2670969

GAMES WORKSHOP

ANNUAL REPORT 1998

Corporate statement

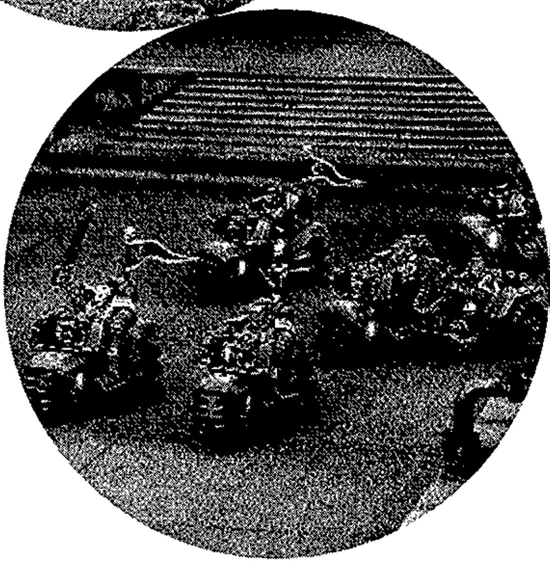
Games Workshop makes and sells the best model soldiers in the world. The Games Workshop hobby involves collecting, painting and table top wargaming with whole armies of these soldiers. The strategy is to establish and develop the Games Workshop hobby in each of the world's major economies. Sales are made through independent retailers, Games Workshop stores and direct mail order.

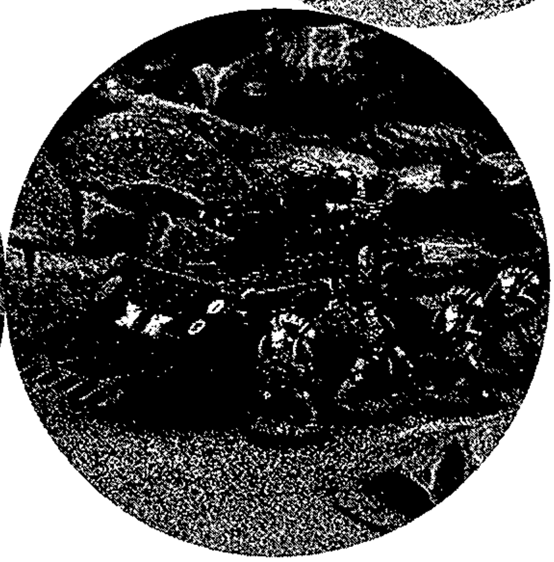
1997/98 Highlights

	In constant currency	As reported
Turnover	+18.2%	+11.1%
Operating profit (before royalty income)	+26.7%	+6.1%
Pre-tax profit	+23.0%	+3.5%
Earnings per share	+27.4%	+6.6%

- UK site consolidation completed (£7 million financed from cash flow)
- Thirty eight new stores opened in the year (thirty outside the UK)
- Start ups included a business in Italy, selling on the internet and a new publications division
- Sales in the key growth markets of the USA and Germany grew by 42% and 43% respectively in local currency

GAMES WORKSHOP PLC 2





Chairman's statement

Results

In my first year as chairman I am pleased to report record profits and sales. Profit before tax for the year to 31 May 1998 rose by 3.5% to £11.5 million on sales 11.1% higher at £64.8 million. These results are impressive in the light of the continuing strength of sterling. If the exchange rates had remained at last year's levels, profit before tax and sales would have been up 23.0% and 18.2% respectively.

Earnings per share of 24.1p were 6.6% ahead of the previous year and the board is pleased to recommend a final net dividend of 5.7 pence per share, which taken together with a net dividend of 3.3 pence paid at the interim, results in a total net dividend for the year of 9.0 pence, an increase of 7.1%.

Operational highlights

We continue to invest in the infrastructure necessary to support the ever increasing size of the business and during the year successfully consolidated the entire UK sales, design, manufacturing and distribution operations onto a single site in Lenton, Nottingham. The move, which was completed on time and within budget, has provided us with double the floor area and three times the production capacity of our old sites. The Spanish operation also moved to larger premises.

A number of new businesses were started in the year. An Italian operation was formed operating from the new Lenton facility. We started a separate publications arm which now produces three regular products and in the USA we commenced selling via our web site.

During the year we opened a further 38 stores, of which 30 were outside the UK including our first stores in Italy, Holland, Belgium, Denmark and New Zealand. This gives us a total of 182 stores at the year end.

The review of operations shows the growth of each of our main businesses in local currency which presents a clearer picture of the underlying trading performance.

Board and management

After almost seven years as the senior executive director, I became the Group's non-executive chairman at the start of June 1998 with Chris Prentice taking over as chief executive. Chris had previously been the CEO of our successful North American operations and I hope that he will have as much fun growing the business in the future as I have had in the past. Steve Godber, who has been a main board director since December 1993, takes over as CEO in North America reflecting the importance that the board continues to attach to developing this vast market.

The board was strengthened further in the year by the appointment of Simon Forrest as a non-executive director. Simon currently operates Impact Corporate Communications, a specialist marketing and investor relations consultancy. Previously he held a number of senior positions within Scottish Television PLC and HTV Group PLC.

The board remains committed to the highest standards of corporate governance and our non-executive directors both chair and are in a majority on all of the sub committees (remuneration, finance, audit and city).

The strengthening of management teams worldwide continues to be a priority. In particular, both the German and French operations have recruited operations managers and we have brought in an experienced manufacturing manager in the UK.

Current trading and prospects

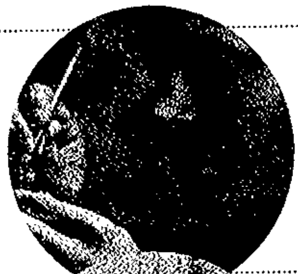
The new financial year has begun well and total sales to date are ahead of last year. Continuing store opening programmes are in place in all of our operations and already 4 new stores have opened since the year end. In June 1998 we made further moves towards the vertical integration of our operations by the acquisition of our plastics supplier (Triple K) and main toolmaker (TJA Tooling). These moves reflect our belief that high quality plastic miniatures will form an increasing part of our sales in the future.

The board believes that there remains scope for significant long term organic growth for the business and is committed to increasing shareholder value. I remain as excited as ever, both as chairman and shareholder, in the long term prospects of this extraordinary company.

T H F KIRBY
Chairman

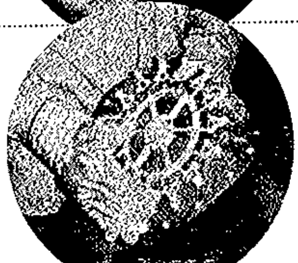
Vertical integration

DESIGN



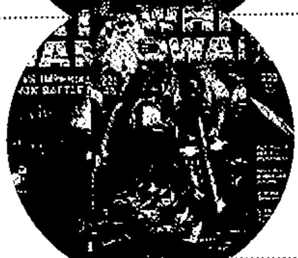
Employing 68 people, the design studio in Nottingham creates all the miniatures, artwork, games and publications that are sold by the Company. There are a further 30 people employed in translation and promotion studios for the French, Spanish, German, Italian, Hong Kong and US operations. Last year we invested £2.2 million in the studio with a further £890,000 spent on tooling for new plastic miniatures.

MANUFACTURE



The main manufacturing centre for metal miniatures is in Nottingham with an additional facility at the US headquarters in Baltimore. The manufacture of our plastic miniatures takes place at Wisbech, Cambridgeshire. Metal miniatures account for 50% of the Group sales with boxed games, plastic miniatures and paints totalling 28% of sales. All other product is sourced complete.

WHITE DWARF MAGAZINE



White Dwarf is the magazine of the Games Workshop hobby containing articles on collecting and painting armies of model soldiers and gaming tactics, as well as informing enthusiasts of new releases. It is published monthly in English (with separate editions in the UK, USA, Canada and Australia), French, Spanish, German, Italian and Chinese. Circulation at the year end was approximately 140,000. No external advertising is carried in the magazine.

