# FINANCIAL HIGHLIGHTS

| | **2007** | 2006 |
|---|---|---|
| Revenue | **£111.5m** | £115.2m |
| Pre-exceptional operating profit | **£1.9m** | £4.2m |
| Exceptional items - cost reduction programme | **£(4.0)m** | - |
| Operating (loss)/profit | **£(2.1)m** | £4.2m |
| Pre-tax (loss)/profit | **£(2.9)m** | £3.7m |
| Year end net borrowings | **£10.2m** | £2.2m |
| (Loss)/earnings per share | **(11.2)p** | 6.5p |
| Dividend per share | **4.95p** | 18.975p |

## Contents

# CHAIRMAN'S PREAMBLE

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'.

**Tom Kirby**
Chairman and chief executive

[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.

# BUSINESS REVIEW

### Summary of results

This has been a tough year for Games Workshop. However, as a result of the actions taken by management, the Group is now preparing itself for the future as a leaner and more responsive organisation, better equipped to face the growth challenges which lie before it.

Our sales performance over the year has been patchy and difficult to predict accurately: a poor first quarter was followed by a more encouraging second quarter; our third quarter was soft, although we finished the year positively. This lack of consistency required us to make two trading statements during the year as small sales shortfalls created large percentile reductions in profits due to the high operational gearing of our business. Management's response to this has been twofold: firstly, a reinvigorated focus on growing sales, and secondly, a cost reduction programme to reduce the overhead base of the business.

In terms of sales growth, while the overall portfolio shows flat sales for the year in constant currency, the evidence from our larger and more established sales businesses is encouraging. In the UK, which is our most mature sales business, we have seen sales growth for eight out of the last nine months of the financial year; the US sales business, which we expect to be a significant engine for future growth, has turned around its sales to independent retailers, which have also been in growth for eight out of the last nine months, and is now seeing sales growth in our own Games Workshop Hobby stores in its target cities; Australia and New Zealand, our second oldest sales business, has recorded growth in constant currency of 8% in the year. Our overall sales have been held back by our performance in Continental Europe – an area which was enjoying strong growth between 2001 and 2004. Management's response to the decline in sales since 2005 has led to changes in the management teams in all but one of our Continental European territories. These changes are designed to allow better focus on sales delivery, and to avoid the distractions of back office and infrastructure matters. Our confidence in growth remains: we have continued to open Games Workshop stores, adding a net eleven to the portfolio this year.

Our efforts to restore the profitability of the business need to focus both on sales and costs. Even though we have set specific and measurable financial targets for the immediate costs and benefits of the cost reduction programme, we see this as a long-term process to ensure that the business only incurs those costs which are necessary to service our customers properly.

In summary, we are confident that sales will return to growth in the future and we are continuing to invest in people and assets to secure that growth; but we are also removing unnecessary costs today and working at preventing their return.

### Cost reduction programme

In May this year, we announced the acceleration and intensification of our programme of cost reduction to reduce overheads in the business. There are three key areas of this programme:

- Closing loss making stores
- Rationalisation of the manufacturing and supply chain
- Simplification of the support infrastructure

We have identified 32 stores which are unprofitable due to either low sales or high rents, and which we see as irremedial. Seventeen of the stores identified for closure are in the Americas, and these are located outside our selected metropolitan areas. A further eight are in the UK, six in Continental Europe and one in Asia Pacific. By closing these stores, we are also removing a significant management distraction from our sales businesses.

The rationalisation of elements of our manufacturing and supply chain includes the closure of the tool making facility at Wisbech, UK, which is being relocated to our main Nottingham site where a new tool room is being established. In addition, our Canadian warehouse is being closed and the existing dispatch facility in Memphis will pick up its workload. A further element of the programme is to rationalise inventory management. As automatic inventory replenishment is introduced to our UK stores, we will transfer the responsibility for managing these inventories to our logistics team which also manages our warehouse inventory. This will coincide with a review of the store product range. Inventories will be further reduced by introducing just-in-time manufacturing to our plastics production.

## Cost reduction programme continued

A few years ago we established a divisional structure for the business, which was organised into four separate management units, each with its own support infrastructure. We are simplifying this structure back to one operating management team, while maintaining the control benefits of the reporting and KPIs that each division had developed. Also, in the sales businesses, we are removing the cell management structures from our store chains. We believe that these changes will create a leaner, flatter and more responsive organisation. In addition, we are centralising some support functions (White Dwarf magazine, marketing, IT) further to streamline the customer facing activities and remove unnecessary duplication of back office functions.

We have set specific and measurable financial targets for the costs and benefits of each element of this programme.

| | Estimated total costs £m | Estimated annualised benefits £m |
|---|---|---|
| Closing loss making stores | 1.7 | 1.2 |
| Rationalisation of the manufacturing and supply chain | 2.3 | 1.7 |
| Simplification of the support infrastructure | 2.0 | 4.1 |
| Total | 6.0 | 7.0 |

£4.0 million of these costs has been recognised as an exceptional item in these accounts and the balance will be accounted for in 2008.

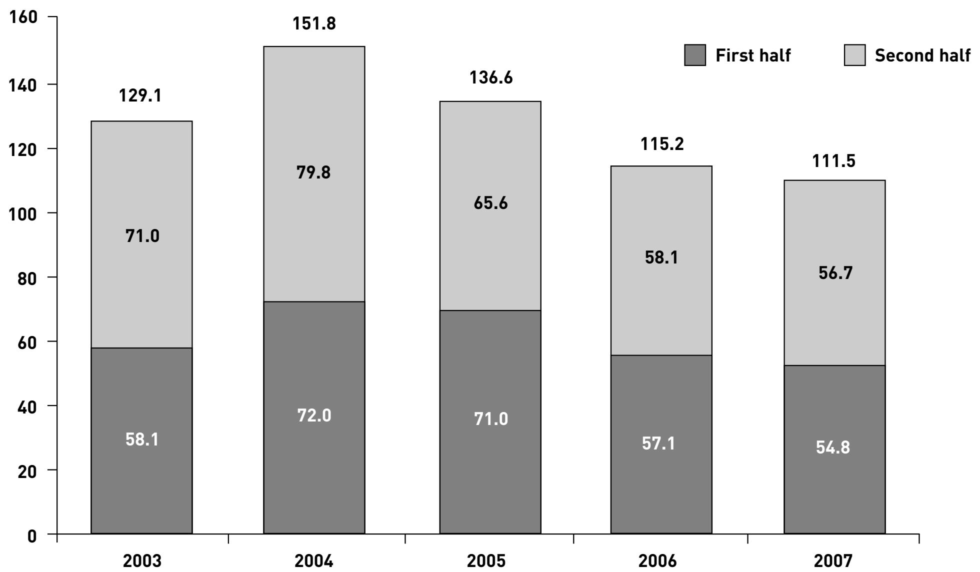
## Dividend

We are using the cash which would have otherwise been applied in paying a final dividend for 2006/7 to finance the cost reduction programme described above. The board remains confident in the future growth and profitability of the Group, but has determined that, until that time, this cash is better used by investing in this programme to secure those future profits.

## Sales

This year's revenue, in the context of the yearly and half yearly development of the Group's sales, is as follows:

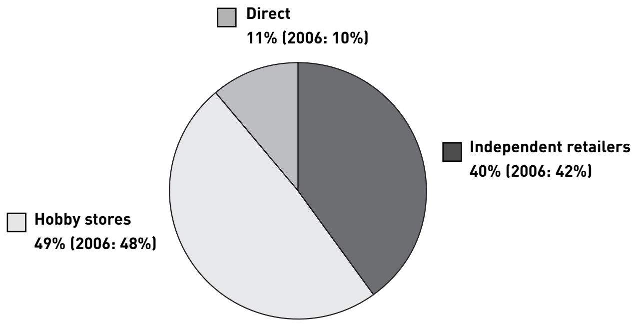
**Total sales - £m**



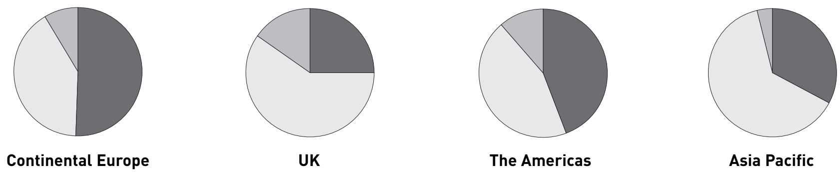
## Sales by channel

The Games Workshop Hobby is supported and promoted by our own Games Workshop Hobby stores, through which 49% of sales are made. As we continue to develop the Hobby, we opened 24 and closed 13 stores during the year taking our total at the end of May 2007 to 348. Sales are also made through independent retailers and direct, via the internet and mail order. An analysis of sales for 2006/7 for each of the geographical sectors is given below:

**Sales by channel**




**Total Group**

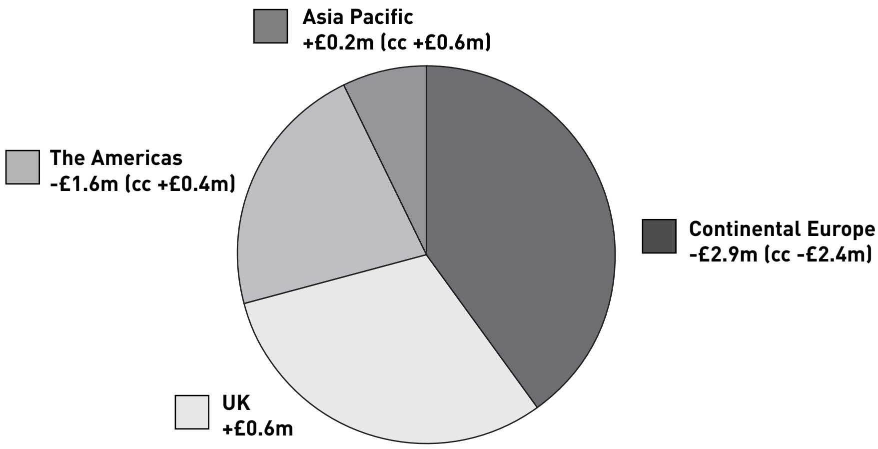



## Sales by territory

An analysis of sales for 2006/7 for each of the geographical sectors is given below:

**Sales by territory**

cc - constant currency*




## Continental Europe

There are five stand alone sales businesses in Continental Europe, responsible for development in France, Germany, Northern Europe, Spain and Italy. At the year end, we had 114 Games Workshop Hobby stores, up from 106 last year. Our sales have fallen in France, Germany and Spain, but there has been modest growth in Northern Europe and Italy. Most of the decline has been in our sales to independent retailers, which is the sales channel which enjoyed particularly strong growth during 2003 and 2004 throughout Continental Europe. We have been concerned that our local management teams in Germany and France have been slow to react to the decline in sales since 2005 and have, in addition to the changes mentioned above, appointed our most experienced senior manager as head of sales for Continental Europe in order to increase the focus on profitable growth.

* Constant currency growth is calculated by comparing sales in the underlying currencies for 2006 and 2007, both converted at the 2006 average exchange rates set out on page 10.

# BUSINESS REVIEW continued

## UK

At the end of May 2007, we had 118 Games Workshop Hobby stores in the UK (2006: 119). After a weak first quarter, the business was in modest growth for the rest of the year. In the second half of the year we saw a return to growth in our sales to independent retailers, and our Games Workshop Hobby stores have continued to perform satisfactorily. Our focus has remained on staff training, recruitment and retention, particularly for the key posts of store managers. We continued to keep the cost base under close review, reducing both our back office costs and the regional management structure for the stores.

## The Americas

During the year, we opened seven and closed eight Games Workshop Hobby stores in the Americas, which for us comprises the USA and Canada, bringing our total at the end of May 2007 to 82. We have established that our best model both for the development of the Hobby and for management command and control is to focus upon selected metropolitan areas where we can cluster our stores to grow and nurture the Hobby community. Our development plan moving forwards is to recruit staff, bring on middle management and deliver great Games Workshop Hobby activity centred around this metropolitan area strategy. We have concentrated our resources on five metropolitan areas, and in these areas our Games Workshop Hobby stores are enjoying growth. Our store programme has continued to shift the emphasis from the more expensive covered shopping mall stores to cheaper and more flexible strip mall locations. This strategy will also support and develop the independent retailer base in these major metropolitan areas. A key development this year was the stabilisation of our independent retailer base: in the USA we began the year with 729 active accounts and we ended it with 821. Our sales to independent retailers were in growth for eight out of the last nine months, and for the full year they were flat - the first year without a decline since 2002.

Our plan to close loss making stores during 2007/8 includes 17 stores in the Americas. The closure of the stores will improve the profitability of the business in the Americas and will also remove a significant burden from the local management.

## Asia Pacific

This territory comprises Australia, New Zealand and Japan. At the year end, we had 34 stores in the whole region (2006: 29). Our operations in Australia and New Zealand enjoyed a successful year, led by a strong performance from our Games Workshop Hobby stores. We opened our second and third stores in Japan during the year and we see this as the beginning of a long-term investment which cost us £0.5 million this year. The initial indications are promising and we expect to open our fourth store shortly.

## Other activities

Computer games licensing

We have in place three third party licences with publishers of computer games: THQ Inc. for Warhammer 40,000, NAMCO BANDAI Games America Inc. for Warhammer and Electronic Arts Inc. (which acquired Mythic Entertainment Inc. during the year) 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 during the first half of the 2008 calendar year. We expect licensing income to fluctuate from year to year, depending on the commercial success of the products created by our licensees.

BL Publishing

Our publishing business, which made sales of £3.1 million this year (2006: £2.6 million), continues to develop as a small but profitable niche publishing portfolio, focusing on fantasy and science fiction titles.

