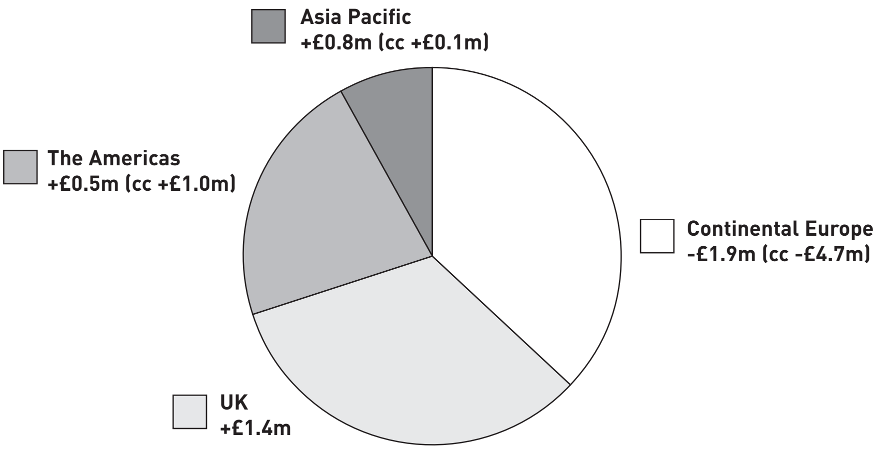
BUSINESS REVIEW continued

Sales by territory

An analysis of sales for 2007/8 for each of the geographical sectors is given below:

Sales by territory

cc - constant currency*



Continental Europe

There are five sales businesses in Continental Europe, responsible for developing sales in France, Germany, Northern Europe, Spain and Italy. At the year end, we had 109 Games Workshop Hobby centres, down from 114 last year as we have closed unprofitable Hobby centres. Our sales have fallen in all but one of these sales businesses, with the exception being Germany which had slight growth. The decline in these businesses mainly came from our sales to independent retailers. We have changed the sales teams servicing the independent retailer channel in all of these businesses.

The changes which we made to the management of this region at the end of last year, when we appointed our most experienced senior manager as head of sales for Continental Europe, are now bringing the right level of focus on to the people and performance issues in these businesses. Once we have achieved the required levels of profitability, we will start opening more Hobby centres in what remains a large and attractive market.

UK

At the end of May 2008, we had 114 Games Workshop Hobby centres in the UK (2007: 118). Adjusted for the impact of Hobby centre closures, the UK Hobby centre chain was in growth in the year, and our sales to independent retailers also improved. This has been a stable and consistent performance throughout the year, which provides evidence of the underlying health of the Hobby in this, our most mature market. We have recently carried out a detailed geo-demographic review of our UK Hobby centre chain which indicates that there are several potential locations for future Hobby centres, which we believe that we can run profitably. We are currently investing in the training and recruitment of staff to enable us to recommence opening new Games Workshop Hobby centres in the UK to maximise the value of our largest business.

The Americas

We have seen healthy growth in the Americas during the year, where we have closed ten unprofitable Hobby centres and opened four new ones, leaving us with 76 (2007: 82). Our sales to independent retailers and through direct channels have also grown. This business is both focused on and investing in selected metropolitan areas where we can cluster our Hobby centres to grow and nurture the Hobby community. Our development plan over the coming years is to recruit and train staff, develop our middle management and deliver great activity through this metropolitan area strategy. This will require continued investment in recruitment and training, as the staff in our Hobby centres are the lifeblood of our business. Our opening programme has continued to shift the emphasis from the more expensive covered shopping mall locations to lower cost and more flexible strip mall locations. This strategy will also support and develop the independent retailer base in these major metropolitan areas. We have also asked Ernie Baker, head of our US business, to take responsibility for our Canadian business as well, ensuring that we have a co-ordinated strategy across the Americas.

* Constant currency growth is calculated by comparing sales in the underlying currencies for 2007 and 2008, both converted at the 2007 average exchange rates set out on page 11.

Asia Pacific

This territory comprises Australia, New Zealand and Japan. At the year end, we had 35 Hobby centres in the region (2007: 34). Our operations in Australia and New Zealand enjoyed another successful year, led by a strong performance from our Games Workshop Hobby centres. We opened our fourth Hobby centre in Japan at the beginning of the year as we continue our long-term investment in this exciting new market, which cost us £0.5 million this year (2007: £0.5 million). The initial indications remain promising and we have recently opened our fifth Hobby centre in Japan.

Forge World

This small but highly profitable specialist resin model business enjoyed a successful year with sales of £2.7 million (2007: £2.1 million). Forge World designs and develops large and highly detailed models mainly from the Warhammer 40,000 universe which appeal to some of our most experienced Hobbyists. The success of this business provides further evidence of the depth and enduring popularity of our products.

BL Publishing

Our publishing business, which made sales of £2.8 million this year (2007: £2.2 million), continues to develop as a small but profitable niche publishing portfolio, focusing on fantasy and science fiction titles predominantly set in the Warhammer universe. We see this business as integral to our main wargame business, providing background and depth for our Hobbyists while making a good contribution to Group profits.

Other activities

Sabertooth Games

We announced in February the disposal of the trading activities of Sabertooth Games, our collectible card game business. Having conducted a strategic review of this business, it became clear that we would be unable to generate significant shareholder value from Sabertooth.

Licensing

Our licensing business enables Games Workshop to participate in large attractive markets outside our core competencies. By partnering with a small number of competitively advantaged businesses which are keen to use the intellectual property of our well developed worlds of Warhammer and Warhammer 40,000 to launch their own high quality products, we are able to increase the value to our owners.

During the year we had in place three licences with publishers of computer games: THQ Inc. for Warhammer 40,000; NAMCO BANDAI Games America Inc. for Warhammer; and Electronic Arts Inc., which is developing a massively multiplayer online role-play game set in the Warhammer world. We understand that this online role-play game (WAR – Warhammer Online: Age of Reckoning) is due to be launched towards the end of 2008.

In February 2008, we granted a licence to Fantasy Flight Games Inc. for publishing collectible card games, role-playing games and board games. Fantasy Flight has a good track record of making high quality games in these markets.

We expect our licensing income to fluctuate from year to year, depending on the commercial success of the products created by our licensees. We disclose this income separately in our financial results due to the different nature of these revenues, which depend significantly upon what our third party licensees are doing in their markets rather than upon the actions of Games Workshop itself. However, we are confident we have selected strong partners in each market and have given ourselves the opportunity of a good income stream from each licence.

Cost reduction programme

Our cost reduction programme, announced in May 2007, has three key areas:

- Closing loss-making Hobby centres
- Rationalisation of the manufacturing and supply chain
- Removal of unnecessary duplication of back office functions

We have closed 18 unprofitable Hobby centres, where either the low sales or the high rents meant that we could not envisage generating an economic profit during the remaining term of the lease. Eight of these were in the Americas, five in the UK, four in Continental Europe and one in Asia Pacific, and we have also recognised the costs of a further 15 Hobby centres where we are actively engaged in negotiating the closure of these stores. This programme is succeeding in its objective of removing both value destroying activities and a significant management distraction from our sales businesses.

We have closed our tool making facility at Wisbech, UK and this activity has been relocated to our Nottingham site. The Nottingham toolroom is now fully operational, and we expect to realise significant efficiency gains from this consolidation of our manufacturing and design capabilities.

BUSINESS REVIEW continued

Cost reduction programme continued

We have completed the removal of the former divisional management structures and established service centres in Nottingham to remove unnecessary duplication of back office functions. The service centres support the IT, accounting, HR, production planning and supplier development functions across the majority of the Group's activities.

In addition, as we announced in February 2008, we have included £1.2 million of costs (including disposal of goodwill of £0.9 million) associated with the disposal of the trading activities of Sabertooth Games, our collectible card games business.

This cost reduction programme has created a leaner and more responsive organisation, better equipped to face the growth opportunities which lie before it.

The costs associated with this programme are shown as exceptional costs, which amounted to £3.6 million in the year. We still expect the cost reduction programme to result in annualised cost reductions of £7 million, of which £5 million have been achieved during the 2007/8 year.

Capital management programme

With the objective of maximising the value of Games Workshop, we are increasing our focus on the management of capital. We have implemented a number of initiatives this year which will improve the return on capital which we expect to receive from each Hobby centre.

Our programme to improve inventory management has been rolled out across both our UK and our US Hobby centres during the year, and we now have automated inventory replenishment operating in both of these chains. This will enable us to manage our range, reduce our stockholding and improve inventory availability of our fastest moving lines for our Hobby centre customers.

We have also introduced simple computer terminals in our UK and US Hobby centres. This will allow Hobbyists to access the full Games Workshop inventory online, thereby increasing customer satisfaction and sales, while allowing us to carry the optimal retail range in each Hobby centre – helping us to ensure we manage our capital well.

These initiatives are not only important for our existing portfolio, but will also ensure that as we grow the Games Workshop Hobby throughout the world, we do so with Hobby centres which we can be confident generate a good return.

Our return on average capital employed has strengthened during the year to 12% as set out below:

Risks facing the business

We have a formal risk reporting process as part of our annual planning cycle, which is linked into the internal and external audit process, but the management of these risks is an integral part of our daily management process. Our management structure and the reporting systems which we have developed make this process transparent and accountable. The head of sales of each business is responsible for growing the value of his business in each country and for managing market facing risk; the head of operations is responsible for minimising the economic costs of production and risks inherent in that; the head of finance is responsible for using our intellectual property appropriately, for managing corporate risks and for ensuring we comply with the regulatory environment.

Amongst the cost of production risks are those relating to input prices. The cost of raw materials, such as metal and plastic, represents no more than 5% of our sales and therefore we do not believe that the price volatility of these inputs represents a significant threat to our long-term profitability. In the short term our buying team continues to work to minimise these risks and the people in our manufacturing and supply functions continue to seek process efficiencies to offset any cost impact. However, the recent increases in the price of both metal and plastic have been significant, and we will take action to protect our gross margins.

*We use average capital employed to take account of the significant fluctuation in working capital which occurs as the business builds both inventories and trade debtors in the pre-Christmas trading period. Return is defined as pre-exceptional operating profit, and the average capital employed is adjusted by deducting assets and adding back liabilities in respect of cash, borrowings, exceptional provisions, taxation and dividends.

The main source of risk to this business remains management error. This is one of the reasons why management recruitment, development and succession planning are so important, and this is why we will continue to invest in our internal Academy which is our 'people development' function. It is also why we have recently embarked upon a comprehensive succession planning exercise across all of our businesses for the first time. This will become a key management tool, revised and updated each year.

Dividend

We used the cash which would have otherwise been applied in paying dividends in the 2007/8 financial year to finance the cost reduction programme described above. In 2008/9 we will reduce the level of borrowings and we will not pay dividends. We will continue to keep under review the restoration of dividends as the business resumes its growth profile.

Prospects

Having successfully completed our cost reduction programme, our energies are now focused upon returning the business to profitable growth. We believe that the sales declines of the last three years have been arrested and that the business has stabilised. Three of our four territories have grown in 2007/8 and our management effort is clearly targeted upon the fourth territory, Continental Europe. We have a number of initiatives in place that will improve our return on capital as we grow.

We remain confident that our ability to return to a position where we generate significant value for our owners is simply a matter of time and hard work. Our confidence is based upon the following four fundamentals:

1. We are strongly advantaged in our niche market

   We make the best fantasy miniatures and games in the world and have developed two of the strongest fantasy and science fiction universes anywhere. Our investment in tooling and production allows us to make plastic miniatures which offer incredible quality and great value for money for Hobbyists while delivering healthy margins to Games Workshop for further product development.

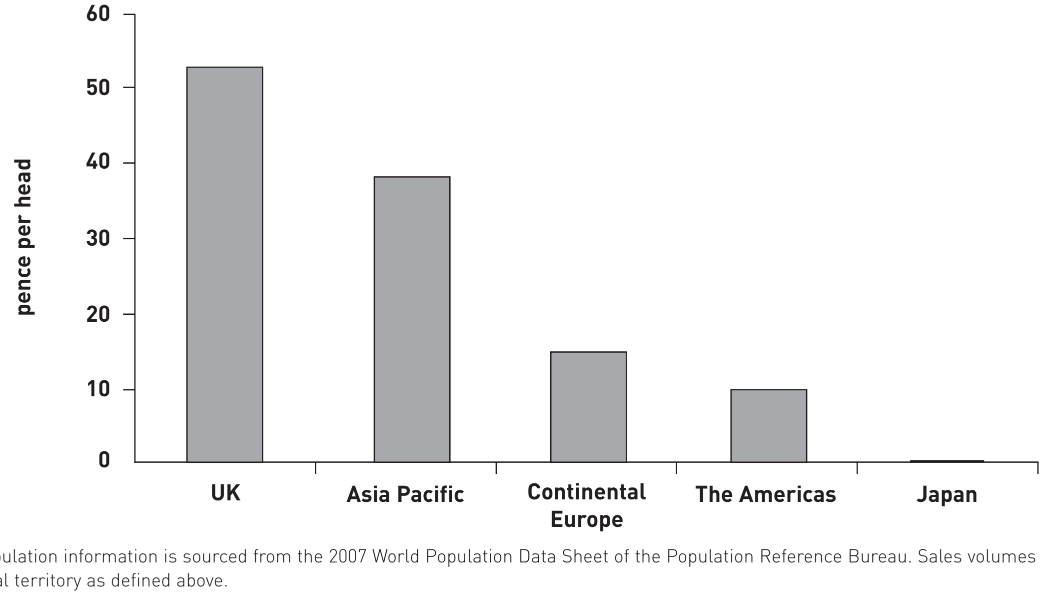
   Our investment in Games Workshop Hobby centres means that we are able to show people how to collect, paint and play with our miniatures and games and sustain their commitment long after their initial introduction. Hobby centres are at the heart of our marketing and generate around half of our sales.

2. We have good growth prospects

   We continue to see Games Workshop as a growth business. Between 2002 and 2005 our sales were above our normal growth line. We believe that it is only a matter of time before we re-establish our historic linear growth rate.

   The chart below shows our sales per capita in our key sales markets, based upon our 2007/8 sales and the population statistics for each country. In the long term we see no reason why we shouldn't achieve similar levels of sales penetration in each of these markets to those which we currently have in the UK. Achieving this would at least treble the current level of our sales.

Sales per capita by geographical area



Source: Population information is sourced from the 2007 World Population Data Sheet of the Population Reference Bureau. Sales volumes are shown by geographical territory as defined above.

This is not a sales forecast but a rough indication of the potential sales of Games Workshop.

Prospects continued

3. We are fundamentally cash generative

   We have come to the end of our capital investment programme, which leaves the business seriously well invested and capable of manufacturing and delivering products to a growing customer base. As we grow sales we should see strong cash flows as these volumes go through our manufacturing and distribution facilities, allowing us to pay off our borrowings, continue to reinvest in our business and distribute free cash flow to owners.

4. We have great people

   Whatever we say in this report and whatever plans we have for the future, the success of Games Workshop is all down to people. So the key question that every owner needs an answer to is simply this – does Games Workshop have good people?

   At the end of this year, I can honestly say that Games Workshop has much better people than we had a year ago. In slimming down our workforce, we have chosen to keep those people with whom we can build this business. These are good people who will work hard and put the company first.

   We have also proactively removed people who did not fit with our management culture Tom described earlier. While their skills will be missed, the team which remains is stronger and more united than before. Those of us who remain believe passionately in this business and its prospects.

   We have learned some tough lessons these past few years and all of us are better people for it. We know what is important and what isn't. And we are more focused and clear on what we have to do than ever.

   The ultimate measure of how good we are is that we deliver. This team delivered on our promises this year. This is a good start. And that is what we are committed to do every year.

The board remains confident in the future growth and profitability of the Group and believes the Group will create significant shareholder value over time.

Mark Wells

Chief executive

28 July 2008

FINANCIAL REVIEW

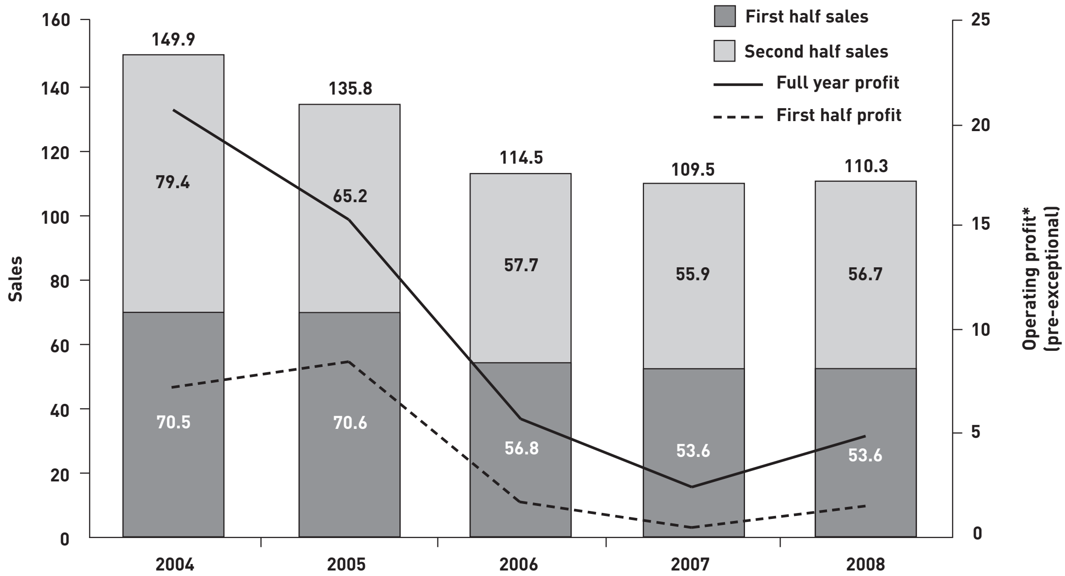
Continuing and discontinued activities

Following the disposal of our board games, card games (including collectible card games) and role-playing games activities during the year, these activities, with sales amounting to £1.3 million (2007: £1.5 million) have been reclassified as discontinued activities.

Profits

The sales and profits earned by the business, split by half year, have been as follows:

Sales and operating profits



*2004 operating profit prepared under UK GAAP and 2005-2008 operating profit prepared under IFRS.

This chart demonstrates the high level of operational gearing which results from the fixed nature of much of the cost base, particularly in the Games Workshop Hobby centres. As a result of the cost reduction programme, which has yielded £5 million of cost savings this year, we have reduced the financial risk caused by this high operational gearing. These savings should also increase the financial returns from future sales growth.

Exceptional costs: cost reduction programme

The costs classified as exceptional in 2007/8 relate to the cost reduction programme referred to in the business review on page 5. The total costs of this programme have been £7.6 million (including £4.0 million charged in 2007). The cash outlay this year has been £3.7 million (2007: £0.5 million). A further £1.1 million is to be spent in future periods.

	2008 £m	2007 £m	Total £m
Continuing operations			
Cash	1.9	3.5	5.4
Non-cash	0.5	0.5	1.0
	2.4	4.0	6.4
Discontinued operations			
Cash	(0.1)	-	(0.1)
Non-cash	1.3	-	1.3
	1.2	-	1.2
Total	3.6	4.0	7.6

FINANCIAL REVIEW continued

Cash generation and investment

The cash flow for the year has been neutral, leaving us with year end net borrowings of £10.1 million (2007: £10.2 million).

Our investments in capital expenditure have been as follows:

	2008 £m	2007 £m
Shop fits for new and existing Hobby centres	1.3	2.0
Production equipment and tooling	3.2	2.6
Computer equipment and software	2.6	1.7
Office facilities	0.3	0.7
Total capital additions	7.4	7.0

During the year we have invested £1.8 million in the upgrade of our global web store, which has been successfully launched in our US business. We plan to roll out the web store to the remainder of our businesses throughout 2008/9, which will involve a further £1.0 million of investment in 2008/9. We expect that this investment will strengthen our internet sales capability and enable our web store to offer significantly enhanced customer service functionality. Once this investment has been completed, we expect that our capital expenditure for the foreseeable future will fall to be broadly similar to the level of annual depreciation/amortisation of capital assets.

The introduction of automated inventory replenishment and computer terminals with the new web store in the UK and US Hobby centres will help us manage our working capital more effectively.

Taxation

The key factors affecting the tax charge for the year for continuing activities are set out below:

	2008 £m	2007 £m
Pre-exceptional profit before tax	3.5	1.4
Exceptional items	(2.4)	(4.0)
Profit/(loss) before tax	1.1	(2.6)
Profit/(loss) multiplied by the UK corporation tax rate of 30% (2007: 30%)	0.3	(0.8)
Effects of:		
Expenses not deductible for tax purposes	0.2	0.4
Movement in deferred tax not recognised	(0.1)	1.2
Higher rate of tax on overseas earnings and tax rate changes	0.4	(0.1)
Losses now recognised	(0.4)	-
Prior year adjustments	0.3	(0.1)
Other	(0.1)	-
Total tax charge for the year	0.6	0.6
Tax credit relating to exceptional items	0.7	0.9
Total tax charge on pre-exceptional profit before tax	1.3	1.5

In the March 2007 Budget Statement, the UK Government announced a number of changes to the UK corporation tax system which have been enacted in the 2008 Finance Act, which had not been enacted at the year end. The most significant of these changes for the Group is the phasing out of industrial buildings allowances from 2008 onwards. This will result in a charge of £1.0 million to reduce the deferred tax asset which we recognise for industrial buildings in 2008/9. This is further explained in note 37 on page 56.

Treasury

The objective of our treasury operations is the management of financial risk at optimal cost. The function manages the relationships with the Group's external debt providers centrally. Acting as a cost centre it operates within a range of board approved policies, using conventional financial instruments. No transactions of a speculative nature are permitted.

Funding and liquidity risk

The Group finances its operations from shareholders' funds and borrowing facilities. The objective is to maintain the constant availability of an appropriate amount of reasonably priced funding for the Group's operational and strategic needs for the foreseeable future. During the year we had a committed three year unsecured revolving credit facility of £15 million and an uncommitted working capital facility of £5 million (the latter increased to £10 million between 1 August and 31 January and £11 million between 1 November and 31 December). The related banking covenants were based on interest cover, net debt to EBITDA ratio and cash flow to interest and dividends ratio. The covenants, which are measured quarterly, were complied with during the year.

Since the year end these facilities have been renewed, and for the next two years (to July 2010) the committed secured revolving credit facility will be £20 million, and the uncommitted working capital facility (subject to annual review) is £5 million. The covenants remain as described above.

