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FINANCIAL HIGHLIGHTS

	2006	2005
Revenue	**£115.2m**	£136.6m
Operating profit	**£4.2m**	£14.3m
Pre-tax profit	**£3.7m**	£13.9m
Year end net (borrowings)/funds	**£(2.2m)**	£3.4m
Earnings per share	**6.5p**	29.4p
Dividend per share	**18.975p**	18.975p

Contents

CHAIRMAN'S PREAMBLE

I've never done anything that's quite as much fun* 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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* Fun, that is, so long as you don't want to win popularity contests or track your personal net worth on a daily basis.

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* and I were sitting ruminating about this basic truth last week. I was reflecting on how it was sometimes hard for potential owners to understand the basics of the business and why it was so long term and resilient. He reminded me how many of the people who work here forget it. There is so much stuff going on: so many army lists, so many designs, so many kits, so many campaigns, so many events, so many new stores, so many independent stockists, so many management issues that even the people who work here can forget from time to time that all we are doing, every day, is selling more toy soldiers, at a profit, to people who are truly grateful.

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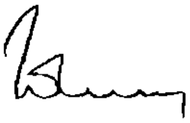
At last year's staff meeting (which we hold annually to discuss the year's results with staff) I was asked what interest 'the City' took in our environmental and community programmes. I said 'not much' which, given the number of questions I had had on the topic from institutional investors on the road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



Tom Kirby
Chairman and Chief Executive

* 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.

BUSINESS REVIEW

Summary of results

This year our sales and profits have fallen for two main reasons: firstly, the continuing decline in sales following an exceptional trading period*, and secondly, the continued reduction in our sales to independent toy and hobby retailers, notably in the US, where many smaller independent operators are ceasing to trade.

Following the decline in sales, management faced three issues. Firstly, the need for all staff to be focused on the temporary nature of the decline. Secondly, during the rapid sales upturn between 2002 and 2004, some of the good habits on which we have built the business became eroded. Thirdly, over the same period, our traditional product stream became disrupted. The first was the easiest to deal with - we all knew the franchise was sound and undamaged - all we had to do was to remind everyone to be patient. The second required us to work hard at re-training and re-invigorating our staff in the basics of providing our normal, exceptional, customer service. As regards the third we are now engaged in the process of re-establishing our normal product life cycles.

We have also taken the opportunity to examine closely the costs that have come into the business over the last few years. We believe we have made significant inroads into the extra costs that had crept in.

The results of this work leave the Company in a more healthy state at the end of this year than at its beginning.

In the first half of the year we reported a sales decline of 20%. In the second half this decline slowed to 12%. By the end of the year our Games Workshop Hobby stores in seven of our nine sales businesses, including both the US and the UK - our two largest businesses - were recording growth.

Despite the lower production volumes resulting from the decline in sales, we have been able to maintain and improve our gross profit margin to 70%. This is due to price rises, improved operational efficiency from the capital investments which have now been completed in our manufacturing facilities at both Nottingham and Memphis, and the sourcing of bought-in components and print more cost effectively from both Europe and Asia.

Additionally we have reduced overheads by £2.8 million during the year, whilst increasing our expenditure on customer facing activities including a net increase of ten new Hobby stores since May 2005.

Sales

The following chart sets this year's revenue in the context of the yearly and half yearly development of the Group's sales:

Sales by channel

The Games Workshop Hobby is supported and promoted by our own Games Workshop Hobby stores, through which 48% of our 2005/6 sales were made. As we continue to develop the Hobby we have opened sixteen and closed six stores during the year, taking our total to 337. Sales are also made through independent retailers and direct, through the internet and mail order. An analysis of sales for 2005/6 for each of the channels is given below:

Continental Europe

There are five stand alone sales businesses in Continental Europe responsible for development of the Hobby in France, Germany, Northern Europe, Spain and Italy. We now have 106 Games Workshop Hobby stores, up from 101 last year. Our sales have fallen in all of these territories during the year, however, the rate of decline had slowed significantly by the end of the year, with three of the five Hobby store chains recording growth in May 2006. Our progress in restoring growth in our sales to independent retailers has been slower, however, we believe that the progress of our own stores is the lead indicator.

BUSINESS REVIEW continued

UK

We now have 119 Games Workshop Hobby stores in the UK (2005: 118). The decline in sales has impacted our own stores and sales to independent retailers by similar proportions. Our focus during the year has been on staff training, recruitment and retention, particularly for the key post of store manager. All of our full time staff have attended refresher training courses to refocus their efforts on the basics of Games Workshop customer service. We have also kept the cost base under close review, reducing both our back office costs and our store opening hours. At our annual Games Day, held in September at a new larger venue (the National Exhibition Centre in Birmingham), we welcomed 10,000 people - a record attendance.

The Americas

During the year we have opened two new Games Workshop Hobby stores in the Americas, which for us comprises the USA and Canada, bringing our total to 83. As our independent retailer base has continued to struggle, our focus has been on establishing and growing our own Games Workshop Hobby stores. 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 also believe that this strategy will support and develop the independent retailer base in these major metropolitan areas. The shake out has, however, continued this year: in the USA we began the year with 875 active accounts and we have ended it with 729. As indicated above, however, our own Games Workshop Hobby stores were enjoying healthy growth by the end of the year. During the year we held five Games Day events in the Americas, and the attendances continue to grow year on year. The appetite for the Games Workshop Hobby is as great in the Americas as elsewhere: our challenge remains in establishing sound and profitable routes to market. We are confident that our strategy will be successful in doing this.

Asia Pacific

This territory comprises Australia, New Zealand and Japan, where we opened our first Games Workshop Hobby store in Tokyo during the year. We now have 29 stores in the region (2005: 27). As in the UK, revenue has suffered with sales through the Games Workshop Hobby stores declining at a similar rate to those through our independent customers. However, also similar to the UK, at the end of the year our own stores were enjoying growth. We see our first Japanese store as the beginning of a long-term investment which has cost us £0.5m this year. The initial indications are promising, and we expect to open our second store shortly.

Manufacturing and Supply division

This year we completed the final stages of our major investment programme in our vertically integrated design, manufacturing and distribution supply chain with the commissioning of the new European warehousing and distribution centre in Nottingham and the move of our plastic injection moulding facility from Wisbech to Nottingham. Both of these moves were completed on time and on budget, without any disruption to the delivery of product to our customers. This now leaves the Group with a well invested supply chain supporting the UK and Europe from our Nottingham facility and the Americas and Asia Pacific from Memphis.

Other activities

Computer games licensing

We now have three third party licenses in place with publishers of computer games: THQ Inc. for Warhammer 40,000, Namco Hometek Inc. for Warhammer and Mythic Entertainment Inc. who are developing a massively multiplayer online role-play game set in the Warhammer world. Most of the £1.2m of royalty income which we earned this year came from THQ Inc. We expect this 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 £2.1m this year, has continued to enjoy growth and success primarily with novels based upon our Warhammer and Warhammer 40,000 intellectual properties. This business continues to develop a small but profitable niche publishing portfolio, focusing on fantasy and science fiction titles, which continues to enhance and develop the existing Games Workshop intellectual property.

Sabertooth Games

This US based collectible card game business, which has been struggling to break even since we acquired it in 2002, has recently launched an exciting new product, the Universal Fighting System collectible card game (CCG), which has received a promising reception from the CCG market in the Americas. We are watching the progress of this game system with interest.

Management structure

The Group is managed through four clearly defined divisions as follows:

Hobby division - responsible for the development of the Hobby throughout the world. This encompasses the sales businesses in each territory around the world as well as the design studio based in Nottingham.

Manufacturing and Supply division - responsible for the realisation of the designs into manufactured products, and the supply and distribution of those products to our sales businesses and their customers around the world.

Other Activities division - responsible for the sales of all non-tabletop wargaming products, including publishing, collectible card games and computer games.

Group - responsible for the financing and corporate governance of the activities carried out in the divisions. This also includes intellectual property management, legal, treasury, reporting and investor relations.

This structure has been in place throughout this year, and in addition to providing clear business focus we believe that the structure enables us to address the key areas of management recruitment, development and succession planning in a systematic way. A development this year has been the removal of areas of duplication of processes between the divisions, resulting in the centralisation of some back office activities.

Our vertically integrated manufacturing and supply division is dedicated to the supply of products to the Hobby and Other Activities divisions. We consider that the risks and rewards of each division are similar, and that the Group has a single business segment, the Games Workshop Hobby.

Workforce

This has been a hard year for everybody at Games Workshop as we have seen our sales and profits decline, and while most of our staff love what they do, they also love to succeed. It is part of our job as management here at Games Workshop to provide reassurance to our staff that success isn't just about beating last year's numbers (although that helps), it is about doing your best, every day, to develop and further the business. So long as our staff are doing that, then they continue to get my wholehearted vote of confidence.

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 our business faces is what we do every day. The divisional management structure referred to above is how we make this process transparent and accountable. The Hobby division is responsible for keeping the Games Workshop Hobby fresh and exciting and for managing market facing risks; the Manufacturing and Supply division is responsible for managing product delivery risks; the Other Activities division is responsible for using our intellectual property appropriately while not distracting our tabletop wargaming activities, and Group is responsible for managing corporate risks. 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.

Foremost amongst the market facing risks is our ability to forecast sales and factory demand. Throughout this last year I have been encouraged by a clear improvement in the capability of our central team to keep close to the drivers and trends which underlie our sales in each business unit, and to ensure that the communication between the sales division and the manufacturing division is immediate and effective.

Amongst the product delivery risks are those relating to input prices. We have seen significant increases in energy costs during the year, and the outlook remains uncertain. Our annual energy bill amounts to some £0.9m. The cost of raw materials, such as metal and plastic, represents no more than 2% of our annual sales and has been relatively stable during the year. 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 hard to minimise these risks and the Manufacturing and Supply division continues 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.