Sabertooth Games

This US based collectible card game business, which has been struggling to break even since we acquired it in 2002, has enjoyed significant success this year with its Universal Fighting System collectible card game which has begun the turnaround of its fortunes. Sales for the year were $2.3 million (2006: $1.1 million).

## Workforce

This has been a particularly hard year for everybody at Games Workshop. We have lost some dear and old friends; many families are facing the worry and hardship of redundancy. Nevertheless there is determination and resolve to drive forward our sales plans and to push through the changes we are making to the cost base. What I find inspiring is the ability our staff are showing, throughout this period of personally disruptive and unsettling structural change, to remain focused on their jobs. All the stakeholders in Games Workshop should remain proud of the workforce we have all over the world.

So once again, I would like to use this annual report to say thank you to all our staff and I trust that our shareholders will join me.

## Risks facing the business

Managing the risks which face our business is what we do every day. Our management structure and the reporting systems which we have developed make this process transparent and accountable. The head of sales is responsible for keeping the Games Workshop Hobby fresh and exciting and for managing market facing risk; the head of operations is responsible for managing product delivery risks; the head of finance is responsible for using our intellectual property appropriately, for managing corporate risks and for ensuring we comply with the ever waxing (and never waning) regulatory environment. We have a formal risk reporting process as part of our annual budgeting and planning cycle, which is linked into the internal and external audit process, but the management of these risks is an integral part of the daily management process.

Amongst the product delivery risks are those relating to input prices. The cost of raw materials, such as metal and plastic, represents no more than 4% 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.

Many of our risks are mitigated by the portfolio effect which we enjoy with different geographies, different routes to market and different currencies. This leads me to conclude, as it does every year, that the main source of risk to this business remains management error. This is why management recruitment, development and succession planning are so important.

## Prospects

In the short term our trading prospects remain challenging: as I have indicated above, we finished the year positively. Nevertheless, we have yet to establish a consistent pattern of trading in growth, and our cost reduction programme is likely to cause some further volatility, at least during the first quarter of 2007/8. We believe that the business is now returning to growth, but 'calling the turn' remains difficult.

We remain confident, nevertheless, that we are right to refer to these as short-term trading issues. Our confidence is based upon the following four fundamentals:

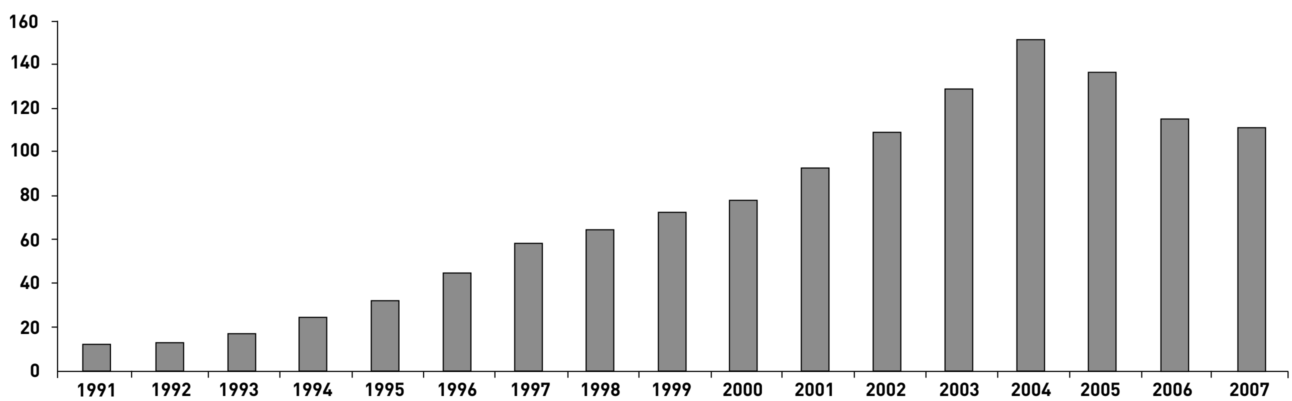
1. The health of the Games Workshop Hobby

Despite the short-term difficulties of this year, our internal measures - both hard and soft - tell us the Hobby is in good health.

2. The long-term growth credentials of the business

We continue to see Games Workshop as a growth business. The chart below sets out our sales progress from 1991. Between 2002 and 2005 our sales were above our normal growth line. We believe that it is only a matter of time and hard work before we re-establish our historic linear growth rate.

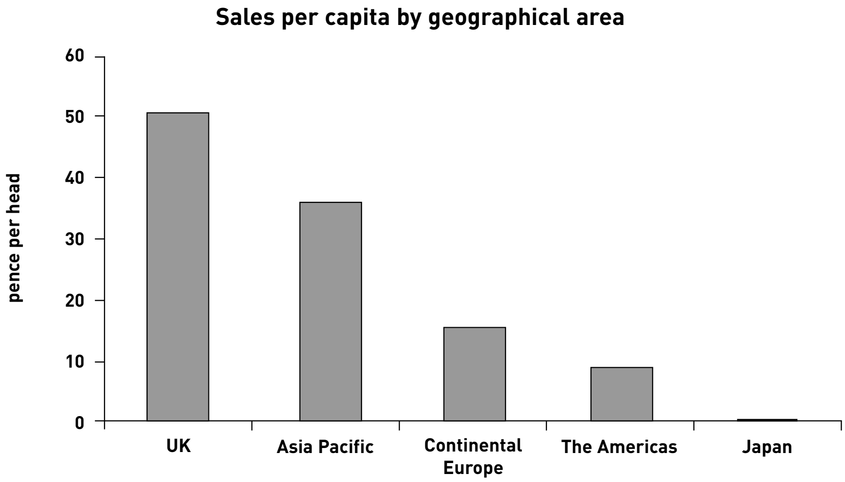
**Sales – £m**



# BUSINESS REVIEW continued

3. The market opportunity for our existing sales businesses

The chart below shows our sales per capita in our key sales markets, based upon our 2007 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.




Source: Population information is sourced from the 2006 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.

4. The capital infrastructure

We have come to the end of our investment programme, which leaves the business seriously well invested.

These are the reasons why the directors still believe the prospects for the business remain very good.

**Tom Kirby**

Chairman and chief executive

30 July 2007

# FINANCIAL REVIEW

### 53rd week

This annual report covers the 53 weeks to 3 June 2007. The sales for the 53rd week amounted to £1.7 million.

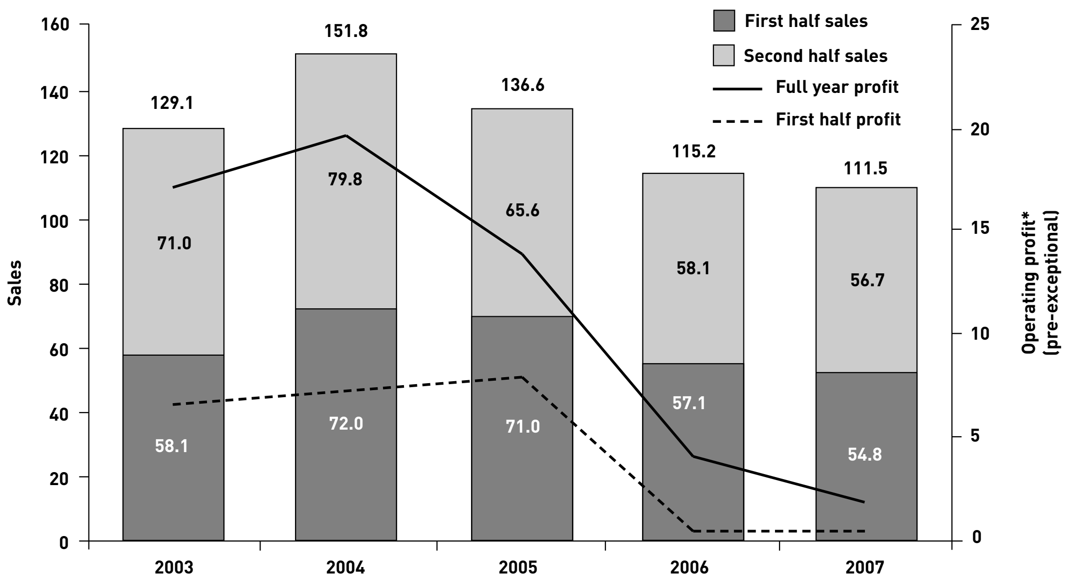
### Key performance indicators (KPIs)

Currently, the KPIs used in the business relate to sales performance by channel and by territory and to cost control throughout the business. KPIs evolve over time and are reviewed periodically for their appropriateness.

### Sales and operating profits

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

**Sales and operating profit - £m**




*2003-2004 operating profit prepared under UK GAAP and 2005-2007 operating profit prepared under IFRS

This chart demonstrates the high level of operational gearing which results from the fixed nature of much of our cost base, particularly in the Games Workshop Hobby stores. It is with this characteristic of our cost base in mind that we have commenced the cost reduction programme, which we expect will reduce an element of the financial risk caused by this high operational gearing. It should also increase the financial opportunity of future sales growth.

### Exceptional costs: cost reduction programme

Of the costs of £4.0 million charged this year, £0.4 million relates to cash costs, £0.5 million to asset impairment and £3.1 million to costs committed but not yet spent.

### Cash generation

The movement in net debt of £8.0 million resulted from an uncovered dividend payment of £5.9 million and investment in working capital and payment of taxes.

Our investments in capital expenditure have been as follows:

| | 2007<br>£m | 2006<br>£m |
|---|---|---|
| Shop fits for new and existing stores | 2.0 | 1.5 |
| Production equipment and tooling | 2.6 | 4.5 |
| Computer equipment and software | 1.7 | 1.6 |
| Office facilities | 0.7 | 1.0 |
| Total capital additions | 7.0 | 8.6 |

Over the next year, we will be investing £2 million in the upgrade of our global webstore. We expect that this investment will materially improve our internet sales engine and enable our webstore to offer significantly enhanced customer service functionality. Once this investment has been completed, we expect that the level of capital expenditure for the foreseeable future will fall to be broadly similar to the level of annual depreciation/amortisation of capital assets.

# FINANCIAL REVIEW continued

**Taxation**

The tax charge has been increased by £1.3 million due to unrecognised losses incurred this year in the Americas, which cannot be offset against profit earned elsewhere in the world.

| | 2007 £m | 2006 £m |
|---|---|---|
| (Loss)/profit before tax | (2.9) | 3.7 |
| (Loss)/profit multiplied by the UK corporation tax rate of 30% | (0.9) | 1.1 |
| Effects of: | | |
| Expenses not deductible for tax purposes | 0.4 | 0.3 |
| Movement in deferred tax not recognised | 1.3 | 0.7 |
| Higher rate of tax on overseas earnings | (0.1) | - |
| Prior year adjustments | (0.1) | (0.4) |
| Total tax charge for the year | 0.6 | 1.7 |

In the March 2007 Budget Statement, the UK Government announced a number of changes to the UK corporation tax system. These changes were either included in the 2007 Finance Act (enacted in June 2007) or are expected to be enacted in the 2008 Finance Act. The most significant of these changes is the phasing out of industrial buildings allowances from 2008 onwards. Once enacted, this will result in a charge of £1.1 million to reduce the deferred tax asset which we recognise for industrial buildings. This is further explained in note 35 on page 53.

**Currency exposures**

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

| | euro | | US dollar | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Year end rate used for the balance sheet | 1.47 | 1.46 | 1.98 | 1.86 |
| Average rate used for earnings | 1.48 | 1.46 | 1.93 | 1.77 |

The net impact of these fluctuations on our results for the year was slightly favourable to our earnings when converted into sterling. If our results for 2007 had been converted at the rates used in 2006, they would have been lower by some £0.2 million.

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 both the trading results and the balance sheets of non-sterling denominated subsidiaries, are not hedged.

**Bank facilities**

During the year we had an unsecured revolving credit facility of £10 million that expires on 1 September 2008 and a working capital facility of £10 million (£15 million between 1 September and 31 January). The covenants were based on interest cover and gearing. Interest was paid at floating rates which equated to 5.7% during the year.

Since the year end these facilities have been renewed, and we now have a new three year unsecured revolving credit facility of £15 million and a working capital facility of £5 million (£10 million up to 31 January with an additional £1 million between 1 November and 31 December). The covenants are based on interest cover, net debt to pre-exceptional EBITDA ratio and cash flow to interest and dividends ratio.

**Michael Sherwin**

Finance director

30 July 2007

# DIRECTORS' REPORT

The directors present their annual report together with the financial statements and independent auditors' report for the 53 weeks ended 3 June 2007.

### 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

A review of the business is given on pages 3 to 10. 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 12 July 2007 have been disclosed to the Company:

| | No. of ordinary shares | Percentage |
|---|---|---|
| The Nomad Investment Partnership LP | 6,314,269 | 20.3 |
| Phoenix Asset Management Partners Limited | 4,405,419 | 14.2 |
| Investec Asset Management Limited | 3,806,148 | 12.2 |
| Schroder Investment Management Limited | 3,718,620 | 11.9 |
| Legal & General Group PLC | 1,943,091 | 6.2 |
| Polar Capital Partners | 945,220 | 3.0 |

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. 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 M Sherwin. 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 which were in force during the year.

### Information on executive directors

T H F Kirby (age 57), chairman and chief executive. 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. Prior to joining Games Workshop, he worked for six years for a distributor of fantasy games in the UK and was previously an Inspector of Taxes.

M Sherwin (age 48), 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. In January 2007, following the acquisition of PlusNet plc by BT Group PLC, Michael retired as an independent director of PlusNet plc. He is also Visiting Fellow in Durham Business School and a member of the Advisory Board of Durham Business School.

# DIRECTORS' REPORT continued

**Information on independent directors**

C J Myatt (age 63). Chris Myatt is the senior independent director, joining the board on 18 April 1996. He is an independent director of SRS Holdings Limited and Ying Tai (UK) Limited. 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 47). 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 53). 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.