TELESALES

The bulk of the sales of Games Workshop products, outside our own stores, is made via our telesales teams around the world dealing direct with over 3,500 independent retailers. We always aim to give excellent service and to deal in the language of the countries concerned. To this end we now operate telesales services in 15 languages out of 9 offices and covering all time zones. 52% of our turnover came from telesales in 1997/98.

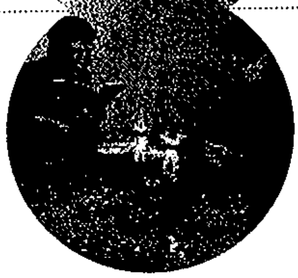
GAMES WORKSHOP STORES

Games Workshop stores provide a focus for the hobby in the area. They only stock Games Workshop products. Each has gaming and painting tables where new customers are introduced to the joys of wargaming by knowledgeable and enthusiastic staff. At the year end we had 182 Games Workshop stores in 14 countries. Our stores contributed 40% of the year's sales.

MAIL ORDER

The mail order service allows enthusiasts full access to all Games Workshop products. Each of the direct operations in the UK, USA, France, Spain, Germany, Canada, Australia, Italy and Hong Kong runs a mail order service. In addition, the UK mail order service is able to supply individual components as well as complete models from the back catalogue of over 10,000 miniatures no longer on general sale. It accounted for 8% of turnover.

WARGAMING



Whole armies of model soldiers clash in table top battles. The victor will be the one with the best choice of tactics, knowledge of the enemy's strengths and weaknesses, balance of troops and of course good luck. Having a bigger force than your enemy can also help.

Chief Executive's report

Introduction

In my first annual statement to shareholders as chief executive I would like to start by paying tribute to Tom Kirby. Over the past seven years he has led the Group with great skill through a period of rapid expansion, including a management buy-out and flotation. I look forward to building on these achievements and welcome Tom's continued contribution as a well informed and visionary non-executive chairman.

Management development

Making sure that we have enough high quality managers around the world is one of the main challenges that we face as a result of our rapid expansion. Because of this, we are putting in place a number of new initiatives to deliver more and better management within the Group. We will be recruiting specific skills where necessary to fill key roles, starting a formal management training programme and bringing young new talent into the business. We will also use the planning and operational reporting processes to involve and develop our existing managers more fully.

An international business

As we spread our sales and operations around the world we become less and less dependent on the UK business to generate growth. However, these newer overseas operations have had limited input into the decision-making processes of the Group. Therefore, in the next few months we will form an international operational board which will better represent the business opportunities that we face as a group, and involve all our senior management from around the world to a far greater extent.

During the year, we have made significant progress towards ensuring that our operations do not suffer disruption as we approach the year 2000. This will remain a key goal for the current year. In addition we will be developing our medium term strategy for the impact on our European businesses of EMU. We will also be reviewing the possible benefits of centralised European distribution as opposed to the separate warehouses that each of our direct operations currently runs.

Internal communications

In order to improve internal communications around the Group to share ideas and best practice we will develop further our intranet site (an internal web site for employees only).

Product development

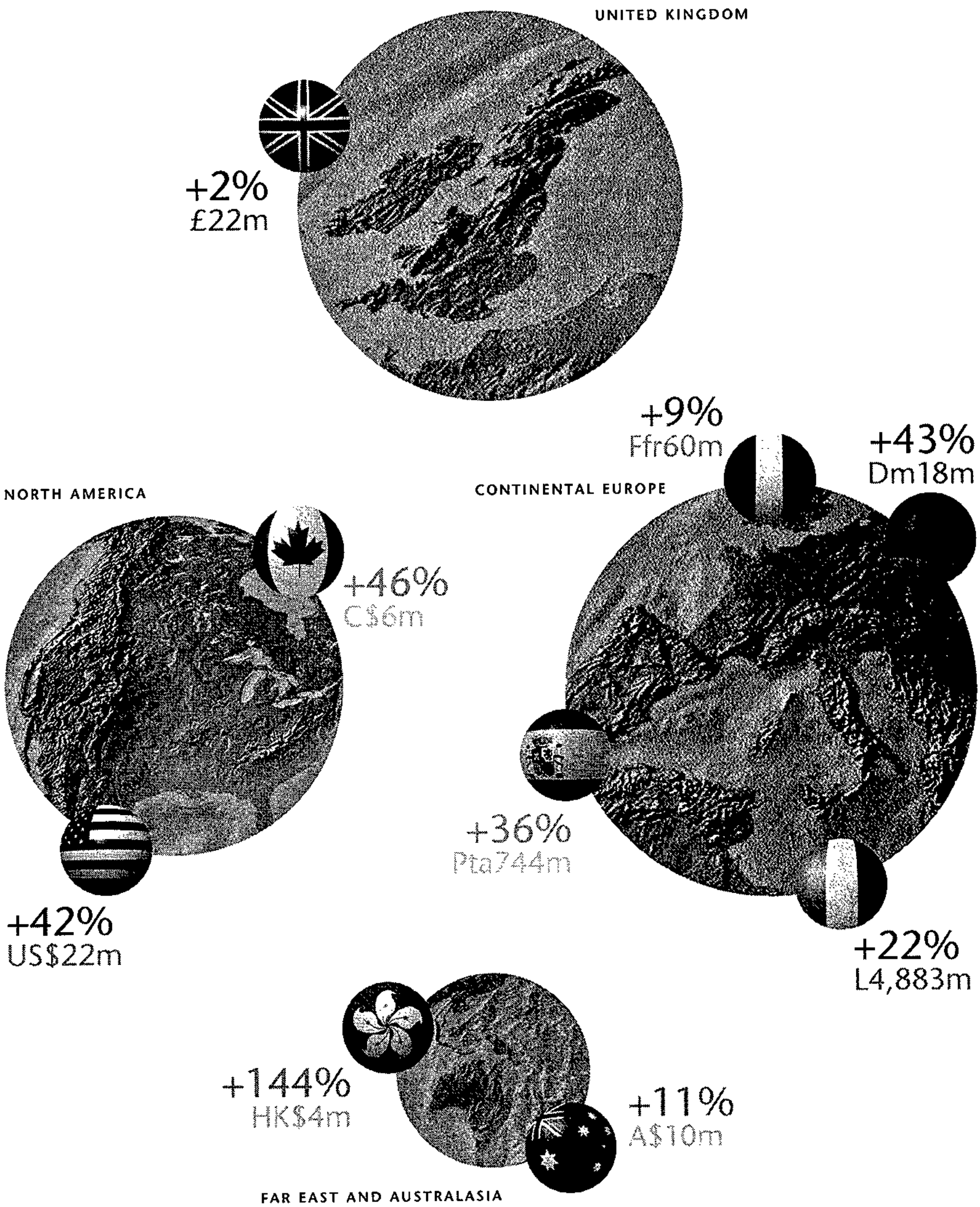
The current year should see us launch our first Japanese and Polish language products consistent with our belief that investment in local language material is essential to build a hobby in overseas territories. We will also be investing further in our own in-house reprographics facility enhancing our ability to provide our overseas translation studios with the materials that they require.

Conclusion

I am proud to have been asked to serve the Company as chief executive. Games Workshop is a strong business with outstanding growth prospects, and I look forward to the successes and challenges that lie ahead for us.

C J PRENTICE
Chief Executive

Sales growth in local currency



Review of operations

We now have direct operations covering nine countries split into four geographic territories – the UK, North America (USA and Canada), Continental Europe (France, Spain, Germany and Italy) and the Far East and Australasia (Hong Kong and Australia). The UK operation also handles export business to 40 other countries. The sales by destination for the year was UK 34%, Continental Europe 34%, North America 25% and the Far East and Australasia 7%.

In each of our direct operations there is a backbone of revenue formed by sales to independent retailers augmented by a gradually developing chain of Games Workshop hobby centres (stores) and by mail order. The overall sales split is now independent retailers 52%, Games Workshop stores 40% and mail order 8%.