BUSINESS REVIEW continued

Prospects

In the short term our trading prospects remain challenging: throughout Spring 2006 our year on year performance has been improving and, as I have indicated above, by the end of the year our Games Workshop Hobby stores in seven of our nine sales territories, including both the US and the UK - our two largest businesses - were recording growth. We believe that the business is now returning to growth. With 42% of our sales made to independent retailers, however, 'calling the turn' is difficult.

Nevertheless we remain confident that we are right to refer to these as short-term trading issues. This confidence is based upon the following three fundamentals:

1. 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 the normal growth line, since when they have been deflating. We believe that it is only a matter of time before we re-establish our historic linear growth rate.

Europe

Source: Population information is sourced from the 2005 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.

3. The health of the Games Workshop Hobby

Despite the short-term difficulties of this year, we remain confident that the Hobby is in good health. In addition we have come to the end of our investment programme, which leaves the business seriously well invested.

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

Tom Kirby
Chairman and Chief Executive
24 July 2006

FINANCIAL REVIEW

*Operating profit prepared under IFRS

Cash generation

The Group generated £15.8m (2005: £21.2m) of cash from operations during the year, and after capital expenditure of £9.2m we had net borrowings at the year end of £2.2m (2005: net funds of £3.4m). Our inventories at the end of the year were slightly above normal levels due to the downturn in sales. We believe that the May 2004 levels, which showed a year end stock turn of 4.1 times (2006: 2.7 times), represent a more normal level of stockholding for the business. Our capital additions were in the following asset categories:

	2006 £m	2005 £m
Shop fits for new and existing stores	1.5	1.9
Production equipment and tooling	4.5	4.0
Computer equipment and software	1.6	2.0
Office facilities	0.9	1.9
Building developments - Nottingham	0.1	2.5
Total capital additions	8.6	12.3

Now that the investment in the Nottingham building and supply chain developments is complete, we do not expect to make any further major investments of this nature for several years. For the foreseeable future we therefore expect that capital expenditure will be broadly similar to the level of annual depreciation/amortisation of capital assets.

Interest

Our interest costs have risen in 2006 as we have continued to invest in capital assets, as described above, while our profits have declined. Our working capital cycle requires us to build inventories and receivables in the first half. Accordingly, we typically run an overdraft between September and December of each year. As the business has grown, so the absolute amount of this working capital swing has increased.

The Group's exposure to interest rate fluctuations is reviewed periodically by the board; this exposure has not been significant in recent years.

FINANCIAL REVIEW continued

Taxation

The effective rate of tax for the year is 45.4% (2005: 35.1%). This rate is higher than that of a business with activities based only in the UK due to higher overseas tax rates and unrecognised overseas losses. The increase this year is due to the disproportionate impact of the unrecognised overseas losses on a lower pre-tax result for the year.

	2006 £m	2005 £m
UK taxation	0.5	3.7
Overseas taxation	1.1	1.8
Current taxation	1.6	5.5
Deferred taxation	0.1	(0.6)
	1.7	4.9

Dividend

Our long-term aim is to maintain a progressive dividend policy based principally on the growth in the Company's earnings per share.

For the current year we have decided to recommend holding the dividend in spite of the reduction in earnings per share. While recognising that this results in an uncovered dividend, in view of the fundamentally profitable and cash generative nature of Games Workshop's business and of the relatively low level of debt, the board believes that it is appropriate to accept an uncovered dividend in such circumstances.

Accordingly, at the forthcoming annual general meeting the board is proposing that the 2006 final dividend be maintained at 14.025 pence per share.

Dividend reinvestment plan

We also offer investors the opportunity automatically to reinvest their cash dividends in the Company's shares. The dividend reinvestment plan is a simple and economic way to increase holdings and is administered by Lloyds TSB Registrars.

Currency exposures

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

	euro		US dollar	
	2006	2005	2006	2005
Year end rate used for the balance sheet	1.46	1.46	1.86	1.82
Average rate used for earnings	1.46	1.46	1.77	1.86

The net impact of these fluctuations on our results for the year was slightly unfavourable to our earnings when converted into sterling. If our results for 2006 had been converted at the rates used in 2005, they would have been higher by some £0.1m.

As each of our overseas 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. The balance sheets of our euro denominated subsidiaries are partially hedged by using euro borrowings. Translational exposures for the trading results of non-sterling denominated subsidiaries are not hedged.

There are no other exposures which the Group manages with financial instruments.

Share based commitments

The only share scheme operated by the Group is a sharesave scheme which is made available on equal terms to all our staff.

Share buy-back programme

In 2001, having considered the potential uses of our surplus cash, we commenced a programme of share buy-backs. During the year under review we did not purchase any shares as our surplus cash was expended on our supply chain investment programme. We intend to continue the share buy-back programme when our cash generation once again renders this possible.

Bank facilities

We have a three year unsecured revolving credit facility of £10m and a working capital facility of £10m (£15m between 1 September and 31 January). The covenants are based on interest cover and gearing. Interest was paid at floating rates, which equated to 5.3% during the year.

International Financial Reporting Standards (IFRS)

This is our first set of accounts prepared under IFRS. The detailed reconciliations of the impact of the adoption of IFRS as compared to UK GAAP are set out on pages 54 to 64 of these accounts. The main area of judgement introduced by the new standards relates to the capitalisation of development costs in our design and pre-production activities, which has resulted in the introduction of an asset of £1.7m. This represents mainly salary costs relating to products which have yet to be commercially released. We have introduced time recording and project tracking systems to enable the underlying data to be collected. The impact of the adoption of IFRS has not introduced any significant distortion to year on year profit trends.

Michael Sherwin
Finance Director
24 July 2006

DIRECTORS' REPORT

The directors present their annual report together with the financial statements and independent auditors' report for the year ended 28 May 2006. A review of the business is given on pages 4 to 11.

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.

Dividend

The directors recommend a final dividend of 14.025 pence per share to be paid on 27 October 2006 to ordinary shareholders on the register at close of business on 6 October 2006.

Substantial shareholdings

The following interests in 3% or more of the issued share capital of the Company as at 11 July 2006 have been disclosed to the Company:

	No. of ordinary shares	Percentage
Schroder Investment Management Limited	3,410,541	11.0
Fidelity International Limited	3,121,229	10.0
Phoenix Asset Management Partners Limited	2,890,294	9.3
Legal & General Group plc	1,722,583	5.5
Marathon Asset Management LLP	1,406,414	4.5
UBS Global Asset Management Limited	1,076,410	3.5
Aberforth Smaller Companies Trust plc	946,100	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 T H F Kirby. 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 role 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.

Information on executive directors

T H F Kirby (age 56), 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 47), 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 July 2004, he was appointed 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.

Information on independent directors

C J Myatt (age 62). Chris Myatt is the senior independent director, joining the board on 18 April 1996. He is chairman of Palgrave Brown Holdings Limited and an independent director of SRS Holdings Limited and Ying Tai (UK) Limited. He is the Honorary Treasurer of Keele University and a member of its council. He was formerly a divisional managing director within Tarmac PLC.

A J H Stewart (age 46). 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 10 years with HSBC Investment Bank and is a qualified chartered accountant.

N J Donaldson (age 52). 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 39 days (2005: 35 days).

Environment and community

This is the first time that we have gathered together those items we have chosen to refer to loosely as 'environment and community' in one section. Games Workshop is full of people wanting to do 'the right thing'; it is an important part of who we are. People are important, the Hobby is important, but so is the way in which we do things.

This is where we talk about what that actually means to us.

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 community.

DIRECTORS' REPORT continued

Community support and donations

The Group does not make significant cash donations to charities. However, the Group encourages all employees to engage with their community 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 £4,500 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 the general managers of each of the operating divisions.

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 four reportable accidents during the year (2005: 9). This is a result of our focus on continuing improvements in all areas of H&S.

Internally the reporting documentation has improved, making accident reporting, investigation and root cause analysis more efficient, thus allowing relevant controls to be put in place more effectively.

Risk assessments are still under regular review and several new assessments have been carried out for our new injection moulding equipment and resins business.

A goal for 2006/7 is the formalisation of our H&S management system in line with OSHAS 18001. Although not an internationally recognised standard as yet, OSHAS 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 will continue to improve in our areas of opportunity.

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.

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.

In 2003 we reported we had embarked upon a three year strategic environmental management system which focused upon:

Year 1 - 2003 waste management
Year 2 - 2004 pollution assessment and control
Year 3 - 2005 energy management

In 2005/6 we benchmarked the Group's energy management policy. We will address the issue of energy management in substance next year.

The progress that has been made is reported below:

Waste management

Our greatest improvement has been the significant reduction in waste materials from our operations going to landfill. This is an area which we have improved on consistently. The charts below show a detailed breakdown of our waste streams. In 2001/2, 51% of our waste went to landfill, a total of 266 tonnes compared with 121 tonnes [21%] for 2005/6

Using the principles of continuous improvement, the Group continues to explore ways of reducing the amount of waste which our products generate for end consumers by minimising the plastic content of sprues, re-using trays and ensuring full boxes are despatched from our warehousing facilities, with investigations continuing into new packaging and product development.

We are trialling a customer recycle initiative which allows customers to return their sprues for regrinding. This will be carried out in the Warhammer World Hobby store initially with plans to provide recycle facilities at this year's UK Games Day. If this proves to be successful, we may introduce it more widely.

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. A key element is a pollution control barrier erected around our main UK manufacturing and distribution site to eliminate the possibility of wind blown litter leaving the site. Games Workshop is also involved in biodiversity conservation and protection through our association with Nottinghamshire Wildlife Trust. We are proud to have become one of their Wildlife Guardians and encourage staff to take part in conservation activities such as litter picks along the riverbank at our Lenton site. This year we are implementing an employee suggestion to create natural meadow areas within the grounds of our Lenton warehousing facility to encourage local flora and fauna.