Interest rate risk

When borrowing facilities are renewed, the expected utilisation levels are reviewed and the need for protection against higher interest rates is considered. This is also reviewed at the time of the annual budget. During the year the Group purchased an interest rate cap to mitigate the impact of potential increases in interest rates. Interest was paid at floating rates which equated to 7.2% during the year.

Foreign exchange risk

The principal exchange rates used to translate our earnings and our balance sheet are as follows:

	euro		US dollar	
	2008	2007	2008	2007
Year end rate used for the balance sheet	1.27	1.47	1.98	1.98
Average rate used for earnings	1.38	1.48	2.01	1.93

The net impact of these fluctuations for the year was slightly favourable when our foreign currency earnings were converted into sterling. If our results for 2008 had been converted at the rates used in 2007, our operating profit would have been lower by some £30,000.

As each of our businesses pays our manufacturing operation in foreign currency (primarily US dollar and euro), we have continued our policy of managing this transactional exposure through the use of forward currency contracts covering a proportion of our estimated non-sterling receipts for a prospective 12 month rolling period. Translational exposures for the trading results of non-sterling denominated subsidiaries are not hedged. There is an element of balance sheet hedging as euro denominated borrowings are designated as hedges of the net investment in euro denominated subsidiaries.

Key performance indicators (KPIs)

Currently, the KPIs used in the business relate to sales performance by channel and territory, return on average capital employed and cost control throughout the business. KPIs evolve over time and are reviewed regularly for their appropriateness.

Michael Sherwin

Finance director

28 July 2008

DIRECTORS' REPORT

The directors present their annual report together with the financial statements and independent auditors' report for the year ended 1 June 2008.

Principal activities
The principal activities of the Group are the design and manufacture of miniature figures and games and the retail and wholesale distribution of these products.

Business review
The business review on pages 3 to 8 and the financial review on pages 9 to 11 provide a review of the business and progress against its key performance indicators during the year and descriptions of possible future developments and the principal risks and uncertainties facing the Group. Policies on employees, suppliers and the environment form part of this directors' report. This review contains or cross references the information required by section 234ZZB of the Companies Act 1985.

Dividend
The directors do not recommend a final dividend.

Substantial shareholdings
The following interests in 3% or more of the issued share capital of the Company as at 22 July 2008 have been disclosed to the Company:

	No. of ordinary shares	Percentage
The Nomad Investment Partnership LP	7,414,887	23.8
Phoenix Asset Management Partners Limited	5,627,374	18.1
Investec Asset Management Limited	4,684,047	15.0
Schroder Investment Management Limited	3,421,791	11.0
Legal & General Group plc	1,151,167	3.7

The Company has not been notified of any other substantial shareholdings other than those of the directors, which are disclosed in the remuneration report on page 22.

Directors
The present directors of the Company are listed on page 23. All of the directors were members of the board throughout the year with the exception of M N Wells who was appointed on 3 December 2007. M N Wells therefore seeks re-election at this year's annual general meeting. Under the Company's articles of association one third of the directors are required to retire by rotation at each annual general meeting. Those who retire are the longest in office since their election or last re-election. Under this formula one director is required to retire at this year's annual general meeting and is seeking re-election, namely N J Donaldson. In addition, as a result of their long service, independent directors C J Myatt and A J H Stewart are required to retire and are seeking re-election. In relation to the independent directors, the chairman has confirmed that, following formal performance evaluation, the performance of C J Myatt and A J H Stewart continues to be effective and they continue to demonstrate commitment to their roles as independent directors, including commitment of the necessary time to board and committee meetings and other duties. C J Myatt and A J H Stewart are considered by the board to be independent of the Group, as set out in the corporate governance report.

Directors' interests
The interests of the directors in the shares of the Company are disclosed in the remuneration report on page 22, together with details of share options granted to the directors. None of the directors had a material interest in any contract of significance to which the Company, or any of its subsidiaries, was a party during the year.

Directors' indemnities
The Company has made qualifying third party indemnity provisions for the benefit of its directors, as permitted by section 234 of the Companies Act 2006, which were in force during the year.

Information on executive directors
T H F Kirby (age 58), chairman. Tom Kirby joined Games Workshop in April 1986 as general manager and led the management buy-out in December 1991, becoming chief executive at that time. Between 1998 and 2000 he took on the role of non-executive chairman, returning to the role of chief executive in September 2000. He now performs the role of chairman following the appointment of Mark Wells as chief executive in December 2007. Prior to joining Games Workshop, Tom worked for six years for a distributor of fantasy games in the UK and was previously an Inspector of Taxes.

M N Wells (age 46), chief executive. Mark Wells joined Games Workshop in May 2000 as director of strategy and planning. He qualified as a solicitor with Messrs Herbert Smith. He then had various management roles with Next PLC and Boots Group PLC, including director of customer service for Boots the Chemists and director of merchandise and marketing for Boots Stores, Netherlands.

M Sherwin (age 49), finance director. Prior to joining Games Workshop in June 1999, Michael Sherwin was group financial controller of Courtaulds Textiles plc where he had worked for six years. He was previously with Price Waterhouse for 12 years where he qualified as a chartered accountant in 1984.

Information on independent directors

C J Myatt (age 64). Chris Myatt is the senior independent director, joining the board on 18 April 1996. He is honorary treasurer of Keele University, a member of its council and is additionally vice chairman of the Douglas Macmillan Hospice Limited. He was formerly a divisional managing director within Tarmac PLC.

A J H Stewart (age 48). Alan Stewart joined the board as an independent director on 12 September 1996. Alan is group finance director of WHSmith PLC. He was previously an executive director of Thomas Cook AG and chief executive of Thomas Cook UK Limited. Prior to that he was an investment banker for ten years with HSBC Investment Bank and is a qualified chartered accountant.

N J Donaldson (age 54). Nick Donaldson was appointed to the board on 18 April 2002. A barrister by profession, Nick is a partner and co-founder of The Capital Markets Group Limited. Nick was, until 2003, head of corporate finance at Arbuthnot Securities Limited and previously held senior investment banking positions at Robert W Baird Limited and at Credit Lyonnais Securities. He is an independent director of The Clapham House Group PLC and chairman of F4G Software plc.

The Takeover Directive

As at 25 July 2008, the Company's authorised share capital was £2,100,000 divided into 42,000,000 ordinary shares of 5p each nominal value ('ordinary shares'). On 25 July 2008 there were 31,128,622 ordinary shares in issue. These ordinary shares are listed on the London Stock Exchange. All ordinary shares rank equally with respect to voting rights and the rights to receive dividends. Shares acquired through the Company's share schemes rank pari passu with the shares in issue and have no special rights. The holders of ordinary shares are entitled to receive the Company's annual report, to attend and speak at general meetings of the Company, to appoint proxies and to exercise voting rights. There are no restrictions on transfer or limitations on the holding of any class of share and no requirements for prior approval of any transfers. None of the shares carries any special rights with regard to control of the Company. There are no known arrangements under which the financial rights are held by a person other than the holder of the shares and no known agreements on restrictions on share transfers or on voting rights.

The rules about the appointment and replacement of directors are contained in the Company's articles of association. Directors may be appointed by the Company by ordinary resolution or by the board. A director appointed by the board holds office only until the next annual general meeting ('AGM'). At each AGM one third of the directors will retire by rotation and be eligible for re-election. The directors to retire will be those who wish to retire and those who have been longest in office since their last appointment or re-appointment, with the proviso that all must retire within a three year period.

Changes to the articles of association must be approved by the shareholders in accordance with the legislation in force from time to time.

The Company does not have agreements with any director or employee that would provide compensation for loss of office or employment resulting from a takeover, except that the provisions of the Company's sharesave scheme may cause options to be exercised on a takeover.

The Company has bank facilities and under the terms of these facilities the Company is required in the event of a change of control to give notification to the bank which may, in the absence of prior written consent from the lender, result in cancellation of the facilities.

Constructive use of the annual general meeting

The chairmen of the audit and the remuneration and nomination committees will be available to answer questions at the annual general meeting. Separate resolutions are proposed for substantially separate issues at the meeting and the chairman of the Company will declare the number of proxy votes received both for and against each resolution.

Auditors

As at 28 July 2008, so far as each director is aware, there is no relevant audit information of which the auditors are unaware and each director has taken all steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

Environment and Community

We encourage an explicit set of attitudes (set out by Tom Kirby on page 2), and the first is to do what is right rather than what is easy. This applies to our responsibilities to the environment and the community as much as to any other aspect of running the business. Furthermore, the directors believe that there is a direct link between doing what is right for the environment and the community and creating and maximising shareholder value.

By setting up a project this year to improve the fill rates for the boxes of product we despatch from our warehouses in Nottingham and Memphis, we both reduce the amount of cardboard we send to our customers and reduce our carriage costs per unit. By encouraging our staff to engage with their communities as school governors, they both support their communities and they gain valuable insights into management issues in a different environment, which gives them a broader perspective on their work at Games Workshop and makes them better managers. So our attitude to the environment and the community is to do the right thing, which will maximise shareholder value, by reducing waste, cost and risk, while increasing staff retention, staff wellbeing and the Company's standing in the community. We set out below the details of how we have gone about these objectives this year.

DIRECTORS' REPORT continued

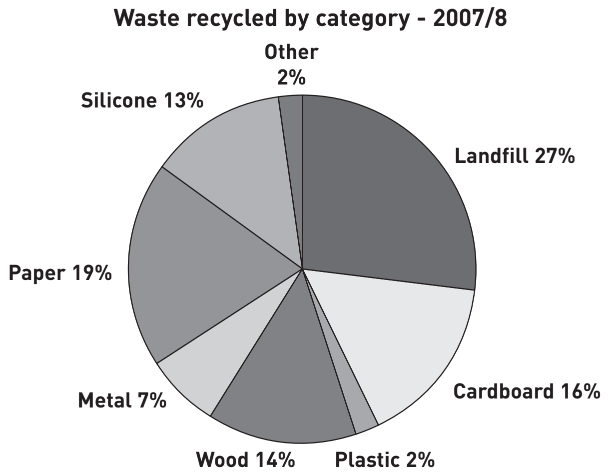
Environmental performance

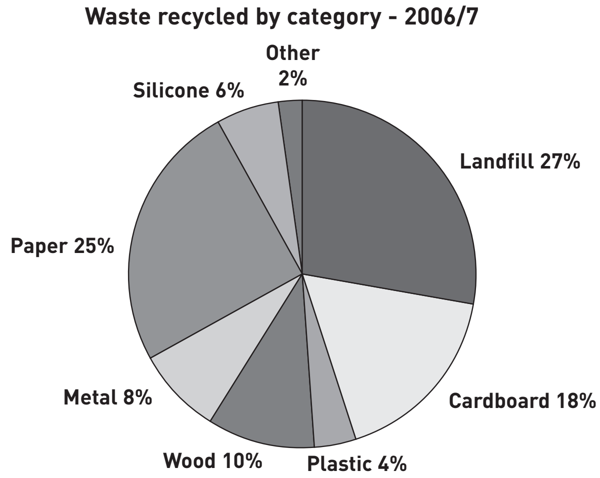
The Group aims to manage its operations in ways which are environmentally sustainable and economically feasible, and to minimise the negative impact of its activities on the environment.

The chief executive has overall responsibility for environmental matters across the Group, however the day to day execution of this responsibility is embedded in the supply chain. Environmental developments, initiatives and best practices are co-ordinated by the corporate social responsibility (CSR) group, which is chaired by the chief executive.

Waste management

We continue to focus on the 'three Rs': Reduce, Re-use and Recycle. Our disposal to landfill and total waste produced are at similar levels to 2007.





We are working with our waste partners to identify further opportunities to increase our level of recycling. We are starting to compost waste from the restaurant at our Nottingham facility which will be used on our flower beds and garden areas. We have also placed recycling facilities in the restaurant and are already seeing a large volume of cans and plastic bottles come out of the general waste stream. The increase in Forge World sales has meant a significant increase in the amount of hazardous resin related and general waste produced. Recent process improvement has seen the hazardous waste reduce significantly and we are actively seeking a recycle route for the waste cured resin.

Pollution assessment and control

Our environmental management system includes a biodiversity action plan developed to cover pollution present in the air, water and on land. Games Workshop is involved in biodiversity conservation and protection through our association with Nottinghamshire Wildlife Trust. This year we won the 'Nottingham in Bloom' business category award for our garden area.

There have been no notifiable pollution incidents in the year under review.

In our manufacturing and supply activities, compliance audits of the Group's policies and practices have been carried out annually or more frequently if a new process has been introduced. These audits have been performed following the ISO 14001 standard.

The Group has continued to work in co-operation with environmental lobby groups and non-governmental organisations, including Friends of the Earth and EIRIS, to assist in data compilation and transparent public environmental reporting with a view to incorporating ethical values into our manufacturing principles.

Energy management

A target of a 5% reduction in energy usage was achieved in 2007/8. The majority of this saving was as a result of monitoring night time and weekend usage/wastage and resetting heating, lighting and compressed air controls and we are continuing to look at further reductions. Future improvements will include sensors on certain lighting circuits, timers and split controls on factory lighting.

Employees

The Group's policy is to consult and discuss with employees, at meetings, matters likely to affect employees' interests. Information on matters of concern to employees is given through information bulletins and reports which seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the Group's performance.

The Group operates an employee sharesave scheme as a means of further encouraging the involvement of employees in the Group's performance.

The Group's policy is to consider, for recruitment, disabled workers for those vacancies that they are able to fill. All necessary assistance with training courses is given. Once employed, a career plan is developed so as to ensure suitable opportunities for each disabled person. Arrangements are made, wherever possible, for retraining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities.

Suppliers

The Group's policy is to aim to source and manage our suppliers in ways that are ethically feasible. This includes review of all key suppliers for certain standards of, amongst other things, health and safety, working hours, levels of wages and employment practices. The full statement of intent with regard to supplier sourcing is available on our website at investor.games-workshop.com.

The Company's current policy concerning the payment of the majority of its trade creditors is to follow the DTI's Better Payment Practice Code. For other suppliers, the Company's policy is to:

a) settle the terms of payment with those suppliers when agreeing the terms of each transaction

b) ensure that those suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts

c) pay in accordance with its contractual and other legal obligations.

This payment policy applies to all payments to creditors for revenue and capital supplies of goods and services without exception. Wherever possible UK subsidiaries follow the same policy and overseas subsidiaries are encouraged to adopt similar policies, by applying local best practices.

The number of days' credit taken by the Group from its suppliers at the year end was 38 days (2007: 37 days).

Community support and donations

The Group does not make significant cash donations to charities. However, the Group encourages all employees to engage with their communities in whatever way each individual believes to be most appropriate. In many instances this is in the field of education, and the Group provides time and resources for staff members who work with local libraries, who take on leadership roles (such as school governors) or occasional teaching roles.

The Group encourages staff to raise money for charities by providing time and resources. During this financial year, staff in several of our businesses raised money for good causes through sponsored events from cake baking to the rigorous Three Peaks challenge in the UK. The Group helped them to realise their fundraising targets by matching the sponsorship monies raised. This matching cost for the Group was £2,000 during the year. In addition to staff fundraising, gifts in kind have been donated to a number of charities. The Group made no contributions for political purposes.

Health and safety

The Group's policy is to achieve and maintain high standards of health and safety. The Group believes this to be a key part of good business management. The chief executive has overall responsibility for health and safety (H&S) matters across the Group, however the day to day execution of this responsibility is embedded into the roles of the general managers and line managers in each business area. H&S developments, initiatives and best practices are co-ordinated by the CSR group.

The number of reportable accidents is tracked by business area. In our manufacturing activities, which have been assessed as the areas of highest risk in our operations, there were eight reportable accidents during the year (2007: 2). This is a disappointing result after three years of steady decline. Investigations have shown no particular trends although human elements (behaviour) have been identified as the main root cause in several of the accidents. Human factors and behavioural safety systems will be a focus for 2008/9.

The local HSE inspector carried out an inspection at our Nottingham facility in June 2008. This was part of the HSE's current campaign of reviewing slips and trips (we had three in 2007). A detailed physical and procedural inspection was carried out. The inspector was impressed with the cleanliness and tidiness of the facility, the accident investigation process and the measures put in place to mitigate future losses.

We are continuing to formalise our H&S management system in line with OSHAS 18001. OSHAS 18001 is modelled on the environmental management system ISO 14001. We are on plan to merge our environmental and H&S management systems into one integrated management system.

DIRECTORS' REPORT continued

Health and safety continued

Throughout the business, extensive training programmes are undertaken ranging from induction improvements through cell leader training to senior management responsibilities training. In 2008/9, all manufacturing operations managers will complete the four day Institute of Occupational Safety & Health (IOSH) Managing Safely course. All retail territory managers and manufacturing cell leaders will also complete the one day IOSH Working Safely course. This will ensure that there is a clear and consistent H&S message throughout the business. These are nationally recognised H&S qualifications that will ensure that H&S is integral to our managers' roles as well as providing continued personal development.

Additional activities

One of the benefits of our open and inclusive culture is that our people are constantly coming up with new and innovative ideas to benefit our business in ways which are sympathetic to the environment and community. During the year the Group was involved in the following additional activities:

- Assisting the RSPCA through the collection of our used printer cartridges and mobile phones;
- Host of the Nottingham City Council (NCC) launch of the Lenton Lane area travel plan. Games Workshop has worked with NCC and local businesses to reduce congestion in the local area and promote sustainable transport. Over 150 employees and visitors attended the official launch party;
- Games Workshop has led an initiative to bring the seven surrounding businesses in Nottingham together, in a waste and energy management forum, to discuss and share ideas on reducing business costs.

For further information on our commitment to the environment and community, including our ethical and environmental policies, please see investor.games-workshop.com.

Going concern

After making appropriate enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the Group's and Company's financial statements.

By order of the board
M Sherwin
Secretary
28 July 2008

CORPORATE GOVERNANCE

The Listing Rules of the Financial Services Authority require listed companies to disclose, in relation to section 1 of the Combined Code on Corporate Governance 2006 (the Combined Code), how they have applied its principles and whether they have complied with its provisions throughout the accounting period.

This statement, together with the remuneration report on pages 20 to 22, explains how the Company has applied the principles and complied with the provisions set out in the Code.

The board operates through monthly meetings which senior executives attend on a regular basis. Major strategic decisions and the approval of any significant capital expenditure are reserved for decision by the board. The board is updated of operational decisions through the monthly meetings. Terms of reference for the board committees (as set out below) are available on the Company's website.

Detailed reviews of the performance of the Group's main business activities are included in the business review and the financial review. The board presents these reviews, together with the directors' report on pages 12 to 16, to give a balanced and understandable assessment of the Group's position and prospects.

The board

The board comprises the chairman, the chief executive, one further executive director and three independent directors. It is chaired by the chairman, T H F Kirby.

The senior independent director is C J Myatt. The senior independent director is the lead independent director. His principal responsibilities include:

- to be available to shareholders if they have concerns which contact through the normal channels of the chairman, the chief executive, or the group finance director, has failed to resolve, or for which such contact is not appropriate; and
- to ensure that the performance evaluation of the chairman is conducted effectively.

The three independent directors have a breadth of successful commercial and professional experience and are considered by the board to be independent of the Group. The Combined Code states that the board should identify each independent director it considers to be independent, and the Code then lists various circumstances which may appear relevant to its determination. This includes (amongst others) if the director has served on the board for more than nine years.

At Games Workshop the board has had to confront this list of circumstances as two of the independent directors have served for more than nine years.

In making this assessment as to independence, the board has taken into account the personal attributes of each director in relation to the current and future needs of the board. In the opinion of the board, independence (like judgement and wisdom) is not an attribute which can be measured by reference to a checklist. It is rather an attribute which the members of the board can observe being demonstrated by a director in his actions and interactions with other members of the board as it faces the various issues which are placed before it. Independence is the absence of complacency and lazy thinking and a reluctance to accept the status quo.

In addressing this process, the chairman has set out his position as to the independence of the independent directors in his preamble to the 2003 annual report (see page 60).

Regarding the specific Combined Code circumstance of service of over nine years, the board's position is as follows:

The 'nine year rule' is a handy guide to the risk of directors becoming 'stale'. The board considers this risk periodically, but has not yet found it to be an issue at Games Workshop. If it did, it would react accordingly. Indeed, at present the board feels that both the long-term nature of the succession planning referred to above, and the requirement for members of the board to have a real understanding of, and empathy with, the Games Workshop Hobby, point in favour of retaining the experience the board currently has.

Based upon its assessment, which focuses on each director's attitude towards making his best contribution to the progress of the Company, the board considers that all three of the independent directors are independent.

The board operates primarily through its monthly meetings and is responsible for leading and controlling the Group and monitoring executive management. It meets at least nine times a year.

All directors bring an independent judgement to bear on issues of strategy, performance, resources, including key appointments, and standards of conduct. In 2008 the board and its committees had ten scheduled meetings, each of which was attended by all members of the board, with the exception of C J Myatt who attended nine meetings. There is a procedure for directors to take independent professional advice at the Company's expense where relevant to the execution of their duties. The board considers that it has been supplied with sufficient timely and accurate information to enable it to discharge its duties.

CORPORATE GOVERNANCE continued

The board continued

All members of the board have access to the services and advice of the company secretary. The executive directors attach great importance to ensuring that the independent directors are provided with accurate, timely and clear information on the Group. In addition, the independent directors are actively encouraged to update continually their knowledge of and familiarity with the Group and the issues affecting it, so as to enable them to fulfil effectively their roles on both the board and its committees.

The board has established a process for the ongoing assessment of its own performance and that of its committees. This has been conducted by way of private discussions, based upon a bespoke questionnaire, between an external consultant and a selection of internal and external stakeholders. These include the directors, senior managers based both in the UK and elsewhere, external advisers and shareholders. The consultant shared the results of the discussions with the board and facilitated a discussion which identified a number of items which have formed, and will continue to form, part of the board's ongoing agenda. This will be an iterative process which will inform the board's development agenda on a regular basis.

Board committees

The board has three principal committees, all with written terms of reference which are published on the Company's website and which are available on application to the company secretary at the Company's registered office. The company secretary serves as secretary to all three committees. The chairmen of the City, the audit and the remuneration and nomination committees will be available to answer questions at the Company's annual general meeting.

City committee

The City committee comprises the independent directors and is chaired by N J Donaldson. It meets not less than twice a year and is responsible for corporate governance, investor relations, City presentations and liaison with City advisers. The City committee held four meetings in the year, each of which was attended by all members of the committee.