Although all operations are growing, it is increasingly clear that the greatest growth potential for the Group exists outside the UK. Consequently, even though we expect further growth from the UK, the trend will be for overseas sales to form an increasing percentage of the Group's overall sales over the next few years.

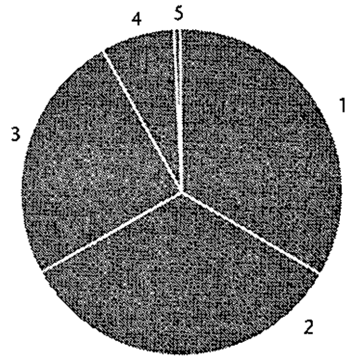
During the year, we felt the full impact of the change of metal for our miniatures to a tin based alloy which in the medium term gives us the ability to sell more easily into toy retailers. The biggest impact was the price increase of almost 20% that was put through on metal products at the beginning of the year in order to preserve our overall margins. This resulted in a small like-for-like decline in our retail sales for the year. This was a one-off impact and I am pleased to report that we are now seeing a return to like-for-like growth in our stores.

Sales in the key growth markets of the USA and Germany grew by 42% and 43% respectively in local currency terms. The Hong Kong operation also showed some encouraging signs for the future with the publication of our first products in Chinese, helping the stores to start to become profitable. Following the setting up of a separate Italian operation at the beginning of the year, our first stores in Italy have started very well and encourage us to believe that the Italian market can be developed in the same way as our other European operations. We have also made our first sales into Japan.

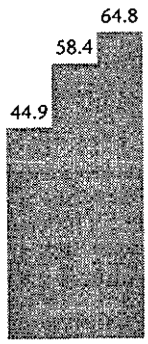
The outlook continues to be very good. As each year goes by our faith in the hobby and the methods we use to introduce and retain enthusiasts around the world is strengthened. The march towards total global domination goes on.

C J PRENTICE
Chief Executive

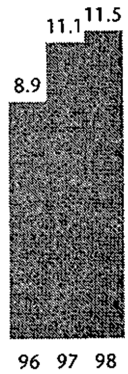
Financial review



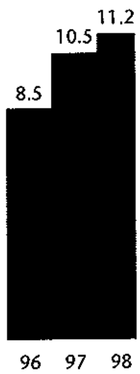
SALES BY DESTINATION



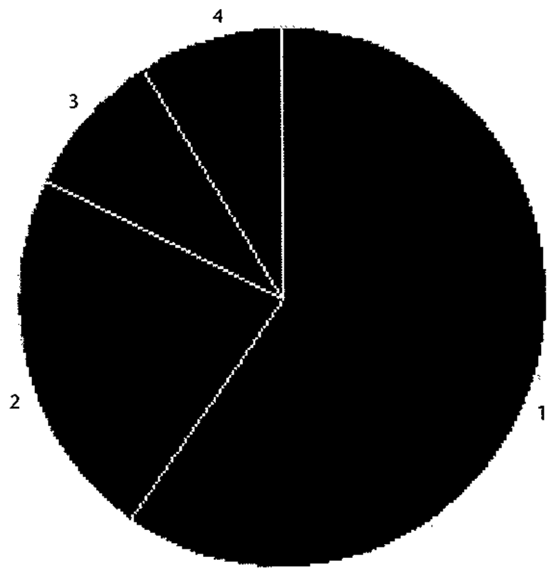
TURNOVER (£M)



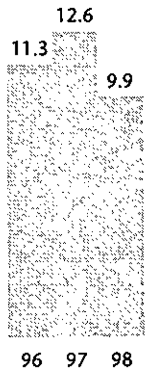
PRE-TAX PROFIT (£M)



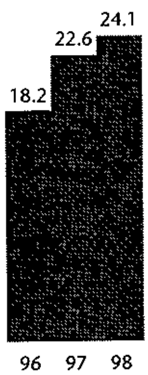
OPERATING PROFIT (£M)
(before royalty income)



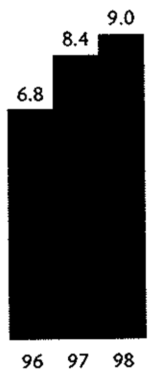
NUMBER OF GAMES WORKSHOP STORES



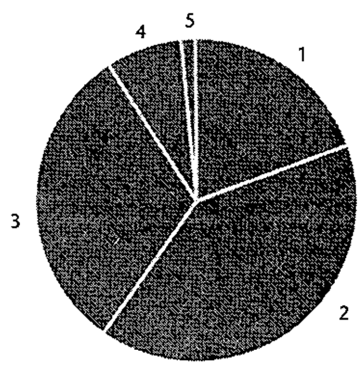
NET OPERATING CASH FLOW (£M)



EARNINGS PER SHARE (PENCE)



DIVIDEND PER SHARE (PENCE)



NUMBER OF INDEPENDENT RETAILERS

1. United Kingdom   2. Continental Europe   3. North America   4. Far East and Australasia   5. Other

Financial review

Turnover

Turnover increased by 11.1% to £64.8 million for the year. However, on a constant currency basis, turnover was up by 18.2% from £58.4 million to £69.0 million.

Operating profit

Before royalty income, operating profit rose by £650,000 to £11.2 million. On a constant currency basis, operating profit grew by 26.7% to £13.4 million.

Operating margins decreased from 18.1% to 17.3%, although on a constant currency basis operating margins would have increased to 19.4%.

Currency movements

The majority of our business is outside the UK and as can be seen above, the increasing strength of sterling during the year has had a significant effect on our results, despite the use of forward currency contracts on major trading currencies.

On a constant currency basis, pre-tax profits were up 23.0% as sterling strengthened on average by almost 12% against the Group's main trading currencies.

Taxation

The effective rate of tax at 35% (1997: 37%) is higher than the normal UK statutory corporate rate as tax rates are higher in most of the overseas countries in which we operate. This is also likely to impact the Group's effective tax rate in the current financial year.

Earnings per share

Earnings per share increased by 6.6% to 24.1p from 22.6p. On a constant currency basis, earnings per share increased by 27.4%.

The basis on which earnings per share has been calculated is given in note 11 to the financial statements.

Dividend per share

The proposed final net dividend of 5.7 pence per share will bring the total dividend per share for the year to 9.0 pence, an increase of 7.1%. The dividend cover has been maintained at 2.7 times earnings.

Shareholders' funds

At the year end the Group had shareholders' funds of £16.1 million. The movement in shareholders' funds is given in note 22 to the financial statements.

Capital structure and treasury policy

Net cash at the year end amounted to £220,000 (1997: £5.6 million). An unsecured medium term sterling loan totalling £235,000 was outstanding as at 31 May 1998.

Group treasury operations are managed centrally. Natural currency hedges are undertaken wherever possible and the Group hedges the majority of cross-border trading using forward currency contracts.

Cash flow

The cash flow set out on pages 20 and 21 shows that, during the year under review, the Group had a net cash inflow of £9.9 million from operating activities.

Capital expenditure at £8.3 million (1997: £6.4 million) was three times the depreciation charge as we continued to invest in the Group's capital infrastructure (in particular the consolidation of the Group and UK businesses) to grow the business organically. Interest, dividends and taxation paid amounted to £7.3 million.

D M HOSIE
Finance Director

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 May 1998.

Principal activities

The principal activities of the Group are the manufacture of miniature figures and games and the retail and wholesale distribution of these products operating from bases in the UK, USA, Canada, Australia, France, Spain and Hong Kong.

Business review

A review of the business is given on pages 3 to 9.

Dividend

The directors recommend a final dividend of 5.7 pence per share to be paid on 30 October 1998 to ordinary shareholders on the register at close of business on 5 October 1998.