**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.

**Creditor payment policy**

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 37 days (2006: 39 days).

**Environment and community**

We know it is important to understand and manage the relationship between our business and the economy, the environment and the community. We have already found that recycling and energy saving bring us cost benefits and that changing the materials we use improves staff health and the working environment. 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 the community.

**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 children's charities by providing time and resources. During this financial year, staff in several of our businesses raised money for good causes through sponsored events. The Group helped them to realise their fundraising targets by matching the sponsorship monies raised. This matching cost for the Group was £2,800 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 chairman and 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 corporate social responsibility (CSR) group, which is chaired by the finance director and includes both the head of sales and the head of operations.

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 two reportable accidents during the year (2006: 4). This reduction is a result of our focus on continuing improvements in all areas of H&S.

In 2006/7 we have begun the formalisation of our H&S management system in line with Occupational Health and Safety Assessment Standard (OHSAS) 18001. Although not an internationally recognised standard as yet, OHSAS 18001 is modelled on the environmental management system ISO 14001. Our plan for 2007/8 is to merge our environmental and H&S management systems into one integrated management system. A detailed gap analysis has been carried out and we are continuing to address the outstanding issues.

To enhance further H&S at all sites, extensive training programmes are undertaken ranging from induction improvements through cell leader training to senior management responsibilities training. In 2007/8, all manufacturing operations managers will complete the National Examination Board in Occupational Safety and Health (NEBOSH), general level certificate. Team leaders will complete a four day Institute of Occupational Safety and Health (IOSH) Managing Safely course. 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.

**Environmental performance**

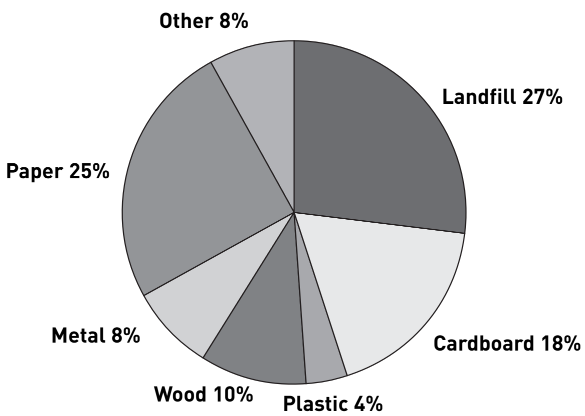
The Group aims to manage its operations in ways which are environmentally sustainable and economically feasible, and to minimise the negative impact of its activities on the environment.

The chairman and 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 CSR group.

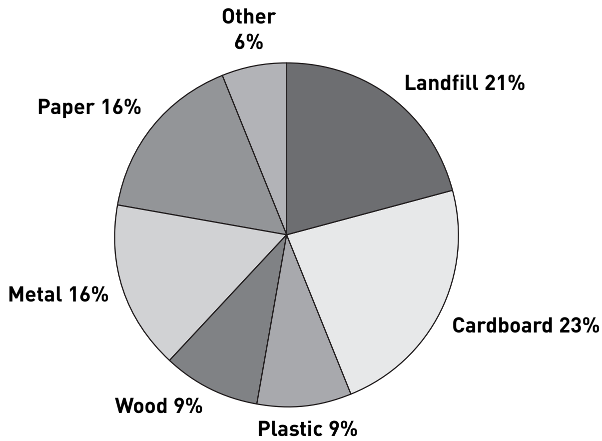
**Waste management**

We continue to focus on the 'three Rs' Reduce, Re-use and Recycle. Our disposal to landfill has increased slightly from 2006 but the total waste produced has reduced by 62 tonnes to 460 tonnes.

**2007 Waste - proportions recycled by category**




**2006 Waste - proportions recycled by category**




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.

# DIRECTORS' REPORT continued

### 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 have implemented an employee suggestion to create natural meadow areas within the grounds of our Nottingham warehousing facility to encourage local flora and fauna. We have also worked closely with the local environmental agency team to improve our pollution control procedures specifically on surface water drainage.

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

### Energy management

There have been significant changes in our energy use this year in Nottingham, as a result of the transfer of plastic injection moulding activities to Nottingham, factory layout changes and the installation of new equipment. To facilitate accurate measurement and tracking, we have installed electricity monitoring meters to identify periods of maximum usage. Energy efficiencies have also been built into the new mezzanine extension to our Nottingham warehouse. There is a high degree of individual lighting control and low energy lighting has been installed where possible.

Specific targets have been set for the reduction in energy use across the Nottingham manufacturing, warehousing and office operations.

We are now monitoring our power usage half hourly so that we can identify immediate results from improvements or additional equipment use. This also allows us to assess power use out of hours to identify equipment that could be switched off. Improvements put in place so far include resetting the controllers on air conditioning units, turning off production equipment during breaks and isolating compressed air services at break times and at the end of shifts to ensure leakages are kept to a minimum.

Future improvements will include sensors on certain lighting circuits, timers and split controls on factory lighting.

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.

### Additional activities

During the year the Group was involved in the following additional activities:

- Assisting Action Aid to raise £890 through the collection of our used printer cartridges and mobile phones.
- Host, every two months, to the Create Sustainability Committee to assist in their organisation of the Nottinghamshire County and City Councils' yearly environmental initiative.
- Nottingham City Council partnered with Games Workshop to launch Nottingham Greenweeks 2007 involving three weeks of environmental events throughout the local area.
- 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 fuller information on our commitment to the environment and community, including our ethical and environmental policies, please see investor.games-workshop.com.

### 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.

**Special business at the annual general meeting**

**Resolution 7**

Under the Companies Act 2006 there are updated rules for company communications with shareholders. If this resolution is adopted, the Company will in future have the option of asking each member individually as to whether the Company may send out or supply documents or information by means of a website. Such a request would explain that, if the Company has not received a response within 28 days beginning with the date of the request, the shareholder will be taken to have agreed. However, shareholders who make an election or a deemed election to receive documents or information from the Company by electronic means would still be able to notify the Company at any time that they wish to receive documents or information from the Company in hard copy, and in this respect the future rights of shareholders to receive hard copies of documents and information would be safeguarded.

**Resolutions 8 and 9**

The directors are currently authorised to allot relevant securities under section 80 of the Companies Act 1985 and to allot equity securities under section 95 of the Companies Act 1985. Those authorities expire at the conclusion of the annual general meeting. Resolutions are therefore being put to the annual general meeting to renew those authorities. Resolution 8 gives the directors authority to allot relevant securities up to an aggregate nominal amount of £513,622 (representing approximately 33 per cent of the Company's current issued share capital); the directors have no present intention of exercising this authority. Resolution 9 authorises the directors to allot equity securities for cash otherwise than on a pre-emptive basis in certain limited circumstances and otherwise up to an aggregate nominal amount of £77,821 (representing approximately 5 per cent of the Company's current issued share capital).

**Resolution 10**

The directors are also currently authorised to make market purchases of the Company's shares pursuant to section 166 of the Companies Act 1985. This authority expires at the conclusion of the next annual general meeting of the Company. Resolution 10 renews this authority for up to a maximum of 4,638,164 ordinary shares (representing 14.9 per cent of the Company's current issued share capital). The directors have no present intention of exercising this authority.

Under the Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003, the Company is allowed to hold its own shares in treasury following a buy-back as an alternative to cancelling them. Shares held in treasury may be subsequently sold for cash, but all rights attaching to them, including voting rights and the right to receive dividends, are suspended while they are held in treasury.

**Auditors**

Resolution 5, to re-appoint PricewaterhouseCoopers LLP as auditors of the Company, will be proposed at the annual general meeting.

As at 30 July 2007, 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.

**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
30 July 2007

# 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 2003 (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.

**The board**

The board comprises the chairman and chief executive, one further executive director and three independent directors. It is chaired by the chairman and chief executive, T H F Kirby. This arrangement does not comply with provision A.2.1 of the Combined Code, which states that the roles of chairman and chief executive should not be exercised by the same person.

T H F Kirby agreed to resume an executive role with the Company in 2000. At the time the board determined that the interests of the Company would be best served if the roles of chairman and chief executive were combined: a situation that remains the case today.

Since then, the subject of board and senior management development and succession planning has continued to be a high priority for the board. A key development in this area has been the introduction of a new structure whereby the management of the business is conducted through the functions of sales and operations, each with a senior executive, not a member of the board, responsible for that function. The sales activities aim to maximise revenue and the operations activities aim to maximise efficiencies and cost effectiveness. Prior to this development, the managers responsible for each of the Group's sales businesses and factory operations around the world reported directly to the chairman and chief executive; the creation of the new structure reduced the number of people reporting directly to him, and at the same time increased the responsibilities of the head of sales and the head of operations.

A further development during 2006/7 has been the attendance of the head of sales and the head of operations at the monthly meetings of the board when operational matters are discussed.

It is the board's intention that the management structure will develop over time and ultimately enable the roles of chairman and of chief executive to be split between the day to day executive management responsibilities and the strategic and oversight functions. The approach being adopted by the board is evolutionary and its implementation is dictated by the timescales required to develop appropriate senior managers. The position underlying this approach, which has been arrived at after much thought and debate by the board, is that the operational management of Games Workshop is best undertaken, where possible, by senior managers from within the business. This position takes into account the requirement to balance on the one hand the needs for commercial and line management experience, and on the other the requirement for a real understanding of, and empathy with, the Games Workshop Hobby.

In summary, the combined role of chairman and chief executive is regularly discussed both by the board and by the remuneration and nomination committee, when its effectiveness is reviewed and alternative options considered. These discussions have concluded that it would be irresponsible to split the roles unless there were an alternative which would be more value enhancing to the business. To date, no such alternative has been identified. The board believes that the combined role arrangement continues to work well, but recognises that it is important to keep succession plans under review for implementation as and when appropriate and does so on a regular basis.

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 and 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 and chief executive 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.

**The board continued**

In making this assessment the board has taken into account the personal attributes of each director in relation to the current and future needs 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. It is the absence of complacency, lazy thinking and acceptance of 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 2007 the board and its committees had twelve meetings, each of which was attended by all members of the board, with the exception of C J Myatt who attended eleven 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.

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.

As a result of this review, the committee structure has been changed this year, disbanding the business committee and replacing it with regular monthly board meetings.

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 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 two 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 Group'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 internal audit services.

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

- reviewed the 2006 annual report and 2007 interim 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 2007 annual report;
- agreed a programme of work for the internal auditors;
- received reports from the internal auditors on the work performed and management responses to points made in the audit reports.

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

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 11 to 15, to give a balanced and understandable assessment of the Group's position and prospects.

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.

**Internal control continued**

The Group has continued its programme of internal audit reviews during the year. The audit committee agrees an annual internal audit plan, focusing on business specific issues. Elements of this programme are outsourced to external advisers. 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 interim 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 and 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 stockbrokers, Bridgewell, 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**

With the exception of provision A.2.1, the Company has complied throughout the year with the provisions set out in section 1 of the Combined Code.

By order of the board

**M Sherwin**
Secretary
30 July 2007

# 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 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.

**Independent directors**
The remuneration of all 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 motivate and 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).

There are no plans to change this policy.

**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**
In order to reward the executive directors for enhancing value to shareholders, the remuneration committee believes that a significant proportion of the remuneration package should be clearly linked to the Group's performance. This takes the form of an annual cash bonus which may be earned at up to 100% of salary for T H F Kirby and 75% of salary for M Sherwin. The performance conditions relate to growth in operating profit.

**Benefits in kind**
Each executive director is provided with fuel, private medical insurance and permanent health insurance. T H F Kirby is also provided with an element of private travel.

**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 twelve 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 twelve 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 and M Sherwin on 2 January 2006. The contracts are for an unlimited duration.

**Service contracts continued**

The committee has agreed that, in the event that either executive director earns fees in respect of any non-executive appointment, he will retain those fees. M Sherwin retained fees of £31,666 in the year to 3 June 2007 in respect of his duties as an independent director of PlusNet plc.

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 twelve 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 2002 to 1 June 2007). 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 3 June 2007**

| | Fees 2007 £000 | Salary 2007 £000 | Bonus 2007 £000 | Benefits in kind 2007 £000 | **Total emoluments 2007 £000** | Total emoluments 2006 £000 | **Pension contributions 2007 £000** | Pension contributions 2006 £000 |
|---|---|---|---|---|---|---|---|---|
| **Executive directors** | | | | | | | | |
| T H F Kirby | - | 350 | - | 21 | **371** | 355 | **35** | 35 |
| M Sherwin | - | 240 | - | 6 | **246** | 247 | **24** | 24 |
| **Independent directors** | | | | | | | | |
| N J Donaldson | 30 | - | - | - | **30** | 30 | **-** | - |
| C J Myatt | 35 | - | - | - | **35** | 35 | **-** | - |
| A J H Stewart | 30 | - | - | - | **30** | 30 | **-** | - |
| | 95 | 590 | - | 27 | **712** | 697 | **59** | 59 |
| Gains on exercise of share options - M Sherwin | - | - | - | - | **-** | 162 | **-** | - |
| | 95 | 590 | - | 27 | **712** | 859 | **59** | 59 |

### Pensions

The executive directors were members for part of the year of the Warhammer Pension Scheme which was a defined contribution scheme. During the year the Warhammer Pension Scheme was wound up and the Company commenced contributions into a self invested personal pension scheme for each of the executive directors. These are again 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 3 June 2007 Ordinary shares of 5p each** | | As at 28 May 2006 Ordinary shares of 5p each | |
|---|---|---|---|---|
| | **Beneficial** | **Non-beneficial** | Beneficial | Non-beneficial |
| T H F Kirby | **1,693,009** | **354,000** | 1,487,509 | 354,000 |
| M Sherwin | **77,168** | **-** | 65,668 | - |
| C J Myatt | **66,500** | **-** | 66,500 | - |
| A J H Stewart | **185,000** | **-** | 935,000 | - |
| N J Donaldson | **20,000** | **-** | 10,000 | - |

Share options of the directors were as follows:

| | Number as at 28 May 2006 | Granted | **Number as at 3 June 2007** | Exercise dates Commencement | Exercise dates Expiry | Exercise price |
|---|---|---|---|---|---|---|
| M Sherwin | 2,786 | - | **2,786** | Nov 2008 | Apr 2009 | 340p |
| T H F Kirby | - | 3,229 | **3,229** | Nov 2009 | Apr 2010 | 292.6p |

The options above with exercise prices of 340p and 292.6p 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 3 June 2007 and the date of this report.