Remuneration and nomination committee

The remuneration and nomination committee comprises the independent directors and is chaired by C J Myatt. It meets not less than twice a year and is responsible for making recommendations to the board on remuneration policy for senior executives and all executive directors (including determining specific remuneration packages, terms of employment and performance incentive arrangements). It is also responsible for nominating, for approval by the board, candidates for appointment to the board, and for vetting and approving the appointment of senior executives. The procedures and guidelines used by the remuneration and nomination committee in determining remuneration are outlined in the separate remuneration report. The remuneration and nomination committee held three meetings in the year, each of which was attended by all members of the committee. The committee meets without the executive directors at least annually to appraise the executive directors' performance.

Audit committee

The audit committee comprises the three independent directors under the chairmanship of A J H Stewart who is a chartered accountant (CA(SA)) and has significant relevant financial and accounting knowledge and experience. The audit committee's terms of reference include monitoring the appropriateness of accounting policies, financial reporting, internal control and risk assessment and keeping under review the scope, results and effectiveness of the external and internal audits and the independence of the Company's external auditors.

The committee reviews the independence of the external auditors by assessing the arrangements for the day to day management of the audit relationship as well as reviewing the auditors' report which describes their procedures for identifying and reporting conflicts of interest. The committee has also established the policy that the external auditors will only be asked to perform services directly related to their audit responsibilities. The Group therefore uses different advisers for both taxation and other services.

During the year, in discharging its duties, the audit committee undertook the following actions:

- reviewed the 2007 annual report and 2008 half-yearly results;
- considered the output from the group wide process to identify, evaluate and mitigate risks;
- reviewed the effectiveness of the Group's internal controls;
- reviewed and agreed the scope of the audit work undertaken by the auditors;
- agreed the fees to be paid to the external auditors for the audit of the 2008 annual report;
- agreed a programme of work for the internal auditors; and
- received reports from the internal auditors on the work performed and management responses to points made in the audit reports.

Audit committee continued

The committee calls upon the external auditors, the internal auditors and the executive directors to attend formal meetings as required. These meetings are held at least three times a year. The external and internal auditors are given the opportunity to raise any matters or concerns they may have in the absence of the executive directors at separate meetings with the audit committee or its chairman. The audit committee held five meetings during the year, each of which was attended by all members of the committee.

Internal control

The directors recognise that they have overall responsibility for ensuring that the Group maintains a sound system of internal control to safeguard shareholders' investment and the Group's assets, and for reviewing its effectiveness. The system is designed to manage risks that may prevent the Group from achieving its business objectives, rather than to eliminate these risks. However, even the most effective system can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have established an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, which has been in place from the start of the year until the date of approval of this report. This process is regularly reviewed by the board, in accordance with the document 'Internal Control: Revised Guidance for Directors on the Combined Code', the revised Turnbull guidance, issued in October 2005.

The effectiveness of the Group's system of internal control is continuously reviewed by the board. The review covers all controls, including financial, operational and compliance controls and risk management. The monitoring of control procedures is achieved through regular review by the finance director, reporting to the board. This review process considers whether significant risks have been identified, evaluated and controlled and whether any significant weaknesses are promptly remedied and indicate a need for more extensive monitoring. Regular reporting by senior management ensures that, as far as possible, the controls and safeguards are being operated appropriately. This process is considered by the audit committee, alongside the external auditors' reports.

The Group has continued its programme of internal audit reviews during the year. In previous years, the performance of internal audit reviews was outsourced. At the start of the year this service was brought in-house. The audit committee agrees an annual internal audit plan, focusing on business specific issues. Actions agreed by management in response to recommendations made are followed up.

The board, with advice from the audit committee, has completed its annual review of the system of internal control in accordance with the guidance as set out in the revised Turnbull guidance, and is satisfied that it has acted appropriately and in accordance with that guidance. During the course of its review of the system of internal control, the board has not identified nor been advised of any failings or weaknesses which it has determined to be significant. Therefore a confirmation in respect of necessary actions has not been considered appropriate.

Communication with shareholders

The Company encourages two way communication with its institutional and private investors and responds promptly to all queries received verbally, in writing or directly through its investor relations website investor.games-workshop.com (the 'Talk to Tom' section). The half-year and final results are presented publicly to analysts and other meetings with shareholders are arranged as appropriate and these, together with the institutional presentation documents, are also posted simultaneously on the website.

The Company has an established investor relations programme in the course of which the chairman, the chief executive and the finance director have regular meetings with major shareholders to update them on the Company's progress and to discuss any issues which investors may have. Any issues arising at such meetings are reported and considered by the board. In addition, the Company's financial advisers and stockbrokers, Landsbanki, obtain shareholder feedback on a confidential basis from major investors following the meetings and this is reported in summary and considered at board meetings.

The Company offers shareholders the opportunity to receive all communication from the Company electronically; information on how to sign up is available on the Games Workshop website.

Remuneration report

The Company's policy on executive remuneration and details of the executive directors' salaries, annual bonuses and pensions, and fees for the independent directors, are set out in the board report on remuneration on pages 20 to 22.

Statement of compliance with the Combined Code

For the period to 3 December 2007, the Company had a joint chairman and chief executive in T H F Kirby and so did not comply with provision A.2.1 of the Combined Code. However, since December 2007 and the appointment of a chief executive as described in the remuneration report, the Company has complied with all of the provisions set out in section 1 of the Combined Code.

By order of the board

M Sherwin
Secretary
28 July 2008

REMUNERATION REPORT

Remuneration and nomination committee

The committee comprises solely the independent directors being C J Myatt (chairman), A J H Stewart and N J Donaldson. T H F Kirby, M N Wells and M Sherwin present proposals as and when required and attend meetings at the committee's request. No external advisers are currently retained by the committee.

Remuneration policy

Throughout the year the Company complied with the provisions of the Combined Code relating to the design of performance related remuneration. In preparing this report the board has followed the provisions of the Combined Code. The contents of this report also comply with the Directors' Remuneration Report Regulations 2002.

Appointment of chief executive

In recent years, the corporate governance section in the annual report has set out the board's rationale on the combining of the role of chairman and chief executive. The matter has been regularly reviewed and the board has repeatedly stated that the splitting of the roles would be evolutionary and would be made when it was felt such change would be value enhancing to the business.

During the year under review, the remuneration and nomination committee determined that circumstances were right for such a split. After careful evaluation and consideration of all options, including external recruitment, the committee felt that M N Wells had the appropriate skills and management ability necessary to lead the business.

As head of the sales division for four years, M N Wells has demonstrated these abilities with a clear understanding of the Company's ethos, ethics and potential. Having agreed a clear delineation between the roles of chairman, which T H F Kirby retains in an executive capacity, and chief executive, the remuneration and nomination committee recommended that M N Wells be appointed to the board as chief executive, a position he took up in December 2007.

Independent directors

The remuneration of the independent directors is reviewed on an annual basis by the executive directors. A recommendation is made to the board which determines any increase in their remuneration. The independent directors are only entitled to fees and do not participate in any of the Company's bonus, pension or share schemes.

Executive directors

The overall policy for executive directors is set out below:

a. the remuneration of executive directors (consisting of basic salary, pension benefits and benefits in kind) will be competitive with those of other comparable organisations so as to attract and retain high calibre individuals with the relevant experience;

b. part of the remuneration will be based on the financial performance of the Group using predetermined targets so as to reward successful business performance which is in the interest of shareholders;

c. personal reviews of the executive directors will be carried out annually to assess their performance in meeting individual objectives.

The fixed and variable related components of the remuneration packages for executive directors are as follows:

a. basic salary, including benefits and pension contributions (fixed);

b. performance related bonus (variable).

For 2008/9, the executive directors will participate in a new bonus scheme which applies equally to all employees.

Salaries

Salaries are reviewed annually and, in deciding the appropriate salary levels, the committee takes into consideration a number of factors: the executive director's experience, responsibility and market value. The committee also takes into consideration pay and employment conditions of employees elsewhere in the Group and in addition, from time to time, takes independent advice on salary benchmarking to assist in its review of remuneration packages of the executive directors. Salaries, excluding bonuses, are pensionable.

Bonuses

During the year, the executive directors participated in a performance related bonus scheme which has taken the form of an annual cash bonus which may be earned at up to 100% of salary for T H F Kirby, 75% of salary for M Sherwin and 50% of salary for M N Wells. The performance conditions relate to growth in operating profit. The amounts payable under this scheme for the year ended 1 June 2008 are set out in the table below. As indicated above, for 2008/9 the executive directors will participate in a new bonus scheme which applies equally to all employees. The maximum bonus that can be earned is £1,000 per person.

Benefits in kind

Each executive director is provided with fuel, private medical insurance and permanent health insurance.

Share option schemes

Executive directors are only able to participate in the sharesave scheme which is available to all employees. There are no performance conditions relating to sharesave share options.

Service contracts

Each of the executive directors has a service agreement with the Company which is capable of termination by either party on giving 12 months' notice. If the Company gives notice then the Company reserves the right to pay salary in lieu of notice. The service agreements are silent regarding the payment that may be due in the event of early termination by the Company.

The service agreements are also capable of termination by the Company on giving three months' notice in the event of an executive director's absence for ill health in excess of 120 business days in any 12 month period. No compensation is payable in the event of termination of the agreement due to gross misconduct.

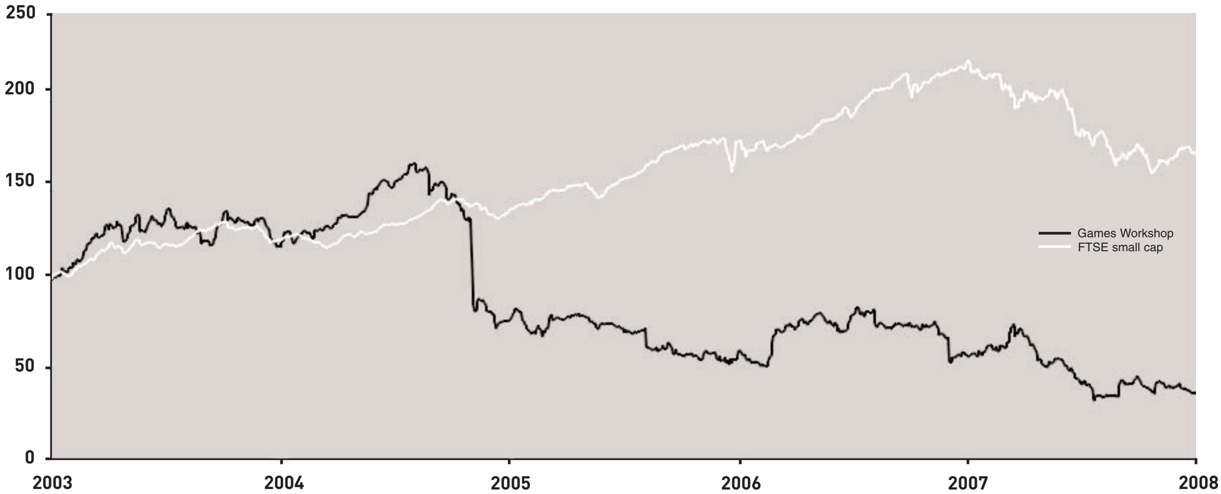
Contracts on this basis were entered into by T H F Kirby on 15 December 2005, M N Wells on 3 December 2007 and M Sherwin on 2 January 2006. The contracts are for an unlimited duration.

Under the service agreements of the independent directors, the period of appointment is three years and may be terminated by either party on giving six months' notice. The service agreements are also capable of termination by the Company on giving summary notice in the event of an independent director's absence in excess of six calendar months in any 12 month period. There is no entitlement to compensation for loss of office in the event of termination of the agreement. Agreements on this basis were entered into by C J Myatt, A J H Stewart and N J Donaldson on 13 February 2006 (which was also the effective date).

The articles provide that at least one third of the directors be subject to re-election by rotation at each general meeting.

Performance graph

The graph below represents the comparative total shareholder return performance of the Company against that of the index of the FTSE small cap companies during the previous five years (i.e. 1 June 2003 to 1 June 2008). The index of the FTSE small cap companies has been used because the constituents of this index appropriately reflect the Company's size when compared to alternative indices.



The following sections of the remuneration report have been audited:

Directors' emoluments for the year ended 1 June 2008

	Fees 2008 £000	Salary 2008 £000	Bonus* 2008 £000	Benefits in kind 2008 £000	**Total emoluments 2008 £000**	Total emoluments 2007 £000	**Pension contributions 2008 £000**	Pension contributions 2007 £000
Executive directors								
T H F Kirby	-	350	35	4	**389**	371	**35**	35
M N Wells (from appointment)	-	125	6	2	**133**	-	**9**	-
M Sherwin	-	240	18	6	**264**	246	**24**	24
Independent directors								
N J Donaldson	30	-	-	-	**30**	30	**-**	-
C J Myatt	35	-	-	-	**35**	35	**-**	-
A J H Stewart	30	-	-	-	**30**	30	**-**	-
	95	715	59	12	**881**	712	**68**	59

* For 2008/9, the executive directors' bonus scheme will be replaced by the new group wide scheme as set out on page 20.

REMUNERATION REPORT continued

Pensions

The Company contributes into a self invested personal pension scheme for T H F Kirby and M Sherwin. The Company and M N Wells contribute into the Group's personal pension scheme. These are defined contribution schemes and so the Company's contributions set out above reflect the full cost during the year of providing pension benefits to these directors.

Directors' interests in shares of the Company

The directors' interests (including their families) in the shares of the Company were as follows:

	As at 1 June 2008 Ordinary shares of 5p each		As at 3 June 2007 or date of appointment Ordinary shares of 5p each	
	Beneficial	**Non-beneficial**	Beneficial	Non-beneficial
T H F Kirby	**1,813,009**	**-***	1,693,009	354,000
M N Wells	**59,188**	**47,891**	59,188	47,891
M Sherwin	**77,168**	**-**	77,168	-
C J Myatt	**66,500**	**-**	66,500	-
A J H Stewart	**185,000**	**-**	185,000	-
N J Donaldson	**20,000**	**-**	20,000	-

*The change in the non-beneficial holding for T H F Kirby is due to the finalisation of his divorce settlement.

Share options granted to the directors were as follows:

	Number as at 3 June 2007 or date of appointment	Granted	Cancelled	**Number as at 1 June 2008**	Exercise dates Commencement	Expiry	Exercise price
M Sherwin	2,786	-	(2,786)	**-**	Nov 2008	Apr 2009	340p
	-	3,659	-	**3,659**	Nov 2010	Apr 2011	262.3p
M N Wells	3,229	-	-	**3,229**	Nov 2009	Apr 2010	292.6p
T H F Kirby	3,229	-	-	**3,229**	Nov 2009	Apr 2010	292.6p

The options above, with exercise prices of 340p, 292.6p and 262.3p, were granted under the Games Workshop Group PLC 2005 Savings-Related Share Option Scheme. This scheme is open to all eligible employees and directors who satisfy a service qualification of at least one year.

There were no other movements in directors' share options during the year. No other directors have been granted share options in the shares of the Company.

There was no movement in directors' interests in shares of the Company between 1 June 2008 and the date of this report.

The mid-market price of the Company's shares on 1 June 2008 was 172.5p and the range of the market prices during the year was 155.25p to 365.25p.

Apart from the interests disclosed above, no directors had any interest at any time in the year in the share capital of the Company or other group companies.

By order of the board

C J Myatt
Chairman
Remuneration and nomination committee
28 July 2008

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report, the remuneration report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRSs as adopted by the European Union;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and of the Group and to enable them to ensure that the financial statements and the remuneration report comply with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the board

M Sherwin
Secretary
28 July 2008

COMPANY'S DIRECTORS AND ADVISERS

Directors
T H F Kirby, chairman
M N Wells, chief executive
M Sherwin, finance director
C J Myatt, senior independent director
N J Donaldson, independent director
A J H Stewart, independent director

Company secretary
M Sherwin

Registered office
Willow Road
Nottingham NG7 2WS

Registered number
2670969

Financial advisers and stockbrokers
Landsbanki Securities (UK) Limited
Beaufort House
15 St Botolph Street
London EC3A 7QR

Principal bankers
Bank of Scotland
55 Temple Row
Birmingham B2 5LS

Registered auditors
PricewaterhouseCoopers LLP
Cornwall Court
19 Cornwall Street
Birmingham B3 2DT

Registrars
Equiniti Limited
Aspect House
Spencer Road
Lancing BN99 6DA

Solicitors
Shoosmiths
Waterfront House
Waterfront Plaza
35 Station Street
Nottingham NG2 3DQ

INDEPENDENT AUDITORS' REPORT

To the members of Games Workshop Group PLC

We have audited the Group and Company financial statements (the 'financial statements') of Games Workshop Group PLC for the year ended 1 June 2008 which comprise the Group income statement, the Group and Company balance sheets, the Group and Company cash flow statements, the Group and Company statements of recognised income and expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the remuneration report that is described as having been audited.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report, the remuneration report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. The information given in the directors' report includes that specific information presented in the business review and financial review that is cross referred from the business review section of the directors' report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the Combined Code (2006) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. The other information comprises only the financial highlights, the chairman's preamble, the business review, the financial review, the directors' report, the unaudited part of the directors' remuneration report, the corporate governance statement, the statement of directors' responsibilities, the five year summary, the financial calendar, Company's directors and advisers and the appendix. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the remuneration report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the remuneration report to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 1 June 2008 and of its loss and cash flows for the year then ended;
- the Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Company's affairs as at 1 June 2008 and cash flows for the year then ended;
- the financial statements and the part of the remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation; and
- the information given in the directors' report is consistent with the financial statements.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
Birmingham
28 July 2008

CONSOLIDATED INCOME STATEMENT

	Notes	52 weeks ended 1 June 2008 £000	Restated 53 weeks ended 3 June 2007 £000
Continuing operations			
Revenue	3	**110,345**	109,501
Cost of sales		**(33,731)**	(31,918)
Gross profit		**76,614**	77,583
Operating expenses	4	**(75,798)**	(80,790)
Other operating income - royalties receivable		**1,736**	1,423
Operating profit/(loss)	3	**2,552**	(1,784)
Operating profit - pre-exceptional items and pre-royalties receivable		**3,181**	821
Exceptional items - cost reduction programme	5	**(2,365)**	(4,028)
Royalties receivable		**1,736**	1,423
Finance income	7	**425**	326
Finance costs	8	**(1,918)**	(1,110)
Profit/(loss) before taxation	9	**1,059**	(2,568)
Income tax expense	10	**(613)**	(622)
Profit/(loss) for the year from continuing operations		**446**	(3,190)
Discontinued operations			
Loss for the year from discontinued operations	11	**(1,186)**	(291)
Loss attributable to equity shareholders	30	**(740)**	(3,481)

Earnings/(loss) per share for profit/(loss) attributable to the equity shareholders of the Company during the year (expressed in pence per share):

Basic loss per ordinary share	12	(2.4)p	(11.2)p
Diluted loss per ordinary share	12	(2.4)p	(11.2)p
Basic earnings/(loss) per ordinary share – continuing operations	12	1.4p	(10.3)p
Diluted earnings/(loss) per ordinary share – continuing operations	12	1.4p	(10.3)p

The restatement of the prior period results is to reflect the reclassification of certain costs from cost of sales to operating expenses following the establishment of the service centres (2007: £787,000). There are also reclassifications from cost of sales (2007: £216,000) and operating expenses (2007: £226,000) to revenue following the standardisation of trading terms to independent retailers within Europe. Although these reclassifications are not material, they are being reclassified to aid comparison to the current year.

The restatement also relates to the reclassification of the results of the card games, role-playing games and board games activities from continuing operations to discontinued operations as detailed in note 11.

As permitted by section 230 of the Companies Act 1985, the Company's income statement has not been included in these financial statements. Of the (loss)/profit attributable to equity shareholders, £(2.0) million (2007: £9.4 million) is attributable to the Company, after including dividends from subsidiary companies of £nil (2007: £11.1 million).

STATEMENTS OF RECOGNISED INCOME AND EXPENSE

	Group		Company	
	52 weeks ended 1 June 2008 £000	53 weeks ended 3 June 2007 £000	52 weeks ended 1 June 2008 £000	53 weeks ended 3 June 2007 £000
(Loss)/profit attributable to equity shareholders	**(740)**	(3,481)	**(1,955)**	9,398
Exchange differences on translation of foreign operations	**1,626**	(614)	**-**	-
Cash flow hedges:				
- fair value losses	**(940)**	(88)	**-**	-
- transferred to the income statement	**88**	(86)	**-**	-
Net investment hedge	**(737)**	-	**-**	-
Tax on items recognised directly in equity	**237**	52	**-**	-
Total recognised (expense)/income for the year	**(466)**	(4,217)	**(1,955)**	9,398

The notes on pages 28 to 56 are an integral part of these financial statements.

BALANCE SHEETS
as at 1 June 2008

	Notes	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Non-current assets					
Goodwill	14	**1,433**	2,390	**-**	-
Other intangible assets	15	**6,059**	4,963	**-**	-
Property, plant and equipment	16	**26,422**	27,986	**-**	-
Investments in subsidiaries	17	**-**	-	**30,281**	30,281
Trade and other receivables	20	**1,234**	1,204	**15,015**	14,289
Financial assets - derivative financial instruments	24	**14**	-	**14**	-
Deferred tax assets	18	**3,005**	2,314	**30**	61
		38,167	38,857	**45,340**	44,631
Current assets					
Inventories	19	**10,392**	11,260	**-**	-
Trade and other receivables	20	**9,870**	8,351	**2,266**	2,119
Assets held for sale	11	**464**	-	**-**	-
Current tax assets		**854**	1,056	**-**	5
Financial assets - derivative financial instruments	24	**17**	24	**10**	-
Cash and cash equivalents	21	**7,723**	6,103	**4,643**	-
		29,320	26,794	**6,919**	2,124
Total assets		**67,487**	65,651	**52,259**	46,755
Current liabilities					
Financial liabilities - borrowings	22	**(2,791)**	(6,461)	**-**	(4,029)
Financial liabilities - derivative financial instruments	24	**(1,401)**	(120)	**-**	-
Trade and other payables	25	**(15,351)**	(13,889)	**(4,828)**	(3,152)
Current tax liabilities		**(222)**	(38)	**-**	-
Provisions	27	**(1,155)**	(3,225)	**(86)**	(193)
		(20,920)	(23,733)	**(4,914)**	(7,374)
Net current assets/(liabilities)		**8,400**	3,061	**2,005**	(5,250)
Non-current liabilities					
Financial liabilities - borrowings	22	**(15,001)**	(9,820)	**(15,000)**	(5,200)
Other non-current liabilities	26	**(723)**	(958)	**(1,503)**	(1,503)
Provisions	27	**(1,317)**	(1,283)	**(2)**	(18)
		(17,041)	(12,061)	**(16,505)**	(6,721)
Net assets		**29,526**	29,857	**30,840**	32,660
Capital and reserves					
Called up share capital	28	**1,556**	1,556	**1,556**	1,556
Share premium account	28	**7,822**	7,822	**7,822**	7,822
Other reserves	29	**(321)**	(1,210)	**101**	101
Retained earnings	30	**20,469**	21,689	**21,361**	23,181
Total shareholders' equity		**29,526**	29,857	**30,840**	32,660

The notes on pages 28 to 56 are an integral part of these financial statements.