Substantial shareholdings

The following interests in 3% or more of the issued share capital of the Company as at 5 August 1998 have been disclosed to the Company:

	No of ordinary shares	Percentage
Henderson Investors	3,057,197	9.8
Fidelity Investments	2,848,299	9.2
Standard Life	2,080,519	6.7
Baillie Gifford	1,795,000	5.8
Abbey Life	1,718,000	5.5
General Accident	1,216,800	3.9
Capital Group	1,080,000	3.5

Post balance sheet event

On 1 June 1998 the Company acquired the entire issued share capital of Triple K Injection Mouldings Limited, a manufacturer of plastic moulded miniatures and TJA Tooling Limited, a manufacturer of steel tools for injection moulding, for a combined consideration of £2.75 million. The purchase was financed by a £5 million unsecured revolving credit facility. Further payments may be due following finalisation of the net assets when the completion accounts are prepared, up to a combined maximum of £180,000.

Directors

The present directors of the Company are listed on page 34. All of the directors were members of the board throughout the year except for S G Forrest who was appointed on 3 February 1998. B S North, who was the non-executive chairman at the start of the year, resigned on 16 September 1997 and was replaced as executive chairman by T H F Kirby. On 1 June 1998 C J Prentice was appointed chief executive and T H F Kirby became non-executive chairman, relinquishing his duties as an executive director. J A J Stallard and C J Myatt are retiring by rotation and being eligible, offer themselves for re-election.

Directors' interests

The interests of the directors in the shares of the Company are disclosed in the report of the remuneration committee on page 14, 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.

Information on non-executive directors

C J Myatt

Chris Myatt joined the board as a non-executive director on 18 April 1996. He is a non-executive director of North Staffordshire Combined Healthcare (NHS) Trust and Glamalco Limited and chairman of Glamorgan Aluminium Company Limited. He was formerly chief operating officer of Tarmac Construction having previously held a number of senior appointments within Tarmac PLC.

A J H Stewart

Alan Stewart joined the board as a non-executive director on 12 September 1996. Alan is the group finance director of the travel group Flying Colours Leisure Group Limited and was previously an executive director with HSBC Samuel Montagu.

S G Forrest

Simon Forrest joined the board as a non-executive director on 3 February 1998. He currently operates Impact Corporate Communications, a specialist marketing and investor relations consultancy for media and leisure companies. Previously he held a number of senior commercial and marketing positions within Scottish Television PLC and HTV Group PLC.

Donations

The Group made no contributions for charitable or political purposes during the year.

Directors' report

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 employee sharesave schemes 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.

Year 2000

During 1997/98 the Company established a Year 2000 compliance programme to address the issues arising as a result of the millenium date. Progress towards compliance is subject to regular reviews by the board of directors and includes co-operation with both key suppliers and customers.

All business critical systems are planned to be compliant by mid 1999 and the directors' best estimate of these costs, where they exceed existing system renewal plans, is less than £100,000.

Creditor payment policy

The Company's current policy concerning the payment of the majority of its trade creditors is to follow the CBI's Prompt Payers Code (copies are available from the CBI, Centre Point, 103 New Oxford Street, London WC1A 1DU). 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; and
c) pay in accordance with its contractual and other legal obligations.

The 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 is 49 days (1997: 45 days).

Special business at the annual general meeting

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 7 to give the directors authority to allot relevant securities up to an aggregate nominal amount of £518,437 (representing 33% of the Company's current issued share capital) and resolution 8 to authorise 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 £77,765 (representing 5% of the Company's current issued share capital).

As the current authority expires at the conclusion of the annual general meeting, resolution 9 seeks shareholders' authority for the Company to make market purchases of its shares pursuant to section 166 of the Companies Act 1985 up to a maximum of 1,555,310 ordinary shares (representing 5% of the Company's current issued share capital).

Taxation status

The Company is not a close company as defined by the Income and Corporation Taxes Act 1988.

Auditors

Our auditors, Coopers & Lybrand, resigned on 17 July 1998. The directors have appointed PricewaterhouseCoopers to serve as auditors up to the date of the annual general meeting. A resolution to re-appoint PricewaterhouseCoopers as auditors will be proposed at the annual general meeting.

By order of the board

D M HOSIE
Secretary

11 August 1998

Corporate governance

The board supports the recommendations on corporate governance contained in the Cadbury Report and is satisfied the Company is currently in compliance with all provisions of the Code of Best Practice contained in that report. The Company continues to monitor developing best practice and welcomes the recommendations of the Hampel Committee.

Board composition

The board comprises the non-executive chairman, five executive and three non-executive directors. It is chaired by the non-executive chairman, T H F Kirby and meets for regular business at least six times a year. The board, with senior management, also convenes annually for a three day conference on group strategy and related operational matters away from the Group's premises. The board has identified various matters which are reserved for consideration by it. The board is responsible for the overall direction and strategy of the Group and for securing the optimum performance from group assets. The non-executive directors are independent of the Group and have a breadth of successful commercial and professional experience.

All directors have access, as appropriate, to independent professional advice and the services of the company secretary. The three non-executive directors do not participate in the Company's bonus, pension and share schemes.

Board committees

The senior management committee meets weekly and comprises all the executive directors. Under the chairmanship of C J Prentice it deals with detailed operational matters and business reviews.

The audit committee comprises the non-executive directors and is chaired by A J H Stewart. It meets not less than twice a year and assists the board in ensuring that the published financial statements give a true and fair view and in securing reliable internal financial information for decision-making. It reviews the suitability and effectiveness of the Group's internal controls, the findings of the external auditors and also reviews key accounting policies and judgements.

The remuneration and nomination committee comprises the non-executive directors and is chaired by C J Myatt. It meets not less than four times a year and is responsible for making recommendations to the board on remuneration policy for senior executives and all directors and for setting salaries, incentive payments and granting share options. It is also responsible for nominating, for approval of the board, candidates for appointment to the board.

The city committee comprises the non-executive directors and is chaired by S G Forrest. It meets not less than twice a year and is responsible for investor relations, corporate governance, city presentations and city advisers.

The finance committee comprises the non-executive directors and is chaired by A J H Stewart. It meets on a monthly basis and is responsible for reviewing financial performance, financial reporting and the planning and forecasting processes.

Internal financial control

The board of directors is responsible for the Group's system of financial controls. It should be recognised that such a system can provide only reasonable and not absolute assurance against material misstatement or loss.

Our systems are designed around ensuring adequate stewardship of the Group's assets, providing appropriate information on a timely basis for the running of the business and ensuring the maintenance of proper accounting records. The efforts that are made in these areas are based on the premise that they will provide reasonable assurances but not guarantees against material misstatement or loss.

The key features of our internal controls include the assessment and prioritisation of the Group's exposure to risk. This is regularly reviewed and the performance of our control and monitoring procedures evaluated. A detailed system of planning, reporting and forecasting for cash and profitability is in operation. This information is monitored in the local operations and centrally. Key financial decision-making is totally centralised as is the group finance function, which allows for high level input and provides financial control over our operations. We regularly review our control procedures and their effectiveness to ensure that they are keeping pace with operational and organisational change.

Regular reporting by senior management ensures that as far as possible the controls and safeguards are being operated in line with our requirements and standards. This process is considered by the audit committee alongside our external auditors' reports.

Going concern

After making appropriate enquiries, the directors have a reasonable expectation that the Company and 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 financial statements.

Auditor's report

To Games Workshop Group PLC on corporate governance matters

In addition to our audit of the financial statements we have reviewed the directors' statement on page 12 on the Company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43 (j) and 12.43 (v).

Basis of opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not express any opinion on, the effectiveness of the Group's corporate governance procedures, nor on the ability of the Group or Company to continue in operational existence.

Opinion

With respect to the directors' statements on internal financial control and on going concern on page 12, in our opinion the directors have provided the disclosures required by the Listing Rules referred to above and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the Company, and examination of relevant documents, in our opinion the directors' statement on page 12 appropriately reflects the Company's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43 (j).

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS
Chartered Accountants
Nottingham

11 August 1998

Report of the remuneration committee

Remuneration policy

The board fully supports the Stock Exchange Listing Rules on remuneration policy. The Company has complied throughout the period with section A of the best practice provisions for directors' remuneration annexed to the London Stock Exchange's Listing Rules, which concerns the membership and operation of the remuneration committee. In framing its policy the committee has given full consideration to section B of the Stock Exchange Listing Rules Best Practice provisions.