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

Energy management

As our strategic focus has broadened to include energy management, Games Workshop has engaged with the Government funded organisation Action Energy (now The Carbon Trust). We have collated the base data for the energy consumption for the Group's UK manufacturing facilities and the central Nottingham site. To facilitate accurate measurement and tracking, we have installed electricity monitoring meters to identify periods of maximum usage.

We have recently created a new position of building maintenance manager. The H&S manager and building maintenance manager have set specific targets for the reduction in energy use. This team will drive continuous improvement projects looking at the most cost effective solutions first and assessing those projects that require capital expenditure.

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.

DIRECTORS' REPORT continued

Additional activities

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

- Assisting Action Aid to raise £1,060 through the collection of our used printer cartridges and mobile phones.
- Host to the Environmental Institute of Stockholm in their study of ecological footprinting in Nottinghamshire (every two months).
- Host to the Create Sustainability Committee to assist in their organisation for the Nottinghamshire county and city councils yearly environmental initiative (every two months).
- Eco-week initiative held on the Lenton site for five days which included a presentation to other local businesses covering effective waste management, a litter pick of the river Leen, cycle and public transport encouragements, free environmental information for the home and the office, and reduced membership fees for joining the Nottinghamshire Wildlife Trust.

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

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, to give the directors authority to allot relevant securities up to an aggregate nominal amount of £518,809 (representing one third 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 5% 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 4,638,153 ordinary shares (representing 14.9% of the Company's current issued share capital). The directors' intentions regarding exercising this authority are set out in the financial review on page 11.

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

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 financial statements.

By order of the board

M Sherwin
Secretary
24 July 2006

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 business committee 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 business committee meetings. Terms of reference for the board committees (as set out below) are available on the Company's web site.

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.

T H F Kirby agreed to resume an executive role with the Company in 2000. At the time the board felt 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.

The combined role is regularly discussed by the remuneration and nomination committee when its effectiveness is reviewed and alternative options considered. These discussions have to date concluded that it would be irresponsible to split the roles unless there was an alternative which would be more value enhancing to the business. 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.

To date, no such alternative has been identified. Whilst the board believes that the combined role arrangement continues to work well, the board 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 are:

- 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. This opinion was determined by considering for each independent director:

- whether he is independent in character and judgement;
- how he conducts himself in board/committee meetings;
- whether he has any relationships, or whether there are any circumstances, which are likely to affect, or which could appear to affect, his judgement; and
- whether he acts in the best interests of the Company and all its shareholders at all times.

There are various definitions of independence for independent directors within the investment community. The stances underlying these definitions are considered regularly by the board and the chairman's position as to the continuing independence of the independent directors was set out explicitly in his preamble to the 2003 annual report (see page 70).

The board operates primarily through its committees and is responsible for leading and controlling the Group and monitoring executive management. It meets at least four 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 2006 the board and its committees had ten scheduled meetings, each of which was attended by all members of the board. There is a procedure for directors to take independent professional advice at the Company's expense where relevant to the execution of their duties. The board considers that it has been supplied with sufficient timely and accurate information to enable it to discharge its duties.

CORPORATE GOVERNANCE continued

The board continued

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

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

This will be an iterative process which will inform the board's development agenda on a regular basis.

Board committees

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

Audit committee

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

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.

Business committee

The business committee comprises all directors and is chaired by C J Myatt. It meets not less than nine times a year and is responsible for examining and reviewing many aspects of the Group's activities including operational and financial performance, capital expenditure proposals, human resource issues and the planning and forecasting processes. The business committee held ten meetings in the year, each of which was attended by all members of the committee.

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 three 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 three meetings in the year, each of which was attended by all members of the committee. The committee meets without the executive directors at least annually to appraise the executive directors' performance.

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 web site 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 web site.

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 web site.

Remuneration report

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

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 12 to 16, to give a balanced and understandable assessment of the Company'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 : Guidance for Directors on the Combined Code', the Turnbull report, issued in September 1999. Steps are also being taken to embed internal control in the business processes of the Group.

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. Regular reporting by senior management ensures that, as far as possible, the controls and safeguards are being operated appropriately. This process is considered by the audit committee, alongside the external auditors' reports.

The Group has continued its programme of internal audit reviews during the year. 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 Turnbull report, and is satisfied that it has acted appropriately and in accordance with that guidance.

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
24 July 2006

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.

Share option schemes

In the future, executive directors will only be able to participate in the sharesave scheme which is available to all employees. There are no performance conditions relating to sharesave share options. It is envisaged that no future awards will be made to the executive directors under the long-term share incentive plan.

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 directors' 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.

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 £36,250 in the year to 28 May 2006 in respect of his duties as an independent director of PlusNet plc.

Service contracts continued

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 2001 to 1 June 2006). 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 28 May 2006

	Fees 2006 £000	*Salary* 2006 £000	*Bonus* 2006 £000	Benefits *in kind* 2006 £000	**Total** ***emoluments*** **2006** **£000**	Total *emoluments* 2005 £000	**Pension** ***contributions*** **2006** **£000**	Pension *contributions* 2005 £000
Executive directors								
T H F Kirby	-	350	-	5	**355**	355	**35**	35
M Sherwin	-	240	-	7	**247**	246	**24**	24
Independent directors								
N J Donaldson	30	-	-	-	**30**	30	-	-
C J Myatt	35	-	-	-	**35**	35	-	-
A J H Stewart	30	-	-	-	**30**	30	-	-
	95	590	-	12	**697**	696	**59**	59
Gains on exercise of share options - M Sherwin	-	-	-	-	**162**	-	-	-
	95	590	-	12	**859**	696	**59**	59

REMUNERATION REPORT continued

Pensions

The executive directors are members of the Warhammer Pension Scheme. The scheme is a defined contribution scheme and, accordingly, 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 28 May 2006 Ordinary shares of 5p each		As at 29 May 2005 Ordinary shares of 5p each	
	Beneficial	**Non-beneficial**	Beneficial	Non-beneficial
T H F Kirby	**1,487,509**	**354,000**	1,487,509	354,000
M Sherwin	**65,668**	**-**	41,000	-
C J Myatt	**66,500**	**-**	66,500	-
A J H Stewart	**935,000**	**-**	935,000	-
N J Donaldson	**10,000**	**-**	10,000	-

Share options of the directors were as follows:

	Number as at 29 May 2005	Granted	Exercised	Lapsed	Number as at 28 May 2006	Exercise dates Commencement	Exercise dates Expiry	Exercise price
M Sherwin	1,408	-	(1,408)	-	-	Nov 2005	Apr 2006	335p
	763	-	-	(763)	-	Nov 2006	Apr 2007	580p
	39,427	-	(39,427)	-	-	June 2005	July 2008	nil
	-	2,786	-	-	2,786	Nov 2008	Apr 2009	340p

The options above with exercise prices of 335p and 580p were granted under the Games Workshop Group PLC 1995 Sharesave Scheme. The options above with an exercise price of 340p were granted under the Games Workshop Group PLC 2005 Savings-Related Share Option Scheme. These schemes are open to all eligible employees and directors who satisfy a service qualification of at least one year. M Sherwin exercised an option over 1,408 shares under the sharesave scheme when the share price at the time of exercise was 387p per share.

The options that were granted at nil cost were granted under the Games Workshop Group PLC Share Incentive Plan. This long-term share incentive plan had a performance period of three years from June 2000, with a maximum award of 60% annually made up of a basic share award of up to 36% of salary and a matching share award of up to 24% of salary (subject to the annual bonus being invested in shares at the end of the bonus period). 25% of the total award only vested if the Company's share price growth was equal to or greater than the share price growth of the top one third of companies in the FTSE 350 at the end of the performance period. This condition was satisfied. The remaining 75% of the total award depended on the Company's cumulative EPS growth over the three year performance period to May 2003. Cumulative EPS growth had to reach 15% per annum for the EPS related condition to be satisfied, and this condition was satisfied in full. M Sherwin exercised his options under this scheme over 39,427 shares when the share price at the time of exercise was 410p per share.

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 28 May 2006 and the date of this report.

The mid-market price of the Company's shares on 28 May 2006 was 278p and the range of the market prices during the year was 266.25p to 446.5p.

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
24 July 2006

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements. The directors are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards (IFRS) and have also elected to prepare financial statements for the Company in accordance with IFRS. Company law requires the directors to prepare such financial statements in accordance with IFRS, the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements of IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and of the Group, for safeguarding assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report and directors' remuneration report which comply with the requirements of the Companies Act 1985.

As at 24 July 2006, 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.

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

By order of the board

M Sherwin
Secretary
24 July 2006

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 Securities 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 year ended 28 May 2006 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 directors' remuneration report that is described as having been audited.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report, the directors' 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 directors' 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 directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and 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. We also 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 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. The other information comprises only the financial highlights, the chairman's preamble, the business review, the financial review, the directors' report, the unaudited part of the directors' remuneration report, the corporate governance statement, the 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 directors' 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 directors' 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 directors' 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 28 May 2006 and of its profit and cash flows for the year then ended;
- the Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Company's affairs as at 28 May 2006 and cash flows for the year then ended; and
- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the directors' report is consistent with the financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
Birmingham
24 July 2006

CONSOLIDATED INCOME STATEMENT

for the year to 28 May 2006

	Notes	2006 £000	2005 £000
Revenue	3	**115,150**	136,647
Cost of sales		**(34,265)**	(42,126)
Gross profit		**80,885**	94,521
Operating expenses	4	**(77,838)**	(80,594)
Other operating income - royalties receivable		**1,170**	374
Operating profit	3	**4,217**	14,301
Finance income	6	**238**	348
Finance costs	7	**(797)**	(740)
Profit before taxation	8	**3,658**	13,909
Income tax expense	9	**(1,660)**	(4,889)
Profit attributable to equity shareholders		**1,998**	9,020
Earnings per share for profit attributable to the equity shareholders of the Company during the year (expressed in pence per share):			
Basic earnings per ordinary share	10	**6.5p**	29.4p
Diluted earnings per ordinary share	10	**6.4p**	29.0p

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

The notes on pages 28 to 64 are an integral part of these consolidated 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 profit attributable to equity shareholders, £3.8 million (2005: £0.5 million) is attributable to the Company after including dividends from subsidiary companies of £7.4 million (2005: £3.3 million).