The financial statements on pages 25 to 56 were approved by the board of directors on 28 July 2008 and were signed on its behalf by:

M N Wells, Director

M Sherwin, Director

CASH FLOW STATEMENTS

	Notes	Group: 52 weeks ended 1 June 2008 £000	Group: 53 weeks ended 3 June 2007 £000	Company: 52 weeks ended 1 June 2008 £000	Company: 53 weeks ended 3 June 2007 £000
Cash flows from operating activities					
Cash generated from operations	31	**11,097**	10,341	**(1,632)**	(580)
UK corporation tax received/(paid)		**6**	(503)	**5**	-
Overseas tax paid		**(418)**	(1,345)	**-**	-
Net cash from operating activities		**10,685**	8,493	**(1,627)**	(580)
Cash flows from investing activities					
Purchases of property, plant and equipment		**(5,705)**	(5,813)	**-**	-
Proceeds on disposal of intangible assets	31	**44**	-	**-**	-
Proceeds on disposal of property, plant and equipment	31	**50**	13	**-**	-
Purchases of other intangible assets		**(1,557)**	(951)	**-**	-
Expenditure on product development		**(2,266)**	(2,937)	**-**	-
Dividends received		**-**	-	**-**	1,100
Interest received		**415**	336	**49**	87
Net cash from investing activities		**(9,019)**	(9,352)	**49**	1,187
Cash flows from financing activities					
Proceeds from borrowings		**5,189**	2,908	**9,800**	2,600
Loans received from related parties		**-**	-	**1,692**	621
Repayments of borrowings to related parties		**-**	-	**-**	(621)
Repayment of principal under finance leases		**(10)**	(41)	**-**	-
Equity dividends paid		**-**	(5,904)	**-**	(5,904)
Interest paid		**(1,681)**	(1,113)	**(901)**	(524)
Net cash from financing activities		**3,498**	(4,150)	**10,591**	(3,828)
Effects of foreign exchange rates		**124**	(107)	**(341)**	-
Net increase/(decrease) in cash and cash equivalents		**5,288**	(5,116)	**8,672**	(3,221)
Opening cash and cash equivalents		**(344)**	4,772	**(4,029)**	(808)
Closing cash and cash equivalents	21	**4,944**	(344)	**4,643**	(4,029)

For the purpose of the cash flow statement, cash and cash equivalents includes bank overdrafts (see note 21).

The notes on pages 28 to 56 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. General information

Games Workshop Group PLC (the 'Company') and its subsidiaries (together the 'Group') designs and manufactures miniature figures and games and distributes these through its own network of Hobby centres, through independent retailers and direct via the internet and mail order. The Group has manufacturing activities in the UK, the US and China, and sells mainly in Western Europe, North America and Asia Pacific.

The Company is a limited liability company, incorporated and domiciled in the United Kingdom. The address of its registered office is Willow Road, Lenton, Nottingham, NG7 2WS, United Kingdom.

The Company has its listing on the London Stock Exchange.

2. Summary of significant accounting policies

The principal accounting policies applied in these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

With effect from 30 May 2005, the Company had moved to reporting its financial results in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

These financial statements are prepared in accordance with IFRSs and the International Financial Reporting Interpretations Committee interpretations and with those parts of the Companies Act 1985 applicable to those companies reporting under IFRSs.

The consolidated financial statements are prepared in accordance with the historical cost convention, except for the measurement of certain financial instruments to their fair value.

Basis of consolidation

The consolidated financial statements include the Company and its subsidiary undertakings drawn up for the 52 weeks ended 1 June 2008 and for the 53 weeks ended 3 June 2007. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

Inter-company transactions, balances and unrealised gains and losses on transactions between group companies are eliminated on consolidation.

Accounting policies of subsidiaries are consistent with the policies adopted by the Group. The financial statements of all subsidiaries are prepared to the same reporting date as the parent company.

Goodwill

Goodwill arising on acquisition of subsidiaries, represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition.

Goodwill is tested annually for impairment and is carried at cost less accumulated impairment losses. Provision is made for any impairment by comparing the value in use to the net realisable value.

Goodwill arising on acquisitions prior to 31 May 1998 was written off to reserves in accordance with the accounting standard then in force. As permitted by the current accounting standard, the goodwill previously written off to reserves has not been reinstated in the balance sheet.

Other intangible assets

Development expenditure

Costs incurred in respect of product design and development activities are recognised as intangible assets provided that a number of criteria are satisfied. These include the intention to use or sell the asset, technical feasibility, adequate resources being available to complete the development and probable future economic benefits being generated.

Product development costs recognised as intangible assets are amortised on a straight line basis over periods ranging between 6 to 48 months to match the expenditure incurred to the expected revenue generated from the subsequent product release.

Research expenditure is written off as incurred.

Computer software

Acquired computer software licences and related development expenditure are capitalised on the basis of the costs incurred to acquire and bring in to use the specific software. Computer software licences are held at cost and amortised over the expected useful lives of the assets concerned. The principal annual rates used for this purpose are:

	%
Core business systems computer software	15-33
Other computer software	33-50

Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and any provision for impairment. The cost of property, plant and equipment is their purchase cost, together with any incidental costs of acquisition.

Depreciation is calculated so as to write off the cost of property, plant and equipment, less any assigned residual value, on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

	%
Freehold buildings	2-4
Plant and equipment	15-33
Motor vehicles	33
Fixtures and fittings	20-25
Moulding tools	25

Leasehold premises are amortised over the period of the lease. Freehold land is not depreciated.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Trade receivables

Trade receivables are recognised initially at fair values, which is typically the original invoice amount, and carried at amortised cost thereafter. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is recognised in the income statement immediately.

Assets held for sale

Assets are classified as held for sale if their carrying amount will be recovered through sale rather than continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. The Group is committed to the sale and it is expected to be completed within one year from the date of classification. Assets held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Finance costs

Finance costs are recognised as an expense in the period in which they are incurred.

2. Summary of significant accounting policies continued

Leases

Operating leases

Leases in which a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. The Group's commitment in respect of its Hobby centres is included within this category.

Payments in respect of operating leases and any benefits received as an incentive to sign a lease, are charged or credited to the income statement on a straight line basis over the period of the entire lease term.

Finance leases

Finance leases which transfer to the Group substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in property, plant and equipment at the lower of the fair value of the leased property and the present value of minimum lease payments. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's life and the lease term.

Inventories

Inventories are valued at the lower of cost and net realisable value. In respect of finished goods, cost includes appropriate production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Where necessary, provision is made for obsolete, slow moving and defective inventories.

Foreign currency translation

The consolidated financial statements are presented in sterling, which is the Company's functional and presentation currency. Items included in the financial statements of each of the Group entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

Monetary assets and liabilities expressed in currencies that are not the functional currency are translated into the functional currency at rates of exchange ruling at the balance sheet date. Translation differences on monetary items are recognised in the income statement with the exception of differences on transactions that are subject to effective cash flow or net investment hedges.

The financial statements of overseas subsidiary companies prepared in functional currencies other than sterling are translated into sterling as follows:

- Assets and liabilities are translated at the closing rate at the date of the balance sheet;
- Income and expenses are translated at the average rate for the period;
- All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and borrowings and other currency instruments designated as hedges of such investments, are taken to equity. Tax charges and credits attributable to those differences are taken directly to equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Derivative financial instruments

Derivative financial instruments are recognised at fair value at inception and are subsequently re-measured at their fair value by reference to quoted market values for similar instruments at the balance sheet date. Derivative financial instruments are classified as non-current assets or liabilities if the remaining maturity of the hedged item is more than 12 months from the balance sheet date.

The recognition of the resulting gain or loss depends on whether hedge accounting is permitted. Where derivatives do not qualify for hedge accounting, any gains or losses on re-measurement are recognised immediately in the income statement.

In order to apply hedge accounting, the Group designates certain derivatives as:

- Cash flow hedges: hedges of highly probable forecast transactions; or
- Net investment hedges: hedges of net investments in foreign operations.

The Group documents the relationship between the hedging instruments and hedged items at the hedge inception, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in the fair values or cash flows of hedged items.

Cash flow hedges

Forward foreign currency contracts that are in place to hedge future transactions are designated as cash flow hedges. The effective element of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Net investment hedges

Any gain or loss on the hedging instrument relating to the effective portion of the hedge of a net investment in a foreign operation is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise deposits with banks and bank and cash balances, net of overdrafts. In the balance sheet, bank overdrafts are included in current financial liabilities.

Other borrowings are classified as current financial liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowings

All loans and borrowings are initially recognised at fair value of the consideration received net of issue costs associated with the borrowing. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowing costs are expensed in the period in which they are incurred, except for issue costs, which are amortised over the period of the borrowing. Commitment fees on borrowings not drawn down are expensed in the period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS continued

2. Summary of significant accounting policies continued

Share-based payment

The Group operates a number of equity-settled employee sharesave schemes. Options are granted on an annual basis and are subject to either a two or three year service vesting condition. The fair value of the employee services received under such schemes, which is determined by use of the Black-Scholes Option Pricing Model, is recognised as an expense in the income statement with a corresponding increase in equity over the vesting period. At each balance sheet date, the Group revises its estimates of the number of share options that are expected to vest, with any revisions being recognised in the income statement. No further charge is recognised from the point when an employee ceases saving and withdraws from the sharesave scheme.

The fair value of the employee services received under such schemes is recognised as an expense in the income statement of the subsidiary that benefits from the services.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Other employee benefits

Pension costs

The Group operates defined contribution schemes and a group personal pension plan. Pension contributions are charged to the income statement as they accrue.

Bonus and incentive plans

The costs of annual bonus schemes are charged to the income statement as they accrue.

Long service benefits

The Group operates a long service incentive scheme under which employees receive a one off additional holiday entitlement of two weeks when they reach ten years of employment (10 Year Veterans). The costs of these benefits are accrued over the period of employment based on expected staff retention rates and the anticipated future employment costs discounted to present value.

Investments

Shares and loans in subsidiary undertakings are stated at cost less provision for impairment. Own shares are held in treasury and recorded in shareholders' equity.

Revenue

Revenue, which excludes value added tax and sales between group companies, represents the invoiced value of goods and services supplied.

Revenue on goods sold to customers on a sale or return basis is recognised after making full provision for the level of expected returns, based on past experience. The level of returns is reviewed on a regular basis and the provision is amended accordingly. Revenue on a sale or return basis represents no more than 3% of consolidated revenue.

Where the Group operates a customer loyalty scheme, such as the redemption of loyalty card points, revenue is adjusted to show sales net of all related discounts. A provision is recognised based on the fair value of expected free goods given to customers. The fair value is measured as the retail value to the customer.

Royalty income

Royalty income is recognised by spreading the guarantees and advances receivable over the term of the licence agreement, and recognising all other income receivable by reference to the underlying licensee performance.

Segment reporting

The primary reporting segments are the main geographic areas in which the Group operates. These are Continental Europe, the United Kingdom, the Americas and Asia Pacific. The geographical segments identified engage in providing products to customers within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments. Manufacturing income, expenses, assets and liabilities are allocated to the specific segments on the basis of the profits earned on internal sales to each geographical area.

Our vertically integrated manufacturing and supply function is dedicated to the supply of products to the sales function. We consider that the risks and rewards of each function are similar, and that the Group has a single reporting segment, the Games Workshop Hobby.

Taxation

The charge for current tax is based on the results for the year as adjusted for items which are non-assessable or disallowed. It is calculated using rates that have been enacted or substantially enacted by the balance sheet date.

Deferred taxation is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the rates that are expected to apply when the asset or liability is settled. Deferred tax is charged or credited in the income statement, except where it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Dividends

Final equity dividends are recognised in the period that they are approved by the shareholders. Interim equity dividends are recognised in the period that they are paid.

Impairment of assets

Assets that have an indefinite useful economic life are not subject to amortisation but tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped together at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Discount rates reflecting the asset specific risks and the time value of money are used for the value in use calculation.

Provisions

Provisions are made when:

- the Group has a present legal or constructive obligation as a result of past events;
- it is more likely than not that an outflow of resources will be required to settle the obligation; and
- the amount has been reliably estimated.

2. Summary of significant accounting policies continued

Provisions continued

Provision is made for committed costs outstanding under onerous or vacant property leases. The estimated liability is discounted at the Group's weighted average cost of capital.

Provisions are made for property dilapidations where a legal obligation exists and when the decision has been made to exit a property, or where the end of the lease commitment is imminent and a reliable estimate of the exit liability can be made.

The estimated employee benefit liability arising from the '10 Year Veterans' incentive scheme is classified within provisions. Amounts relating to employees who reach 10 years service in more than one year are classified as non-current.

Provisions are made for redundancy costs once the employees affected have a valid expectation that their role will become redundant.

Exceptional items

Costs which are both material and non-recurring, whose significance is sufficient to warrant separate disclosure in the financial statements, are referred to as exceptional items. These items are costs that have been incurred in relation to the cost reduction programme.

Critical accounting estimates and judgements

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and disclosure of contingencies at the balance sheet date. If in future such estimates and assumptions, which are based on management's best judgement at the date of the consolidated financial statements, deviate from actual circumstances, the original estimates and assumptions will be modified, as appropriate, in the period in which the circumstances change. The following areas are considered of greater complexity and/or particularly subject to the exercise of judgement:

Management estimates and judgements are required in assessing the impairment of assets, particularly in relation to the forecasting of future cash flows and the discount rate applied to the cash flows.

Judgement is involved in assessing the exposures in the provisions and hence in setting the level of the required provisions.

New accounting standards

Changes to accounting standards and interpretations and their likely impact on the Group's future accounting policies are set out below:

a. Standards, amendments and interpretations effective in the year ended 1 June 2008

- IFRS 7 'Financial instruments: disclosures' and the complementary amendment to IAS 1 'Presentation of financial statements - capital disclosures', introduces new disclosure requirements relating to financial instruments which have been adopted in these financial statements. These changes do not have any impact on the classification and valuation of the Group's financial instruments.
- IFRIC 8 'Scope of IFRS 2' concerns transactions involving the issuance of equity instruments. This standard does not have any impact on the Group's financial statements.
- IFRIC 10 'Interim financial reporting and impairment' concerns the recognition of impairment losses in an interim period. This standard does not have any impact on the Group's annual financial statements.

b. Interpretations effective in the year ended 1 June 2008 but not relevant to the Group

The following interpretations to published standards are mandatory for adoption in the year ended 1 June 2008 but they are not relevant to the Group's operations:

- IFRIC 7 'Applying the restatement approach under IAS 29, financial reporting in hyper-inflationary economies' ; and
- IFRIC 9 'Re-assessment of embedded derivatives'.

c. Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

At the date of signing of these financial statements the following standards, amendments and interpretations to existing standards have been published but are not effective for the periods presented and the Group has chosen not to early adopt:

- IFRS 8 'Operating segments' (effective for years beginning on or after 1 January 2009). This standard replaces IAS 14 'Segment reporting' and requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The expected impact is still being assessed, however, this standard concerns disclosure only and will have no effect on the Group's reported results. As goodwill is allocated to groups of cash-generating units based on segment level, the new standard may result in a reallocation of goodwill to any new segments. Management does not anticipate that this will result in any material impairment to the goodwill balance.
- Revised IAS 1 'Presentation of financial statements' (effective for years beginning on or after 1 January 2009). These revised presentation and disclosure requirements are not anticipated to have an impact on the Group's reported results.
- IAS 23 (Amendment) 'Borrowing costs' (effective for years beginning on or after 1 January 2009) concerns the capitalisation of borrowing costs directly attributable to the acquisition, construction and production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. This amendment is currently not applicable to the Group as there are no qualifying assets.
- Amendment to IFRS 2 'Share-based payments' (effective for years beginning on or after 1 January 2009). The amendment specifies that all cancellations under the Group's sharesave scheme will require the immediate recognition of the unamortised costs of the associated options. The Group is currently reviewing the impact this standard has on the Group's financial statements.
- Amendment to IFRS 3 'Business combinations' (effective for business combinations in years beginning on or after 1 July 2009). This amendment may impact the Group's accounting for future business combinations.
- Amendment to IAS 27 'Consolidated and separate financial statements' (effective for years beginning on or after 1 July 2009). The amendment which concerns transactions with non-controlling interests is not expected to impact on the Group's reported results.
- IFRIC 11 'IFRS 2 - Group and treasury share transactions' provides guidance on share-based transactions involving treasury shares. It does not have an impact on the Group's financial statements.
- IFRIC 13 'Customer loyalty programmes' (effective for years beginning on or after 1 July 2008). The current accounting policy for loyalty schemes is detailed in the Revenue section above. This does not currently comply with IFRIC 13 but the change is not expected to materially impact the Group's results.
- IFRIC 16 'Hedges of a net investment in a foreign operation' (effective for years beginning on or after 1 October 2008). The interpretation clarifies the accounting for net investment hedging and is not expected to impact on the Group's reported results.

d. Interpretations to existing standards that are not yet effective and not relevant to the Group's operations

The following interpretations to existing standards have been published but are not relevant to the Group's operations:

- IFRIC 12 'Service concession arrangements' (effective for years beginning on or after 1 January 2008). IFRIC 12 is not relevant to the Group's operations because none of the Group's companies provide for public sector services.
- IFRIC 14 'IAS 19 - the limit on a defined benefit asset, minimum funding requirements and their interaction' (effective for years beginning on or after 1 January 2008) is not relevant to the Group's operations as the Group does not operate or participate in a defined benefit pension scheme.
- IFRIC 15 'Agreements for the construction of real estate' (effective for years beginning on or after 1 January 2009). As the Group is not involved in the construction of real estate, the IFRIC is not relevant.

NOTES TO THE FINANCIAL STATEMENTS continued

3. Segmental analysis

The Group has one business segment, the Games Workshop Hobby. Geographical segments represent the dominant source and nature of the Group's risks and returns and is therefore provided below as the primary reporting format.

52 weeks ended 1 June 2008	Continental Europe £000	United Kingdom £000	The Americas £000	Asia Pacific £000	Rest of the world £000	Central/ unallocated £000	Service centres £000	Design and development £000	Royalty income £000	Group £000
Continuing operations										
Total gross segment sales by operation	**41,139**	**36,760**	**24,011**	**8,435**	**-**	**-**	**-**	**-**	**-**	**110,345**
Inter-segment sales	1,952	(5,704)	2,833	645	274	-	-	-	-	-
Total gross segment sales by location of customers	**43,091**	**31,056**	**26,844**	**9,080**	**274**	**-**	**-**	**-**	**-**	**110,345**
Pre-exceptional operating profit/segment result by location of customers	7,648	7,338	610	207	110	(5,235)	(4,532)	(2,965)	1,736	4,917
Exceptional items	(382)	(1,453)	(568)	2	-	-	-	36	-	(2,365)
Operating profit/segment result by location of customers	**7,266**	**5,885**	**42**	**209**	**110**	**(5,235)**	**(4,532)**	**(2,929)**	**1,736**	**2,552**
Finance income	-	-	-	-	-	425	-	-	-	425
Finance costs	-	-	-	-	-	(1,918)	-	-	-	(1,918)
Income tax expense	-	-	-	-	-	(613)	-	-	-	(613)
Profit/(loss) for the year - continuing operations	**7,266**	**5,885**	**42**	**209**	**110**	**(7,341)**	**(4,532)**	**(2,929)**	**1,736**	**446**
Discontinued operations										
Profit/(loss) for the year - discontinued operations	**90**	**3**	**(1,114)**	**30**	**-**	**-**	**-**	**(195)**	**-**	**(1,186)**
Profit/(loss) attributable to equity shareholders	**7,356**	**5,888**	**(1,072)**	**239**	**110**	**(7,341)**	**(4,532)**	**(3,124)**	**1,736**	**(740)**
Gross assets and liabilities by location of customers:										
Continuing										
Assets	21,206	20,053	8,750	4,407	-	10,399	-	2,672	-	67,487
Liabilities	(5,916)	(6,906)	(2,801)	(2,462)	-	(19,876)	-	-	-	(37,961)
Net assets by location of customers	**15,290**	**13,147**	**5,949**	**1,945**	**-**	**(9,477)**	**-**	**2,672**	**-**	**29,526**
Capital expenditure by location of customers	3,271	2,338	1,177	627	-	-	-	2,266	-	9,679
Depreciation and amortisation by location of customers	(3,185)	(2,132)	(1,537)	(677)	-	-	-	(2,236)	-	(9,767)
Impairment of property, plant and equipment	(7)	12	47	-	-	-	-	-	-	52
Impairment of trade receivables	(78)	(376)	(88)	(27)	-	-	-	-	-	(569)
Share-based payments	(10)	(112)	(8)	(5)	-	-	-	-	-	(135)
Gross assets and liabilities by location of operation:										
Continuing										
Assets	4,558	41,182	5,780	2,896	-	10,399	-	2,672	-	67,487
Liabilities	(4,351)	(8,736)	(2,433)	(2,565)	-	(19,876)	-	-	-	(37,961)
Net assets by location of operation	**207**	**32,446**	**3,347**	**331**	**-**	**(9,477)**	**-**	**2,672**	**-**	**29,526**
Capital expenditure by location of operation	528	5,818	685	382	-	-	-	2,266	-	9,679
Depreciation and amortisation by location of operation	(868)	(5,087)	(1,131)	(445)	-	-	-	(2,236)	-	(9,767)
Impairment of property, plant and equipment	(7)	12	47	-	-	-	-	-	-	52
Impairment of trade receivables	(78)	(376)	(88)	(27)	-	-	-	-	-	(569)
Share-based payments	(10)	(112)	(8)	(5)	-	-	-	-	-	(135)