The Company's policy on the remuneration of executive directors as determined by the remuneration committee, is designed to attract and retain the most able executives. The remuneration committee has access to both internal and external advice including, where appropriate, information on the remuneration of similar executives in comparable organisations.

Directors' emoluments for the year ended 31 May 1998

	Fees 1998 £000	Salary 1998 £000	Bonus 1998 £000	Benefits in kind 1998 £000	Pension contribution 1998 £000	Total 1998 £000	Total 1997 £000
Executive directors							
T H F Kirby	—	206	70	18	40	**334**	323
C J Prentice	—	123	42	2	12	**179**	164
D M Hosie	—	123	42	12	18	**195**	165
J A J Stallard	—	123	42	11	12	**188**	160
R G Priestley	—	123	42	14	12	**191**	156
S A Godber	—	134	45	6	33	**218**	231
Non-executive directors							
S G Forrest	5	—	—	—	—	**5**	—
C J Myatt	15	—	—	—	—	**15**	15
A J H Stewart	13	—	—	—	—	**13**	7
B S North	10	—	—	—	—	**10**	30
	43	832	283	63	127	**1,348**	1,251

In addition, £2,000 (1997: £4,000) was paid to Flying Colours Leisure Group Limited in respect of A J H Stewart's service as a non-executive director.

Bonuses and benefits

The executive directors participate in a two tier bonus scheme as follows:

(1) an annual scheme related to growth in earnings per share up to a maximum of 60% of salary; and

(2) a long term incentive scheme related to achieving 15% per annum cumulative growth in earnings per share over five years. The maximum bonus payable increases over the five year period up to 40% of salary in the final year.

Benefits in kind are awarded as the committee considers appropriate. These items cover the provision of a company car, fuel and medical insurance.

Pensions

All of the executive directors and the non-executive chairman are members of the Warhammer pension scheme. S A Godber is also a member of the Games Workshop Group PLC 1996/1 unapproved pension scheme and joined the Warhammer pension scheme after the year end. Both of these schemes are defined contribution schemes and, accordingly, the Company's contributions set out above reflect the full cost during the year of providing pension benefits to these directors.

Report of the remuneration committee

Service contracts

T H F Kirby, C J Prentice, D M Hosie, J A J Stallard and R G Priestley entered into service agreements on 28 September 1994 with the Company for fixed terms of two years and thereafter subject to twelve months' notice of termination.

S A Godber entered into a service agreement with the Company on 1 January 1996 which is subject to twelve months' notice of termination.

S G Forrest has a term of appointment for a period of one year ending 2 February 1999.

C J Myatt has a term of appointment for a period of three years ending 17 April 1999.

A J H Stewart has a term of appointment for a period of three years ending 11 September 1999.

Directors' interests in shares of the Company

Movements in the directors' share options in the year, together with their interests (including their families) in the shares of the Company at 31 May 1998 and at 2 June 1997 were as follows:

Options	As at 2 June 1997	Granted during the year	As at 31 May 1998	Exercise dates Commencement	Expiry	Exercise price
C J Prentice	94,620	—	**94,620**	Sep 1997	Sep 2004	115p
	90,000	—	**90,000**	Aug 1998	Aug 2005	208p
	15,380	—	**15,380**	Feb 1999	Feb 2006	301p
	7,076	—	**7,076**	Nov 2000	Apr 2001	195p
	—	28,978	**28,978**	Sep 2000	Sep 2004	687.5p
	—	11,180	**11,180**	Sep 2002	Sep 2004	687.5p
D M Hosie	94,620	—	**94,620**	Sep 1997	Sep 2004	115p
	90,000	—	**90,000**	Aug 1998	Aug 2005	208p
	15,380	—	**15,380**	Feb 1999	Feb 2006	301p
	8,846	—	**8,846**	Nov 2000	Apr 2001	195p
	—	28,978	**28,978**	Sep 2000	Sep 2004	687.5p
	—	11,180	**11,180**	Sep 2002	Sep 2004	687.5p
J A J Stallard	94,620	—	**94,620**	Sep 1997	Sep 2004	115p
	90,000	—	**90,000**	Aug 1998	Aug 2005	208p
	15,380	—	**15,380**	Feb 1999	Feb 2006	301p
	7,076	—	**7,076**	Nov 2000	Apr 2001	195p
	—	28,978	**28,978**	Sep 2000	Sep 2004	687.5p
	—	11,180	**11,180**	Sep 2002	Sep 2004	687.5p
R G Priestley	94,620	—	**94,620**	Sep 1997	Sep 2004	115p
	90,000	—	**90,000**	Aug 1998	Aug 2005	208p
	15,380	—	**15,380**	Feb 1999	Feb 2006	301p
	8,846	—	**8,846**	Nov 2000	Apr 2001	195p
	—	28,978	**28,978**	Sep 2000	Sep 2004	687.5p
	—	11,180	**11,180**	Sep 2002	Sep 2004	687.5p
S A Godber	200,000	—	**200,000**	Feb 1999	Feb 2006	301p
	4,971	—	**4,971**	Nov 2001	Apr 2002	347p
	—	28,978	**28,978**	Sep 2000	Sep 2004	687.5p
	—	11,180	**11,180**	Sep 2002	Sep 2004	687.5p

Report of the remuneration committee

Directors' interests in shares of the Company (continued)

Options (continued)

The options above with an exercise price per share of 195p and 347p were granted under the Games Workshop Group PLC 1995 Sharesave Scheme. All of the remaining options were granted under, or on the terms of, the Games Workshop Group PLC 1994 Executive Share Option Scheme and the Games Workshop Group PLC 1994 Worldwide Executive Share Option Scheme.

Options under the latter two share option schemes, with exception of the 11,180 super options granted to each of the directors in the year, may only be exercised if the cumulative growth in earnings per share at the exercise date exceeds 9% per annum.

A super option may only be excercised if the growth in earnings per share of the Company is equivalent to the growth in earnings per share since the grant of the option of a company in the top third quartile of the FTSE 250.

No other directors have been granted share options in the shares of the Company.

Shares

	As at 31 May 1998 Ordinary shares of 5p each	As at 2 June 1997 Ordinary shares of 5p each
T H F Kirby	**1,837,509**	2,037,509
C J Prentice	**800,000**	800,000
D M Hosie	**125,570**	120,560
J A J Stallard	**41,542**	41,542
R G Priestley	**41,542**	41,542
S A Godber	**21,000**	15,000
C J Myatt	**5,000**	5,000

The mid-market price of the Company's shares on 31 May 1998 was 535p and the range of the market prices during the year was 485p to 857p.

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.

There have been no movements in the above directors' interests between 31 May 1998 and the date of this report.

C J MYATT
Chairman, Remuneration Committee

11 August 1998

Statement of directors' responsibilities

The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that year.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 May 1998. The directors also confirm that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the Company and of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the board

D M HOSIE
Secretary

11 August 1998

Auditors' report

To the members of Games Workshop Group PLC

We have audited the financial statements on pages 18 to 32 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on page 22.

Respective responsibilities of directors and auditors

As described above, the Company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards 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. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 May 1998 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PRICEWATERHOUSECOOPERS
Chartered Accountants and Registered Auditors
Nottingham

11 August 1998

Consolidated profit and loss account

	Notes	Year to 31 May 1998 £000	Year to 1 June 1997 £000
Turnover	2	**64,845**	58,371
Cost of sales		**(20,937)**	(19,950)
Gross profit		**43,908**	38,421
Net operating expenses	3	**(32,715)**	(27,875)
Operating profit before royalty income		**11,193**	10,546
Royalty income		**490**	331
Operating profit	2	**11,683**	10,877
Interest payable and similar charges	6	**(289)**	(47)
Interest receivable		**115**	293
Profit on ordinary activities before taxation	7	**11,509**	11,123
Taxation on profit on ordinary activities	8	**(4,023)**	(4,113)
Profit for the financial year	9	**7,486**	7,010
Dividends	10	**(2,800)**	(2,610)
Profit retained for the financial year		**4,686**	4,400
Earnings per ordinary share	11	**24.1p**	22.6p
Net dividend per ordinary share	10	**9.0p**	8.4p

All items dealt with in arriving at the profit on ordinary activities before taxation relate to continuing activities.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above, and their historical cost equivalents.