The mid-market price of the Company's shares on 3 June 2007 was 277p and the range of the market prices during the year was 258p to 414p.

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
30 July 2007

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires 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 that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements and 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 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
30 July 2007

# COMPANY'S DIRECTORS AND ADVISERS

**Directors**
T H F Kirby, chairman and 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**
Bridgewell Limited
Old Change House
128 Queen Victoria Street
London EC4V 4BJ

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

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

**Registrars**
Lloyds TSB Registrars Scotland
PO Box 28448
Finance House
Orchard Brae
Edinburgh EH4 1PF

**Solicitors**
Shoosmiths
Lock House
Castle Meadow Road
Nottingham NG2 1AG

# 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 53 weeks ended 3 June 2007 which comprise the consolidated 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 (2003) 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 remuneration report, the corporate governance statement, the five year summary 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 3 June 2007 and of its loss and cash flows for the 53 weeks 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 3 June 2007 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
30 July 2007

# CONSOLIDATED INCOME STATEMENT

| | Notes | 53 weeks ended 3 June 2007 £000 | 52 weeks ended 28 May 2006 £000 |
|---|---|---|---|
| **Revenue** | 3 | **111,483** | 115,150 |
| Cost of sales | | **(33,697)** | (34,265) |
| **Gross profit** | | **77,786** | 80,885 |
| Operating expenses | 4 | **(81,284)** | (77,838) |
| Other operating income - royalties receivable | | **1,423** | 1,170 |
| **Operating (loss)/profit** | 3 | **(2,075)** | 4,217 |
| Operating profit - pre-exceptional | | **1,953** | 4,217 |
| Exceptional items - cost reduction programme | 5 | **(4,028)** | - |
| Finance income | 7 | **326** | 238 |
| Finance costs | 8 | **(1,110)** | (797) |
| **(Loss)/profit before taxation** | 9 | **(2,859)** | 3,658 |
| Income tax expense | 10 | **(622)** | (1,660) |
| **(Loss)/profit attributable to equity shareholders** | | **(3,481)** | 1,998 |

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

| | | | |
|---|---|---|---|
| Basic (loss)/earnings per ordinary share | 11 | **(11.2)p** | 6.5p |
| Diluted (loss)/earnings per ordinary share | 11 | **(11.2)p** | 6.4p |

All items dealt with in arriving at (loss)/profit before taxation relate to continuing activities.

The notes on pages 28 to 53 are an integral part of these financial statements.

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, £9.4 million (2006: £3.8 million) is attributable to the Company, after including dividends from subsidiary companies of £11.1 million (2006: £7.4 million).

# STATEMENTS OF RECOGNISED INCOME AND EXPENSE

| | Group | | Company | |
|---|---|---|---|---|
| | 53 weeks ended 3 June 2007 £000 | 52 weeks ended 28 May 2006 £000 | 53 weeks ended 3 June 2007 £000 | 52 weeks ended 28 May 2006 £000 |
| (Loss)/profit attributable to equity shareholders | **(3,481)** | 1,998 | **9,398** | 3,769 |
| Exchange differences on translation of foreign operations | **(614)** | (131) | **-** | - |
| Cash flow hedges: | | | | |
| - fair value (losses)/gains | **(88)** | 86 | **-** | - |
| - transferred to the income statement | **(86)** | (331) | **-** | - |
| Net investment hedge | **-** | (2) | **-** | - |
| Tax on items recognised directly in equity | **52** | 73 | **-** | - |
| **Total recognised (expense)/income for the year** | **(4,217)** | 1,693 | **9,398** | 3,769 |

The notes on pages 28 to 53 are an integral part of these financial statements.

# BALANCE SHEETS

as at 3 June 2007

| | Notes | Group 2007 £000 | Group 2006 £000 | Company 2007 £000 | Company 2006 £000 |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Goodwill | 13 | **2,390** | 2,449 | **-** | - |
| Other intangible assets | 14 | **4,963** | 4,320 | **-** | - |
| Property, plant and equipment | 15 | **27,986** | 29,475 | **-** | - |
| Investments in subsidiaries | 16 | **-** | - | **30,281** | 30,281 |
| Trade and other receivables | 19 | **1,204** | 992 | **14,289** | 3,900 |
| Deferred income tax assets | 17 | **2,314** | 2,121 | **61** | 30 |
| | | **38,857** | 39,357 | **44,631** | 34,211 |
| **Current assets** | | | | | |
| Inventories | 18 | **11,260** | 12,407 | **-** | - |
| Trade and other receivables | 19 | **8,351** | 8,801 | **2,119** | 2,841 |
| Current tax assets | | **1,056** | 382 | **5** | - |
| Financial assets - derivative financial instruments | 22 | **24** | 181 | **-** | - |
| Cash and cash equivalents | 20 | **6,103** | 6,444 | **-** | - |
| | | **26,794** | 28,215 | **2,124** | 2,841 |
| **Total assets** | | **65,651** | 67,572 | **46,755** | 37,052 |
| **Current liabilities** | | | | | |
| Financial liabilities - borrowings | 21 | **(6,461)** | (1,705) | **(4,029)** | (808) |
| Financial liabilities - derivative financial instruments | 22 | **(120)** | (14) | **-** | - |
| Trade and other payables | 23 | **(13,889)** | (15,714) | **(3,152)** | (2,979) |
| Current income tax liabilities | | **(38)** | (415) | **-** | - |
| Provisions | 25 | **(3,225)** | (584) | **(193)** | (3) |
| | | **(23,733)** | (18,432) | **(7,374)** | (3,790) |
| **Net current assets/(liabilities)** | | **3,061** | 9,783 | **(5,250)** | (949) |
| **Non-current liabilities** | | | | | |
| Financial liabilities - borrowings | 21 | **(9,820)** | (6,960) | **(5,200)** | (2,600) |
| Other non-current liabilities | 24 | **(958)** | (1,317) | **(1,503)** | (1,503) |
| Provisions | 25 | **(1,283)** | (927) | **(18)** | (17) |
| | | **(12,061)** | (9,204) | **(6,721)** | (4,120) |
| **Net assets** | | **29,857** | 39,936 | **32,660** | 29,142 |
| **Capital and reserves** | | | | | |
| Called up share capital | 26 | **1,556** | 1,556 | **1,556** | 1,556 |
| Share premium account | 26 | **7,822** | 7,822 | **7,822** | 7,822 |
| Other reserves | 27 | **(1,210)** | (596) | **101** | 101 |
| Retained earnings | 28 | **21,689** | 31,154 | **23,181** | 19,663 |
| **Total shareholders' equity** | | **29,857** | 39,936 | **32,660** | 29,142 |

The notes on pages 28 to 53 are an integral part of these financial statements.

The financial statements on pages 25 to 53 were approved by the board of directors on 30 July 2007 and were signed on its behalf by:

**T H F Kirby, Director**

**M Sherwin, Director**

# CASH FLOW STATEMENTS

| | Notes | Group<br>**53 weeks ended 3 June 2007 £000** | Group<br>52 weeks ended 28 May 2006 £000 | Company<br>**53 weeks ended 3 June 2007 £000** | Company<br>52 weeks ended 28 May 2006 £000 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Cash generated from operations | 29 | **10,341** | 15,789 | **(580)** | (2,133) |
| UK corporation tax paid | | **(503)** | (1,665) | **-** | - |
| Overseas tax paid | | **(1,345)** | (1,838) | **-** | - |
| **Net cash from operating activities** | | **8,493** | 12,286 | **(580)** | (2,133) |
| **Cash flows from investing activities** | | | | | |
| Purchases of property, plant and equipment | | **(5,813)** | (8,321) | **-** | - |
| Proceeds on disposal of property, plant and equipment | 29 | **13** | 32 | **-** | - |
| Purchases of other intangible assets | | **(951)** | (830) | **-** | - |
| Expenditure on product development | | **(2,937)** | (2,505) | **-** | - |
| Dividends received | | **-** | - | **1,100** | 7,358 |
| Interest received | | **336** | 234 | **87** | 96 |
| **Net cash from investing activities** | | **(9,352)** | (11,390) | **1,187** | 7,454 |
| **Cash flows from financing activities** | | | | | |
| Proceeds from issue of ordinary share capital | | **-** | 207 | **-** | 233 |
| Proceeds from borrowings | | **2,908** | 1,955 | **2,600** | - |
| Repayment of borrowings | | **-** | - | **-** | (2,400) |
| Loans received from related parties | | **-** | - | **621** | 227 |
| Repayments of borrowings to related parties | | **-** | - | **(621)** | - |
| Repayment of principal under finance leases | | **(41)** | (143) | **-** | - |
| Equity dividends paid | | **(5,904)** | (5,874) | **(5,904)** | (5,874) |
| Interest paid | | **(1,113)** | (886) | **(524)** | (430) |
| **Net cash from financing activities** | | **(4,150)** | (4,741) | **(3,828)** | (8,244) |
| Effects of foreign exchange rates | | **(107)** | (5) | **-** | - |
| **Net decrease in cash and cash equivalents** | | **(5,116)** | (3,850) | **(3,221)** | (2,923) |
| Opening cash and cash equivalents | | **4,772** | 8,622 | **(808)** | 2,115 |
| **Closing cash and cash equivalents** | 20 | **(344)** | 4,772 | **(4,029)** | (808) |

For the purpose of the cash flow statement, cash and cash equivalents includes bank overdrafts (see note 20).

The notes on pages 28 to 53 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 stores, through independent retailers and direct via the internet and mail order. The Group has manufacturing activities in the UK and the US, 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.

These financial statements have been approved for issue by the board of directors on 30 July 2007.

**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 (IFRS) as adopted by the European Union.

These financial statements are prepared in accordance with IFRS and the International Financial Reporting Interpretations Committee interpretations and with those parts of the Companies Act 1985 applicable to those companies reporting under IFRS. The principal exemptions on transition to IFRS relate to business combinations, cumulative foreign currency translation and share-based payments.

The consolidated financial statements are prepared in accordance with the historical cost convention, except for the revaluation 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 53 weeks ended 3 June 2007 and for the 52 weeks ended 28 May 2006. 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 any excess of the fair value of the consideration given over the fair value of the Group's share of identifiable net assets acquired.

Goodwill is tested annually for impairment and is carried at cost less accumulated impairment losses. Provision is made for any impairment by comparing the individual carrying values to the expected value in use discounted at the Group's weighted average cost of capital.

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 |

**2. Summary of significant accounting policies continued**

**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 and carried at original invoice amount less provision for impairment. 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.

**Finance costs**

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

**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 stores 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 foreign currencies are translated into sterling 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 results of overseas subsidiary companies 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.

**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.

**2. Summary of significant accounting policies continued**

**Financial instruments continued**

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

- Cash flow hedges: hedges of highly probable forecast transactions; or
- Fair value hedges: hedges of the fair value of recognised assets or liabilities; 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.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

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.

**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 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. For those incentive plans which are based upon performance criteria measured over a period in excess of one year, costs are charged to the income statement based upon the directors' estimate of the likely future outcome of those criteria.

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 2% 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.

### 2. Summary of significant accounting policies continued

**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.

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 provisions and hence in setting the level of the required provisions.

# NOTES TO THE FINANCIAL STATEMENTS continued

**2. Summary of significant accounting policies continued**

**New accounting standards**

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

IFRS 7 'Financial instruments: disclosures' is effective for accounting periods beginning on or after 1 January 2007, and will therefore be applicable for the year ending May 2008, and IFRS 8 'Operating segments', effective for accounting periods beginning on or after 1 January 2010, will be applicable in the year ending May 2011. These amendments to disclosure requirements will have no effect on the Group's reported results.

The Group does not consider that any other standards or interpretations issued by the IASB, but not yet applicable, will have a significant impact on the financial statements.