3. Segmental analysis continued

Restated 53 weeks ended 3 June 2007	Continental Europe £000	United Kingdom £000	The Americas £000	Asia Pacific £000	Rest of the world £000	Central/ unallocated £000	Service centres £000	Design and development £000	Royalty income £000	Group £000
Continuing operations										
Total gross segment sales by operation	43,026	35,361	23,497	7,617	-	-	-	-	-	109,501
Inter-segment sales	2,405	(5,116)	2,037	484	190	-	-	-	-	-
Total gross segment sales by location of customers	45,431	30,245	25,534	8,101	190	-	-	-	-	109,501
Pre-exceptional operating profit/segment result by location of customers	8,922	5,240	(609)	376	97	(5,179)	(4,895)	(3,131)	1,423	2,244
Exceptional items	(800)	(2,084)	(1,120)	(24)	-	-	-	-	-	(4,028)
Operating profit/segment result by location of customers	8,122	3,156	(1,729)	352	97	(5,179)	(4,895)	(3,131)	1,423	(1,784)
Finance income	-	-	-	-	-	326	-	-	-	326
Finance costs	-	-	-	-	-	(1,110)	-	-	-	(1,110)
Income tax expense	-	-	-	-	-	(622)	-	-	-	(622)
Profit/(loss) for the year - continuing operations	8,122	3,156	(1,729)	352	97	(6,585)	(4,895)	(3,131)	1,423	(3,190)
Discontinued operations										
Profit/(loss) for the year - discontinued operations	8	107	94	-	-	-	-	(500)	-	(291)
Profit/(loss) attributable to equity shareholders	8,130	3,263	(1,635)	352	97	(6,585)	(4,895)	(3,631)	1,423	(3,481)
Gross assets and liabilities by location of customers:										
Continuing										
Assets	21,748	19,021	7,956	4,160	-	8,948	-	2,642	-	64,475
Liabilities	(4,744)	(7,082)	(3,820)	(2,194)	-	(17,863)	-	-	-	(35,703)
Net assets by location of customers - continuing	17,004	11,939	4,136	1,966	-	(8,915)	-	2,642	-	28,772
Net assets by location of customers - discontinued	-	-	1,085	-	-	-	-	-	-	1,085
Net assets by location of customers	17,004	11,939	5,221	1,966	-	(8,915)	-	2,642	-	29,857
Capital expenditure by location of customers	3,058	2,205	1,001	718	-	-	-	2,937	-	9,919
Depreciation and amortisation by location of customers	(3,294)	(2,167)	(1,605)	(579)	-	-	-	(2,525)	-	(10,170)
Impairment of property, plant and equipment	(68)	(13)	(225)	-	-	-	-	-	-	(306)
Impairment of trade receivables	(72)	(276)	(31)	-	-	-	-	-	-	(379)
Share-based payments	(1)	(40)	(1)	-	-	-	-	-	-	(42)
Gross assets and liabilities by location of operation:										
Continuing										
Assets	4,243	40,329	6,032	2,281	-	8,948	-	2,642	-	64,475
Liabilities	(2,608)	(10,110)	(3,615)	(1,507)	-	(17,863)	-	-	-	(35,703)
Net assets by location of operation - continuing	1,635	30,219	2,417	774	-	(8,915)	-	2,642	-	28,772
Net assets by location of operation - discontinued	-	-	1,085	-	-	-	-	-	-	1,085
Net assets by location of operation	1,635	30,219	3,502	774	-	(8,915)	-	2,642		29,857
Capital expenditure by location of operation	729	4,773	633	847	-	-	-	2,937	-	9,919
Depreciation and amortisation by location of operation	(939)	(4,653)	(1,705)	(348)	-	-	-	(2,525)	-	(10,170)
Impairment of property, plant and equipment	(68)	(13)	(225)	-	-	-	-	-	-	(306)
Impairment of trade receivables	(72)	(276)	(31)	-	-	-	-	-	-	(379)
Share-based payments	(1)	(40)	(1)	-	-	-	-	-	-	(42)

During the year to 1 June 2008, service centres were established in the UK which provide support services (IT, accounting, payroll, HR, production planning and supplier development) to activities across the Group. The related costs which had previously been reported as segmental costs, are now separately identified as service centre costs to aid transparency.

Central/unallocated, service centres, design and development and royalty income segment (costs)/income comprise the (costs)/income arising in the United Kingdom that cannot be directly attributed to an individual geographical segment.

NOTES TO THE FINANCIAL STATEMENTS continued

3. Segmental analysis continued

Central/unallocated assets and liabilities consist of the following:

	2008 £000	2007 £000
Cash and cash equivalents	**7,723**	6,103
Deferred tax assets	**3,005**	2,314
Current tax assets	**854**	1,056
Central/eliminations	**(1,183)**	(525)
Gross assets	**10,399**	8,948
Current tax liabilities	**(222)**	(38)
Bank loans and overdrafts	**(17,779)**	(16,258)
Central/eliminations	**(1,875)**	(1,567)
Net liabilities	**(9,477)**	(8,915)

4. Operating expenses

	2008 £000	Restated 2007 £000
Continuing operations		
Selling costs	**44,468**	47,264
Administrative expenses	**28,401**	30,395
Design and development costs - amortisation	**2,236**	2,525
Design and development costs - not capitalised	**693**	606
Operating expenses	**75,798**	80,790

5. Exceptional items

	Pre-exceptional £000	Exceptional items £000	Total 2008 £000
Continuing operations			
Revenue	110,345	-	**110,345**
Cost of sales	(32,896)	(835)	**(33,731)**
Gross profit	77,449	(835)	**76,614**
Selling costs	(43,849)	(619)	**(44,468)**
Administrative costs	(27,454)	(947)	**(28,401)**
Design and development costs	(2,965)	36	**(2,929)**
Other operating income - royalties receivable	1,736	-	**1,736**
Operating profit	4,917	(2,365)	**2,552**

	Pre-exceptional £000	Exceptional items £000	Restated Total 2007 £000
Continuing operations			
Revenue	109,501	-	109,501
Cost of sales	(31,696)	(222)	(31,918)
Gross profit	77,805	(222)	77,583
Selling costs	(45,348)	(1,916)	(47,264)
Administrative costs	(28,505)	(1,890)	(30,395)
Design and development costs	(3,131)	-	(3,131)
Other operating income - royalties receivable	1,423	-	1,423
Operating profit/(loss)	2,244	(4,028)	(1,784)

The exceptional item relates to the cost reduction programme announced in May 2007. As part of this programme, £250,000 (2007: £1,613,000) has been incurred in closing loss making Hobby centres, £1,065,000 (2007: £700,000) in rationalising the manufacturing and supply chain and £1,050,000 (2007: £1,715,000) in simplifying the support infrastructure.

6. Directors and employees

	2008 £000	2007 £000
Total directors and employees costs:		
Wages and salaries	**43,136**	44,101
Social security costs	**5,256**	5,341
Other pension costs	**1,028**	1,143
Share-based payments	**135**	42
	49,555	50,627

Key management compensation

The remuneration of the directors and other key management personnel of the Group is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'.

	2008 £000	2007 £000
Salaries and other short-term employee benefits	**1,131**	1,035
Post-employment benefits	**95**	94
Share-based payments	**-**	1
Termination benefits - compensation for loss of office	**126**	-
Other employee benefits	**20**	37
	1,372	1,167

Further information relating to directors' emoluments, shareholdings and share options is disclosed in the audited section of the remuneration report on pages 21 to 22.

Key management are the directors of the Company, the head of operations and the head of sales until 3 December 2007.

Employee numbers

	2008 Number	2007 Number
Design and development	**77**	93
Production	**204**	195
Selling:		
- Full time	**1,342**	1,453
- Part time	**340**	347
Administration	**380**	468
	2,343	2,556

7. Finance income

	2008 £000	2007 £000
Interest income:		
- On cash and cash equivalents	**418**	305
- Other	**7**	21
	425	326

8. Finance costs

	2008 £000	2007 £000
Interest expense:		
- Bank loans and overdrafts	**1,644**	1,099
- Finance lease charges	**2**	11
- Unwinding of discount on provisions	**30**	27
- Other	**-**	31
Net foreign exchange losses/(gains) on financing activities	**242**	(58)
	1,918	1,110

NOTES TO THE FINANCIAL STATEMENTS continued

9. Profit/(loss) before taxation

	2008 £000	2007 £000
Profit/(loss) before taxation is stated after charging/(crediting):		
Depreciation:		
- Owned property, plant and equipment	**6,769**	6,889
- Property, plant and equipment under finance leases	**9**	36
Impairment of property, plant and equipment	**(52)**	306
Amortisation:		
- Owned computer software	**753**	720
- Development costs	**2,236**	2,525
Non-capitalised development costs	**888**	1,106
Impairment of trade receivables	**569**	379
Operating leases:		
- Hobby centres	**8,212**	8,344
- Other property	**1,273**	1,245
- Plant and equipment	**171**	365
- Other	**297**	318
Staff costs	**49,555**	50,627
Cost of inventories included in cost of sales	**19,800**	19,200
Loss on disposal of property, plant and equipment	**210**	95

Auditors' remuneration and services provided

Services provided by the Group's auditor and network firms are analysed as follows:

	2008 £000	2007 £000
Audit services		
Audit of the Group and Company's accounts	**62**	62
Other services		
The audit of the Company's subsidiaries pursuant to legislation	**263**	219
Other services relating to taxation	**8**	3
All other services	**9**	10
Total services provided	**342**	294

10. Income tax expense

Continuing operations	2008 £000	2007 £000
Current UK taxation:		
- UK corporation tax on profits for the year	**31**	55
- Under/(over) provision in respect of prior years	**25**	(5)
	56	50
Current overseas taxation:		
- Overseas corporation tax on profits for the year	**845**	726
- (Over)/under provision in respect of prior years	**(26)**	22
Total current taxation	**875**	798
Deferred taxation:		
- Origination and reversal of timing differences	**(586)**	(24)
- Under/(over) provision in respect of prior years	**324**	(152)
Tax expense recognised in the income statement	**613**	622

10. Income tax expense continued

	2008 £000	2007 £000
Current tax credit on cash flow hedges	-	(26)
Deferred tax credit on cash flow hedges	(237)	(26)
Credit taken directly to the statement of recognised income and expense	**(237)**	(52)

Continuing operations	2008 £000	2007 £000
Profit/(loss) before taxation	**1,059**	(2,568)
Profit/(loss) before taxation multiplied by standard rate of corporation tax in the UK of 30% (2007: 30%)	**318**	(770)
Effects of:		
Expenses not deductible for tax purposes	**156**	393
Recognition of asset held for sale	**(148)**	-
Movement in deferred tax not recognised	**(79)**	1,170
Deferred tax on losses now recognised	**(400)**	-
Changes in tax rates	**95**	-
Higher tax rates on overseas earnings	**348**	(36)
Adjustments to tax charge in respect of previous years	**323**	(135)
Total tax charge for the year	**613**	622

On 1 April 2008, the standard rate of corporation tax in the UK decreased from 30% to 28%.

11. Discontinued operations

On 14 February 2008, the Group disposed of the trading activities of Sabertooth Games Inc., our collectible card game business, and entered into a licensing agreement for the publishing of board games, card games and role-playing games with Fantasy Flight Games Inc. The net result of these operations has been presented as a discontinued operation in the Group's income statement for both years.

These operations, which were previously treated as a separate cash-generating unit due to their non-core nature, have been classified as discontinued.

The table below shows the results of the discontinued operations included in the results of the Group in both years:

Income statement

	2008 £000	2007 £000
Revenue	**1,308**	1,541
Cost of sales	**(514)**	(637)
Gross profit	**794**	904
Operating expenses	**(1,900)**	(1,195)
Operating loss	**(1,106)**	(291)
Operating profit/(loss) - pre-exceptional items	**86**	(291)
Exceptional items	**(1,192)**	-
Income tax expense	**(80)**	-
Loss for the year	**(1,186)**	(291)

Cash flow statement

	2008 £000	2007 £000
Cash flows from operating activities	**491**	392
Cash flows from investing activities	**(167)**	(430)
Net increase/(decrease) in cash and cash equivalents	**324**	(38)

The table below shows the net assets disposed of and the consideration received:

	2008 £000
Goodwill	**922**
Inventories	**139**
Trade and other receivables	**255**
Assets disposed of	**1,316**
Consideration receivable	**(198)**
Loss on disposal	**1,118**

11. Discontinued operations continued

Assets held for sale

Following the closure of the tool making facility at Wisbech, UK, the related freehold land and buildings have been reclassified from non-current assets to assets held for sale during the year. No gain or loss has been recognised on reclassification to current assets. Management are currently engaged in marketing the site and expect to sell the assets within the first half of 2008/9.

All cash flows arising from discontinued operations arise from operating activities.

12. Earnings/(loss) per share

Basic earnings/(loss) per share

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to equity shareholders of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares.

	2008	2007
Profit/(loss) attributable to equity shareholders:		
Continuing operations	**446**	(3,190)
Discontinued operations	**(1,186)**	(291)
Total	**(740)**	(3,481)
Weighted average number of ordinary shares in issue (thousands)	**31,123**	31,116
Basic earnings/(loss) per share (pence per share) - continuing operations	**1.4**	(10.3)
Basic loss per share (pence per share)	**(2.4)**	(11.2)

Diluted earnings/(loss) per share

Diluted earnings/(loss) per share is identical to basic earnings/(loss) per share as there is no dilutive effect of share options.

13. Dividends per share

The dividends paid in 2007 were £5,904,000 (18.975p per share). No dividends were paid in 2008.

14. Goodwill

	Group £000
Cost	
At 29 May 2006	2,449
Exchange adjustments	(59)
At 3 June 2007 and 4 June 2007	2,390
Disposal	(922)
Exchange adjustments	(35)
At 1 June 2008	**1,433**
Net book amount at 1 June 2008	**1,433**
Net book amount at 3 June 2007	2,390

The Company had no goodwill at either year end.

The disposal relates to the sale of the card games, role-playing games and board games activities to Fantasy Flight Games Inc.

Goodwill of £1,159,000 (2007: £1,159,000) arising before 31 May 1998 is fully written off to reserves.

Impairment tests for goodwill

The carrying value of goodwill arose on the acquisition of TJA Tooling Limited and Triple K Plastic Injection Moulding Limited (2008: £1,470,000; 2007: £1,470,000) and the acquisition of Sabertooth Games Inc. (2008: £nil; 2007: £920,000).

In accordance with the requirements of IAS 36 'Impairment of Assets' the Group completed a review of the carrying value of goodwill as at each year end. The impairment review was performed to ensure that the carrying value of the Group's assets are stated at no more than their recoverable amount, being the higher of fair value less costs to sell and value in use.

In determining the value in use, the calculations use cash flow projections based on the financial budgets approved by management covering a five year period, with growth after the period in line with historic GDP. The estimated future cash flows expected to arise from the continuing use of the assets use post-tax discount rates of 9%, representing the Group's weighted average cost of capital.

Management determined the budgeted sales growth and gross margin based on the investment in future product releases, and initiatives currently being undertaken to deliver the expected future performance.

Goodwill arising on the acquisition of TJA Tooling Limited and Triple K Plastic Injection Moulding Limited is allocated to the cash flows generated from the Group's production operations given that these acquired activities have been fully embedded into the manufacturing process. Based on the current levels of activity and profitability, there are no indications that the carrying value of the goodwill is impaired.

Goodwill is allocated to the Group's cash-generating units (CGUs) for impairment testing, identified according to country of operation and business segment.

15. Other intangible assets

Group	Computer software £000	Development costs £000	Total £000
Cost			
At 29 May 2006	4,661	6,746	11,407
Additions	951	2,937	3,888
Exchange differences	(41)	(47)	(88)
Disposals	(268)	-	(268)
At 3 June 2007 and 4 June 2007	5,303	9,636	14,939
Additions	1,822	2,266	4,088
Exchange differences	147	(15)	132
Disposals	(281)	(1,113)	(1,394)
At 1 June 2008	**6,991**	**10,774**	**17,765**
Amortisation			
At 29 May 2006	(2,571)	(4,516)	(7,087)
Amortisation charge	(720)	(2,525)	(3,245)
Exchange differences	41	47	88
Disposals	268	-	268
At 3 June 2007 and 4 June 2007	(2,982)	(6,994)	(9,976)
Amortisation charge	(753)	(2,236)	(2,989)
Exchange differences	(106)	15	(91)
Disposals	237	1,113	1,350
At 1 June 2008	**(3,604)**	**(8,102)**	**(11,706)**
Net book amount			
At 3 June 2007	2,321	2,642	4,963
At 1 June 2008	**3,387**	**2,672**	**6,059**

Amortisation of £334,000 (2007: £375,000) has been charged in cost of sales and £2,655,000 (2007: £2,870,000) in operating expenses.

The net book amount of internally generated intangible assets is £2,985,000 (2007: £2,642,000) and acquired intangible assets is £3,074,000 (2007: £2,321,000). All development costs are internally generated.

The Company had no other intangible assets at either year end.

NOTES TO THE FINANCIAL STATEMENTS continued

16. Property, plant and equipment

Group	Freehold land and buildings £000	Plant & equipment & vehicles £000	Fixtures and fittings £000	Moulding tools £000	Total £000
Cost					
At 29 May 2006	14,653	15,671	20,452	13,447	64,223
Additions	364	1,212	2,503	1,952	6,031
Exchange differences	-	(160)	(330)	(37)	(527)
Disposals	-	(683)	(1,277)	-	(1,960)
Reclassifications	-	(44)	44	-	-
At 3 June 2007 and 4 June 2007	15,017	15,996	21,392	15,362	67,767
Additions	15	1,549	1,816	2,211	5,591
Exchange differences	-	385	1,163	(3)	1,545
Disposals	-	(1,409)	(2,900)	(238)	(4,547)
Reclassifications	(641)	26	(5)	(18)	(638)
At 1 June 2008	**14,391**	**16,547**	**21,466**	**17,314**	**69,718**
Depreciation					
At 29 May 2006	(1,929)	(9,389)	(14,183)	(9,247)	(34,748)
Exchange differences	-	103	212	31	346
Charge for the year	(425)	(2,280)	(2,639)	(1,581)	(6,925)
Impairment loss	-	(3)	(303)	-	(306)
Disposals	-	676	1,176	-	1,852
Reclassifications	-	10	(10)	-	-
At 3 June 2007 and 4 June 2007	(2,354)	(10,883)	(15,747)	(10,797)	(39,781)
Exchange differences	-	(339)	(912)	1	(1,250)
Charge for the year	(441)	(2,143)	(2,445)	(1,749)	(6,778)
Impairment reversal	-	(7)	59	-	52
Disposals	-	1,382	2,736	169	4,287
Reclassifications	179	(22)	-	17	174
At 1 June 2008	**(2,616)**	**(12,012)**	**(16,309)**	**(12,359)**	**(43,296)**
Net book amount					
At 3 June 2007	12,663	5,113	5,645	4,565	27,986
At 1 June 2008	**11,775**	**4,535**	**5,157**	**4,955**	**26,422**

Depreciation expense of £3,342,000 (2007: £3,294,000) has been charged in cost of sales, £2,206,000 (2007: £2,390,000) in selling costs, £1,172,000 (2007: £1,241,000) in administrative expenses and £58,000 (2007: nil) in design and development costs.

The cost of property, plant and equipment includes plant and equipment and vehicles of £55,000 (2007: £55,000) in respect of assets held under finance leases. The depreciation charged on these assets was £9,000 (2007: £36,000).

Freehold land amounting to £3,836,000 (2007: £4,055,000) has not been depreciated.

£464,000 has been reclassified from property, plant and equipment to assets held for sale, of which £219,000 relates to freehold land.

Assets in the course of construction, and not depreciated, amount to £371,000 (2007: £325,000).

The Company held no property, plant and equipment at either year end.

17. Investments in subsidiaries

	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Shares in group undertakings - cost				
Subsidiary undertakings - equity	**-**	-	**30,281**	30,281

Investments in group undertakings are stated at cost less any provision for impairment. As permitted by section 133 of the Companies Act 1985, where the relief afforded under section 131 of the Companies Act 1985 applies, cost is the aggregate of the nominal value of the relevant number of the company's shares and the fair value of any other consideration given to acquire the share capital of the subsidiary undertakings.

The directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length. A list of principal subsidiary undertakings is given below.

Interests in group undertakings

The following information relates to those subsidiary undertakings whose results or financial position, in the opinion of the directors, principally affect the Group:

Name of undertaking	Country of incorporation or registration	Description of shares held	Proportion of nominal value of issued shares held by: Company	Proportion of nominal value of issued shares held by: Subsidiary company	Principal business activity
Games Workshop Limited	England and Wales	£1 ordinary	100%		Manufacturer, distributor and retailer of games and miniatures
Games Workshop America Inc.	United States of America	$1 common stock		100%	Distributor and retailer of games and miniatures
		$100,000 preferred stock	100%		
Games Workshop Retail Inc.	United States of America	$1 common stock		100%	Distributor and retailer of games and miniatures
Games Workshop US Manufacturing LLC	United States of America	Owners capital		100%	Manufacturer and distributor of games and miniatures
Games Workshop (Queen Street) Limited	Canada	Can $1		100%	Distributor and retailer of games and miniatures
EURL Games Workshop	France	euro 1		100%	Distributor and retailer of games and miniatures
Games Workshop SL	Spain	euro 1		100%	Distributor and retailer of games and miniatures
Games Workshop Oz Pty Limited	Australia	Aus $1		100%	Distributor and retailer of games and miniatures
Games Workshop Deutschland GmbH	Germany	euro 1		100%	Distributor and retailer of games and miniatures
Games Workshop Limited	New Zealand	NZ $1		100%	Distributor and retailer of games and miniatures
Games Workshop Italia SRL	Italy	euro 1		100%	Distributor and retailer of games and miniatures
Games Workshop (Shanghai) Co. Limited	China	Owners capital		100%	Sourcing and distribution of gaming materials
Games Workshop International Limited	England and Wales	£1 ordinary	100%		Holding company for overseas subsidiary companies

All of the above entities are included in the consolidated accounts for the Group, and 100% of the voting rights of all entities is held.

All the above companies operate principally in their country of incorporation or registration.

NOTES TO THE FINANCIAL STATEMENTS continued

18. Deferred income tax

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority. The amounts are as follows:

	Group		Company	
	2008 £000	2007 £000	**2008 £000**	2007 £000
Deferred tax assets:				
- Deferred tax asset to be recovered after more than 12 months	**1,758**	1,503	**5**	6
- Deferred tax asset to be recovered within 12 months	**1,247**	811	**25**	55
	3,005	2,314	**30**	61

The gross movement on the deferred tax account is as follows:

	Group		Company	
	2008 £000	2007 £000	**2008 £000**	2007 £000
Beginning of year	**2,314**	2,121	**61**	30
Exchange differences	**272**	(9)	**-**	-
Income statement credit/(charge)	**182**	176	**(31)**	31
Credited to equity	**237**	26	**-**	-
End of year	**3,005**	2,314	**30**	61

Analysis of the movement in deferred tax assets and liabilities is as follows:

Group	Accelerated depreciation £000	Development costs £000	Losses available for offset £000	Other £000	Total £000
At 28 May 2006	1,101	(669)	364	1,325	2,121
Credited/(charged) to the income statement	344	(39)	258	(387)	176
Credited to equity	-	-	-	26	26
Exchange differences	(6)	-	(4)	1	(9)
At 3 June 2007	1,439	(708)	618	965	2,314
Credited/(charged) to the income statement	170	(40)	248	(196)	182
Credited to equity	-	-	-	237	237
Exchange differences	124	-	77	71	272
At 1 June 2008	**1,733**	**(748)**	**943**	**1,077**	**3,005**

Deferred income tax assets are recognised in respect of tax losses and temporary differences to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group has not recognised deferred income tax assets of £7,500,000 (2007: £7,200,000) in respect of losses amounting to £14,700,000 (2007: £15,300,000) and other temporary differences of £5,400,000 (2007: £3,600,000) due to the uncertainty at the balance sheet date as to their recovery. The losses can be carried forward against future taxable income. Losses amounting to £1,400,000 will expire during the years 2013 to 2015, £10,900,000 will expire during the years 2022 to 2027 and £900,000 will expire during 2009 to 2013.