Statement of total recognised gains

	Year to 31 May 1998 £000	Year to 1 June 1997 £000
Profit for the financial year	**7,486**	7,010
Currency translation differences on foreign currency net investments	**(434)**	(753)
Total recognised gains relating to the year	**7,052**	6,257

Balance sheets

	Notes	Group As at 31 May 1998 £000	Group As at 1 June 1997 £000	Company As at 31 May 1998 £000	Company As at 1 June 1997 £000
Fixed assets					
Tangible assets	12	**13,581**	9,660	—	—
Investments	13	—	—	**14,828**	14,828
		13,581	9,660	**14,828**	14,828
Current assets					
Stocks	14	**8,059**	4,708	—	—
Debtors	15	**7,400**	6,382	**4,391**	1,704
Cash at bank and in hand		**2,754**	6,007	**2,578**	3
		18,213	17,097	**6,969**	1,707
Creditors: amounts falling due within one year	16	**15,452**	14,660	**9,411**	6,501
Net current assets/(liabilities)		**2,761**	2,437	**(2,442)**	(4,794)
Total assets less current liabilities		**16,342**	12,097	**12,386**	10,034
Creditors: amounts falling due after more than one year	17	**209**	261	—	—
Net assets		**16,133**	11,836	**12,386**	10,034
Capital and reserves					
Called up share capital	19	**1,555**	1,553	**1,555**	1,553
Other reserve	21	**(1,006)**	(1,049)	**7,022**	6,979
Goodwill reserve	21	**(1,159)**	(1,159)	—	—
Profit and loss account	21	**16,743**	12,491	**3,809**	1,502
Equity shareholders' funds	22	**16,133**	11,836	**12,386**	10,034

The financial statements on pages 18 to 32 were approved by the board of directors on 11 August 1998 and were signed on its behalf by:

C J PRENTICE
D M HOSIE } Directors

Consolidated cash flow statement

	Year to 31 May 1998 £000	Year to 1 June 1997 £000
Net cash inflow from operating activities	9,895	12,603
Returns on investments and servicing of finance		
Interest received	114	293
Interest paid	(257)	(45)
Interest paid on hire purchase contracts	(3)	(3)
Net cash (outflow)/inflow from returns on investments and servicing of finance	(146)	245
Taxation paid	(4,320)	(3,507)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(8,252)	(6,399)
Sale of tangible fixed assets	204	108
Net cash outflow from capital expenditure and financial investment	(8,048)	(6,291)
Acquisitions and disposals		
Deferred consideration paid	—	(63)
Equity dividends paid	(2,829)	(2,300)
Net cash (outflow)/inflow before financing	(5,448)	687
Financing		
Issue of ordinary share capital	45	1
Repayment of principal under hire purchase contracts	(11)	(48)
Loan repayments	(114)	(105)
Net cash outflow from financing	(80)	(152)
(Decrease)/increase in cash in the year	(5,528)	535

Reconciliation of net cash flow to movement in net cash

	Year to 31 May 1998 £000
Decrease in cash in the year	(5,528)
Cash outflow from decrease in debt and lease financing	125
Decrease in net cash in the year	(5,403)
Net cash at 2 June 1997	5,621
Net cash at 31 May 1998	218

Notes to the consolidated cash flow statement

Net cash inflow from operating activities

	1998 £000	1997 £000
Operating profit	**11,683**	10,877
(Profit)/loss on disposal of fixed assets	**(45)**	61
Depreciation of tangible fixed assets	**2,722**	2,254
Exchange movements	**(334)**	(516)
Increase in stocks	**(3,351)**	(1,324)
Increase in debtors	**(991)**	(1,699)
Increase in creditors	**211**	2,950
Net cash inflow from operating activities	**9,895**	12,603

Analysis of net cash

	As at 2 June 1997 £000	Cash flow £000	Other non-cash changes £000	As at 31 May 1998 £000
Cash at bank and in hand	6,007	(5,528)	—	**479**
Debt due within one year	(114)	114	(26)	**(26)**
Debt due after more than one year	(235)	—	26	**(209)**
Hire purchase agreements	(37)	11	—	**(26)**
Net cash	5,621	(5,403)	—	**218**

Notes to the financial statements

1. Principal accounting policies

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom. A summary of the more important accounting policies which have been applied consistently is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention modified by the revaluation of certain fixed assets.

Basis of consolidation

The consolidated financial statements include the Company and its subsidiary undertakings made up to 31 May 1998.

Goodwill

Goodwill arising on consolidation represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired. Goodwill arising on the acquisition of subsidiaries is written off immediately against reserves.

To the extent that goodwill in foreign currencies (arising on acquisition of overseas subsidiary undertakings) continues to have value, the amount of goodwill is adjusted at each balance sheet date.

Development expenditure

Product development and design expenditure is written off as it is incurred.

Tangible fixed assets

The cost of fixed assets is their purchase cost, together with any incidental costs of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets less their estimated residual values, 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
Plant and machinery	20–50
Motor vehicles	33
Fixtures and fittings	15–33
Moulding tools	25

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

Operating leases and hire purchase contracts

Costs in respect of operating leases and any benefits received as an incentive to sign a lease, are charged or credited on a straight line basis over the lease term. Hire purchase contracts 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 fixed assets and the capital element of the hire purchase commitment is shown as obligations under hire purchase contracts. The capital element of the payment is applied to reduce the outstanding obligations and the interest element is charged against profit in proportion to the reducing capital element outstanding.

Notes to the financial statements

Stocks

Stocks are valued at the lower of cost and net realisable value. In respect of finished goods, cost includes appropriate production overheads. Where necessary, provision is made for obsolete, slow moving and defective stocks.

Foreign currencies

Assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year and the results of overseas subsidiary companies are translated at the average rate of exchange for the year.

Gains and losses arising on the translation of the net assets of overseas subsidiary companies are taken to reserves, net of exchange differences arising on related foreign currency borrowings.

All other foreign exchange differences are taken to the profit and loss account in the year in which they arise.

Investments

Shares in subsidiary undertakings are stated at cost or valuation less amounts written off where in the opinion of the directors there has been a permanent diminution in the value of the investment.

Turnover

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

Deferred taxation

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability will crystallise.

Pension costs

The Group operates two defined contribution schemes and a group personal pension plan. Pension contributions are charged to the profit and loss account as they accrue.

Notes to the financial statements

2. Geographical analysis

Turnover

By geographical area of destination

	1998 £000	1997 £000
United Kingdom	**21,803**	21,282
Continental Europe	**21,768**	20,265
North America	**16,192**	11,679
Far East and Australasia	**4,820**	4,984
Other	**262**	161
	64,845	58,371

Turnover originated principally in the United Kingdom with the exception of North American turnover. The Group operates as an entity to sell hobby games and as such has no separately defined business segments.

Operating profit

By geographical area of destination

	1998 £000	1997 £000
United Kingdom	**3,912**	4,461
Continental Europe	**4,758**	5,457
North America	**5,291**	3,675
Far East and Australasia	**1,225**	1,382
Other	**27**	41
	15,213	15,016
Development and central costs	**(4,020)**	(4,470)
Operating profit before royalty income	**11,193**	10,546
Royalty income	**490**	331
	11,683	10,877

Net assets

By geographical area of destination

	1998 £000	1997 £000
United Kingdom	**8,001**	5,541
Continental Europe	**5,233**	4,268
North America	**3,838**	2,929
Far East and Australasia	**682**	833
Other	**152**	67
Net operating assets	**17,906**	13,638
Unallocated net liabilities	**(1,773)**	(1,802)
	16,133	11,836

Notes to the financial statements

3. Net operating expenses

	1998 £000	1997 £000
Selling and distribution costs	**24,530**	20,616
Administrative costs	**6,014**	5,495
Design and development costs	**2,171**	1,764
	32,715	27,875

4. Directors' emoluments

	1998 £000	1997 £000
Aggregate emoluments and benefits	**1,350**	1,255

The remuneration of the executive directors is decided by the non-executive directors through the remuneration committee.