**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.

| **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 | Design and development £000 | Royalty income £000 | **Group £000** |
|---|---|---|---|---|---|---|---|---|---|
| Total gross segment sales by operation | 45,221 | 34,104 | 24,540 | 7,618 | - | - | - | - | **111,483** |
| Inter-segment sales | 554 | (3,356) | 2,100 | 502 | 200 | - | - | - | **-** |
| **Total gross segment sales by location of customers** | **45,775** | **30,748** | **26,640** | **8,120** | **200** | **-** | **-** | **-** | **111,483** |
| Pre-exceptional operating profit/segment result by location of customers | 5,408 | 4,032 | (137) | 32 | 84 | (4,958) | (3,931) | 1,423 | **1,953** |
| Exceptional items | (800) | (2,084) | (1,120) | (24) | - | - | - | - | **(4,028)** |
| **Operating profit/segment result by location of customers** | **4,608** | **1,948** | **(1,257)** | **8** | **84** | **(4,958)** | **(3,931)** | **1,423** | **(2,075)** |
| Finance income | - | - | - | - | - | 326 | - | - | **326** |
| Finance costs | - | - | - | - | - | (1,110) | - | - | **(1,110)** |
| Income tax expense | - | - | - | - | - | (622) | - | - | **(622)** |
| **(Loss)/profit attributable to equity shareholders** | **4,608** | **1,948** | **(1,257)** | **8** | **84** | **(6,364)** | **(3,931)** | **1,423** | **(3,481)** |
| **Gross assets and liabilities by location of customers:** | | | | | | | | | |
| Assets | 21,748 | 19,021 | 9,131 | 3,392 | - | 9,717 | 2,642 | - | **65,651** |
| Liabilities | (4,744) | (7,478) | (4,049) | (1,457) | - | (18,066) | - | - | **(35,794)** |
| **Net assets by location of customers** | **17,004** | **11,543** | **5,082** | **1,935** | **-** | **(8,349)** | **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 | (79) | (111) | (31) | 1 | - | - | - | - | **(220)** |
| Share-based payments | (1) | (42) | (1) | 2 | - | - | - | - | **(42)** |
| **Gross assets and liabilities by location of operation:** | | | | | | | | | |
| Assets | 4,243 | 40,329 | 7,207 | 1,513 | - | 9,717 | 2,642 | - | **65,651** |
| Liabilities | (2,608) | (10,110) | (3,705) | (1,305) | - | (18,066) | - | - | **(35,794)** |
| **Net assets by location of operation** | **1,635** | **30,219** | **3,502** | **208** | **-** | **(8,349)** | **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 | (79) | (111) | (31) | 1 | - | - | - | - | **(220)** |
| Share-based payments | (1) | (42) | (1) | 2 | - | - | - | - | **(42)** |

**3. Segmental analysis continued**

| 52 weeks ended 28 May 2006 | Continental Europe £000 | United Kingdom £000 | The Americas £000 | Asia Pacific £000 | Rest of the world £000 | Central/ unallocated £000 | Design and development £000 | Royalty income £000 | Group £000 |
|---|---|---|---|---|---|---|---|---|---|
| Total gross segment sales by operation | 48,112 | 33,507 | 26,121 | 7,410 | - | - | - | - | 115,150 |
| Inter-segment sales | 1,348 | (3,489) | 1,645 | 444 | 52 | - | - | - | - |
| Total gross segment sales by location of customers | 49,460 | 30,018 | 27,766 | 7,854 | 52 | - | - | - | 115,150 |
| Operating profit/segment result by location of customers | 8,154 | 3,799 | (487) | 470 | 22 | (4,872) | (4,039) | 1,170 | 4,217 |
| Finance income | - | - | - | - | - | 238 | - | - | 238 |
| Finance costs | - | - | - | - | - | (797) | - | - | (797) |
| Income tax expense | - | - | - | - | - | (1,660) | - | - | (1,660) |
| Profit attributable to equity shareholders | 8,154 | 3,799 | (487) | 470 | 22 | (7,091) | (4,039) | 1,170 | 1,998 |
| Gross assets and liabilities by location of customers: | | | | | | | | | |
| Assets | 21,759 | 19,792 | 12,443 | 3,930 | - | 7,418 | 2,230 | - | 67,572 |
| Liabilities | (4,483) | (4,942) | (3,956) | (1,074) | - | (13,181) | - | - | (27,636) |
| Net assets by location of customers | 17,276 | 14,850 | 8,487 | 2,856 | - | (5,763) | 2,230 | - | 39,936 |
| Capital expenditure by location of customers | 3,788 | 2,403 | 1,696 | 744 | - | - | 2,505 | - | 11,136 |
| Depreciation and amortisation by location of customers | (3,280) | (1,770) | (2,266) | (565) | - | - | (2,289) | - | (10,170) |
| Impairment of trade receivables | (108) | 60 | 196 | 20 | - | - | - | - | 168 |
| Share-based payments | (4) | (131) | (21) | (12) | - | - | - | - | (168) |
| Gross assets and liabilities by location of operation: | | | | | | | | | |
| Assets | 4,729 | 40,744 | 10,724 | 1,727 | - | 7,418 | 2,230 | - | 67,572 |
| Liabilities | (3,516) | (6,134) | (3,792) | (1,013) | - | (13,181) | - | - | (27,636) |
| Net assets by location of operation | 1,213 | 34,610 | 6,932 | 714 | - | (5,763) | 2,230 | - | 39,936 |
| Capital expenditure by location of operation | 816 | 6,060 | 1,388 | 367 | - | - | 2,505 | - | 11,136 |
| Depreciation and amortisation by location of operation | (1,202) | (4,328) | (2,085) | (266) | - | - | (2,289) | - | (10,170) |
| Impairment of trade receivables | (108) | 60 | 196 | 20 | - | - | - | - | 168 |
| Share-based payments | (4) | (131) | (21) | (12) | - | - | - | - | (168) |

Central/unallocated segment costs comprise the business support expenses arising in the United Kingdom that cannot be directly attributed to an individual operating segment.

Central/unallocated assets and liabilities consist of the following:

| | **2007 £000** | 2006 £000 |
|---|---|---|
| Cash and cash equivalents | **6,103** | 6,444 |
| Deferred income tax assets | **2,314** | 2,121 |
| Current tax assets | **1,056** | 382 |
| Central/eliminations | **244** | (1,529) |
| **Gross assets** | **9,717** | 7,418 |
| Current tax liabilities | **(38)** | (415) |
| Bank loans and overdrafts | **(16,258)** | (8,627) |
| Central/eliminations | **(1,770)** | (4,139) |
| **Net liabilities** | **(8,349)** | (5,763) |

#### 4. Operating expenses

| | 2007 £000 | 2006 £000 |
|---|---|---|
| Selling costs | **47,759** | 46,314 |
| Administrative expenses | **29,594** | 27,485 |
| Design and development costs - amortisation | **2,525** | 2,289 |
| Design and development costs - not capitalised | **1,406** | 1,750 |
| **Operating expenses** | **81,284** | 77,838 |

#### 5. Exceptional items

| | Continuing pre-exceptional £000 | Continuing exceptional items £000 | Total 2007 £000 | Total 2006 £000 |
|---|---|---|---|---|
| **Revenue** | 111,483 | - | **111,483** | 115,150 |
| Cost of sales | (33,475) | (222) | **(33,697)** | (34,265) |
| **Gross profit** | 78,008 | (222) | **77,786** | 80,885 |
| Selling costs | (45,843) | (1,916) | **(47,759)** | (46,314) |
| Administrative costs | (27,704) | (1,890) | **(29,594)** | (27,485) |
| Design and development costs - amortisation | (2,525) | - | **(2,525)** | (2,289) |
| Design and development costs - not capitalised | (1,406) | - | **(1,406)** | (1,750) |
| Other operating income - royalties receivable | 1,423 | - | **1,423** | 1,170 |
| **Operating profit/(loss)** | 1,953 | (4,028) | **(2,075)** | 4,217 |

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

#### 6. Directors and employees

| | 2007 £000 | 2006 £000 |
|---|---|---|
| Total directors and employees costs: | | |
| Wages and salaries | **44,101** | 45,309 |
| Social security costs | **5,341** | 5,537 |
| Other pension costs | **1,143** | 1,312 |
| Share-based payments | **42** | 168 |
| | **50,627** | 52,326 |

#### 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'.

| | 2007 £000 | 2006 £000 |
|---|---|---|
| Salaries and other short-term employee benefits | **1,035** | 1,035 |
| Post-employment benefits | **94** | 97 |
| Share-based payments | **1** | 3 |
| Other employee benefits | **37** | 22 |
| | **1,167** | 1,157 |

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 and the head of sales and the head of operations.

**6. Directors and employees continued**

**Employee numbers**

| | **2007 Number** | 2006 Number |
|---|---|---|
| Design and development | **93** | 92 |
| Production | **195** | 197 |
| Selling: | | |
| - Full time | **1,453** | 1,467 |
| - Part time | **347** | 543 |
| Administration | **468** | 495 |
| | **2,556** | 2,794 |

**7. Finance income**

| | **2007 £000** | 2006 £000 |
|---|---|---|
| Interest income: | | |
| - On cash and cash equivalents | **305** | 234 |
| - Other | **21** | 4 |
| | **326** | 238 |

**8. Finance costs**

| | **2007 £000** | 2006 £000 |
|---|---|---|
| Interest expense: | | |
| - Bank loans and overdrafts | **1,099** | 874 |
| - Finance lease charges | **11** | 11 |
| - Unwinding of discount on provisions | **27** | 9 |
| - Other | **31** | 14 |
| Net foreign exchange transaction (gains)/losses | **(58)** | (111) |
| | **1,110** | 797 |

**9. (Loss)/profit before taxation**

| | **2007 £000** | 2006 £000 |
|---|---|---|
| (Loss)/profit before taxation is stated after charging/(crediting): | | |
| Depreciation: | | |
| - Owned property, plant and equipment | **6,889** | 7,024 |
| - Property, plant and equipment under finance leases | **36** | 121 |
| Impairment of property, plant and equipment | **306** | - |
| Amortisation: | | |
| - Owned computer software | **720** | 736 |
| - Development costs | **2,525** | 2,289 |
| Non-capitalised development costs | **1,406** | 1,750 |
| Impairment of trade receivables | **220** | (168) |
| Operating leases: | | |
| - Hobby stores | **8,344** | 8,525 |
| - Other property | **1,245** | 1,251 |
| - Plant and equipment | **365** | 395 |
| - Other | **318** | 317 |
| Loss on disposal of property, plant and equipment | **95** | 113 |

# NOTES TO THE FINANCIAL STATEMENTS continued

**9. (Loss)/profit before taxation continued**

**Auditors' remuneration and services provided**

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

| Group | 2007 £000 | 2006 £000 |
|---|---|---|
| **Audit services** | | |
| Audit of the Group and Company's accounts | **62** | 59 |
| **Other services** | | |
| The audit of the Company's subsidiaries pursuant to legislation | **219** | 222 |
| Other services relating to taxation | **3** | 2 |
| All other services | **10** | 29 |
| **Total services provided** | **294** | 312 |

**10. Income tax expense**

| | 2007 £000 | 2006 £000 |
|---|---|---|
| Current UK taxation: | | |
| - UK corporation tax on profits for the year | **55** | 949 |
| - Over provision in respect of prior years | **(5)** | (419) |
| | **50** | 530 |
| Current overseas taxation: | | |
| - Overseas corporation tax on profits for the year | **726** | 945 |
| - Under provision in respect of prior years | **22** | 127 |
| Total current taxation | **798** | 1,602 |
| Deferred taxation: | | |
| - Origination and reversal of temporary differences | **(24)** | 180 |
| - Under provision in respect of prior years | **(152)** | (122) |
| **Income tax expense recognised in the income statement** | **622** | 1,660 |

| | 2007 £000 | 2006 £000 |
|---|---|---|
| Current tax credit on cash flow hedges | **(26)** | (73) |
| Deferred tax credit on cash flow hedges | **(26)** | - |
| **Credit taken directly to the statement of recognised income and expense** | **(52)** | (73) |

| | 2007 £000 | 2006 £000 |
|---|---|---|
| (Loss)/profit before taxation | **(2,859)** | 3,658 |
| (Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% | **(858)** | 1,097 |
| Effects of: | | |
| Expenses not deductible for tax purposes | **393** | 274 |
| Movement in deferred tax not recognised | **1,282** | 677 |
| Higher tax rates on overseas earnings | **(60)** | 26 |
| Adjustments to tax charge in respect of previous years | **(135)** | (414) |
| **Total tax charge for the year** | **622** | 1,660 |

## 11. (Loss)/earnings per share

Basic (loss)/earnings per share

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit 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.

| | **2007** | 2006 |
|---|---|---|
| (Loss)/profit attributable to equity shareholders (£000) | **(3,481)** | 1,998 |
| Weighted average number of ordinary shares in issue (thousands) | **31,116** | 30,959 |
| Basic (loss)/earnings per share (pence per share) | **(11.2)** | 6.5 |

Diluted (loss)/earnings per share

The calculation of diluted (loss)/earnings per ordinary share has been based on (loss)/profit attributable to equity shareholders and the weighted average number of shares in issue throughout the year, adjusted for the dilution effect of share options outstanding at the year end.

| | **2007** | 2006 |
|---|---|---|
| (Loss)/profit attributable to equity shareholders and profit used to determine diluted earnings per share (£000) | **(3,481)** | 1,998 |
| Weighted average number of ordinary shares in issue (thousands) | **31,116** | 30,959 |
| Adjustment for share options (thousands) | **-** | 47 |
| Weighted average number of ordinary shares for diluted earnings per share (thousands) | **31,116** | 31,006 |
| Diluted (loss)/earnings per share (pence per share) | **(11.2)** | 6.4 |

There is no impact on the diluted EPS for the 53 weeks ended 3 June 2007 for the share options in existence as, due to losses, these options are anti-dilutive.

## 12. Dividends per share

The dividends paid in 2007 and 2006 were £5,904,000 (18.975p per share) and £5,874,000 (18.975p per share) respectively.

## 13. Goodwill

| | Group £000 |
|---|---|
| **Cost** | |
| At 30 May 2005 | 2,468 |
| Exchange adjustments | (19) |
| At 28 May 2006 and 29 May 2006 | 2,449 |
| Exchange adjustments | (59) |
| **At 3 June 2007** | **2,390** |
| **Net book value at 3 June 2007** | **2,390** |
| Net book value at 28 May 2006 | 2,449 |

The Company had no goodwill at either year end.

Goodwill of £1,159,000 (2006: £1,159,000) arising before 31 May 1998 is fully written off to reserves.

**13. Goodwill continued**

**Impairment tests for goodwill**

The carrying value of goodwill arose on the acquisition of TJA Tooling Limited and Triple K Plastic Injection Moulding Limited (2007: £1,470,000; 2006: £1,470,000) and the acquisition of Sabertooth Games Inc. (2007: £920,000; 2006: £979,000).

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 this period in line with historic GDP. The estimated future cash flows expected to arise from the continuing use of the assets use pre-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 is allocated to the Group's cash-generating units (CGUs) for impairment testing, identified according to country of operation and business segment.