The Group obtained a current tax benefit of £nil (2007: £24,000) from previously unrecognised tax losses.

The Group recognised a reduction in deferred tax assets of £101,000 in relation to changes in tax rates.

Company	Accelerated depreciation £000	Other £000	Total £000
At 28 May 2006	8	22	30
Credited/(charged) to the income statement	(2)	33	31
At 3 June 2007	6	55	61
Charged to the income statement	(1)	(30)	(31)
At 1 June 2008	**5**	**25**	**30**

The deferred income tax credited to the hedging reserve in equity during the year was £237,000 (2007: £26,000) for the Group.

19. Inventories

Group	2008 £000	2007 £000
Raw materials	**830**	1,082
Work in progress	**781**	752
Finished goods and goods for resale	**8,781**	9,426
	10,392	11,260

There is no material difference between the balance sheet value of inventories and their replacement cost.

There were no material releases of inventory provisions made in prior years to the income statement.

The Company held no inventories at either year end.

20. Trade and other receivables

	Group		Company	
	2008 £000	2007 £000	**2008 £000**	2007 £000
Trade receivables	**7,317**	6,024	**-**	-
Less provision for impairment of receivables	**(1,219)**	(634)	**-**	-
Trade receivables - net	**6,098**	5,390	**-**	-
Prepayments and accrued income	**2,978**	3,045	**53**	77
Receivables from related parties	**-**	-	**1,122**	1,008
Loans to related parties	**-**	-	**16,090**	15,293
Other receivables	**2,028**	1,120	**16**	30
Total trade and other receivables	**11,104**	9,555	**17,281**	16,408
Non-current receivables:				
Trade receivables	**76**	57	**-**	-
Less provision for impairment of receivables	**(76)**	-	**-**	-
Trade receivables - net	**-**	57	**-**	-
Prepayments and accrued income	**354**	404	**-**	-
Other receivables	**880**	743	**-**	-
Loans to related parties	**-**	-	**15,015**	14,289
Non-current portion	**1,234**	1,204	**15,015**	14,289
Current portion	**9,870**	8,351	**2,266**	2,119

The currency amounts of the Group's and Company's trade and other receivables are denominated in sterling, euro and US dollar.

Trade receivables are recorded at amortised cost, reduced by estimated allowances for doubtful debts. The fair value of trade and other receivables does not differ materially from the book value.

The effective interest rates on non-current loans to related parties is charged at LIBOR plus 1% in both years.

There is no significant concentration of credit risk with respect to trade receivables, as the Group has a large number of customers which are internationally dispersed.

All non-current receivables are due within 5 years of the balance sheet date.

Trade receivables that are less than three months past due are not considered impaired unless amounts are specifically identified as irrecoverable. The ageing analysis of the Group's past due trade receivables is as follows:

	2008			2007		
	Not impaired £000	**Impaired £000**	**Total £000**	Not impaired £000	Impaired £000	Total £000
Up to 3 months past due	**538**	**264**	**802**	335	283	618
3 to 12 months past due	**159**	**535**	**694**	69	227	296
Over 12 months past due	**-**	**311**	**311**	5	124	129
	697	**1,110**	**1,807**	409	634	1,043

In addition to the above, current debt of £109,000 (2007: £nil) has been impaired.

NOTES TO THE FINANCIAL STATEMENTS continued

20. Trade and other receivables continued

Provision for impairment of receivables

Movements on the provision for impairment of trade receivables are as follows:

	Group £000
At 29 May 2006	621
Charge for the year	379
Receivables written off during the year as uncollectible	(360)
Exchange differences	(6)
At 3 June 2007	634
Charge for the year	569
Receivables written off during the year as uncollectible	(34)
Exchange differences	50
At 1 June 2008	**1,219**

The carrying amount of the Group's trade and other receivables are denominated in the following currencies:

	2008 £000	2007 £000
Sterling	**3,332**	2,759
Euro	**4,267**	3,861
US dollar	**1,725**	1,769
Other currencies	**1,780**	1,166
	11,104	9,555

21. Cash and cash equivalents

	Group		Company	
	2008 £000	2007 £000	**2008 £000**	2007 £000
Cash and cash equivalents	**7,178**	5,604	**4,643**	-
Short-term bank deposits	**545**	499	**-**	-
	7,723	6,103	**4,643**	-

The Group's cash and cash equivalents is repayable on demand and includes a right of set-off between sterling and other currencies held in the UK.

Cash and cash equivalents and short-term deposits are floating rate assets which earn interest at various rates with reference to the prevailing interest rates. Euro cash held outside of the UK is offset by a euro overdraft under a notional pooling agreement, with the balances netted for interest calculation purposes.

Short-term deposits have an average maturity of 1 day.

Cash, cash equivalents and bank overdrafts include the following for the purposes of the cash flow statement (see analysis of net debt, note 32):

	Group		Company	
	2008 £000	2007 £000	**2008 £000**	2007 £000
Cash and cash equivalents	**7,723**	6,103	**4,643**	-
Bank overdrafts	**(2,779)**	(6,447)	**-**	(4,029)
	4,944	(344)	**4,643**	(4,029)

22. Financial liabilities - borrowings

	Group		Company	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Current				
Bank overdrafts	**2,779**	6,447	**-**	4,029
Obligations under finance leases	**12**	14	**-**	-
	2,791	6,461	**-**	4,029
Non-current				
Bank loans	**15,000**	9,811	**15,000**	5,200
Obligations under finance leases	**1**	9	**-**	-
	15,001	9,820	**15,000**	5,200
Total borrowings	**17,792**	16,281	**15,000**	9,229

Bank overdrafts of the Group of £2,779,000 (2007: £1,700,000) are denominated in euros and offset euro cash deposits outside of the UK under a pan European notional pooling agreement. The balances are offset for interest calculation purposes with the net balance accruing interest at a floating rate by reference to EuroBid.

Bank loans represent a sterling medium-term revolving credit facility that is unsecured as at both 3 June 2007 and 1 June 2008 and can be drawn in both sterling and euros. Covenants are based upon interest cover, net debt to pre-exceptional EBITDA ratio and cash flow to interest and dividends ratio. Interest accrues at a floating rate by reference to LIBOR.

The fair value of borrowings does not differ from the book value.

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default and accrue interest at a fixed rate of 10% per annum.

The minimum lease payments under finance leases fall due as follows:

	2008	2007
	£000	£000
Within 1 year	**12**	16
Between 1 and 5 years	**3**	10
	15	26
Future finance costs on finance leases	**(2)**	(3)
Present value of finance lease liabilities	**13**	23

The Company held no finance leases at either year end.

The carrying amounts of the Group's and Company's borrowings are denominated in the following currencies:

	Group		Company	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Sterling	**15,000**	9,948	**15,000**	9,229
Euro	**2,779**	6,310	**-**	-
US dollar	**13**	23	**-**	-
	17,792	16,281	**15,000**	9,229

NOTES TO THE FINANCIAL STATEMENTS continued

22. Financial liabilities - borrowings continued

Undrawn borrowings

The bank borrowing facilities of the Group, drawn and undrawn, are as follows:

		2008				2007			
	Currency	**Effective interest rate at 1 June 08**	**Drawn £000**	**Undrawn £000**	**Total £000**	Effective interest rate at 3 June 07	Drawn £000	Undrawn £000	Total £000
Committed:									
- Medium-term revolving credit facility	sterling	**7.17%**	**15,000**	**-**	**15,000**	6.35%	5,000	-	5,000
- Medium-term revolving credit facility	euro		**-**	**-**	**-**	4.60%	4,811	189	5,000
			15,000	**-**	**15,000**		9,811	189	10,000
Uncommitted:									
- Bank overdraft - working capital facility	sterling	**6.60%**	**-**	**5,000**	**5,000**	6.35%	4,747	5,253	10,000
- Bank overdraft	euro	**4.83%**	**2,779**	**2,221**	**5,000**	4.50%	1,700	3,300	5,000
Total facilities for the Group			**17,779**	**7,221**	**25,000**		16,258	8,742	25,000

Bank borrowings attract floating rate interest by reference to sterling and euro base rates and LIBOR. The medium-term revolving credit facility is unsecured, and is available until 27 July 2010. The terms of the facility allow draw down in both sterling and euros.

Bank overdrafts are unsecured. The working capital facility includes an additional £5,000,000 (2007: £5,000,000) seasonal overdraft which ran from 1 August to 31 January with an additional £1,000,000 between 1 November and 31 December.

Following the year end, the Group increased the revolving credit facility to £20,000,000 and reduced the working capital facility to £5,000,000. These facilities will be secured on UK assets. The seasonal facilities have been removed in favour of a higher revolving credit facility.

The fair value of borrowings does not differ from the book value.

23. Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), liquidity risk, capital risk and credit risk. The Group's financial risk management objective is to reduce the financial risks and exposures facing the business and minimise the potential adverse effects on the Group's financial performance.

The Group undertakes an active hedging policy, including the use of foreign currency borrowings, forward foreign currency contracts and interest rate caps, which are entered into under policies approved by the board and monitored by the group finance director. These transactions are only undertaken to reduce exposures arising from underlying commercial transactions and at no time are transactions undertaken for speculative reasons.

Foreign currency risk

The majority of the Group's business is transacted in sterling, euros and US dollars. The principal currency of the Group is sterling. The Group seeks to manage transactional and balance sheet translation currency exposure.

The Group is exposed to foreign exchange risk principally via:

a. Transactional exposure arising from the future sales and purchases that are denominated in a currency other than the functional currency of the transacting company. Transactional exposures that could significantly impact the Group's income statement are hedged using forward currency contracts which are designated as cash flow hedges.

b. Translation exposure arising on investments in foreign operations, where the net assets are denominated in a currency other than sterling. Translation exposure is minimised by matching the average assets of the Group to the equivalent average liabilities in each major currency. In addition, euro investments are hedged via foreign currency borrowings which are formally designated as net investment hedges.

c. Loans to non-UK subsidiaries. These are hedged using foreign currency transactions and borrowings in matching currencies.

Foreign exchange sensitivity

The impact on the Group's financial assets and liabilities from foreign currency volatility is shown in the sensitivity analysis below.

The sensitivity analysis has been prepared based on all material financial assets and liabilities held at the balance sheet date and does not reflect all the changes in revenue or expenses that may result from changing exchange rates. The analysis is prepared for the euro and US dollar given that these represent the major foreign currencies in which financial assets and liabilities are denominated. The sensitivities shown act as a reasonable benchmark considering the movements in currencies over the last two years.

The following assumptions were made in calculating the sensitivity analysis:

- Financial assets and liabilities (including financial instruments) are only considered sensitive to foreign exchange rates where they are not in the functional currency of the entity that holds them.
- Changes in the carrying value of derivative financial instruments designated as net investments arising from movements in foreign exchange rates are recorded directly in equity.
- Changes in the carrying value of ineffective derivative financial instruments or those not designated as hedging instruments only affect the Group's income statement.
- Translation of results of overseas subsidiaries is excluded.

23. Financial risk factors continued

Using the above assumptions, the following table shows the sensitivity of the Group's income statement and equity to movements in foreign exchange rates on US dollar and euro financial assets and liabilities:

Group	2008 Income gain/ (loss) £000	2008 Equity gain/ (loss) £000	2007 Income gain/ (loss) £000	2007 Equity gain/ (loss) £000
5% appreciation of the US dollar	**-**	**119**	(5)	46
10% appreciation of the euro	**(201)**	**(1,171)**	(137)	(861)

A depreciation of the stated currencies would have an equal and opposite effect.

The movements in equity results principally from forward purchases of euros as cash flow hedges. The euro net investment hedge is more than offset by the revaluation in equity of the hedged assets.

Interest rate risk

The Group's interest rate risk primarily arises from the Group's borrowings which are at variable rates and expose the Group to cash flow interest rate risk.

The Group has an exposure to movements in interest rates, primarily in sterling and euros. The board periodically reviews the Group's exposure to interest rate fluctuations taking into consideration financial covenants, refinancing, renewal of existing positions and hedging.

To manage interest rate risk, wherever possible, the Group offsets financial liabilities against financial assets in the same currency. This process is facilitated through interest offset accounts within the UK facility, a pan European cash pooling arrangement and external borrowings in more than one currency.

The Group manages its sterling cash flow interest rate risk by using an interest rate cap. Such derivatives have the economic effect of partially converting variable rate debt into fixed rate debt by creating an interest rate ceiling to mitigate potential increases in rates. During the year the Group purchased an amortising interest rate cap for £29,000. This covers the Group's debt as described below:

Period	Amount of debt £000
1 Nov 07 to 3 Nov 08	15,000
3 Nov 08 to 2 Nov 09	10,000
2 Nov 09 to 4 May 10	5,000

Interest rate sensitivity

The sensitivity analysis has been prepared for sterling and euro interest rates being the principal currencies in which the Group borrows. The sensitivities shown act as a reasonable benchmark considering the movements in interest rates over the last two years.

Interest rate movements on obligations under finance leases, interest rate derivatives, trade receivables, trade payables and other financial instruments not in net debt do not present a material exposure to the Group based on a 1% increase or decrease in sterling or euro interest rates.

The impact on the Group's financial instruments from interest rate volatility is shown in the sensitivity analysis below:

Group	2008 Increase/ (decrease) in finance costs £000	2007 Increase/ (decrease) in finance costs £000
1% increase in sterling interest rates	**194**	139
1% increase in euro interest rates	**(31)**	(55)

A 1% decrease in interest rates would have an equal and opposite effect.

Liquidity risk

Liquidity is managed by maintaining sufficient cash and availability of funding through an adequate amount of committed credit facilities.

Cash flow requirements are monitored by short and long-term rolling forecasts both within the local operating units and for the overall Group. In addition, the Group's liquidity management policy involves projecting cash flows in the major currencies and considers the level of liquid assets necessary to meet these, monitoring working capital levels and liquidity ratios, and maintaining debt financing plans.

The seasonal nature of the business necessitates higher levels of working capital in the months between September and January as inventories and trade receivables build up in advance of and during the Christmas period. Consequently, the Group ensures that it has a core level of medium-term funding in place.

Capital risk

The capital structure of the Group consists of net debt (see note 32) and shareholders equity (see note 30). The Group manages its capital to safeguard the ability to operate as a going concern and to optimise returns to shareholders through an appropriate balance of debt and equity. The capital structure is monitored using the gearing ratio, calculated as net UK debt divided by total capital.

The Group manages its capital structure and makes adjustments to it in light of changes to economic conditions and its strategic objectives. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, buy back shares and cancel them or issue new shares.

23. Financial risk factors continued

Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments, deposits and debts with banks and financial institutions as well as credit exposures to independent retailers.

The Group controls credit risk from a treasury perspective by only entering into transactions involving financial instruments with authorised counter-parties of strong credit quality, and by ensuring that such positions are monitored regularly. Credit risk on cash, short-term deposits and derivative financial instruments is limited because the counter-parties are banks with high credit ratings assigned by international credit rating agencies.

There is no significant concentration of credit risk with respect to trade receivables, as the Group has a large number of customers that are internationally dispersed. Policies are also in place to ensure the wholesale sales of products are made to customers with an appropriate credit history and credit limits are periodically reviewed. Amounts recoverable from customers are reviewed on an ongoing basis and appropriate provision made for bad and doubtful debts (note 20). Provision requirements are determined with reference to ageing of invoices, credit history and other available information.

Sales made through our own Hobby centres or via direct are made in cash or with major credit cards.

Maturity profile of financial liabilities:

	2008			2007		
Group	**Within 1 year £000**	**Between 1 and 2 years £000**	**Between 2 and 5 years £000**	Within 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000
Bank loans	**-**	**-**	**15,000**	-	9,811	-
Bank overdrafts	**2,779**	**-**	**-**	6,447	-	-
Finance leases	**12**	**1**	**-**	14	9	-
Trade and other payables not in net debt	**12,672**	**-**	**-**	11,169	-	-
Gross settled derivative contracts - payments	**16,699**	**-**	**-**	12,267	-	-
Gross settled derivative contracts - receipts	**(15,305)**	**-**	**-**	(12,171)	-	-
	16,857	**1**	**15,000**	17,726	9,820	-

	2008			2007		
Company	**Within 1 year £000**	**Between 1 and 2 years £000**	**Between 2 and 5 years £000**	Within 1 year £000	Between 1 and 2 years £000	Between 2 and 5 years £000
Bank loans	**-**	**-**	**15,000**	-	5,200	-
Bank overdrafts	**-**	**-**	**-**	4,029	-	-
Trade and other payables not in net debt	**461**	**-**	**-**	312	-	-
Payables due to related parties	**4,339**	**-**	**1,503**	2,314	-	1,503
	4,800	**-**	**16,503**	6,655	5,200	1,503

The undiscounted contractual maturity dates of the Group's financial borrowings are shown above. All trade payables and derivative financial instruments are contractually due within 12 months and therefore the fair values do not differ from their carrying values.

24. Derivative financial instruments

Derivatives are used for hedging the exposure to foreign exchange and interest rate risks arising from operating, financing and investing activities. Derivatives that are held as hedging instruments are formally designated as hedges as defined in IAS 39.

There is no material impact on the Group's income statement resulting from hedge ineffectiveness.

Recognised fair values of derivative financial instruments

Forward foreign exchange contracts, embedded derivatives and interest rate caps are measured at fair value by reference to year end market values. The full fair values of hedging derivatives are classified as follows:

	2008			2007	
Group	**Non-current assets £000**	**Current assets £000**	**Current liabilities £000**	Current assets £000	Current liabilities £000
Forward foreign exchange contracts - cash flow hedges	**-**	**7**	**(1,401)**	24	(120)
Interest rate cap - cash flow hedge	**14**	**10**	**-**	-	-
Total	**14**	**17**	**(1,401)**	24	(120)

	2008		2007	
Company	**Non-current assets £000**	**Current assets £000**	Non-current assets £000	Current assets £000
Interest rate cap - cash flow hedge	**14**	**10**	-	-

24. Derivative financial instruments continued

In accordance with IAS 39, 'Financial Instruments: Recognition and Measurement', the Group has reviewed all contracts and has not identified embedded derivatives that are required to be separately accounted for.

Net fair values of derivative financial instruments

The net fair values of derivative financial instruments and designated for cash flow hedges at the balance sheet date are:

Group	2008 £000	2007 £000
Contracts with positive fair values:		
- Forward foreign currency contracts - cash flow hedges	**7**	24
- Interest rate cap - cash flow hedge	**24**	-
Contracts with negative fair values:		
- Forward foreign currency contracts - cash flow hedges	**(1,401)**	(120)
Net fair values of cash flow hedges	**(1,370)**	(96)

Other than the interest rate cap, the Company held no financial derivatives at either year end.

The net fair value losses in the year ended 1 June 2008 on open forward foreign exchange contracts that hedge the foreign currency risk of anticipated future sales (cash flow hedges) are £940,000 (2007: £88,000 loss) and are recognised in the hedging reserve. These will be transferred to the income statement when the forecast sales occur over the next 12 months.

There are no derivatives outstanding at either year end that were designated as fair value hedges.

25. Trade and other payables - current

	Group		Company	
	2008 £000	2007 £000	2008 £000	2007 £000
Trade payables	**4,397**	3,698	**29**	21
Payables due to related parties	**-**	-	**291**	284
Loans from related parties	**-**	-	**4,048**	2,530
Other taxes and social security	**1,961**	1,792	**61**	43
Other payables	**1,617**	1,368	**103**	94
Accruals and deferred income	**7,376**	7,031	**296**	180
	15,351	13,889	**4,828**	3,152

The carrying amount of the Group's trade and other payables are denominated in the following currencies:

	2008 £000	2007 £000
Sterling	**9,212**	8,314
Euro	**3,030**	2,937
US dollar	**1,586**	1,702
Other currencies	**1,523**	936
	15,351	13,889

The fair value of trade and other payables does not materially differ from the book value.

26. Other non-current liabilities

	Group		Company	
	2008 £000	2007 £000	2008 £000	2007 £000
Accruals and deferred income	**723**	958	**-**	-
Loans from related parties	**-**	-	**1,503**	1,503
	723	958	**1,503**	1,503

The fair value of other non-current liabilities does not materially differ from book value.

NOTES TO THE FINANCIAL STATEMENTS continued

27. Provisions

Analysis of total provisions:

	Group		Company	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Current	**1,155**	3,225	**86**	193
Non-current	**1,317**	1,283	**2**	18
	2,472	4,508	**88**	211

Group	Redundancy £000	Employee benefits £000	Property £000	Total £000
At 4 June 2007	1,556	888	2,064	4,508
Charged/(credited) to the income statement:				
- Additional provisions	1,364	104	674	2,142
- Unused amounts reversed	(200)	(182)	(775)	(1,157)
Exchange differences	46	81	33	160
Increase in provision - discount unwinding (note 8)	-	-	30	30
Utilised	(2,344)	(37)	(830)	(3,211)
At 1 June 2008	**422**	**854**	**1,196**	**2,472**

Company	Redundancy £000	Employee benefits £000	Total £000
At 4 June 2007	193	18	211
Charged/(credited) to the income statement:			
- Additional provisions	37	-	37
- Unused amounts reversed	-	(7)	(7)
Utilised	(153)	-	(153)
At 1 June 2008	**77**	**11**	**88**

The fair value of provisions does not differ from the book value.

Employee benefits

The Group operates a long service incentive scheme under which employees receive a one off additional holiday entitlement of two weeks when they reach 10 years of employment (10 Year Veterans). The costs of these benefits are accrued over the period of employment based on expected staff retention rates and the anticipated future employment costs discounted to present values and utilised once an employee reaches 10 years of employment.