Aggregate emoluments and benefits include amounts paid to:

	Highest paid director 1998 £000	Highest paid director 1997 £000
Aggregate emoluments and benefits	**334**	323

Details of the remuneration of the directors of Games Workshop Group PLC which are required to be audited are disclosed in the report of the remuneration committee on pages 14 to 16.

5. Employee information

The average monthly number of persons (including executive directors) employed by the Group during the year was:

	1998 Number	1997 Number
Production	**417**	338
Selling and distribution	**966**	693
Administration	**149**	119
	1,532	1,150

Staff costs (for the above persons)

	1998 £000	1997 £000
Wages and salaries	**18,676**	14,884
Social security costs	**1,839**	1,388
Other pension costs	**509**	399
	21,024	16,671

Notes to the financial statements

6. Interest payable and similar charges

	1998 £000	1997 £000
On bank loans, overdrafts and other loans	286	40
Other interest	3	7
	289	47

7. Profit on ordinary activities before taxation

	1998 £000	1997 £000
Profit on ordinary activities is stated after (crediting)/charging:		
(Profit)/loss on disposal of fixed assets	(45)	61
Depreciation		
tangible owned fixed assets	2,711	2,241
tangible fixed assets under hire purchase contracts	11	13
Operating leases		
property	3,452	2,864
other	210	183
Auditors' remuneration		
audit (Company £35,000; 1997: £30,000)	117	103
non audit (Company £3,000; 1997: nil)	45	39

8. Taxation on profit on ordinary activities

	1998 £000	1997 £000
Current United Kingdom corporation tax at 31% (1997: 32.7%)	3,385	3,232
Double taxation relief	(842)	(904)
Under/(over) provision in respect of prior years	203	(137)
	2,746	2,191
Overseas taxation	1,277	1,922
	4,023	4,113

9. Profit for the financial year

As permitted by section 230 of the Companies Act 1985, the Company's profit and loss account has not been included in these financial statements. Of the profit for the financial year £5.1 million (1997: £2.6 million) is dealt with in the financial statements of the Company, after including dividends from subsidiary companies of £6.2 million (1997: £4.0 million).

Notes to the financial statements

10. Dividends

	1998 £000	1997 £000
Interim paid of 3.3 pence per share (1997: 2.6p)	1,027	808
Final proposed of 5.7 pence per share (1997: 5.8p)	1,773	1,802
	2,800	2,610

11. Earnings per ordinary share

The calculation of earnings per ordinary share has been based on the profit for the year and 31,080,934 (1997: 31,066,539) ordinary shares being the weighted average number of shares in issue throughout the year.

Dilution of the earnings per share figure based upon outstanding share options is not material.

The calculation of earnings per share is consistent with the measures recommended by the Institute of Investment Management and Research.

12. Tangible fixed assets

	Freehold land and buildings £000	Long leasehold premises £000	Short leasehold premises £000	Plant & equipment & vehicles £000	Fixtures and fittings £000	Moulding tools £000	Total £000
Group							
Cost							
At 2 June 1997	1,139	3,776	468	4,386	3,722	1,914	15,405
Exchange differences	—	—	(6)	(75)	(100)	—	(181)
Additions	—	2,508	216	1,686	1,918	891	7,219
Disposals	(73)	—	(6)	(520)	(40)	—	(639)
Reclassifications	(20)	—	—	110	(90)	—	—
At 31 May 1998	**1,046**	**6,284**	**672**	**5,587**	**5,410**	**2,805**	**21,804**
Depreciation							
At 2 June 1997	174	—	122	2,517	1,893	1,039	5,745
Exchange differences	—	—	—	(34)	(47)	—	(81)
Charge for the year	25	99	59	1,038	1,187	314	2,722
Eliminated in respect of disposals	(5)	—	(6)	(408)	(28)	—	(447)
Utilisation of write-down provision	240	—	—	13	31	—	284
Reclassifications	—	—	—	60	(60)	—	—
At 31 May 1998	**434**	**99**	**175**	**3,186**	**2,976**	**1,353**	**8,223**
Net book value at 31 May 1998	**612**	**6,185**	**497**	**2,401**	**2,434**	**1,452**	**13,581**
Net book value at 1 June 1997	965	3,776	346	1,869	1,829	875	9,660

The net book value of tangible fixed assets includes an amount of £30,000 (1997: £41,000) in respect of assets held under hire purchase contracts. The depreciation charged on these assets was £11,000 (1997: £13,000). As at 31 May 1998 the Company held no fixed assets.

Notes to the financial statements

13. Fixed asset investments

	Interests in Group undertakings £000
Company	
Cost	
At 31 May 1998	**14,828**
At 1 June 1997	14,828

Interests in Group undertakings

The directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length. The following information relates to those subsidiary undertakings whose results or financial position, in the opinion of the directors, principally affected the figures of 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	£1 ordinary	100%		Manufacturer, distributor and retailer of games and miniatures
Games Workshop Inc	United States of America	$1 common stock		100%	Manufacturer, distributor and retailer of games and miniatures
Games Workshop (Queen Street) Limited	Canada	Can $1		100%	Distributor and retailer of games and miniatures
EURL Games Workshop	France	FF 1		100%	Distributor and retailer of games and miniatures
Games Workshop SL	Spain	Peseta 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 Limited	England	£1 ordinary		100%	Distributor and retailer of games and miniatures
Games Workshop Limited	Hong Kong	HK$10		100%	Distributor and retailer of games and miniatures
Games Workshop International Limited	England	£1 ordinary	100%		Holding company for overseas subsidiary companies

All the above companies operate principally in their country of incorporation or registration with the exception of Games Workshop Deutschland Limited which operates in Germany.

14. Stocks

	1998 £000	1997 £000
Group		
Raw materials and consumables	**2,421**	1,589
Finished goods and goods for resale	**5,638**	3,119
	8,059	4,708

Notes to the financial statements

15. Debtors

	Group 1998 £000	Group 1997 £000	Company 1998 £000	Company 1997 £000
Amounts falling due after more than one year				
Advance corporation tax recoverable	443	450	—	—
Other debtors	69	66	—	—
Amounts owed by group undertakings	—	—	2,566	—
	512	516	2,566	—
Amounts falling due within one year				
Trade debtors	5,835	4,745	—	—
Other debtors	447	558	—	—
Amounts owed by group undertakings	—	—	1,747	1,563
Prepayments and accrued income	606	563	78	141
	6,888	5,866	1,825	1,704
	7,400	6,382	4,391	1,704

16. Creditors: amounts falling due within one year

	Group 1998 £000	Group 1997 £000	Company 1998 £000	Company 1997 £000
Other loans and overdrafts	2,301	114	—	—
Obligations under hire purchase contracts	26	11	—	—
Trade creditors	4,552	3,951	330	396
Corporation tax	2,076	2,491	—	—
Advance corporation tax payable	700	589	700	589
Other taxation and social security	1,081	1,011	67	70
Other creditors	954	2,875	82	83
Amounts owed to group undertakings	—	—	6,057	2,976
Accruals and deferred income	1,989	1,816	402	585
Proposed dividend	1,773	1,802	1,773	1,802
	15,452	14,660	9,411	6,501

Notes to the financial statements

17. Creditors: amounts falling due after more than one year

	1998 £000	1997 £000
Group		
Bank and other loans	**209**	235
Obligations under hire purchase contracts	**—**	26
	209	261

Analysis of borrowings

	1998	1997
Group		
Secured		
Sterling hire purchase contracts	**26**	34
Total secured	**26**	34
Unsecured		
Libor plus 2% bank loan	**—**	90
Libor plus 1.75% bank loan	**235**	259
Hong Kong dollar hire purchase contracts	**—**	3
Overdraft	**2,275**	—
	2,536	386
Repayable within 1 year	**2,327**	125
Repayable by instalments between 1 and 2 years	**28**	51
Repayable by instalments between 2 and 5 years	**99**	167
Repayable by instalments over 5 years	**82**	43
	2,536	386

18. Deferred taxation

No provision is made for taxation liabilities which would arise on the distribution of profits retained by overseas subsidiaries because there is no intention in the foreseeable future that such profits will be remitted.