STATEMENTS OF RECOGNISED INCOME AND EXPENSE

for the year to 28 May 2006

	Group		Company	
	2006 £000	2005 £000	**2006 £000**	2005 £000
Profit attributable to equity shareholders	**1,998**	9,020	**3,769**	458
Exchange differences on translation of foreign operations	**(131)**	486	**-**	-
Cash flow hedges:				
- fair value gains	**86**	331	**-**	-
- transferred to the income statement	**(331)**	(615)	**-**	-
Net investment hedge	**(2)**	-	**-**	-
Tax on items recognised directly in equity	**73**	85	**-**	-
Total recognised income for the year	**1,693**	9,307	**3,769**	458

The notes on pages 28 to 64 are an integral part of these consolidated financial statements.

BALANCE SHEETS

as at 28 May 2006

		Group		Company	
	Notes	**2006 £000**	2005 £000	**2006 £000**	2005 £000
Non-current assets					
Goodwill	12	**2,449**	2,468	-	-
Other intangible assets	13	**4,320**	4,008	-	-
Property, plant and equipment	14	**29,475**	28,959	-	-
Investments in subsidiaries	15	-	-	**30,281**	30,281
Other receivables	18	**712**	674	**3,900**	3,900
Deferred income tax assets	16	**2,121**	2,178	**30**	57
		39,077	38,287	**34,211**	34,238
Current assets					
Inventories	17	**12,407**	12,838	-	-
Trade and other receivables	18	**9,081**	10,075	**2,841**	4,028
Current tax assets		**382**	308	-	-
Financial assets - derivative financial instruments	21	**181**	476	-	-
Cash and cash equivalents	19	**6,444**	8,622	-	2,115
		28,495	32,319	**2,841**	6,143
Total assets		**67,572**	70,606	**37,052**	40,381
Current liabilities					
Financial liabilities - borrowings	20	**(1,705)**	(143)	**(808)**	-
Financial liabilities - derivative financial instruments	21	**(14)**	(109)	-	-
Trade and other payables	22	**(15,714)**	(17,726)	**(2,979)**	(3,016)
Current income tax liabilities		**(415)**	(2,005)	-	-
Provisions	24	**(584)**	(322)	**(3)**	(3)
		(18,432)	(20,305)	**(3,790)**	(3,019)
Net current assets/(liabilities)		**10,063**	12,014	**(949)**	3,124
Non-current liabilities					
Financial liabilities - borrowings	20	**(6,960)**	(5,038)	**(2,600)**	(5,000)
Other non-current liabilities	23	**(1,317)**	(640)	**(1,503)**	(1,503)
Provisions	24	**(927)**	(881)	**(17)**	(13)
		(9,204)	(6,559)	**(4,120)**	(6,516)
Net assets		**39,936**	43,742	**29,142**	30,846
Capital and reserves					
Called up share capital	25	**1,556**	1,553	**1,556**	1,553
Share premium	25	**7,822**	7,592	**7,822**	7,592
Other reserves	26	**(536)**	(231)	**101**	101
Retained earnings	27	**31,094**	34,828	**19,663**	21,600
Total shareholders' equity		**39,936**	43,742	**29,142**	30,846

The notes on pages 28 to 64 are an integral part of these consolidated financial statements.

The financial statements on pages 25 to 64 were approved by the board of directors on 24th July 2006 and were signed on its behalf by:

T H F Kirby, Director

M Sherwin, Director

CASH FLOW STATEMENTS

for the year to 28 May 2006

	Notes	Group 2006 £000	Group 2005 £000	Company 2006 £000	Company 2005 £000
Cash flows from operating activities					
Cash generated from operations	28	**15,789**	21,152	**5,225**	987
UK corporation tax paid		**(1,665)**	(4,141)	**-**	-
Overseas tax paid		**(1,838)**	(2,186)	**-**	-
Net cash from operating activities		**12,286**	14,825	**5,225**	987
Cash flows from investing activities					
Purchases of property, plant and equipment		**(8,321)**	(10,726)	**-**	-
Proceeds on disposal of property, plant and equipment	28	**32**	49	**-**	-
Purchases of other intangible assets		**(830)**	(1,186)	**-**	-
Expenditure on product development		**(2,505)**	(2,102)	**-**	-
Loans granted to related parties		**-**	-	**-**	(860)
Interest received		**234**	346	**96**	194
Net cash from investing activities		**(11,390)**	(13,619)	**96**	(666)
Cash flows from financing activities					
Proceeds from issue of ordinary share capital		**207**	727	**233**	1,302
Proceeds from borrowings		**1,955**	5,000	**-**	5,000
Repayment of borrowings		**-**	-	**(2,400)**	-
Loans received from related parties		**-**	-	**227**	1,036
Repayment of principal under finance leases		**(143)**	(165)	**-**	-
Equity dividends paid		**(5,874)**	(5,818)	**(5,874)**	(5,818)
Interest paid		**(886)**	(716)	**(430)**	(278)
Net cash from financing activities		**(4,741)**	(972)	**(8,244)**	1,242
Effects of foreign exchange rates		**(5)**	223	**-**	-
Net (decrease)/increase in cash and cash equivalents		**(3,850)**	457	**(2,923)**	1,563
Opening cash and cash equivalents		**8,622**	8,165	**2,115**	552
Closing cash and cash equivalents	19	**4,772**	8,622	**(808)**	2,115

For the purpose of the cash flow statement, cash and cash equivalents includes bank overdrafts (see note 19).

The notes on pages 28 to 64 are an integral part of these consolidated 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 consolidated financial statements have been approved for issue by the board of directors on 24 July 2006.

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 has moved to reporting its financial results in accordance with International Financial Reporting Standards (IFRS) endorsed by the European Union and has applied IFRS 1 'First-time Adoption of International Financial Reporting Standards' in preparing these consolidated financial statements.

The consolidated financial statements for the year ended 28 May 2006 are the Group's first annual financial statements reported under IFRS. 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.

On transition to IFRS, an entity is generally required to apply IFRS retrospectively except where an exemption is available under IFRS 1. The Group has applied the mandatory exemptions and certain of the optional exemptions from full retrospective application of IFRS. A summary of the key exemptions from IFRS 1 that have been made by the Group are provided in note 34.

Reconciliations and descriptions of the effect of the transition from UK GAAP to IFRS on the Group's equity and its income statement are provided in notes 35 to 36.

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. 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 licenses and external consultancy are capitalised on the basis of the costs incurred to acquire and bring in to use the specific software. Computer software licenses 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.

NOTES TO THE FINANCIAL STATEMENTS continued

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 is 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 1% 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 license 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 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 liabilites 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 division is dedicated to the supply of products to the Hobby and Other Activities divisions. We consider that the risks and rewards of each division 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.

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 policies are considered of greater complexity and/or particularly subject to the exercise of judgement:

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. 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.

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.

Judgement is involved in assessing the exposure in the above areas and hence in setting the level of required provisions.

NOTES TO THE FINANCIAL STATEMENTS *continued*

3. Segmental analysis

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

Year 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	26,481	12,443	3,930	-	729	2,230	-	**67,572**
Liabilities	(4,483)	(11,631)	(3,956)	(1,074)	-	(6,492)	-	-	**(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)**
Other non-cash expenses	(112)	(69)	174	9	-	-	-	-	**2**
Gross assets and liabilities by location of operation:									
Assets	4,729	47,433	10,724	1,727	-	729	2,230	-	**67,572**
Liabilities	(3,516)	(12,823)	(3,792)	(1,013)	-	(6,492)	-	-	**(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)**
Other non-cash expenses	(112)	(69)	174	9	-	-	-	-	**2**

3. Segmental analysis continued

Year ended 29 May 2005	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	59,539	40,166	28,670	8,272	-	-	-	-	136,647
Inter-segment sales	2,193	(3,500)	954	258	95	-	-	-	-
Total gross segment sales by location of customers	61,732	36,666	29,624	8,530	95	-	-	-	136,647
Operating profit/segment result by location of customers	15,336	6,887	314	1,012	38	(5,677)	(3,983)	374	14,301
Finance income	-	-	-	-	-	348	-	-	348
Finance costs	-	-	-	-	-	(740)	-	-	(740)
Income tax expense	-	-	-	-	-	(4,889)	-	-	(4,889)
Profit attributable to equity shareholders	15,336	6,887	314	1,012	38	(10,958)	(3,983)	374	9,020
Gross assets and liabilities by location of customers:									
Assets	23,780	23,865	14,956	3,484	-	2,507	2,014	-	70,606
Liabilities	(8,805)	(12,664)	(5,685)	(434)	-	724	-	-	(26,864)
Net assets by location of customers	14,975	11,201	9,271	3,050	-	3,231	2,014	-	43,742
Capital expenditure by location of customers	5,527	3,103	2,769	927	-	-	2,102	-	14,428
Depreciation and amortisation by location of customers	(2,594)	(1,598)	(2,162)	(552)	-	-	(1,809)	-	(8,715)
Other non-cash expenses	(7)	151	(201)	(12)	-	-	-	-	(69)
Gross assets and liabilities by location of operation:									
Assets	7,640	45,416	11,739	1,290	-	2,507	2,014	-	70,606
Liabilities	(4,410)	(18,530)	(4,809)	161	-	724	-	-	(26,864)
Net assets by location of operation	3,230	26,886	6,930	1,451	-	3,231	2,014	-	43,742
Capital expenditure by location of operation	994	9,157	1,865	310	-	-	2,102	-	14,428
Depreciation and amortisation by location of operation	(931)	(3,819)	(1,830)	(326)	-	-	(1,809)	-	(8,715)
Other non-cash expenses	(7)	151	(201)	(12)	-	-	-	-	(69)