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 arising on the acquisition of Sabertooth Games Inc. has been allocated to the CGU representing the Group's investment in the Sabertooth brand and the acquired business in which the goodwill originally arose. The value in use calculations assume a compound annual sales growth of 25% per annum for a five year period, with growth after this period in line with historic GDP, based on the continued expansion of collectible cards, using both existing intellectual property and additional third party licensed products. Gross margins are assumed to increase annually in line with both anticipated volume growth and expected buying efficiencies.

**14. Other intangible assets**

| Group | Computer software £000 | Development costs £000 | Total £000 |
|---|---|---|---|
| **Cost** | | | |
| At 30 May 2005 | 3,955 | 4,263 | 8,218 |
| Additions | 831 | 2,505 | 3,336 |
| Exchange differences | (2) | (22) | (24) |
| Disposals | (123) | - | (123) |
| At 28 May 2006 and 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** | **5,303** | **9,636** | **14,939** |
| **Amortisation** | | | |
| At 30 May 2005 | (1,961) | (2,249) | (4,210) |
| Amortisation charge | (736) | (2,289) | (3,025) |
| Exchange differences | 3 | 22 | 25 |
| Disposals | 123 | - | 123 |
| At 28 May 2006 and 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** | **(2,982)** | **(6,994)** | **(9,976)** |
| **Net book value** | | | |
| At 28 May 2006 | 2,090 | 2,230 | 4,320 |
| **At 3 June 2007** | **2,321** | **2,642** | **4,963** |

Amortisation of £375,000 (2006: £208,000) has been charged in cost of sales and £2,870,000 (2006: £2,817,000) in operating expenses.

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

### 15. 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 30 May 2005 | 14,590 | 13,574 | 19,692 | 11,204 | 59,060 |
| Additions | 146 | 2,988 | 2,423 | 2,243 | 7,800 |
| Exchange differences | - | (42) | (34) | - | (76) |
| Disposals | - | (1,333) | (1,228) | - | (2,561) |
| Reclassifications | (83) | 484 | (401) | - | - |
| At 28 May 2006 and 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** | **15,017** | **15,996** | **21,392** | **15,362** | **67,767** |
| **Depreciation** | | | | | |
| At 30 May 2005 | (1,541) | (8,072) | (12,635) | (7,853) | (30,101) |
| Exchange differences | - | 40 | 34 | 8 | 82 |
| Charge for the year | (388) | (2,617) | (2,738) | (1,402) | (7,145) |
| Disposals | - | 1,220 | 1,196 | - | 2,416 |
| Reclassifications | - | 40 | (40) | - | - |
| At 28 May 2006 and 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** | **(2,354)** | **(10,883)** | **(15,747)** | **(10,797)** | **(39,781)** |
| **Net book value** | | | | | |
| At 28 May 2006 | 12,724 | 6,282 | 6,269 | 4,200 | 29,475 |
| **At 3 June 2007** | **12,663** | **5,113** | **5,645** | **4,565** | **27,986** |

Depreciation expense of £3,294,000 (2006: £3,569,000) has been charged in cost of sales, £2,390,000 (2006: £2,534,000) in selling costs and £1,241,000 (2006: £1,042,000) in administrative expenses.

The cost of property, plant and equipment includes plant and equipment and vehicles of £55,000 (2006: £301,000) in respect of assets held under finance leases. The depreciation charged on these assets was £36,000 (2006: £121,000).

Freehold land amounting to £4,055,000 (2006: £4,055,000) has not been depreciated.

Assets in the course of construction, and not depreciated, amount to £325,000 (2006: £nil).

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

# NOTES TO THE FINANCIAL STATEMENTS continued

### 16. Investments in subsidiaries

| | Group 2007 £000 | Group 2006 £000 | Company 2007 £000 | Company 2006 £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 | 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 |
| Sabertooth Games Inc. | United States of America | $1 common stock | | 100% | Distributor of collectible card games |
| 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.

### 17. Deferred income tax

Deferred income 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 income taxes relate to the same fiscal authority. The offset amounts are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **£000** | £000 | **£000** | £000 |
| Deferred income tax assets: | | | | |
| - Deferred income tax asset to be recovered after more than 12 months | **1,503** | 1,767 | **6** | 8 |
| - Deferred income tax asset to be recovered within 12 months | **811** | 354 | **55** | 22 |
| | **2,314** | 2,121 | **61** | 30 |

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **£000** | £000 | **£000** | £000 |
| Beginning of year | **2,121** | 2,178 | **30** | 57 |
| Exchange differences | **(9)** | 1 | **-** | - |
| Income statement credit/(charge) | **176** | (58) | **31** | (27) |
| Credited to equity | **26** | - | **-** | - |
| **End of year** | **2,314** | 2,121 | **61** | 30 |

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 29 May 2005 | 1,175 | (604) | 70 | 1,537 | 2,178 |
| Credited/(charged) to the income statement | (82) | (65) | 299 | (210) | (58) |
| Exchange differences | 8 | - | (5) | (2) | 1 |
| 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** |

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 £7,200,000 (2006: £6,100,000) in respect of losses amounting to £15,300,000 (2006: £14,800,000) and other temporary differences of £3,600,000 (2006: £1,600,000) 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 £1,000,000 will expire during the years 2013 to 2014 and £12,900,000 will expire during the years 2022 to 2027.

The Group obtained a current tax benefit of £24,000 (2006: nil) from previously unrecognised tax losses.

| **Company** | Accelerated depreciation £000 | Other £000 | Total £000 |
|---|---|---|---|
| At 29 May 2005 | 11 | 46 | 57 |
| Charged to the income statement | (3) | (24) | (27) |
| At 28 May 2006 | 8 | 22 | 30 |
| (Charged)/credited to the income statement | (2) | 33 | 31 |
| **At 3 June 2007** | **6** | **55** | **61** |

The deferred income tax credited to the hedging reserve in equity during the year was £26,000 (2006: £nil) for the Group.

# NOTES TO THE FINANCIAL STATEMENTS continued

### 18. Inventories

| Group | 2007 £000 | 2006 £000 |
|---|---|---|
| Raw materials | **1,082** | 798 |
| Work in progress | **752** | 1,562 |
| Finished goods and goods for resale | **9,426** | 10,047 |
| | **11,260** | 12,407 |

The cost of inventories recognised as an expense and included in cost of sales amounted to £20,200,000 (2006: £19,800,000).

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

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

The Company held no inventories at either year end.

### 19. Trade and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | **2007 £000** | 2006 £000 | **2007 £000** | 2006 £000 |
| Trade receivables | **6,024** | 6,293 | **-** | - |
| Less provision for impairment of receivables | **(634)** | (621) | **-** | - |
| Trade receivables - net | **5,390** | 5,672 | **-** | - |
| Prepayments and accrued income | **3,045** | 2,912 | **77** | 55 |
| Receivables from related parties | **-** | - | **1,008** | 1,761 |
| Loans to related parties | **-** | - | **15,293** | 4,915 |
| Other receivables | **1,120** | 1,209 | **30** | 10 |
| **Total trade and other receivables** | **9,555** | 9,793 | **16,408** | 6,741 |
| Non-current receivables: | | | | |
| - Trade receivables | **57** | - | **-** | - |
| - Prepayments and accrued income | **404** | 370 | **-** | - |
| - Other receivables | **743** | 622 | **-** | - |
| - Loans to related parties | **-** | - | **14,289** | 3,900 |
| Non-current portion | **1,204** | 992 | **14,289** | 3,900 |
| Current portion | **8,351** | 8,801 | **2,119** | 2,841 |

The fair value of trade and other receivables does not differ 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 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.

### 20. Cash and cash equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | **2007 £000** | 2006 £000 | **2007 £000** | 2006 £000 |
| Cash and cash equivalents | **5,604** | 6,005 | **-** | - |
| Short-term bank deposits | **499** | 439 | **-** | - |
| | **6,103** | 6,444 | **-** | - |

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 EuroBid/LIBOR or equivalent 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.

**20. Cash and cash equivalents continued**

Cash, cash equivalents and bank overdrafts include the following for the purposes of the cash flow statement (see analysis of net debt, note 30):

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **£000** | £000 | **£000** | £000 |
| Cash and cash equivalents | **6,103** | 6,444 | **-** | - |
| Bank overdrafts | **(6,447)** | (1,672) | **(4,029)** | (808) |
| | **(344)** | 4,772 | **(4,029)** | (808) |

**21. Financial liabilities - borrowings**

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **£000** | £000 | **£000** | £000 |
| **Current** | | | | |
| Bank overdrafts | **6,447** | 1,672 | **4,029** | 808 |
| Obligations under finance leases | **14** | 33 | **-** | - |
| | **6,461** | 1,705 | **4,029** | 808 |
| **Non-current** | | | | |
| Bank loans | **9,811** | 6,955 | **5,200** | 2,600 |
| Obligations under finance leases | **9** | 5 | **-** | - |
| | **9,820** | 6,960 | **5,200** | 2,600 |
| **Total borrowings** | **16,281** | 8,665 | **9,229** | 3,408 |

Bank overdrafts of the Group of £1,700,000 (2006: £1,672,000) 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 28 May 2006 and 3 June 2007 and can be drawn in both sterling and euros. Covenants are based upon interest cover and gearing. Interest accrues at a floating rate by reference to LIBOR.

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 13% per annum.

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

| | **2007** | 2006 |
|---|---|---|
| | **£000** | £000 |
| Within 1 year | **16** | 36 |
| Between 1 and 5 years | **10** | 5 |
| | **26** | 41 |
| Future finance costs on finance leases | **(3)** | (3) |
| **Present value of finance lease liabilities** | **23** | 38 |

**21. Financial liabilities - borrowings continued**

Maturity profile of borrowings:

| Group | 2007 Bank loans £000 | 2007 Bank overdrafts £000 | 2007 Finance leases £000 | 2007 Total £000 | 2006 Bank loans £000 | 2006 Bank overdrafts £000 | 2006 Finance leases £000 | 2006 Total £000 |
|---|---|---|---|---|---|---|---|---|
| Within 1 year | **-** | **6,447** | **14** | **6,461** | - | 1,672 | 33 | 1,705 |
| Between 1 and 2 years | **9,811** | **-** | **9** | **9,820** | - | - | 5 | 5 |
| Between 2 and 5 years | **-** | **-** | **-** | **-** | 6,955 | - | - | 6,955 |
| | **9,811** | **6,447** | **23** | **16,281** | 6,955 | 1,672 | 38 | 8,665 |

| Company | 2007 Bank loans £000 | 2007 Bank overdrafts £000 | 2007 Total £000 | 2006 Bank loans £000 | 2006 Bank overdrafts £000 | 2006 Total £000 |
|---|---|---|---|---|---|---|
| Within 1 year | **-** | **4,029** | **4,029** | - | 808 | 808 |
| Between 1 and 2 years | **5,200** | **-** | **5,200** | - | - | - |
| Between 2 and 5 years | **-** | **-** | **-** | 2,600 | - | 2,600 |
| | **5,200** | **4,029** | **9,229** | 2,600 | 808 | 3,408 |

The Company held no finance leases at either year end.

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

| | Group 2007 £000 | Group 2006 £000 | Company 2007 £000 | Company 2006 £000 |
|---|---|---|---|---|
| Sterling | **9,948** | 2,629 | **9,229** | 3,408 |
| Euro | **6,310** | 6,027 | **-** | - |
| US dollar | **23** | 9 | **-** | - |
| | **16,281** | 8,665 | **9,229** | 3,408 |

**Undrawn borrowings**

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

| | Currency | 2007 Effective interest rate at May 07 | 2007 Drawn £000 | 2007 Undrawn £000 | 2007 Total £000 | 2006 Effective interest rate at May 06 | 2006 Drawn £000 | 2006 Undrawn £000 | 2006 Total £000 |
|---|---|---|---|---|---|---|---|---|---|
| Committed: | | | | | | | | | |
| - Medium-term revolving credit facility | sterling | **6.35%** | **5,000** | **-** | **5,000** | 5.25% | 2,600 | 2,400 | 5,000 |
| - Medium-term revolving credit facility | euro | **4.60%** | **4,811** | **189** | **5,000** | 3.25% | 4,355 | 645 | 5,000 |
| | | | **9,811** | **189** | **10,000** | | 6,955 | 3,045 | 10,000 |
| Uncommitted | | | | | | | | | |
| - Bank overdraft - working capital facility | sterling | **6.35%** | **4,747** | **5,253** | **10,000** | 5.25% | - | 5,000 | 5,000 |
| - Bank overdraft | euro | **4.50%** | **1,700** | **3,300** | **5,000** | 3.25% | 1,672 | 3,328 | 5,000 |
| **Total facilities for the Group** | | | **16,258** | **8,742** | **25,000** | | 8,627 | 11,373 | 20,000 |

Bank borrowings attract floating rate interest by reference to sterling and euro base rates. The medium-term revolving credit facility is unsecured, and is available until 1 September 2008. 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 (2006: £10,000,000) seasonal overdraft which ran from 1 August to 31 December in both years.

Following the year end, the Group increased the revolving credit facility to £15,000,000 and reduced the working capital facility to £5,000,000 (£10,000,000 up to 31 January with an additional £1,000,000 between 1 November and 31 December).

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

## 22. Derivative financial instruments

The Group's treasury function deals primarily with cash management and managing currency exposures as detailed below:

**Financial risk management objectives and policies**
The Group's financial risk management objective is to reduce the financial risks and exposures facing the business with respect to changes in foreign exchange rates and interest, and to ensure constant access to sufficient liquidity. To achieve this the Group undertakes an active hedging policy, including the use of derivatives (forward currency contracts), which are entered into under policies approved 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 commercial currency of the Group is sterling. The Group seeks to manage currency exposure wherever possible.