Property provisions

Property provisions relate to committed costs outstanding under onerous or vacant lease commitments and will diminish over the lives of the underlying leases. £356,000 (2007: £327,000) of the above provision is expected to be utilised between 2010 and 2017. The estimated liability is discounted at the Group's weighted average cost of capital of 9% (2007: 9%).

Redundancy provisions

Redundancy provisions relate to the costs of redundancy incurred as part of the cost reduction programme. The provisions are expected to be utilised by the end of 2008/9.

28. Share capital

Group and Company	Number of shares (thousands)	Ordinary shares £000	Share premium account £000	Total £000
At 3 June 2007 and 1 June 2008	**31,129**	**1,556**	**7,822**	**9,378**

During the year no ordinary shares were issued. The total authorised number of shares is 42,000,000 shares (2007: 42,000,000 shares) with a par value of 5p per share (2007: 5p per share). All issued shares are fully paid.

Share options

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

Date granted	No. of shares **2008**	No. of shares 2007	Exercise price in pence per share	Exercise dates
24 August 1999	**10,870**	10,870	460p	Aug 2002 to Aug 2009
31 July 2001	**1,274**	2,508	392.5p	July 2004 to July 2008
25 July 2003	**-**	12,746	-	June 2005 to July 2008
28 September 2004	**-**	32,328	581.2p	Nov 2007 to Apr 2008
18 October 2005	**94,343**	166,035	340p	Nov 2008 to Apr 2009
1 November 2005	**-**	8,219	329.5p	Nov 2007
25 September 2006	**107,416**	220,700	292.6p	Nov 2009 to Apr 2010
25 September 2006	**4,338**	5,355	304.6p	Nov 2009 to Apr 2010
2 October 2006	**6,097**	7,820	336p	Nov 2008
1 October 2007	**167,655**	-	262.3p	Nov 2010 to Apr 2011
1 October 2007	**7,048**	-	220.65p	Nov 2009
	399,041	466,581		

Movements in the number of share options outstanding are as follows:

	2008		2007	
	Approved and unapproved share schemes	**Long-term incentive plan**	Approved and unapproved share schemes	Long-term incentive plan
At start of year	**453,835**	**12,746**	422,265	12,746
Granted	**192,355**	**-**	268,383	-
Forfeited	**(247,149)**	**-**	(236,740)	-
Exercised	**-**	**(12,746)**	(73)	-
At end of year	**399,041**	**-**	453,835	12,746

Movements in the weighted average exercise price of the approved and unapproved share schemes are as follows:

	2008	2007
At start of year	**337p**	396p
Granted	**261p**	294p
Forfeited	**344p**	395p
Exercised	**-**	340p
At end of year	**295p**	337p

Out of the 399,041 outstanding options (2007: 453,835 options), no options (2007: no options) were exercisable at 1 June 2008.

NOTES TO THE FINANCIAL STATEMENTS continued

28. Share capital continued

IFRS 2 'Share-based Payment' requires the fair value of all share options granted after 7 November 2002 to be charged to the income statement. For options granted after 7 November 2002, the fair value of the option must be assessed on the date of each grant.

The fair value of share options granted is determined using the Black-Scholes valuation model. The significant inputs into the model were as follows:

Group and Company	Share price (pence)	Option exercise price (pence)	Vesting period	Option life	Expected volatility	Risk free rate of return (%)	Dividend yield (%)	Fair value per option (pence)
Employee sharesave schemes:								
Games Workshop Group PLC 2005 Savings-Related Share Option Scheme - 2005 granted options non-US employees	377p	340p	36 mths	42 mths	36%	4.5%	5.0%	90.9p
Games Workshop Group PLC 2005 Savings-Related Share Option Scheme - 2006 granted options non-US and French employees	389p	292.6p	36 mths	42 mths	31%	4.8%	4.9%	112.4p
Games Workshop Group PLC 2005 Savings-Related Share Option Scheme - 2006 granted options US employees	396p	336p	24 mths	24 mths	35%	4.8%	4.8%	94.9p
Games Workshop Group PLC 2005 Savings-Related Share Option Scheme - 2006 granted options French employees	389p	304.6p	36 mths	42 mths	31%	4.8%	4.9%	106.4p
Games Workshop Group PLC 2005 Savings-Related Share Option Scheme - 2007 granted options non-US employees	328p	262.3p	36 mths	42 mths	40%	4.8%	-	137.0p
Games Workshop Group PLC 2005 Savings-Related Share Option Scheme - 2007 granted options US employees	260p	220.65p	24 mths	24 mths	39%	4.8%	-	84.8p

The expected volatility was determined by reference to the volatility in the share price using rolling one year periods for the three years immediately preceding the grant date. The risk free rate of return is based upon UK gilt rates with an equivalent term to the options granted. Dividend yield is based on historic performance. 75% of options are assumed to vest in the above calculation.

29. Other reserves

Group	**2008** Capital redemption reserve £000	Translation reserve £000	Other reserve £000	Total £000	2007 Capital redemption reserve £000	Translation reserve £000	Other reserve £000	Total £000
Beginning of year	101	(261)	(1,050)	(1,210)	101	353	(1,050)	(596)
Net investment hedge	-	(737)	-	(737)	-	-	-	-
Exchange differences on translation of foreign operations	-	1,626	-	1,626	-	(614)	-	(614)
End of year	**101**	**628**	**(1,050)**	**(321)**	101	(261)	(1,050)	(1,210)

The other reserve was created on flotation following a payment to the previous holders of the Company's ordinary shares.

As at 1 June 2008 the Company's capital redemption reserve was £101,000 (2007: £101,000). The Company had no other reserves in addition to the capital redemption reserve at either year end.

30. Retained earnings

	Group				Company		
	Hedging reserve £000	Treasury shares £000	Profit and loss £000	Total £000	Treasury shares £000	Profit and loss £000	Total £000
At 29 May 2006	60	(49)	31,143	31,154	(49)	19,712	19,663
(Loss)/profit attributable to equity shareholders	-	-	(3,481)	(3,481)	-	9,398	9,398
Cash flow hedges:							
- Fair value losses in the year	(88)	-	-	(88)	-	-	-
- Transfers to net profit	(86)	-	-	(86)	-	-	-
Deferred tax	26	-	-	26	-	-	-
Current tax	26	-	-	26	-	-	-
Dividends paid	-	-	(5,904)	(5,904)	-	(5,904)	(5,904)
Exchange differences	-	-	-	-	-	(18)	(18)
Share-based payments	-	-	42	42	-	42	42
At 3 June 2007 and 4 June 2007	(62)	(49)	21,800	21,689	(49)	23,230	23,181
Loss attributable to equity shareholders	-	-	(740)	(740)	-	(1,955)	(1,955)
Cash flow hedges:							
- Fair value losses in the year	(940)	-	-	(940)	-	-	-
- Transfers to net profit	88	-	-	88	-	-	-
Deferred tax	237	-	-	237	-	-	-
Shares vested	-	49	(49)	-	49	(49)	-
Share-based payments	-	-	135	135	-	135	135
At 1 June 2008	**(677)**	**-**	**21,146**	**20,469**	**-**	**21,361**	**21,361**

Cumulative goodwill relating to acquisitions made prior to 1998, which has been eliminated against reserves, amounts to £1,159,000 (2007: £1,159,000).

Own shares were held in treasury by the Games Workshop Employee Share Trust, a discretionary trust, to satisfy options and awards granted under a former long-term incentive plan. The number of shares held in treasury are nil (2007: 12,746).

31. Reconciliation of profit/(loss) to net cash from operating activities

	Group		Company	
	2008 £000	2007 £000	**2008 £000**	2007 £000
Operating profit/(loss) - continuing operations	**2,552**	(1,784)	**(2,399)**	8,835
Operating loss - discontinued operations	**(1,106)**	(291)	**-**	-
Depreciation of property, plant and equipment	**6,778**	6,925	**-**	-
Net impairment (reversal)/loss on property, plant and equipment	**(52)**	306	**-**	-
Loss on disposal of property, plant and equipment (see below)	**210**	95	**-**	-
Loss on disposal of goodwill	**922**	-	**-**	-
Amortisation of capitalised development costs	**2,236**	2,525	**-**	-
Amortisation of other intangibles	**753**	720	**-**	-
Net fair value losses/(gains) on derivative financial instruments	**421**	88	**(24)**	-
Dividend income	**-**	-	**-**	(11,100)
Share-based payments	**135**	42	**135**	42
Changes in working capital:				
- Decrease in inventories	**811**	901	**-**	-
- (Increase)/decrease in trade and other receivables	**(847)**	128	**(75)**	466
- Increase/(decrease) in trade and other payables	**480**	(2,326)	**854**	986
- (Decrease)/increase in provisions	**(2,196)**	3,012	**(123)**	191
Net cash from operating activities	**11,097**	10,341	**(1,632)**	(580)

The cash flow relating to exceptional items is £3,734,000 (2007: £400,000).

NOTES TO THE FINANCIAL STATEMENTS continued

31. Reconciliation of (loss)/profit to net cash from operating activities continued

In the cash flow statement, proceeds from the sale of property, plant and equipment comprise:

	Group	
	2008 £000	2007 £000
Net book amount	**260**	108
Loss on sale of property, plant and equipment	**(210)**	(95)
Proceeds from sale of property, plant and equipment	**50**	13

The Company sold no property, plant and equipment at either year end.

Proceeds from the sale of other intangibles comprise:

	2008 £000	2007 £000
Net book amount	**44**	-
Proceeds from sale of other intangibles	**44**	-

The Company sold no other intangibles at either year end.

32. Analysis of net debt

Group	As at 3 June 2007 £000	Cash flow £000	Exchange movement £000	**As at 1 June 2008 £000**
Cash at bank and in hand	6,103	1,740	(120)	**7,723**
Current borrowings - bank overdraft	(6,447)	3,424	244	**(2,779)**
Cash and cash equivalents	(344)	5,164	124	**4,944**
Non-current borrowings	(9,811)	(5,189)	-	**(15,000)**
Finance leases	(23)	10	-	**(13)**
Net debt	(10,178)	(15)	124	**(10,069)**

Company	As at 3 June 2007 £000	Cash flow £000	**As at 1 June 2008 £000**
Cash at bank and in hand	-	4,643	**4,643**
Current borrowings - bank overdraft	(4,029)	4,029	**-**
Cash and cash equivalents	(4,029)	8,672	**4,643**
Non-current borrowings	(5,200)	(9,800)	**(15,000)**
Net debt	(9,229)	(1,128)	**(10,357)**

33. Reconciliation of net cash flow to movement in net debt

	Group		Company	
	2008 £000	2007 £000	**2008 £000**	2007 £000
Increase/(decrease) in cash and cash equivalents in the year	**5,164**	(5,009)	**8,672**	(3,221)
Cash inflow from increase in debt and lease financing	**(5,179)**	(2,867)	**(9,800)**	(2,600)
Change in net debt resulting from cash flows	**(15)**	(7,876)	**(1,128)**	(5,821)
Exchange movement	**124**	(53)	**-**	-
New finance leases	**-**	(28)	**-**	-
Net debt at start of year	**(10,178)**	(2,221)	**(9,229)**	(3,408)
Net debt at end of year	**(10,069)**	(10,178)	**(10,357)**	(9,229)

34. Commitments

Capital commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

Group	**2008 £000**	2007 £000
Other intangible assets	**77**	113
Property, plant and equipment	**333**	-
Total	**410**	113

The Company had no capital commitments at either year end.

34. Commitments continued

Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases are payable as follows:

Group	**2008** Hobby centres £000	**2008** Other property £000	**2008** Other £000	2007 Hobby centres £000	2007 Other property £000	2007 Other £000
Expiring within 1 year	**7,819**	**1,429**	**394**	7,548	1,202	406
Expiring between 2 and 5 years inclusive	**18,501**	**3,119**	**349**	16,580	3,658	576
Expiring in over 5 years	**5,225**	**838**	**-**	5,143	1,209	16
	31,545	**5,386**	**743**	29,271	6,069	998

The Company had no operating lease commitments at either year end.

Pension arrangements

The Group and Company operate defined contribution schemes. Commitments in respect of pensions are included within prepayments and accruals.

35. Contingencies

The Group and Company had no contingent liabilities that are expected to give rise to material liabilities at either year end.

The Group has contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business. It is not anticipated that any material liabilities will arise from the contingent liabilities.

The Group also has contingent liabilities in respect of the potential reversionary interest in sub-let leasehold properties amounting to £1,072,000.

The Company provides indemnities to third parties in respect of contracts regarding their use of its intellectual property, under commercial terms in the normal course of business.

The Company has also guaranteed the bank overdrafts and loans of certain Group undertakings for which the aggregate amount outstanding under these arrangements at the balance sheet date was £14,791,000 (2007: £14,558,000).

36. Related-party transactions

During the year the Company provided management and similar services to the majority of subsidiary companies within the Group. Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation for the Group.

The Group had no related-party transactions in the year.

Transactions between the Company and its subsidiaries are shown below:

Subsidiary	Nature of transaction	**2008** £000	2007 £000
Games Workshop America Inc.	Recharges	**45**	8
	Interest payable	**(2)**	-
EURL Games Workshop	Recharges	**52**	4
	Interest payable	**(115)**	(78)
Games Workshop SL	Recharges	**31**	3
	Interest payable	**(39)**	(30)
Games Workshop Oz Pty Limited	Recharges	**13**	6
Games Workshop Deutschland GmbH	Recharges	**66**	-
Games Workshop Italia SRL	Recharges	**29**	3
Games Workshop International Limited	Dividends receivable	**-**	1,100
Games Workshop (Queen Street) Limited	Recharges	**12**	3
	Interest receivable	**55**	49
Games Workshop Limited	Dividends receivable	**-**	10,000
	Recharges	**6**	3
	Interest receivable	**725**	389
		878	11,460

NOTES TO THE FINANCIAL STATEMENTS continued

36. Related-party transactions continued

Receivables/(payables) outstanding between the Company and its subsidiaries are shown below:

Subsidiary	Amounts owed by subsidiaries 2008 £000	Amounts owed by subsidiaries 2007 £000	Amounts owed to subsidiaries 2008 £000	Amounts owed to subsidiaries 2007 £000
Games Workshop Group PLC Employee Share Trust	**31**	27	**-**	-
Games Workshop Limited	**985**	926	**-**	-
Games Workshop America Inc.	**-**	-	**(42)**	(104)
Games Workshop US Manufacturing LLC	**-**	19	**(26)**	-
EURL Games Workshop	**6**	-	**-**	(19)
Games Workshop SL	**3**	-	**-**	(38)
Games Workshop Oz Pty Limited	**15**	6	**-**	-
Games Workshop Deutschland GmbH	**9**	-	**-**	(4)
Sabertooth Games Inc.	**-**	4	**-**	-
Games Workshop International Limited	**-**	-	**(223)**	(111)
Games Workshop (Queen Street) Limited	**3**	-	**-**	(8)
Games Workshop Italia SRL	**70**	26	**-**	-
	1,122	1,008	**(291)**	(284)

Current loans outstanding between the Company and its subsidiaries are shown below:

Subsidiary	Amounts owed by subsidiaries 2008 £000	Amounts owed by subsidiaries 2007 £000	Amounts owed to subsidiaries 2008 £000	Amounts owed to subsidiaries 2007 £000
EURL Games Workshop	**-**	-	**(2,271)**	(1,852)
Games Workshop SL	**-**	-	**(864)**	(678)
Games Workshop (Queen Street) Limited	**1,075**	1,004	**-**	-
Games Workshop America Inc	**-**	-	**(913)**	-
	1,075	1,004	**(4,048)**	(2,530)

Non-current loans outstanding between the Company and its subsidiaries are shown below:

Subsidiary	Amounts owed by subsidiaries 2008 £000	Amounts owed by subsidiaries 2007 £000	Amounts owed to subsidiaries 2008 £000	Amounts owed to subsidiaries 2007 £000
Games Workshop Interactive Limited	**6,779**	6,779	**-**	-
Less provision for impairment	**(6,779)**	(6,779)	**-**	-
Games Workshop Limited	**15,015**	14,289	**-**	-
Other subsidiaries	**-**	-	**(1,503)**	(1,503)
	15,015	14,289	**(1,503)**	(1,503)

37. Post balance sheet events

A number of changes to the UK corporation tax system were announced in the March 2007 Budget Statement. These changes are included in the 2008 Finance Act (enacted July 2008) but they had not been substantively enacted at the balance sheet date and therefore are not included in these financial statements.

The effect of the changes enacted in the Finance Act 2008 will be to decrease the net deferred tax asset recognised at 1 June 2008 by £1,001,000 and therefore decrease profit for the year by the same amount. This decrease in deferred tax is due to the phasing out of industrial buildings allowances from 2008 onwards.

FIVE YEAR SUMMARY

The amounts disclosed below for 2004 are stated on the basis of UK GAAP as it is not practicable to restate amounts for periods prior to the date of transition to IFRS. The principal differences between UK GAAP and IFRS are explained in notes 34 to 36 to the 2006 annual report.

	2008 £000	2007 £000	2006 £000	2005 £000	2004 £000
Continuing operations					
Revenue	**110,345**	109,501	114,468	135,804	149,877
Continuing operations					
Operating profit - pre-exceptional and pre-royalties receivable	**3,181**	821	3,928	14,903	20,518
Exceptional items - cost reduction programme	**(2,365)**	(4,028)	-	-	-
Royalties receivable	**1,736**	1,423	1,170	374	186
Operating profit/(loss)	**2,552**	(1,784)	5,098	15,277	20,704
Finance income	**425**	326	238	348	145
Finance costs	**(1,918)**	(1,110)	(797)	(740)	(427)
Profit/(loss) before taxation	**1,059**	(2,568)	4,539	14,885	20,422
Income tax expense	**(613)**	(622)	(1,660)	(4,889)	(7,245)
Profit/(loss) after taxation	**446**	(3,190)	2,879	9,996	13,177
Equity minority interests	**-**	-	-	-	1
Profit/(loss) attributable to equity shareholders - continuing	**446**	(3,190)	2,879	9,996	13,178
Loss attributable to equity shareholders - discontinued	**(1,186)**	(291)	(881)	(976)	(849)
Basic (loss)/earnings per ordinary share	**(2.4)p**	(11.2)p	6.5p	29.4p	40.8p

FINANCIAL CALENDAR

Annual general meeting	18 September 2008
Announcement of half year results	January 2009
Financial year end	31 May 2009
Announcement of final results	July 2009

APPENDIX

Chairman's preamble from the 2002 annual report

Many people find it difficult to grasp what Games Workshop Group does for a living. I regularly meet investors, both professional and amateur, who have developed a view of our business based on only part of the story. This means, simply, that we have not explained ourselves properly; so I am going to take this opportunity to start that process.

In any business there is a model (how the business works) and a story (why it works that way). The vast majority of our income and profits come from Games Workshop - a business that designs, manufactures, distributes and sells everything an enthusiast needs to play tabletop wargames in the fantasy world of Warhammer.

In short the model is that of a niche business and the story is that it appeals to a relatively small number of people devoted to the Games Workshop Hobby.

Niche businesses are not widely understood. They do not, generally, follow accepted business norms. Much of what is written about business is written about varieties of mass-market activities; most of the day to day experiences we have are with mass-market companies. A niche business is a tightly focussed activity that knows that what it does is not for everyone, but for a narrow group of individuals. It knows that quality is more important than price, and that respect for the customer is paramount. It knows that mass-market advertising is expensive and for niche businesses ineffective compared to the power of word of mouth. These are a few examples of the differences, there are many others.

This is what Games Workshop does; we create materials of the highest quality that appeal to a minority of the population. The challenge for us is not to try to get everybody to buy our products but to reach out and find the people who want them, anywhere in the world. In order to do so we sell wherever we can. We have our own Hobby stores that serve to introduce people to the Hobby - our marketing if you will. We work with independent retailers of many types. And we sell direct both on the internet and by mail order. These channels should work in harmony together, each providing a different, but complementary, service. Understanding this addresses many of the misconceptions which exist about the Company.

Firstly, Games Workshop is not a retailer. To characterise it in that way is to misunderstand completely the way the business model works. Games Workshop stores promote the Hobby. They introduce people to the Hobby and they provide a venue for experienced gamers to meet and play. A retailer buys product in, adds a mark up, and sells it on. We teach gaming and modelling and painting.

Secondly, our future growth is dependent above all on maintaining product quality, continuing to introduce more people to the Hobby, and keeping people in the Hobby longer. We do not need 'hit' lines, nor innovative packaging, nor cut-throat pricing.

Thirdly, we are a global business. The search for new Hobbyists is not finished in the UK. As you can see from these results, it is one of our strongest growth territories. That search has, however, led us to look overseas with such success that the majority of our sales and profits come from the rest of the world. So those who visit their local Games Workshop store in order to understand fully what we do are seeing only a very narrow part of our business.

Our customers are special and unusual people. They, like us, love their Hobby. Their main concern is with quality and integrity. So our biggest challenge is to ensure we constantly provide a level of detail and service that is appropriate to and respectful of the devotion of our customers.

The casual observer finds it hard to see why anyone would want to spend so much time and money collecting hundreds of miniatures, painting them and then playing wargames with them. Surely we should make the rules simpler, sell pre-painted models, reduce quality and sell cheaper. This is not our business. We are interested in our devoted customers and in providing what they want - the best products and outstanding service.

These are the keys to understanding Games Workshop: niche marketing and selling to a pre-selected, quality obsessed, narrow customer base.

This year we acquired a sister company for Games Workshop, Sabertooth Games Inc. Sabertooth makes collectible card games. Different model. Same story.

It is important that the model is different. We are looking to increase our sales, not to cannibalise them. Card games are collected by and played by a new and different group of gamers. They buy their cards in specialist stores. So for the Group this will be a new source of revenue.

It is equally important that the story is the same. Sabertooth is a niche business. It sells on quality rather than price into a customer base that is a small minority of the population as a whole. Our managerial skill sets are therefore an ideal match.

As a Group we understand niche markets, providing excellent products and service to devoted gamers. That is what we are good at, and that will continue to be our obsession.

Chairman's preamble from the 2003 annual report

Niche markets

Last year I wrote about how our business works. That piece is reprinted at the appendix to this annual report. This 'niche markets' section is a précis of it.

In any business there is a model (how the business works) and a story (why it works that way). Games Workshop is a business that designs, manufactures, distributes and sells everything an enthusiast needs to play tabletop wargames in the fantasy world of Warhammer.

In short the model is that of a niche business and the story is that it appeals to a relatively small number of people devoted to the Games Workshop Hobby.