Central/unallocated operating profit/segment result comprises 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:

	2006 £000	2005 £000
Cash and cash equivalents	**6,444**	8,622
Deferred income tax assets	**2,121**	2,178
Current tax assets	**382**	308
Central/eliminations	**(8,218)**	(8,601)
Gross assets	**729**	2,507
Current tax liabilities	**(415)**	(2,005)
Bank loans and overdrafts	**(8,627)**	(5,000)
Central/eliminations	**2,550**	7,729
Net (liabilities)/assets	**(5,763)**	3,231

NOTES TO THE FINANCIAL STATEMENTS continued

4. Operating expenses

	2006 £000	2005 £000
Selling costs	**46,314**	46,120
Administrative expenses	**27,485**	30,491
Design and development costs - amortisation	**2,289**	1,809
Design and development costs - not capitalised	**1,750**	2,174
Operating expenses	**77,838**	80,594

5. Directors and employees

	2006 £000	2005 £000
Total directors and employees costs:		
Wages and salaries	**45,309**	47,231
Social security costs	**5,537**	5,864
Other pension costs	**1,312**	1,255
Share-based payments	**168**	145
	52,326	54,495

Key management compensation

The remuneration of the executive 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'.

	2006 £000	2005 £000
Salaries and other short-term employee benefits	**940**	940
Post-employment benefits	**97**	96
Share-based payments	**3**	3
Other employee benefits	**22**	16
	1,062	1,055

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 executive directors of the Company and the managing directors of the Manufacturing and Supply division and the Hobby division.

	2006 Number	2005 Number
Design and development	**92**	99
Production	**197**	253
Selling:		
- Full time	**1,467**	1,525
- Part time	**543**	754
Administration	**495**	530
	2,794	3,161

6. Finance income

	2006 £000	2005 £000
Interest income:		
- On cash and cash equivalents	**234**	346
- Other	**4**	2
	238	348

7. Finance costs

	2006 £000	2005 £000
Interest expense:		
- Bank loans and overdrafts	**874**	712
- Finance lease charges	**11**	13
- Unwinding of discount on provisions	**9**	-
- Other	**14**	9
Net foreign exchange transaction (gains)/losses	**(111)**	6
	797	740

8. Profit before taxation

	2006 £000	2005 £000
Profit before taxation is stated after charging:		
Depreciation:		
- Owned property, plant and equipment	**7,024**	6,134
- Property, plant and equipment under finance leases	**121**	105
Amortisation:		
- Owned computer software	**736**	667
- Development costs	**2,289**	1,809
Non-capitalised development costs	**1,750**	2,174
Operating leases:		
- Hobby stores	**8,525**	7,349
- Other property	**1,251**	1,540
- Plant and equipment	**395**	412
- Other	**317**	192
Loss on disposal of property, plant and equipment	**113**	57

NOTES TO THE FINANCIAL STATEMENTS continued

8. Profit before taxation continued

Auditors' remuneration and services provided

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

Group	2006 £000	2005 £000
Audit services		
Statutory audit: UK	**101**	93
Statutory audit: overseas	**180**	135
	281	228
Non-audit services		
Tax services: compliance services	**2**	1
Further assurance services: UK	**17**	12
Further assurance services: overseas	**12**	-
	31	13
Total services provided	**312**	241

Company	2006 £000	2005 £000
Audit services		
Statutory audit: UK	**52**	50
Non-audit services		
Further assurance services: UK	**15**	10
Total services provided	**67**	60

9. Income tax expense

	2006 £000	2005 £000
Current UK taxation:		
- UK corporation tax on profits for the year	**949**	3,503
- (Over)/under provision in respect of prior years	**(419)**	130
	530	3,633
Current overseas taxation:		
- Overseas corporation tax on profits for the year	**945**	1,715
- Under provision in respect of prior years	**127**	108
Total current taxation	**1,602**	5,456
Deferred taxation:		
- Origination and reversal of temporary differences	**180**	(334)
- Over provision in respect of prior years	**(122)**	(233)
Income tax expense recognised in the income statement	**1,660**	4,889

	2006 £000	2005 £000
Current tax credit on cash flow hedges	**(73)**	-
Deferred tax credit on cash flow hedges	**-**	(85)
Credit taken directly to the statement of recognised income and expense	**(73)**	(85)

9. Income tax expense continued

	2006 £000	2005 £000
Profit before taxation	**3,658**	13,909
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	**1,097**	4,173
Effects of:		
Expenses not deductible for tax purposes	**274**	143
Movement in deferred tax not recognised	**677**	518
Losses attributable to minority interests	**-**	22
Higher tax rates on overseas earnings	**26**	28
Adjustments to tax charge in respect of previous years	**(414)**	5
Total tax charge for the year	**1,660**	4,889

10. Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the 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 (note 27).

	2006	2005
Profit attributable to equity shareholders (£000)	**1,998**	9,020
Weighted average number of ordinary shares in issue (thousands)	**30,959**	30,691
Basic earnings per share (pence per share)	**6.5**	29.4

Diluted earnings per share

The calculation of diluted earnings per ordinary share has been based on 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.

	2006	2005
Profit attributable to equity shareholders and profit used to determine diluted earnings per share (£000)	**1,998**	9,020
Weighted average number of ordinary shares in issue (thousands)	**30,959**	30,691
Adjustment for share options (thousands)	**47**	385
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**31,006**	31,076
Diluted earnings per share (pence per share)	**6.4**	29.0

NOTES TO THE FINANCIAL STATEMENTS continued

11. Dividends per share

The dividends paid in 2006 and 2005 were £5,874,000 (18.975p per share) and £5,818,000 (18.975p per share) respectively. A final dividend in respect of the year ended 28 May 2006 of 14.025p per share, amounting to a total dividend of 18.975p, is to be proposed at the annual general meeting on 13 September 2006. These financial statements do not include this dividend payable.

12. Goodwill

	Group £000
Cost	
At 31 May 2004	2,463
Exchange adjustments	5
At 29 May 2005 and 30 May 2005	2,468
Exchange adjustments	(19)
At 28 May 2006	**2,449**
Net book value at 28 May 2006	**2,449**
Net book value at 29 May 2005	2,468

The Company had no goodwill at either year end.

Goodwill of £1,159,000 (2005: £1,159,000) arising before 31 May 1998 is fully written off to reserves.

Impairment tests for goodwill

The carrying value of goodwill arose on the acquisition of TJA Tooling Limited and Triple K Plastic Injection Moulding Limited (2006: £1,470,000; 2005 £1,470,000) and the acquisition of Sabertooth Games Inc. (2006: £979,000; 2005 £998,000).

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 is no indication 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 anticipated volume growth and expected buying efficiencies.

13. Other intangible assets

Group	Computer software £000	Development costs £000	Total £000
Cost			
At 31 May 2004	2,921	2,157	5,078
Additions	1,186	2,102	3,288
Exchange differences	25	4	29
Disposals	(177)	-	(177)
At 29 May 2005 and 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	**4,661**	**6,746**	**11,407**
Amortisation			
At 31 May 2004	(1,457)	(436)	(1,893)
Amortisation charge	(667)	(1,809)	(2,476)
Exchange differences	(14)	(4)	(18)
Disposals	177	-	177
At 29 May 2005 and 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	**(2,571)**	**(4,516)**	**(7,087)**
Net book value			
At 31 May 2004	1,464	1,721	3,185
At 29 May 2005 and 30 May 2005	1,994	2,014	4,008
At 28 May 2006	**2,090**	**2,230**	**4,320**

Amortisation of £208,000 (2005: £66,000) has been charged in cost of sales and £2,817,000 (2005: £2,410,000) in administrative expenses.

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

NOTES TO THE FINANCIAL STATEMENTS continued

14. 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 31 May 2004	11,640	13,463	17,277	8,743	51,123
Additions	3,070	2,551	3,108	2,411	11,140
Exchange differences	-	137	333	4	474
Disposals	-	(2,593)	(1,084)	-	(3,677)
Reclassifications	(120)	16	58	46	-
At 29 May 2005 and 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	**14,653**	**15,671**	**20,452**	**13,447**	**64,223**
Depreciation					
At 31 May 2004	(1,290)	(8,179)	(10,974)	(6,662)	(27,105)
Exchange differences	-	(104)	(222)	(2)	(328)
Charge for the year	(251)	(2,298)	(2,501)	(1,189)	(6,239)
Disposals	-	2,525	1,046	-	3,571
Reclassifications	-	(16)	16	-	-
At 29 May 2005 and 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	**(1,929)**	**(9,389)**	**(14,183)**	**(9,247)**	**(34,748)**
Net book value					
At 31 May 2004	10,350	5,284	6,303	2,081	24,018
At 29 May 2005 and 30 May 2005	13,049	5,502	7,057	3,351	28,959
At 28 May 2006	**12,724**	**6,282**	**6,269**	**4,200**	**29,475**

Depreciation expense of £3,569,000 (2005: £2,973,000) has been charged in cost of sales, £2,534,000 (2005: £2,414,000) in selling costs and £1,042,000 (2005: £852,000) in administrative expenses.

The net book value of property, plant and equipment includes plant and equipment and vehicles of £180,000 (2005: £301,000) in respect of assets held under finance leases. The depreciation charged on these assets was £121,000 (2005: £105,000).