In each country where the Group has an operation, revenue generated and costs incurred are primarily denominated in the relevant local currency, so providing a natural currency hedge. In addition, intra-group trading transactions are netted and settled centrally. Any remaining material foreign currency transaction exposures are hedged as appropriate using forward foreign currency contracts.

With regard to translation exposures, the policy is to match the average assets of the Group to the equivalent average liabilities in each major currency and thus minimise any impact to the Group. To the extent that this does not occur, foreign currency borrowings are used.

**Interest rate risk**
The Group's interest rate risk primarily arises from the Group's borrowings and finance leases. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group has an exposure to movements in interest rates, primarily in sterling and euros.

To manage these risks wherever possible, the Group offsets financial liabilities against financial assets in the same currency. This process is facilitated through a pan European cash pooling arrangement and external borrowings in more than one currency. The board periodically reviews the Group's exposure to interest rate fluctuations, and this exposure has not been significant in recent years.

**Liquidity risk**
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 and supplements this with an increased working capital facility in the winter period.

**Credit risk**
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 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 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.

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

The numerical financial instruments disclosures are set out below:

**Recognised fair values of derivative financial instruments**
Forward foreign exchange contracts and embedded derivatives are measured at fair value by reference to year end market values. The full fair values of hedging derivatives are classified as current assets or liabilities as the remaining maturity of all hedged items is less than 12 months.

| | **2007** | | 2006 | |
|---|---|---|---|---|
| **Group** | **Current assets £000** | **Current liabilities £000** | Current assets £000 | Current liabilities £000 |
| Forward foreign exchange contracts - cash flow hedges | **24** | **(120)** | 181 | (14) |
| **Total** | **24** | **(120)** | 181 | (14) |

In accordance with IAS 39, 'Financial Instruments: Recognition and Measurement', the Group has reviewed all contracts to identify embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. The fair value of such embedded derivatives at 3 June 2007 was £nil (2006: £nil).

### 22. Derivative financial instruments continued

**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 | 2007 £000 | 2006 £000 |
|---|---|---|
| Contracts with positive fair values: | | |
| - Forward foreign currency contracts - cash flow hedges | **24** | 181 |
| Contracts with negative fair values: | | |
| - Forward foreign currency contracts - cash flow hedges | **(120)** | (14) |
| **Net fair value of cash flow hedges** | **(96)** | 167 |

The Company held no financial derivatives at either year end.

The principal amounts of the outstanding forward foreign currency contracts at 3 June 2007 are £12,171,000 (2006: £17,100,000).

The net fair value losses at 3 June 2007 on open forward foreign exchange contracts that hedge the foreign currency risk of anticipated future sales (cash flow hedge) are £88,000 (2006: £86,000 gain) 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.

### 23. Trade and other payables - current

| | Group | | Company | |
|---|---|---|---|---|
| | **2007 £000** | 2006 £000 | **2007 £000** | 2006 £000 |
| Trade payables | **3,698** | 4,035 | **21** | 15 |
| Payables due to related parties | **-** | - | **284** | 71 |
| Loans from related parties | **-** | - | **2,530** | 2,479 |
| Other taxes and social security | **1,792** | 2,479 | **43** | 11 |
| Other payables | **1,368** | 1,088 | **94** | 60 |
| Accruals and deferred income | **7,031** | 8,112 | **180** | 343 |
| | **13,889** | 15,714 | **3,152** | 2,979 |

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

### 24. Other non-current liabilities

| | Group | | Company | |
|---|---|---|---|---|
| | **2007 £000** | 2006 £000 | **2007 £000** | 2006 £000 |
| Accruals and deferred income | **958** | 1,317 | **-** | - |
| Loans from related parties | **-** | - | **1,503** | 1,503 |
| | **958** | 1,317 | **1,503** | 1,503 |

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

### 25. Provisions

Analysis of total provisions:

| | Group 2007 £000 | Group 2006 £000 | Company 2007 £000 | Company 2006 £000 |
|---|---|---|---|---|
| Current | **3,225** | 584 | **193** | 3 |
| Non-current | **1,283** | 927 | **18** | 17 |
| | **4,508** | 1,511 | **211** | 20 |

| **Group** | Redundancy £000 | Employee benefits £000 | Property £000 | Total £000 |
|---|---|---|---|---|
| At 29 May 2006 | - | 615 | 896 | 1,511 |
| Charged/(credited) to the income statement: | | | | |
| - Additional provisions | 1,573 | 326 | 1,535 | 3,434 |
| - Unused amounts reversed | - | (33) | (161) | (194) |
| Exchange differences | - | (4) | (14) | (18) |
| Increase in provision - discount unwinding (note 8) | - | - | 27 | 27 |
| Utilised | (17) | (16) | (219) | (252) |
| **At 3 June 2007** | **1,556** | **888** | **2,064** | **4,508** |

| **Company** | Redundancy £000 | Employee benefits £000 | Total £000 |
|---|---|---|---|
| At 29 May 2006 | - | 20 | 20 |
| Charged/(credited) to the income statement: | | | |
| - Additional provisions | 193 | - | 193 |
| - Unused amounts reversed | - | (2) | (2) |
| **At 3 June 2007** | **193** | **18** | **211** |

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 ten years of employment (10 Year Veterans). The provision therefore is expected to be utilised over this period. 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.

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. £327,000 (2006: £431,000) of the above provision is expected to be utilised between 2010 and 2016. The estimated liability is discounted at the Group's weighted average cost of capital of 9% (2006: 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.

### 26. Share capital

| **Group and Company** | Number of shares (thousands) | Ordinary shares £000 | Share premium account £000 | Total £000 |
|---|---|---|---|---|
| At 29 May 2005 | 31,067 | 1,553 | 7,592 | 9,145 |
| - Proceeds from shares issued | 62 | 3 | 230 | 233 |
| **At 28 May 2006 and at 3 June 2007** | **31,129** | **1,556** | **7,822** | **9,378** |

The total authorised number of shares is 42,000,000 shares (2006: 42,000,000 shares) with a par value of 5p per share (2006: 5p per share). All issued shares are fully paid.

# NOTES TO THE FINANCIAL STATEMENTS continued

**26. Share capital continued**

**Share options**

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

| Date granted | No. of shares **2007** | 2006 | Exercise price in pence per share | Exercise dates |
|---|---|---|---|---|
| 17 September 1996 | **-** | 5,000 | 463p | Sep 1999 to Sep 2006 |
| 24 August 1999 | **-** | 4,348 | 460p | Aug 2002 to Aug 2006 |
| 24 August 1999 | **10,870** | 10,870 | 460p | Aug 2002 to Aug 2009 |
| 31 July 2001 | **2,508** | 2,508 | 392.5p | July 2004 to July 2008 |
| 25 July 2003 | **12,746** | 12,746 | - | June 2005 to July 2008 |
| 30 September 2003 | **-** | 34,243 | 580p | Nov 2006 to Apr 2007 |
| 28 September 2004 | **32,328** | 54,942 | 581.2p | Nov 2007 to Apr 2008 |
| 18 October 2005 | **166,035** | 291,215 | 340p | Nov 2008 to Apr 2010 |
| 1 November 2005 | **8,219** | 19,139 | 329.5p | Nov 2007 |
| 25 September 2006 | **220,700** | - | 292.6p | Nov 2009 to Apr 2011 |
| 25 September 2006 | **5,355** | - | 304.6p | Nov 2009 to Apr 2011 |
| 2 October 2006 | **7,820** | - | 336p | Nov 2008 |
| | **466,581** | 435,011 | | |

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

| | **2007** | | 2006 | |
|---|---|---|---|---|
| | **Approved and unapproved share schemes** | **Long-term incentive plan** | Approved and unapproved share schemes | Long-term incentive plan |
| At start of year | **422,265** | **12,746** | 309,275 | 290,196 |
| Granted | **268,383** | **-** | 347,578 | - |
| Forfeited | **(236,740)** | **-** | (173,092) | - |
| Exercised | **(73)** | **-** | (61,496) | (277,450) |
| **At end of year** | **453,835** | **12,746** | 422,265 | 12,746 |

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

| | **2007** | 2006 |
|---|---|---|
| At start of year | **396p** | 494p |
| Granted | **294p** | 339p |
| Forfeited | **395p** | 478p |
| Exercised | **340p** | 335p |
| **At end of year** | **337p** | 396p |

During the year 73 ordinary shares of 5p were issued for £248 under the Games Workshop Group PLC 2005 Savings-Related Share Option Scheme. Out of the 453,835 outstanding options under the share option schemes (2006: 422,265 options), no options (2006: no options) were exercisable at 3 June 2007. Out of the 12,746 options outstanding under the long-term incentive plan, 12,746 options were exercisable at 3 June 2007.

**26. 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 1995 Sharesave Scheme 2004 granted options | 740p | 581.2p | 36 mths | 42 mths | 26% | 4.8% | 2.5% | 220.8p |
| 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 2005 granted options - US employees | 385p | 329.5p | 24 mths | 24 mths | 41% | 4.5% | 4.9% | 100.9p |
| 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 |

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.

**27. Other reserves**

| | **2007** | | | | 2006 | | | |
|---|---|---|---|---|---|---|---|---|
| **Group** | **Capital redemption reserve £000** | **Translation reserve £000** | **Other reserve £000** | **Total £000** | Capital redemption reserve £000 | Translation reserve £000 | Other reserve £000 | Total £000 |
| Beginning of year | 101 | 353 | (1,050) | (596) | 101 | 486 | (1,050) | (463) |
| Net investment hedge | - | - | - | - | - | (2) | - | (2) |
| Exchange differences on translation of foreign operations | - | (614) | - | (614) | - | (131) | - | (131) |
| **End of year** | **101** | **(261)** | **(1,050)** | **(1,210)** | 101 | 353 | (1,050) | (596) |

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

As at 3 June 2007 the Company's capital redemption reserve was £101,000 (2006: £101,000). The Company had no other reserves in addition to the capital redemption reserve at either year end.

### 28. 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 30 May 2005 | 232 | (1,132) | 35,960 | 35,060 | (1,132) | 22,732 | 21,600 |
| Profit attributable to equity shareholders | - | - | 1,998 | 1,998 | - | 3,769 | 3,769 |
| Cash flow hedges: | | | | | | | |
| - Fair value gains in the year | 86 | - | - | 86 | - | - | - |
| - Transfers to net profit | (331) | - | - | (331) | - | - | - |
| Current tax | 73 | - | - | 73 | - | - | - |
| Shares vested | - | 1,083 | (1,083) | - | 1,083 | (1,083) | - |
| Dividends paid | - | - | (5,874) | (5,874) | - | (5,874) | (5,874) |
| Share-based payments | - | - | 168 | 168 | - | 168 | 168 |
| Issue of ordinary share capital | - | - | (26) | (26) | - | - | - |
| At 28 May 2006 and 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** | **(62)** | **(49)** | **21,800** | **21,689** | **(49)** | **23,230** | **23,181** |

Cumulative goodwill relating to acquisitions made prior to 1998, which has been eliminated against reserves, amounts to £1,159,000 (2006: £1,159,000).

Own shares are 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 and market value of the ordinary shares held in treasury by the ESOP at 3 June 2007 was 12,746 (2006: 12,746) and £35,000 (2006: £35,000) respectively. Dividends have been waived on these shares. Interests in own shares represent the cost of 12,746 of the Company's ordinary shares (nominal value of £250) purchased in earlier years. These shares were acquired in the open market using funds provided by Games Workshop Group PLC to meet obligations under the long-term incentive plan.

### 29. Reconciliation of (loss)/profit to net cash from operations

| | Group | | Company | |
|---|---|---|---|---|
| | **2007 £000** | 2006 £000 | **2007 £000** | 2006 £000 |
| (Loss)/profit attributable to equity shareholders | **(3,481)** | 1,998 | **9,398** | 3,769 |
| Income tax expense/(credit) | **622** | 1,660 | **(625)** | (1,033) |
| Depreciation of property, plant and equipment | **6,925** | 7,145 | **-** | - |
| Impairment loss on property, plant and equipment | **306** | - | **-** | - |
| Loss on disposal of property, plant and equipment (see below) | **95** | 113 | **-** | - |
| Amortisation of capitalised development costs | **2,525** | 2,289 | **-** | - |
| Amortisation of other intangibles | **720** | 736 | **-** | - |
| Impairment of related party loans | **-** | - | **-** | 1,225 |
| Finance income | **(326)** | (238) | **(525)** | (142) |
| Finance costs | **1,168** | 908 | **661** | 477 |
| Net fair value (gains)/losses on derivative financial instruments | **88** | (43) | **-** | - |
| Dividend income | **-** | - | **(11,100)** | (7,358) |
| Share-based payments | **42** | 168 | **42** | 168 |
| Exchange gains on borrowings | **(58)** | (111) | **(74)** | (116) |
| Changes in working capital: | | | | |
| - Decrease in inventories | **901** | 465 | **-** | - |
| - Decrease in trade and other receivables | **128** | 948 | **466** | 1,197 |
| - Decrease in trade and other payables | **(2,326)** | (562) | **986** | (325) |
| - Increase in provisions | **3,012** | 313 | **191** | 5 |
| **Net cash from operating activities** | **10,341** | 15,789 | **(580)** | (2,133) |

**29. Reconciliation of (loss)/profit to net cash from operations continued**

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

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | **£000** | £000 |
| Net book amount | **108** | 145 |
| Loss on sale of property, plant and equipment | **(95)** | (113) |
| **Proceeds from sale of property, plant and equipment** | **13** | 32 |

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

**30. Analysis of net debt**

| Group | As at 28 May 2006 £000 | Cash flow £000 | Non-cash changes £000 | Exchange movement £000 | **As at 3 June 2007 £000** |
|---|---|---|---|---|---|
| Cash at bank and in hand | 6,444 | (229) | - | (112) | **6,103** |
| Current borrowings - bank overdraft | (1,672) | (4,780) | - | 5 | **(6,447)** |
| Cash and cash equivalents | 4,772 | (5,009) | - | (107) | **(344)** |
| Non-current borrowings | (6,955) | (2,908) | - | 52 | **(9,811)** |
| Finance leases | (38) | 41 | (28) | 2 | **(23)** |
| **Net debt** | (2,221) | (7,876) | (28) | (53) | **(10,178)** |

| Company | As at 28 May 2006 £000 | Cash flow £000 | **As at 3 June 2007 £000** |
|---|---|---|---|
| Current borrowings - bank overdraft | (808) | (3,221) | **(4,029)** |
| Cash and cash equivalents | (808) | (3,221) | **(4,029)** |
| Non-current borrowings | (2,600) | (2,600) | **(5,200)** |
| **Net debt** | (3,408) | (5,821) | **(9,229)** |

**31. Reconciliation of net cash flow to movement in net debt**

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **£000** | £000 | **£000** | £000 |
| Decrease in cash and cash equivalents in the year | **(5,009)** | (3,845) | **(3,221)** | (2,923) |
| Cash (inflow)/outflow from (increase)/decrease in debt and lease financing | **(2,867)** | (1,812) | **(2,600)** | 2,400 |
| Change in net debt resulting from cash flows | **(7,876)** | (5,657) | **(5,821)** | (523) |
| Exchange movement | **(53)** | (5) | **-** | - |
| New finance leases | **(28)** | - | **-** | - |
| Net (debt)/funds at start of year | **(2,221)** | 3,441 | **(3,408)** | (2,885) |
| **Net debt at end of year** | **(10,178)** | (2,221) | **(9,229)** | (3,408) |

**32. Commitments**

**Capital commitments**

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

| Group | **2007 £000** | 2006 £000 |
|---|---|---|
| Other intangible assets | **113** | - |

The Company had no capital commitments at either year end.