Notes to the financial statements

19. Called up share capital

	1998 £000	1997 £000
Authorised		
42,000,000 ordinary shares of 5p each	2,100	2,100
Allotted, called up and fully paid		
31,105,070 (1997: 31,066,889) ordinary shares of 5p each	1,555	1,553

During the year 1,333 ordinary shares of 5p each were issued for £3,001 under the Games Workshop Group PLC 1995 Sharesave Scheme, 33,694 were issued for £38,748 under the Games Workshop Group PLC 1994 Executive Share Option Scheme and 3,154 were issued for £3,627 under the Games Workshop Group PLC 1994 Worldwide Executive Share Option Scheme.

20. Options in shares of Games Workshop Group PLC

Options over ordinary shares outstanding at the date of this report are as follows:

Date granted	No of shares	Exercise price	Exercise dates
28 September 1994	436,252	115p	Sep 1997 to Sep 2004
18 August 1995	394,694	208p	Aug 1998 to Aug 2005
5 October 1995	180,043	195p	Nov 2000 to Apr 2001
14 February 1996	261,520	301p	Feb 1999 to Feb 2006
18 July 1996	34,013	372p	Jul 2001 to Jan 2002
6 September 1996	62,903	347p	Nov 2001 to Apr 2002
17 September 1996	75,000	463p	Sep 1999 to Sep 2006
17 September 1997	144,890	687.5p	Sep 2000 to Sep 2004
17 September 1997	55,900	687.5p	Sep 2002 to Sep 2004
9 October 1997	52,894	558p	Nov 2002 to Apr 2003
	1,698,109		

21. Reserves

	Goodwill reserve £000	Profit and loss account £000	Other reserve £000
Group			
At 2 June 1997	(1,159)	12,491	(1,049)
Exchange adjustments	—	(434)	—
Retained profit for the year	—	4,686	—
Issue of ordinary share capital	—	—	43
At 31 May 1998	(1,159)	16,743	(1,006)
Company			
At 2 June 1997	—	1,502	6,979
Retained profit for the year	—	2,307	—
Issue of ordinary share capital	—	—	43
At 31 May 1998	—	3,809	7,022

Notes to the financial statements

22. Reconciliation of movements in shareholders' funds

Group	1998 £000	1997 £000
Profit for the financial year	7,486	7,010
Dividends	(2,800)	(2,610)
	4,686	4,400
Issue of new share capital	45	1
Other recognised gains and losses	(434)	(753)
Opening shareholders' funds	11,836	8,188
Closing shareholders' funds	16,133	11,836

23. Capital commitments

Group	1998 £000	1997 £000
Contracted but not provided for	186	2,975

24. Financial commitments

At 31 May 1998, the Group had annual commitments under non-cancellable operating leases as follows:

	Land and buildings 1998 £000	Other 1998 £000	Land and buildings 1997 £000	Other 1997 £000
Expiring within 1 year	234	59	241	42
Expiring between 2 and 5 years inclusive	1,395	106	1,181	109
Expiring in over 5 years	1,845	—	1,688	—
	3,474	165	3,110	151

25. Contingent liabilities

Company	1998 £000	1997 £000
Guarantees in respect of bank overdrafts and loans of subsidiary companies	2,248	349

26. Related party disclosures

The Company has taken advantage of the exemption not to disclose transactions with other entities that fall within the group of companies owned 90% by the ultimate parent company.

27. Post balance sheet event

On 1 June 1998 the Company acquired the entire issued share capital of Triple K Injection Mouldings Limited and TJA Tooling Limited. Further details are included in the directors' report.

Five year summary

	1998 £000	1997 £000	1996 £000	1995 £000	1994 £000
Turnover	**64,845**	58,371	44,900	32,111	24,502
Operating profit before royalty income	**11,193**	10,546	8,495	6,050	4,543
Royalty income	**490**	331	346	157	472
Operating profit	**11,683**	10,877	8,841	6,207	5,015
Interest payable and similar charges	**(289)**	(47)	(144)	(238)	(384)
Interest receivable	**115**	293	168	53	22
Profit on ordinary activities before taxation	**11,509**	11,123	8,865	6,022	4,653
Taxation	**(4,023)**	(4,113)	(3,200)	(2,048)	(1,585)
Profit for the financial year	**7,486**	7,010	5,665	3,974	3,068
Dividends	**(2,800)**	(2,610)	(2,113)	(2,037)	(1,197)
Profit retained for the financial year	**4,686**	4,400	3,552	1,937	1,871
Earnings per ordinary share	**24.1p**	22.6p	18.2p	13.1p	10.6p

Financial calendar

Annual general meeting	23 September 1998
Final ordinary dividend payable	30 October 1998
Announcement of interim results	February 1999
Interim ordinary dividend payable	April 1999
Financial year end	30 May 1999
Announcement of final results	August 1999

Company directors and advisers

Directors
T H F Kirby, Non-executive Chairman
C J Prentice, Chief Executive
D M Hosie, Finance Director
J A J Stallard, Sales Director
R G Priestley, Product Development Director
S A Godber, USA Chief Executive Officer
S G Forrest, Non-executive Director
C J Myatt, Non-executive Director
A J H Stewart, Non-executive Director

Company secretary
D M Hosie CA

Registered office
Willow Road
Nottingham NG7 2WS

Registered number
2670969

Financial advisers
HSBC Investment Bank
Vintner's Place
68 Upper Thames Street
London EC4V 3BJ

Stockbrokers
Credit Lyonnais Securities
Broadwalk House
5 Appold Street
London EC2A 2DA

Principal bankers
Bank of Scotland
15 Queen Street
Nottingham NG1 2BL

Registered auditors
PricewaterhouseCoopers
Cumberland House
35 Park Row
Nottingham NG1 6FY

Solicitors
Shoosmiths & Harrison
Lock House
Castle Meadow Road
Nottingham NG2 1AG

Registrars
Bank of Scotland
Apex House
9 Haddington Place
Edinburgh EH7 4AL

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 10.00 am on 23 September 1998 for the following purposes:

Ordinary business

Resolution 1 To receive the report of the directors and the audited accounts for the Company for the year ended 31 May 1998.

Resolution 2 To declare a final dividend of 5.7 pence per share on the ordinary shares of the Company.

Resolution 3 To re-elect J A J Stallard as a director, who retires in accordance with article 88(a) of the articles of association of the Company.

Resolution 4 To re-elect C J Myatt as a director, who retires in accordance with article 88(a) of the articles of association of the Company.

Resolution 5 To re-appoint S G Forrest as a director, who retires in accordance with article 83(a) of the articles of association of the Company.

Resolution 6 To re-appoint PricewaterhouseCoopers as auditors and to authorise the directors to fix their remuneration.

Special business

Resolution 7 As an ordinary resolution, 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 22 December 1999 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 £518,437 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.

Resolution 8 As a special resolution, that 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 resolution 7 set out in the notice convening the meeting dated 11 August 1998 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, 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 £77,765,

and shall expire at the conclusion of the next Annual General Meeting of the Company or on 22 December 1999, 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.

Notice of meeting

Resolution 9 As a special resolution, 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 22 December 1999 whichever is the earlier;

(b) the maximum number of ordinary shares shall be limited to 1,555,310 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 ten 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

D M HOSIE
Secretary

11 August 1998

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.

(2) The service agreements of the directors are available for inspection during the normal business hours at the registered office of the Company.

(3) The Company, pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995, specified that only those shareholders registered on the register of members of the Company as at 10.00 am on 21 September 1998 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 10.00 am on 21 September 1998 shall be disregarded in determining the rights of any person to attend or vote at the meeting.