Freehold land amounting to £4,055,000 (2005: £4,055,000) has not been depreciated.

Assets in the course of construction, and not depreciated, amount to £nil (2005: £5,540,000).

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

15. Investments in subsidiaries

	Group 2006 £000	Group 2005 £000	Company 2006 £000	Company 2005 £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 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
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.

NOTES TO THE FINANCIAL STATEMENTS continued

16. 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	
	2006 £000	2005 £000	**2006 £000**	2005 £000
Deferred income tax assets:				
- Deferred income tax asset to be recovered after more than 12 months	**1,767**	2,019	**8**	11
- Deferred income tax asset to be recovered within 12 months	**354**	159	**22**	46
	2,121	2,178	**30**	57

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

	Group		Company	
	2006 £000	2005 £000	**2006 £000**	2005 £000
Beginning of year	**2,178**	1,474	**57**	115
Exchange differences	**1**	52	**-**	-
Income statement charge (note 9)	**(58)**	567	**(27)**	(58)
Charged to equity	**-**	85	**-**	-
End of year	**2,121**	2,178	**30**	57

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

Group	Accelerated depreciation £000	Development costs £000	Other £000	Losses available for offset £000	Total £000
At 31 May 2004	1,086	(516)	852	52	1,474
Credited/(charged) to the income statement	59	(88)	583	13	567
Charged to equity	-	-	85	-	85
Exchange differences	30	-	17	5	52
At 29 May 2005	1,175	(604)	1,537	70	2,178
Credited/(charged) to the income statement	(82)	(65)	(210)	299	(58)
Exchange differences	8	-	(2)	(5)	1
At 28 May 2006	**1,101**	**(669)**	**1,325**	**364**	**2,121**

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 £6.1 million (2005: £5.0 million) in respect of losses amounting to £14.8 million (2005: £11.3 million) and other temporary differences of £0.7 million (2005: £1.7 million) due to the uncertainty at the balance sheet date as to their recovery. Losses amounting to £0.7 million (2005: £nil) will expire in 2011 and £11.4 million (2005: £10.7 million) will expire during the years 2022 to 2026.

Company	Accelerated depreciation £000	Other £000	Total £000
At 31 May 2004	12	103	115
Charged to the income statement	(1)	(57)	(58)
At 29 May 2005	11	46	57
Charged to the income statement	(3)	(24)	(27)
At 28 May 2006	**8**	**22**	**30**

The deferred income tax charged to the hedging reserve in equity during the year was £nil (2005: £85,000) for the Group.

17. Inventories

Group	2006 £000	2005 £000
Raw materials	**798**	850
Work in progress	**1,562**	1,135
Finished goods and goods for resale	**10,047**	10,853
	12,407	12,838

The cost of inventories recognised as an expense and included in cost of sales amounted to £19,800,000 (2005: £24,300,000).

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

There was no write down of inventories to net realisable value in the year (2005: £nil). There were no releases of inventory provisions made in prior years to the income statement.

The Company held no inventories at either year end.

18. Trade and other receivables

	Group		Company	
	2006 £000	2005 £000	**2006 £000**	2005 £000
Trade receivables	**6,179**	7,993	-	-
Less provision for impairment of receivables	**(621)**	(1,245)	-	-
Trade receivables - net	**5,558**	6,748	-	-
Prepayments and accrued income	**2,911**	2,577	**55**	87
Receivables from related parties	-	-	**1,761**	2,913
Loans to related parties	-	-	**4,915**	4,773
Other receivables	**1,324**	1,424	**10**	155
	9,793	10,749	**6,741**	7,928
Less non-current portion:				
- Other receivables	**(712)**	(674)	-	-
- Loans to related parties	-	-	**(3,900)**	(3,900)
Current portion	**9,081**	10,075	**2,841**	4,028

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 imputed 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.

19. Cash and cash equivalents

	Group		Company	
	2006 £000	2005 £000	**2006 £000**	2005 £000
Cash and cash equivalents	**6,005**	6,205	-	2,115
Short-term bank deposits	**439**	2,417	-	-
	6,444	8,622	-	2,115

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.

NOTES TO THE FINANCIAL STATEMENTS continued

19. 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 funds/(debt), note 29):

	Group		Company	
	2006	2005	**2006**	2005
	£000	£000	**£000**	£000
Cash and cash equivalents	**6,444**	8,622	**-**	2,115
Bank overdrafts	**(1,672)**	-	**(808)**	-
	4,772	8,622	**(808)**	2,115

20. Financial liabilities - borrowings

	Group		Company	
	2006	2005	**2006**	2005
	£000	*£000*	***£000***	*£000*
Current				
Bank overdrafts	**1,672**	-	**808**	-
Obligations under finance leases	**33**	143	**-**	-
	1,705	143	**808**	-
Non-current				
Bank loans	**6,955**	5,000	**2,600**	5,000
Obligations under finance leases	**5**	38	**-**	-
	6,960	5,038	**2,600**	5,000
Total borrowings	**8,665**	5,181	**3,408**	5,000

Bank overdrafts of the Group 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 medium-term revolving credit facility that is unsecured as at both 29 May 2005 and 28 May 2006 and can be drawn down 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 (sterling liability at 2%/US dollar liability at 4%).

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

	2006	2005
	£000	£000
Within 1 year	**36**	153
Between 1 and 5 years	**5**	42
	41	195
Future finance costs on finance leases	**(3)**	(14)
Present value of finance lease liabilities	**38**	181

20. Financial liabilities - borrowings continued

Maturity profile of borrowings:

Group	2006 Bank loans £000	2006 Bank overdrafts £000	2006 Finance leases £000	2006 Total £000	2005 Bank loans £000	2005 Bank overdrafts £000	2005 Finance leases £000	2005 Total £000
Within 1 year	**-**	**1,672**	**33**	**1,705**	-	-	143	143
Between 1 and 2 years	**-**	**-**	**5**	**5**	-	-	34	34
Between 2 and 5 years	**6,955**	**-**	**-**	**6,955**	5,000	-	4	5,004
	6,955	**1,672**	**38**	**8,665**	5,000	-	181	5,181

Company	2006 Bank loans £000	2006 Bank overdrafts £000	2006 Total £000	2005 Bank loans £000	2005 Bank overdrafts £000	2005 Total £000
Within 1 year	**-**	**808**	**808**	-	-	-
Between 2 and 5 years	**2,600**	**-**	**2,600**	5,000	-	5,000
	2,600	**808**	**3,408**	5,000	-	5,000

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 2006 £000	Group 2005 £000	Company 2006 £000	Company 2005 £000
Sterling	**2,629**	5,143	**3,408**	5,000
Euro	**6,027**	-	**-**	-
US dollar	**9**	38	**-**	-
	8,665	5,181	**3,408**	5,000

Undrawn borrowings

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

	Currency	2006 Effective interest rate at May 2006	2006 Drawn £000	2006 Undrawn £000	2006 Total £000	2005 Effective interest rate at May 2005	2005 Drawn £000	2005 Undrawn £000	2005 Total £000
Committed:									
- Medium-term revolving credit facility	sterling	**5.25%**	**2,600**	**2,400**	**5,000**	5.50%	5,000	5,000	10,000
- Medium-term revolving credit facility	euro	**3.25%**	**4,355**	**645**	**5,000**	-	-	-	-
			6,955	**3,045**	**10,000**		5,000	5,000	10,000
Uncommitted									
- Bank overdraft - working capital facility	sterling	**5.25%**	**-**	**5,000**	**5,000**	5.50%	-	5,000	5,000
- Bank overdraft	euro	**3.25%**	**1,672**	**3,328**	**5,000**	-	-	-	-
Total facilities for the Group			**8,627**	**11,373**	**20,000**		5,000	10,000	15,000

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. During the year, the terms of the facility were amended to allow draw down in both sterling and euros.

Bank overdrafts are unsecured. The working capital facility includes an additional £10 million (2005: £5 million) seasonal overdraft which ran from 1 August to 31 December in both years.

Following the year end, the Group increased the working capital facility to £10 million (£15 million between 1 September and 31 January).

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

NOTES TO THE FINANCIAL STATEMENTS continued

21. 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 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 via major credit cards.

Hedge of net investment in foreign entity

The Group has euro denominated borrowings, which it has designated as a hedge of the net investment in the Group's euro denominated subsidiaries. The fair value of the borrowing at 28 May 2006 was £4,355,000 (2005: £nil). The foreign exchange loss of £2,000 (2005: £nil) on translation of the borrowing to sterling at the balance sheet date was recognised in the translation reserve in shareholders' equity (note 26).

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.

	2006		2005	
Group	**Current assets £000**	**Current liabilities £000**	Current assets £000	Current liabilities £000
Forward foreign exchange contracts - cash flow hedges	**181**	**(14)**	476	(109)
Total	**181**	**(14)**	476	(109)

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 28 May 2006 was £nil (2005: £nil).

21. 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	2006 £000	2005 £000
Contracts with positive fair values:		
- Forward foreign currency contracts - cash flow hedges	**181**	476
Contracts with negative fair values:		
- Forward foreign currency contracts - cash flow hedges	**(14)**	(109)
Net fair value of cash flow hedges	**167**	367

The Company held no financial derivatives at either year end.

The principal amounts of the outstanding forward foreign currency contracts at 28 May 2006 are £17.1 million (2005: £19.6 million).

The net fair value gains at 28 May 2006 on open forward foreign exchange contracts that hedge the foreign currency risk of anticipated future sales (cash flow hedge) are £86,000 (2005: £331,000) 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 were no derivatives outstanding at either balance sheet date that were designated as fair value hedges.