# NOTES TO THE FINANCIAL STATEMENTS continued

**32. Commitments continued**

**Operating lease commitments**

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

| Group | 2007 Hobby stores £000 | 2007 Other property £000 | 2007 Other £000 | 2006 Hobby stores £000 | 2006 Other property £000 | 2006 Other £000 |
|---|---|---|---|---|---|---|
| Expiring within 1 year | **7,548** | **1,202** | **406** | 7,639 | 1,250 | 440 |
| Expiring between 2 and 5 years inclusive | **16,580** | **3,658** | **576** | 17,515 | 3,424 | 580 |
| Expiring in over 5 years | **5,143** | **1,209** | **16** | 7,495 | 1,904 | 46 |
| | **29,271** | **6,069** | **998** | 32,649 | 6,578 | 1,066 |

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.

**33. Contingencies**

The Group and Company had no material contingent 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 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 £14,558,000 (2006: £6,335,000).

**34. 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.

Transactions between the Company and its subsidiaries are shown below:

| Subsidiary | Nature of transaction | 2007 £000 | 2006 £000 |
|---|---|---|---|
| Games Workshop America Inc. | Recharges | **8** | (179) |
| EURL Games Workshop | Recharges | **4** | (15) |
| | Interest payable | **(78)** | (36) |
| Games Workshop SL | Recharges | **3** | (14) |
| | Interest payable | **(30)** | - |
| Games Workshop Oz Pty Limited | Recharges | **6** | 8 |
| Games Workshop Deutschland GmbH | Recharges | **-** | (9) |
| | Interest payable | **-** | (3) |
| Games Workshop Italia SRL | Recharges | **3** | - |
| Games Workshop International Limited | Interest receivable | **-** | 9 |
| | Dividends receivable | **1,100** | - |
| Games Workshop (Queen Street) Limited | Recharges | **3** | 5 |
| | Interest receivable | **49** | 37 |
| Games Workshop Limited | Dividends receivable | **10,000** | 7,358 |
| | Recharges | **3** | (304) |
| | Interest receivable | **389** | - |
| Games Workshop US Manufacturing LLC | Recharges | **-** | 13 |
| | | **11,460** | 6,870 |

**34. Related-party transactions continued**

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

| | Amounts owed by subsidiaries | | Amounts owed to subsidiaries | |
|---|---|---|---|---|
| Subsidiary | **2007 £000** | 2006 £000 | **2007 £000** | 2006 £000 |
| Games Workshop Group PLC Employee Share Trust | **27** | 22 | **-** | - |
| Games Workshop Limited | **926** | 1,442 | **-** | - |
| Games Workshop America Inc. | **-** | 121 | **(104)** | - |
| Games Workshop US Manufacturing LLC | **19** | - | **-** | - |
| EURL Games Workshop | **-** | 93 | **(19)** | - |
| Games Workshop SL | **-** | 46 | **(38)** | - |
| Games Workshop Oz Pty Limited | **6** | 7 | **-** | - |
| Games Workshop Deutschland GmbH | **-** | - | **(4)** | (27) |
| Sabertooth Games Inc. | **4** | 1 | **-** | - |
| Games Workshop International Limited | **-** | - | **(111)** | (36) |
| Games Workshop (Queen Street) Limited | **-** | - | **(8)** | (8) |
| Games Workshop Interactive Limited | **-** | - | **-** | - |
| Games Workshop Italia SRL | **26** | 29 | **-** | - |
| | **1,008** | 1,761 | **(284)** | (71) |

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

| | Amounts owed by subsidiaries | | Amounts owed to subsidiaries | |
|---|---|---|---|---|
| Subsidiary | **2007 £000** | 2006 £000 | **2007 £000** | 2005 £000 |
| EURL Games Workshop | **-** | - | **(1,852)** | (1,793) |
| Games Workshop SL | **-** | - | **(678)** | (686) |
| Games Workshop (Queen Street) Limited | **1,004** | 1,015 | **-** | - |
| | **1,004** | 1,015 | **(2,530)** | (2,479) |

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

| | Amounts owed by subsidiaries | | Amounts owed to subsidiaries | |
|---|---|---|---|---|
| Subsidiary | **2007 £000** | 2006 £000 | **2007 £000** | 2006 £000 |
| Games Workshop Interactive Limited | **6,779** | 6,779 | **-** | - |
| Less provision for impairment | **(6,779)** | (6,779) | **-** | - |
| Games Workshop Limited | **14,289** | 3,900 | **-** | - |
| Other subsidiaries | **-** | - | **(1,503)** | (1,503) |
| | **14,289** | 3,900 | **(1,503)** | (1,503) |

**35. Post balance sheet events**

A number of changes to the UK corporation tax system were announced in the March 2007 Budget Statement. These changes were either included in the 2007 Finance Act (enacted in June 2007) or are expected to be enacted in the 2008 Finance Act. The changes 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 2007 would be to decrease the net deferred tax asset recognised at 3 June 2007 by £24,000 and therefore increase profit for the year by the same amount. This decrease in deferred tax is due to the reduction in the corporation tax rate from 30 per cent to 28 per cent from 1 April 2008.

The effect of the changes to be enacted in the Finance Act 2008 would be to decrease the net deferred tax asset recognised at 3 June 2007 by £1,065,000 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 and earlier periods 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.

| | **2007 £000** | 2006 £000 | 2005 £000 | 2004 £000 | 2003 £000 |
|---|---|---|---|---|---|
| **Revenue** | **111,483** | 115,150 | 136,647 | 151,775 | 129,109 |
| **Pre-exceptional operating profit** | **1,953** | 4,217 | 14,301 | 19,855 | 17,461 |
| Exceptional items - cost reduction programme | **(4,028)** | - | - | - | - |
| **Operating (loss)/profit** | **(2,075)** | 4,217 | 14,301 | 19,855 | 17,461 |
| Finance income | **326** | 238 | 348 | 145 | 265 |
| Finance costs | **(1,110)** | (797) | (740) | (427) | (274) |
| **(Loss)/profit before taxation** | **(2,859)** | 3,658 | 13,909 | 19,573 | 17,452 |
| Income tax expense | **(622)** | (1,660) | (4,889) | (7,245) | (6,470) |
| **(Loss)/profit after taxation** | **(3,481)** | 1,998 | 9,020 | 12,328 | 10,982 |
| Equity minority interests | **-** | - | - | 1 | - |
| **(Loss)/profit attributable to equity shareholders** | **(3,481)** | 1,998 | 9,020 | 12,329 | 10,982 |
| **Basic (loss)/earnings per ordinary share** | **(11.2)p** | 6.5p | 29.4p | 40.8p | 37.0p |

# FINANCIAL CALENDAR

| | |
|---|---|
| Annual general meeting | 20 September 2007 |
| Announcement of interim results | January 2008 |
| Financial year end | 1 June 2008 |
| Announcement of final results | July 2008 |

# NOTICE OF MEETING

Notice is hereby given that the annual general meeting of the Company will be held at the Company's registered office, Willow Road, Lenton, Nottingham, NG7 2WS at 10.00am on 20 September 2007 for the following purposes:

**Ordinary business**

**Resolution 1**

To receive the Company's annual accounts for the financial year ended 3 June 2007 together with the directors' report, the remuneration report and the auditors' report on these accounts and the auditable part of the remuneration report.

**Resolution 2**

To re-elect M Sherwin as a director, who retires in accordance with article 88(a) of the articles of association of the Company.

**Resolution 3**

To re-elect C J Myatt as a director, who retires by reason of length of service.

**Resolution 4**

To re-elect A J H Stewart as a director, who retires by reason of length of service.

**Resolution 5**

To re-appoint PricewaterhouseCoopers LLP as auditors to hold office until the conclusion of the next general meeting at which accounts are laid by the Company and to authorise the directors to fix their remuneration.

**Resolution 6**

To approve the remuneration report for the year ended 3 June 2007.

**Special business**

To consider and, if thought fit, pass the following resolutions, of which resolutions 7 and 8 will be proposed as ordinary resolutions and resolutions 9 and 10 will be proposed as special resolutions.

**Resolution 7**

To authorise the Company generally and unconditionally to use electronic communications with its shareholders and in particular to authorise the Company to send or supply notices, documents or information to its shareholders by making them available on a website.

**Resolution 8**

That the directors be and are hereby generally and unconditionally authorised pursuant to and in accordance with section 80 of the Companies Act 1985 (the 'Act') to exercise for the period ending at the conclusion of the next annual general meeting of the Company or on 19 December 2008 whichever is the earlier, all the powers of the Company to allot relevant securities (within the meaning of section 80 of the Act) up to an aggregate nominal amount of £513,622 save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of any such offer or agreement as if the authority conferred hereby had not expired. This authority is in substitution for all subsisting authorities, to the extent unused.

**Resolution 9**

That subject to the passing of the previous resolution, the directors be and are hereby empowered pursuant to and in accordance with section 95 of the Companies Act 1985 (the 'Act') to allot equity securities for cash (within the meaning of section 94 of the Act) pursuant to the authority conferred by the previous resolution as if section 89(1) of the Act did not apply to any such allotment provided that this power shall be limited:

(a) to the allotment of equity securities in connection with any rights issue or other issue in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them (but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of any territory or the requirements of any recognised regulatory body or any stock exchange in any territory), and

(b) to the allotment of equity securities (otherwise than pursuant to sub-paragraph (a) above) up to an aggregate nominal amount of £77,821,

# NOTICE OF MEETING continued

**Resolution 9 continued**

and shall expire at the conclusion of the next annual general meeting of the Company or on 19 December 2008, whichever is the earlier, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired. This power applies in relation to a sale of shares which is an allotment of equity securities by virtue of section 94 (3A) of the Act as if in the first paragraph of this resolution the words 'pursuant to the authority conferred by the previous resolution' were omitted.

**Resolution 10**

That the Company be and is hereby granted general and unconditional authority pursuant to section 166 of the Companies Act 1985 (the 'Act') to make market purchases (as defined in section 163 of the Act) of ordinary shares of 5p each in the capital of the Company ('ordinary shares') on such terms and in such manner as the directors may from time to time determine provided that:

(a) the authority hereby conferred shall expire at the conclusion of the next annual general meeting of the Company or on 19 December 2008 whichever is the earlier;

(b) the maximum number of ordinary shares shall be limited to 4,638,164 ordinary shares;

(c) the minimum price which may be paid for an ordinary share is 5p;

(d) the maximum price which may be paid for an ordinary share is an amount equal to 105% of the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is purchased, and

(e) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of ordinary shares in pursuance of any such contract.

By order of the board

**M Sherwin**
Secretary
30 July 2007

**Notes**

(1) Members of the Company entitled to attend and vote are entitled to appoint one or more proxies to attend and, on a poll, to vote instead of them. A proxy need not be a member of the Company. To be effective, proxy forms must be lodged with the registrars not less than 48 hours before the time fixed for the meeting. Completion of the proxy does not preclude a member from subsequently attending and voting at the meeting in person if he or she so wishes.

(2) The register of interests of the directors and their families in the share capital of the Company and copies of the contracts of service of directors with the Company or with any of its subsidiary undertakings will be available for inspection at the registered office of the Company during normal business hours (Saturdays and public holidays excepted) from the date of this notice until the conclusion of the annual general meeting.

(3) The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specified that only those shareholders registered on the register of members of the Company as at 6.00pm on 18 September 2007 shall be entitled to attend or vote at the annual general meeting in respect of shares registered in their name at that time. Changes to entries on the relevant register of securities after 6.00pm on 18 September 2007 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

# 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.

# APPENDIX continued

### 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.

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.

# APPENDIX continued

## 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 license 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.

v

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.

Soon, many UK companies are going to be obliged to make quarterly statements. It will double the burden in terms of executive time spent and costs incurred by the company and encourage even shorter term views rather than the longer term views we need. Combine that with the bias and selectivity of City briefings, I can see a time coming when we will no longer want to give any guidance at all.

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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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[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

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.