Niche businesses have natural strengths . . . :

- They are naturally protected from macro economic factors
- Their customers are dedicated and loyal
- They are relatively price insensitive

. . . and consequences:

- They demand high quality products and services
- They need focus and specialisation for success

As a Group we understand niche markets, providing excellent products and service to devoted gamers. That is what we are good at, and that will continue to be our obsession.

Marketing and advertising

The business model all our businesses follow is that of the niche marketer. Niches have some wonderful natural advantages. They are largely protected from macro economic factors, their customers are dedicated and loyal, and price isn't the number one consideration. To retain those advantages it is vital to have high quality products and services, and vital that the business should keep its focus and specialisation. The tabletop fantasy wargames niche that we have built at Games Workshop over the years has these advantages, and we do work very hard to provide the right products, the right services and to retain management's focus on our specialised offer.

Just as a niche marketer knows that quality is more important than price, and that respect for the customer is paramount, it also knows that mass-market advertising is expensive and ineffective compared to the power of word of mouth.

I think it is worthwhile going over our advertising policy as it offers some interesting insights to the nature of our businesses.

We have a simple rule of thumb: no advertising.

Rules of thumb are best if they are short, unequivocal, and absolute. That means they are usually broken all the time. In that time honoured tradition this is a rule we break all the time, but never, I hope, in spirit. So why do we have the rule, why do we break the rule, and why don't I care (much)?

We have the rule because there is a common assumption in business life that if you want people to know what you are doing you advertise. In our business, as in other niche businesses, the best way for us to get known is by word of mouth. Nothing is more likely to generate interest than the recommendation of a friend. So our prime advertising task is to generate as many enthusiasts for our products and services as we can. We do that by providing the right products and services in as many places as we can, and we do that by opening more Games Workshop Hobby stores and by encouraging more independent retailers to carry our lines properly. We need to be out there to talk to people to see if our hobby is the one they are interested in. In that sense the staff in our Hobby stores and in our retail partners are our advertising. In turn that means our Hobby stores and our independent retail partners - particularly the better ones - are our marketing.

The question this model begs is: wouldn't it work even better if you got more people in your Hobby stores by mass advertising? I have to agree that mass advertising would get more people in our Hobby stores. But simply having more people wouldn't do us any good. We are not selling ice cream, we are encouraging those predisposed to do so to love the hobby of collecting, painting and wargaming with fantasy themed miniatures. Each person that comes in has to be introduced to what we do. We are already busy at peak times doing that, we certainly don't need hundreds more casually interested people clogging up the system. What we do need is more places to introduce people to the Hobby. So we open more Hobby stores and try to work with more independent retailers.

APPENDIX continued

Word of mouth is a wonderful way to market. It is extremely effective and it is free. We simply do not need to spend the huge sums required to advertise.

We break the rule about not advertising in two ways. Firstly, as we distinguish between mass advertising aimed at the public at large and local promotional advertising to announce the opening of a new Hobby store, or club, or event. Secondly, we occasionally get involved with organisations whose business is geared around a mass advertising model to market their own products. We are quite happy to ride along with the upswing in business which that may bring. But we are forever vigilant. Such upswings may bring about a step change in the way our business in that territory operates or they may be a cruel bubble that will burst the minute the advertisements cease. A good example of this is DeAgostini, our licensee, producing a serialised gaming supplement based upon our Lord of the Rings tabletop battle game. It's never possible to tell until too late which of the two phenomena is occurring. On the whole we have, in the past, been able to keep most of the upside. (We are all touching wood hoping the same is true of the surge we have had in the UK business this second half.)

I said at the beginning of this statement that I didn't care (much) that we break our 'no advertising' rule. Now you can see why: either we break it for sensible small scale promotional activities or we only apparently break it. All the times you have seen the words Games Workshop in the recent TV advertisements someone else has been paying for them. Nevertheless I do care a bit - and that care is a function of the focus and specialisation we must bring to what we do. We at Games Workshop must all in our hearts hate mass advertising so we are never tempted into the destructive downward spiral a dependence upon it would bring.

Our business model is robust and well proven over time. To attract more customers we must open more Hobby stores, work with more good independent partners; then we must provide customers with an experience they will enjoy for life. So far we have been successful in this: we aim to continue.

Shareholders

It has been my pleasure over the years as a director of Games Workshop to meet an astonishingly wide variety of individuals and institutions that either own shares or are interested in owning shares. The variety is not limited to their personalities but includes their reasons for wanting our shares. Those reasons, if they lead them to buy shares, affect their attitude to how we run this company. Let me tell you what that attitude is.

We are running this business for the very long term. (I use the term 'we' carefully; I am now speaking on behalf of the entire management team.) We expect it to be there so it can pay into our children's pensions. We will never do anything in order to improve our share price that is not in the long-term interests of the business. Not only do we believe this is the best way to build a business, we also believe it is the best way to enhance shareholder value over time.

Shareholders who want to buy shares that grow in value over time are true investors, they truly think like owners. Those who are seeking sudden, rapid increases in share price so they can realise a quick gain are gamblers. They are taking bets on our company. I think you will guess that we sympathise with our owners.

When I am asked about the future value of the shares I always explain that we believe this business can continue to deliver linear sales and profit growth (not compound, for that way madness lies). Over time I expect the share price to reflect fairly the value of the business we are building. More than that I cannot say. I don't have a crystal ball.

Our owners, quite rightly, ask from time to time what we intend to do with their cash. All the cash we generate belongs to our shareholders. Our attitude to that cash is as owners. Simply put: if we can't use it to generate better returns than the average over the long-term then we should hand it over. As it happens most years we generate more cash than is needed for the sensible investment in the business and the payment of the dividends. In those years we plan to return that money to our owners by buying back our shares. We believe it is the best way of returning the value to those shareholders who act like owners. Obviously as this is a policy designed to return owners' money to them it will never include borrowing to buy back shares.

Independent directors

I have learnt over the years just how valuable good independent directors (NEDs) can be. We are very lucky here to have three excellent NEDs, all of whom work very hard on your behalf. Chris Myatt is our senior NED. An accountant by training, a businessman by experience, he is a practical man by nature. Chris chairs our business committee in which the detailed performance of the business is raked over each month, and our remuneration and nomination committee. He never lets a detail go unexplained, and if I find that irritating from time to time you should find it very comforting. Alan Stewart was a senior merchant banker and more recently has been a very successful CEO of Thomas Cook. He chairs our audit committee. He is keenly (even aggressively) interested in ensuring shareowners get their due. Nick Donaldson is a senior corporate financier. A barrister by training he brings his forensic skills to chairing our City committee. This committee monitors the Company's interaction with the investment community. It also checks every word that the executives release to the world, in our half year and full year statements and at other times.

What impresses me most about these people, and what should give you great comfort, is their independence of mind. This is something all NEDs should have, but no list of rules will ever guarantee it.

The Games Workshop community

At last year's AGM we had a very welcome attendee. Laurie Stewart, president of the Gaming Club Network in the UK, is one of the very many unsung heroes of the Games Workshop community. Every day unpaid volunteers run clubs and organise events for the benefit of gamers. Without these people our community of enthusiastic gamers would be very much the poorer. I like to think the relationship is mutually beneficial, but nevertheless I tip my hat to these heroes and I trust that all Games Workshop's shareholders will join me in a heart felt thank you.

Chairman's preamble from the 2004 annual report

In my various guises (chairman, chief executive, school governor, parent, visiting professor, beer drinker) I am regularly asked: how's work, or how's Games Workshop doing? I usually just shrug and say we're trucking along like normal. Good, steady linear growth; no surprises, no problems. That's how it feels. The actuality is, of course, very different. During any year - and this last has been no exception - there are crises, major and minor; local restructurings; plans for new buildings; development strategies; plans for new markets and all the other fun stuff that everyone in business meets all the time.

The reason it feels so smooth and effortless to me is because of the truly remarkable staff we have. This isn't just me talking, it's everyone who takes the time to come and visit us and walk around to meet these people.

Good staff. Every organisation should have them. But how do we get them?

Firstly you can't have good staff if the working environment is poor. Either physically poor or emotionally poor. The physical environment is relatively easy to get right. The emotional environment is tougher. Nowadays we refer to this environment as the culture of the business. I would like to tell you why I think Games Workshop has a healthy culture.

We set high standards. That seems so obvious that it shouldn't need saying, but we actually mean it. We set ourselves high standards willingly and enthusiastically and we take them seriously.

In our internal handbook I wrote this about our corporate culture:

"I believe the culture of the business is founded on these things:

- A determination to be cheerful and confident and passionate about this, the best of all possible jobs
- An absolute commitment to the quality of our products and services
- An absolute commitment to the niche market business model that requires that quality, that requires intense specialisation and that delivers our subscription model of profits and cash
- An absolute belief that it is better to do what is right rather than what is easy
- A problem solving ethic based on our belief that we can do anything
- An ego-free environment, especially at senior levels; this leads to
  - Management who put the business first
  - Management who do not have private agendas
  - Management who welcome newcomers that bring skills we need with open arms
  - Management who are willing constantly to be self-critical but who are rightly proud of their achievements
  - Management who are willing constantly to criticise the business but who are rightly proud of its achievements
- No fear"

It's important to say what you believe in. Until you do you cannot have ambition or agreement. At Games Workshop the vast majority of our managers agree that these things are worthy ambitions.

Recruitment, as you would expect, has to be done carefully. The more senior the recruit the more careful we have to be. If we are to maintain our healthy emotional environment we need to recruit more attitude rather than skill. We need the skills, of course we do, but we have to see skills as a given rather than decisive, and recruit for attitude. The attitudes we are looking for above all others are:

Honesty, Courage and Humility

The honesty to face up to reality, to know who you are, and to admit to your weaknesses. Without any of these you cannot learn or grow. This takes courage, as does much else in life. The humility is not self-abasement but the understanding that although we all stand proud as remarkable individuals the good of Games Workshop has to come before self-interest. When you join this company leave your overblown ego at the door.

When I give this speech to the various people to whom I am asked to give speeches, I am invariably asked about recruitment. Recruitment can be hard. At most levels within the organisation our staff are getting pretty good at it, but we still find difficulty finding the right kind of senior staff. It isn't just that we ask for high standards, we don't know of a foolproof way of finding the right people. We rely, instead, on a long-winded process that involves candidates spending time with us until they've met most, if not all, of the senior staff, and as many of our spiritual leaders as possible. It's a wearisome process for the candidates.

The reaction I often get when trying to explain these things is sceptical. No organisation can be that good. Of course it can't. We don't say we are all these things, what we say is that we aspire to them. These are our ambitions. This is how we would like to be, both as people and as employees. Aspiration is good for you. Both physically and metaphysically.

My role here is as chief aspirant. If I don't work hard to learn and improve, why should anyone else? But I am really only chief aspirant. The serious day to day work is all done by the great management and staff we have. This is why I don't like publicity, especially photographs - it's not because, as Rick Priestley keeps reminding me, I am a seriously ugly man, or because I am shy - it's that it gives the wrong impression to the world. Games Workshop is a true gestalt. It has value and credibility and a life that far transcends any one of us. It's simply my turn to be caretaker.

APPENDIX continued

Chairman's preamble from the 2005 annual report

When reading results like these the owners of a business have to ask themselves: to what extent is this a trading cycle slowing for a while and to what extent is it due to bad management? If this is a trading cycle, what are the underlying trends in sales of core product? If this is bad management, what has been the effect on gross margin, net margin and cash? I hope that the rest of this document will give you the same confidence I have. Management is good and, yes, sales are simply reflecting the down side of a trading cycle.

Over the last two years Mark Wells, who took over the Games Workshop Hobby division in March 2004, and Paul Thomas, who is MD of our Manufacturing and Supply division, have begun to make their presence felt. Without the operational control over detail these men bring, a trading downturn like the one we have seen over the last few months would have had far more serious consequences for our profits.

I read these results with a certain amount of frustration: they are not good. Meanwhile, they could have been much worse. Most importantly, our underlying business is sound and seriously well invested.

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When I returned to the business five years ago, one of the first decisions I had to make was: should we take a licence from the producers of the film The Lord of the Rings? It was touch and go. The arguments for doing so were: acquiring more hobbyists, acquiring more independent trade accounts, stopping someone else doing it, and going with the general feeling throughout the Company that we had to do this. It was the last that was most important in my decision to say yes, closely followed by the third. The first two I was more nervous about. Yes, we would get more, but for how long? Would it be permanent and, if so, at what level?

I should have been more optimistic. Not only was the product much more successful than I ever dreamed it would be (thank you Rick Priestley for a great game design), it has given us a valuable third product line to support Warhammer and Warhammer 40,000. Lord of the Rings product sales have declined faster than we anticipated after the unsustainable levels of the last two years, but we still see them contributing to our sales and expect them to do so far into the future.

❖

I expect to be criticised when the Company does not do as well as is should. Earlier this year, we were obliged to announce that we did not think that the stock market's profit expectations for Games Workshop would be met. As a consequence our share price fell significantly. Amongst the comments made, one in particular struck me as interesting. I was asked what events I was going to engineer to make the share price go back up again. My position on this is quite clear. I, together with the management team, run the business - and the stock market decides what the share price should be. Both do their best to get it right but neither should try to do the other's job. Whether you are thinking of buying shares or thinking of selling them, rest assured I will do nothing other than run this business the best I can for the very long term.

I read recently a report on Games Workshop which represents a new and independent approach to analysis. I applaud this development. The existence of truly independent analysis is necessary for both companies and shareholders. The process whereby research is based upon what the Company says (inasmuch as it is allowed to) about its own future prospects - both in meetings and in 'analysis' - is, in my view, fundamentally unfair. Firstly, because it is us talking about our own future: whether wittingly or not we are going to produce information with the Company flavour. Secondly, it is information that is not available to all our shareholders equally. We make our presentations to the financial community available on our web site, but we do not visit in person every shareholder. We only visit a select few institutions, and most of those institutions do not in turn brief the shareholders they represent. The emergence of this kind of analysis I therefore welcome. Even so it has, as with most things, to be taken with a pinch of salt.

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What then of next year and the many years after that?

Later in this document you will see a graph showing our sales performance ever since I led a buy-out of the business in 1991. Not only does it illustrate well the recent over-performance of the business, it also shows that we have performed consistently well for a long time. This is what we should be measured on - long-term consistency. Back in 1991 I knew the venture capitalists that backed me were taking more than their fair share in both dividends and equity; but I was also confident that the business had a longer and richer future than they could imagine, and a little temporary pain was worth it. This is where we are today - a little temporary pain. All owners must form their own views but this owner is in it for the long term.

Chairman's preamble from the 2006 annual report

I've never done anything that's quite as much fun[1] as running a public company. The intellectual challenges and emotional rewards, even in a year of declining sales, are always there.

This year has seen both sales and profits decline. The decline in sales was expected, but it has been hard to project accurately the amount. Most of the decline is due to the trading cycles I spoke about last year - partly product cycles and partly channel problems. Some of it, though, is our own fault. During the good times, when life is easy, it's possible to forget the good habits that earned those good times. All of us forgot some of those good habits, and some of us forgot all of them. This is something I have been working at all year (and much of the previous year) to put right. I believe there is now evidence that we are putting it right. The standards of service which built this company are returning.

Profits are down as well. With declining profits we had a duty to look at our costs. The key question we asked ourselves was: is this still a growth business? The answer was a clear 'yes' and so it would have been crazy to take out the facilities we had just built or those temporarily unprofitable Hobby stores. We never intended cutting costs so deeply that the infrastructure of the business that we need for our future growth would be damaged. Nevertheless the fact that profits aren't even lower than they are is due to Paul Thomas (Manufacturing and Supply division) and Mark Wells (Hobby division) who have managed the reductions in costs superbly, and far better and further than your chairman would have.

In a bad year the management and staff of Games Workshop have taken the opportunity to re-establish a lean and efficient company, one that will reward owners richly as growth returns and profit and cash start flowing again.

Hard times reveal the quality in a business and I'm proud to be associated with the people who run this one.

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During the year I have been taken to task by some owners - both individual and corporate - over our (my) refusal to do 'something' about the share price. I believe I do 'something' about the share price all day every day and that 'something' is to run this company the best way I know how for long-term success. By long-term I mean 20 years or more. Leaving aside the dubious morality of trying to manipulate the share price on a daily basis (and my inevitable insanity) it is simply not practicable. Owners who share my view that I should focus all my energy on the long-term growth of the business will be pleased to hear that I will do nothing that is designed to engineer a short-term change in the share price. Owners who are disappointed by that news may wish to reconsider their investment positions.

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On the 'investor relations' section of our corporate web site (which has all our annual reports since 2001, and the institutional presentations we make) there is a place where people can post questions for me to answer. Mostly they are about what new models we are planning (read White Dwarf), or why we haven't got a store in Omaha, Nebraska (yet), or why we put our prices up all the time (we don't) but every now and then I get one that touches on something that needs to be explained. Blair Svendson from Missouri asked '[why am I] seeing my favorite independent hobby stores going out of business?'. He was referring to the United States, and so is my response. This is a question that concerns all of us at Games Workshop - staff, managers, customers and owners. I'm not certain I know THE answer, but I have an explanation that fits the facts. Most of these small owner-manager hobby stores have thrived over the last 20 years or so on role play games, collectible card games (CCGs) and niche merchandise from fantasy movie imagery. Role play games and movie merchandise are in decline; CCGs can now be bought in mass market outlets which hurts hobby store sales. Many of these stores carry our products very successfully, but they are not enough to support the whole store. Additionally many of these stores are run as lifestyle enterprises rather than as for profit businesses; when times get hard they sometimes respond slowly and weakly which can be, and has been in many cases, disastrous.

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I have written in the past about the basics of the Games Workshop business model and mentioned in passing that it is predicated upon the desire to own (lots of) miniatures. I shouldn't just mention it in passing because feeding this desire is the fundamental thing that we do. What causes these characteristics in people I don't know, but I do know that out there in the world is the gene that makes certain people (usually male) want to own hundreds of miniatures. We simply fill that need - it's not new (we didn't create it). What we do is make wonderful miniatures in a timeless and culturally independent way and sell them at a profit. Everything else we make and do is geared around that end. The games and stories provide the context for the miniatures, our stores are recruitment centres that simply give an opportunity to innate miniatures lovers to know themselves. Alan Merrett[2] and I were sitting ruminating about this basic truth last week. I was reflecting on how it was sometimes hard for potential owners to understand the basics of the business and why it was so long term and resilient. He reminded me how many of the people who work here forget it. There is so much stuff going on: so many army lists, so many designs, so many kits, so many campaigns, so many events, so many new stores, so many independent stockists, so many management issues that even the people who work here can forget from time to time that all we are doing, every day, is selling more toy soldiers, at a profit, to people who are truly grateful.

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At last year's staff meeting (which we hold annually to discuss the year's results with staff) I was asked what interest 'the City' took in our environmental and community programmes. I said 'not much' which, given the number of questions I had had on the topic from institutional investors on the road show, was an exaggeration. On reflection I think this was a pretty poor answer. Firstly, I had forgotten the thousands of owners who do not benefit from a corporate road show who might care very much indeed and, secondly, I was dismissing way too lightly the enormous amounts of effort put into these schemes by Games Workshop staff. Later in this report you'll be able to read about these programmes. They are important to us for two reasons. Firstly, they are important because the good habits they demand usually result in better practices, which in turn lead (you've guessed it) to more profit. Secondly, and this is the bigger reason, they are important because they are the right things to do.

[1] Fun, that is, so long as you don't want to win popularity contests or track your personal net worth on a daily basis.

[2] Alan is one of a small group of people who are responsible for helping line management maintain the integrity of our products and our business. He tends to get very passionate and excited when making points in debate and thus gets called 'Ranter' Merrett which is a bit unfair, but funnier than Alan 'Very Passionate And Excited' Merrett.

APPENDIX continued

Chairman's preamble from the 2007 annual report

To paraphrase Margaret Thatcher: 'The wisdom of hindsight, so useful to analysts and some shareholders, is sadly denied to practising businessmen.' Or least it is when we take our decisions. Like everyone else I wonder about the decisions I took and the things I said over the last few months and years. One can lose a great deal of sleep that way, but it is, of course, a futile exercise unless one is an historian. The real question is: did I do what I did and say what I said in good faith, with serious intent and with appropriate cognisance of the needs of all our stakeholders? Now, this is a good question and the answer for every one alive, never mind the few of us leading public companies, had better be yes. It is for me.

'No plan survives contact with the enemy.' Who said that and why did he say it? It was Field Marshall von Moltke and he was not denying the value of a plan but reminding us that a plan is not enough. It has to be executed well and with due attention to what others are doing.

So who was the enemy?

Is the world turning in such a way that mankind no longer wants or needs hobbies? No. All the evidence I see, with growing prosperity and increasing leisure time, is an increase in hobbies. Perhaps it is just collecting, painting and wargaming with miniatures that is passé? The evidence again says no. Too many of our stores around the world and their neighbouring independent accounts are in good healthy growth for that to be true. Have computer games, and especially these new online role-playing games, finally bitten Games Workshop? We have lived in happy harmony with computer games for our entire business life, our customers play computer games (they also eat meals and watch movies) but not at the expense of their hobby. The recent extraordinarily popular MMORPGs[1] would not, I think, have trimmed a little from us at the edges had they been in direct competition, they would have wiped us out. Are our overheads killing us? Well, yes, they could have, but they don't stop us selling things. Is it a change in society? No. Demographics? No. World recession? No, no, no. It was us.

We grew fat and lazy on the back of easy success. We forgot about customer service and forgot that hard work[2] is and always has been the route to success. We forgot that we are a company which pursues profit and likes paying surplus cash to its owners. What was not expected was that it would take two poor years and a management reorganisation to get the problems taken seriously. Somewhere along the line too many of us thought that selling, sweating and saving were someone else's job. Well they aren't. That's my job and the job of all of us here at Games Workshop.

I'm sorry we have not done as well as we should these last two years. I know our owners expect better from us in the future. I do as well.

The management reorganisation I've mentioned is fleshed out later in this document. It is a real reorganisation that allows us to remove significant cost from the business and to re-focus energy on sales. I had hoped that the same would have been accomplished gently over time. Events instead demanded sudden and decisive change; there was an urgent need to do something now and we need to retain that sense of urgency into the future. As a consequence a lot of people have left the business, some of whom are old friends. It has been a sad process. Unfortunately it was also a necessary process and I am grateful for the decent, caring way it has been carried out.

I am not happy that it has come to this. I am pleased, however, by the way it has been planned and executed. There is a steely determination in the business to put things right.

I used to sign off my annual message to all staff with per ardua ad astra. It's healthy to be reminded from time to time about the ardua.

[1] Massively multiplayer online role playing games.

[2] Working clever is good too, but if I had to choose I'd take 'hard' first every time.