22. Trade and other payables - current

	Group		Company	
	2006 £000	2005 £000	**2006 £000**	2005 £000
Trade payables	**4,035**	4,158	**15**	72
Payables due to related parties	**-**	-	**71**	35
Loans from related parties	**-**	-	**2,479**	2,118
Other taxes and social security	**2,479**	2,244	**11**	202
Other payables	**1,088**	1,804	**60**	126
Accruals and deferred income	**8,112**	9,520	**343**	463
	15,714	17,726	**2,979**	3,016

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

23. Other non-current liabilities

	Group		Company	
	2006 £000	2005 £000	**2006 £000**	2005 £000
Accruals and deferred income	**1,317**	640	**-**	-
Loans from related parties	**-**	-	**1,503**	1,503
	1,317	640	**1,503**	1,503

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

NOTES TO THE FINANCIAL STATEMENTS continued

24. Provisions

Analysis of total provisions:

	Group		Company	
	2006 £000	2005 £000	**2006 £000**	2005 £000
Current	**584**	322	**3**	3
Non-current	**927**	881	**17**	13
	1,511	1,203	**20**	16

Group	Employee benefits £000	Property £000	Total £000
At 30 May 2005	570	633	1,203
Charged/(credited) to the income statement:			
- Additional provisions	45	419	464
- Unused amounts reversed	-	(7)	(7)
Exchange differences	-	(9)	(9)
Increase in provision - discount unwinding (note 7)	-	9	9
Utilised	-	(149)	(149)
At 28 May 2006	**615**	**896**	**1,511**

Company	Employee benefits £000
At 30 May 2005	16
Charged to the income statement:	
- Additional provisions	4
At 28 May 2006	**20**

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 is therefore 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. £431,000 (2005: £422,000) of the above provision is expected to be utilised between 2008 and 2016. The estimated liability is discounted at the Group's weighted average cost of capital of 9% (2005: 8%).

25. Share capital

Group and Company	Number of shares (thousands)	Ordinary shares £000	Share premium £000	Total £000
At 31 May 2004	30,847	1,542	6,301	7,843
- Proceeds from shares issued	220	11	1,291	1,302
At 29 May 2005	31,067	1,553	7,592	9,145
- Proceeds from shares issued	62	3	230	233
At 28 May 2006	**31,129**	**1,556**	**7,822**	**9,378**

The total authorised number of shares is 42 million shares (2005: 42 million shares) with a par value of 5p per share (2005: 5p per share). All issued shares are fully paid.

The share premium account for the Group has been restated in both years to separately recognise an other reserve following a payment to the previous holders of the Company's ordinary shares on flotation.

The share premium account for the Company has been restated in both years in order to realise the cancellation of the share premium account on flotation within brought forward retained earnings.

25. 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 **2006**	2005	Exercise price in pence per share	Exercise dates
17 September 1996	**5,000**	5,000	463p	Sep 1999 to Sep 2006
24 August 1999	**4,348**	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
3 October 2001	**-**	57	338p	Jan 2005 to June 2005
26 July 2002	**-**	5,506	-	June 2004 to July 2007
3 October 2002	**-**	96,867	335p	Nov 2005 to Apr 2006
25 July 2003	**12,746**	284,690	-	June 2005 to July 2008
30 September 2003	**34,243**	77,136	580p	Nov 2006 to Apr 2007
28 September 2004	**54,942**	112,489	581.2p	Nov 2007 to Apr 2008
18 October 2005	**291,215**	-	340p	Nov 2008 to Apr 2010
1 November 2005	**19,139**	-	329.5p	Nov 2007
	435,011	599,471		

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

	2006 Approved and unapproved share schemes	**2006** Long-term incentive plan	2005 Approved and unapproved share schemes	2005 Long-term incentive plan
At start of year	**309,275**	**290,196**	511,262	297,559
Granted	**347,578**	**-**	140,421	-
Forfeited	**(173,092)**	**-**	(122,595)	-
Exercised	**(61,496)**	**(277,450)**	(219,813)	(7,363)
At end of year	**422,265**	**12,746**	309,275	290,196

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

	2006	2005
At start of year	**494p**	426p
Granted	**339p**	581p
Forfeited	**478p**	602p
Exercised	**335p**	331p
At end of year	**396p**	494p

During the year 54,979 ordinary shares of 5p were issued for £211,002 under the Games Workshop Group PLC 1995 Sharesave Scheme, 6,517 ordinary shares were issued for £21,862 under the Games Workshop Group PLC International Sharesave Scheme. Out of the 422,265 outstanding options (2005: 309,275 options) no options (2005: 22,783 options) were exercisable at 28 May 2006.

NOTES TO THE FINANCIAL STATEMENTS continued

25. 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 the 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* at grant date (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 2003 granted options	652.5p	580p	36 mths	42 mths	38%	4.5%	2.5%	219.7p
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 - 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 - US employees	385p	329.5p	24 mths	24 mths	41%	4.5%	4.9%	100.9p

The expected volatility was determined by reference to the volatility in the share price using rolling one year periods for the three years immediately preceeding 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.

26. Other reserves

	2006					2005				
Group	**Capital redemption reserve £000**	**Translation reserve £000**	**Hedging reserve £000**	**Other reserve £000**	**Total £000**	Capital redemption reserve £000	Translation reserve £000	Hedging reserve £000	Other reserve £000	Total £000
Beginning of year	101	486	232	(1,050)	(231)	101	-	431	(1,050)	(518)
Cash flow hedges:										
- Fair value gains in the year	-	-	86	-	86	-	-	331	-	331
- Transfers to net profit	-	-	(331)	-	(331)	-	-	(615)	-	(615)
Deferred tax	-	-	-	-	-	-	-	85	-	85
Current tax	-	-	73	-	73	-	-	-	-	-
Net investment hedge	-	(2)	-	-	(2)	-	-	-	-	-
Exchange differences on *translation of foreign operations*	-	*(131)*	-	-	*(131)*	-	*486*	-	-	*486*
End of year	**101**	**353**	**60**	**(1,050)**	**(536)**	101	486	232	(1,050)	(231)

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

As at 28 May 2006, the Company's capital redemption reserve was £101,000 (2005: £101,000). The Company had no other reserves in addition to the capital redemption reserve at either year end.

27. Retained earnings

	Group Treasury shares £000	Group Profit and loss £000	Group Total £000	Company Treasury shares £000	Company Profit and loss £000	Company Total £000
At 31 May 2004	(1,011)	33,067	32,056	(1,011)	27,826	26,815
Profit attributable to equity shareholders	-	9,020	9,020	-	458	458
Purchase of treasury shares	(150)	-	(150)	(150)	-	(150)
Shares vested	29	121	150	29	121	150
Dividends paid	-	(5,818)	(5,818)	-	(5,818)	(5,818)
Share-based payments	-	145	145	-	145	145
Issue of ordinary share capital	-	(575)	(575)	-	-	-
At 29 May 2005 and 30 May 2005	(1,132)	35,960	34,828	(1,132)	22,732	21,600
Profit attributable to equity shareholders	-	1,998	1,998	-	3,769	3,769
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	**(49)**	**31,143**	**31,094**	**(49)**	**19,712**	**19,663**

Cumulative goodwill relating to acquisitions made prior to 1998, which has been eliminated against reserves, amounts to £1,159,000 (2005: £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 28 May 2006 was 12,746 (2005: 290,196) and £35,000 (2005: £1,190,000) 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.

28. Reconciliation of profit to net cash from operations

	Group 2006 £000	Group 2005 £000	Company 2006 £000	Company 2005 £000
Profit attributable to equity shareholders	**1,998**	9,020	**3,769**	458
Income tax expense (note 9)	**1,660**	4,889	**(1,033)**	(975)
Depreciation of property, plant and equipment (note 14)	**7,145**	6,239	-	-
Loss on disposal of property, plant and equipment (see below)	**113**	57	-	-
Amortisation of capitalised development costs (note 13)	**2,289**	1,809	-	-
Amortisation of other intangibles (note 13)	**736**	667	-	-
Impairment of related party loans	-	-	**1,225**	373
Interest income (note 6)	**(238)**	(348)	**(142)**	(207)
Interest expense (note 7)	**908**	734	**477**	372
Net fair value (gains)/losses on derivative financial instruments (note 21)	**(43)**	294	-	-
Share-based payments	**168**	145	**168**	145
Exchange (gains)/losses on borrowings	**(111)**	6	**(116)**	6
Changes in working capital:				
- Decrease/(increase) in inventories	**465**	(644)	-	-
- Decrease in trade and other receivables	**948**	1,498	**1,197**	2,901
- Decrease in trade and other payables	**(562)**	(3,033)	**(325)**	(1,873)
- Increase/(decrease) in provisions	**313**	(181)	**5**	(213)
Net cash from operating activities	**15,789**	21,152	**5,225**	987

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

	Group 2006 £000	Group 2005 £000
Net book amount (note 14)	**145**	106
Loss on sale of property, plant and equipment	**(113)**	(57)
Proceeds from sale of property, plant and equipment	**32**	49

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

NOTES TO THE FINANCIAL STATEMENTS continued

29. Analysis of net funds/(debt)

Group	As at 29 May 2005 £000	Cash flow £000	Exchange movement £000	**As at 28 May 2006 £000**
Cash at bank and in hand	8,622	(2,178)	-	**6,444**
Current borrowings - bank overdraft	-	(1,667)	(5)	**(1,672)**
Cash and cash equivalents	8,622	(3,845)	(5)	**4,772**
Non-current borrowings	(5,000)	(1,955)	-	**(6,955)**
Finance leases	(181)	143	-	**(38)**
Net funds/(debt)	3,441	(5,657)	(5)	**(2,221)**

Company	As at 29 May 2005 £000	Cash flow £000	**As at 28 May 2006 £000**
Cash at bank and in hand	2,115	(2,115)	**-**
Current borrowings - bank overdraft	-	(808)	**(808)**
Cash and cash equivalents	2,115	(2,923)	**(808)**
Non-current borrowings	(5,000)	2,400	**(2,600)**
Net debt	(2,885)	(523)	**(3,408)**

30. Reconciliation of net cash flow to movement in net (debt)/funds

	Group		Company	
	2006 £000	2005 £000	**2006 £000**	2005 £000
(Decrease)/increase in cash and cash equivalents in the year	**(3,845)**	234	**(2,923)**	1,563
Cash (inflow)/outflow from (increase)/decrease in debt and lease financing	**(1,812)**	(4,835)	**2,400**	(5,000)
Change in net funds/(debt) resulting from cash flows	**(5,657)**	(4,601)	**(523)**	(3,437)
New finance leases	**-**	19	**-**	-
Exchange movement	**(5)**	223	**-**	-
Net funds/(debt) at start of year	**3,441**	7,800	**(2,885)**	552
Net (debt)/funds at end of year	**(2,221)**	3,441	**(3,408)**	(2,885)

31. Commitments

Capital commitments

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

Group	**2006 £000**	2005 £000
Property, plant and equipment	**-**	750

The Company had no capital commitments at either year end.

Operating lease commitments

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

	2006			2005		
Group	**Hobby stores £000**	**Other property £000**	**Other £000**	Hobby stores £000	Other property £000	Other £000
Expiring within 1 year	**7,639**	**1,250**	**440**	7,179	1,296	511
Expiring between 2 and 5 years inclusive	**21,411**	**3,424**	**580**	22,165	3,568	644
Expiring in over 5 years	**11,464**	**1,904**	**46**	12,964	2,525	67
	40,514	**6,578**	**1,066**	42,308	7,389	1,222

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.

32. 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 undertakings for which the aggregate amount outstanding under these arrangements at the balance sheet date was £6,335,000 (2005: £7,510,000).

33. 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:

	Nature of transaction	**2006 £000**	2005 £000
Games Workshop America Inc.	Recharges	**(179)**	33
	Interest payable	**-**	(14)
EURL Games Workshop	Recharges	**(15)**	10
	Interest payable	**(36)**	(33)
Games Workshop SL	Recharges	**(14)**	8
Games Workshop Oz Pty Limited	Recharges	**8**	3
Games Workshop Deutschland GmbH	Recharges	**(9)**	2
	Interest payable	**(3)**	(21)
Games Workshop Italia SRL	Recharges	**-**	2
	Interest receivable	**-**	8
Games Workshop International Limited	Interest receivable	**9**	5
	Dividends receivable	**-**	1,315
Games Workshop (Queen Street) Limited	Recharges	**5**	1
	Interest receivable	**37**	-
Games Workshop Limited	Dividends receivable	**7,358**	2,000
	Recharges	**(304)**	(65)
Games Workshop US Manufacturing LLC	Recharges	**13**	-
		6,870	3,254

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

	Amounts owed by subsidiaries		Amounts owed to subsidiaries	
Subsidiary	**2006 £000**	2005 £000	**2006 £000**	2005 £000
Games Workshop Group PLC Employee Share Trust	**22**	16	**-**	-
Games Workshop Limited	**1,442**	1,820	**-**	-
Games Workshop America Inc.	**121**	184	**-**	-
EURL Games Workshop	**93**	39	**-**	-
Games Workshop SL	**46**	83	**-**	-
Games Workshop Oz Pty Limited	**7**	19	**-**	-
Games Workshop Deutschland GmbH	**-**	-	**(27)**	(14)
Sabertooth Games Inc.	**1**	-	**-**	(21)
Games Workshop International Limited	**-**	736	**(36)**	-
Games Workshop (Queen Street) Limited	**-**	3	**(8)**	-
Games Workshop Interactive Limited	**-**	9	**-**	-
Games Workshop Italia SRL	**29**	4	**-**	-
	1,761	2,913	**(71)**	(35)

NOTES TO THE FINANCIAL STATEMENTS *continued*

33. Related-party transactions continued

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

Subsidiary	Amounts owed by subsidiaries **2006** **£000**	2005 £000	Amounts owed to subsidiaries **2006** **£000**	2005 £000
EURL Games Workshop	**-**	-	**(1,793)**	(1,066)
Games Workshop Deutschland GmbH	**-**	-	**-**	(1,052)
Games Workshop SL	**-**	-	**(686)**	-
Games Workshop (Queen Street) Limited	**1,015**	873	**-**	-
	1,015	873	**(2,479)**	(2,118)

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

Subsidiary	Amounts owed by subsidiaries **2006** **£000**	2005 £000	Amounts owed to subsidiaries **2006** **£000**	2005 £000
Warhammer Online Limited	**-**	5,554	**-**	-
Games Workshop Interactive Limited	**6,779**	-	**-**	-
Less provision for impairment	**(6,779)**	(5,554)	**-**	-
Games Workshop Limited	**3,900**	3,900	**-**	-
Other subsidiaries	**-**	-	**(1,503)**	(1,503)
	3,900	3,900	**(1,503)**	(1,503)

34. Explanation of the transition to International Financial Reporting Standards

Games Workshop Group PLC reported under UK GAAP in its previously published financial statements for the year ended 29 May 2005. The following reconciliations of net assets and profit show the differences between figures presented under UK GAAP and IFRS.

Application of IFRS 1

The Group's financial statements for the year ended 28 May 2006 are the Group's first annual financial statements reported under IFRS. The Group has applied IFRS 1 in preparing these consolidated financial statements.

Games Workshop Group PLC's transition date is 31 May 2004. The Group prepared its opening IFRS balance sheet at that date. The Group's IFRS adoption date is 30 May 2005.

On transition to IFRS, an entity is generally required to apply IFRS retrospectively, except where an exemption is available under IFRS 1 'First-time Adoption of International Financial Reporting Standards'. The Group has applied the mandatory exemptions and certain of the optional exemptions from full retrospective application of IFRS.

The following is a summary of the key exemptions from IFRS 1 that were made by the Group:

Business combinations exemption
The Group has elected to adopt the IFRS exemption in relation to business combinations and will only apply IFRS 3 'Business Combinations' prospectively from 31 May 2004. As a result, the balance of the goodwill recognised under UK GAAP at 30 May 2004 will be deemed the cost at 31 May 2004.

Cumulative foreign currency translation differences exemption
The Group has elected to set the foreign currency translation differences reserve to nil at 31 May 2004.

Share-based payment transaction exemption
The Group has elected to apply the share-based payment exemption. IFRS 2 'Share-based Payment' has been applied from 31 May 2004 to those options that were issued after 7 November 2002 and had not vested by 30 May 2005.

Application of IAS 39

Hedge accounting
The Group has adopted IAS 39 at its transition date and applied hedge accounting from 31 May 2004 for all transactions where the hedge relationship meets all the hedge accounting criteria under IAS 39. It has also adopted the amendment to IAS 39 'Cash Flow Hedge Accounting of Forecast Intra-Group Transactions' from the transition date.

35. Summary reconciliation of net assets and operating profit under UK GAAP to IFRS
The following reconciliations provide a quantification of the effect of the transition to IFRS.

The first analysis shows a summary reconciliation of operating profit for the year to 29 May 2005 as reported under UK GAAP to the revised operating profit reported under IFRS.

	Notes	Group **Year to 29 May 2005 £000**	Company **Year to 29 May 2005 £000**
Operating profit reported under UK GAAP		**13,893**	**(359)**
Capitalisation of development expenditure	1.1	294	-
Recognition of employee benefit liabilities	1.2	(95)	7
Write back of goodwill amortisation	1.3	383	-
Share-based payment	1.4	(145)	-
Derivatives not qualifying for hedge accounting/hedge ineffectiveness	1.5	(68)	-
Recognition of lease incentives	1.7	19	-
Foreign exchange transaction losses on loans reclassified		6	6
Other adjustments		14	-
Operating profit reported under IFRS		**14,301**	**(346)**

The analysis below shows a summary reconciliation of net assets reported under UK GAAP as at 30 May 2004 and 29 May 2005 to the revised net assets under IFRS.

	Notes	Group **As at 29 May 2005 £000**	**As at 30 May 2004 £000**	Company **As at 29 May 2005 £000**	**As at 30 May 2004 £000**
Net assets reported under UK GAAP		**38,073**	**34,104**	**26,379**	**30,509**
Capitalisation of development expenditure	1.1	2,014	1,720	-	-
Recognition of employee benefit liabilities	1.2	(742)	(647)	(49)	(57)
Write back of goodwill amortisation	1.3	383	-	-	-
Share-based payment	1.4	-	-	145	-
Derivatives not qualifying for hedge accounting/hedge ineffectiveness	1.5	44	112	-	-
Derivatives recognised and measured at fair value relating to future transactions	1.6	330	616	-	-
Deferred recognition of lease incentives/payments	1.7	(219)	(238)	-	-
Dividend recognition	1.8	4,357	4,290	4,357	4,290
Other adjustments		(189)	(202)	(1)	1
Tax effect of the above adjustments	1.9	(309)	(374)	15	16
Net assets reported under IFRS		**43,742**	**39,381**	**30,846**	**34,759**

Notes to the above reconciliations are shown below:

1.1 Capitalisation of development expenditure
The adoption of IAS 38 'Intangible Assets' resulted in the capitalisation of certain costs relating to the design and development of core tabletop wargaming product.

1.2 Employee benefit liabilities
IAS 19 'Employee Benefits' requires the recognition of liabilities relating to holiday pay and long service benefits (i.e. the 10 Year Veterans *holiday scheme) not previously recognised, in line with common practice, under UK GAAP.*

1.3 Goodwill
Under IFRS 3 'Business Combinations' goodwill is no longer amortised on a straight line basis but is instead subject to annual impairment reviews. The transition to IFRS therefore resulted in the write back of goodwill previously amortised since the transition date.

1.4 Share-based payment
Adoption of IFRS 2 'Share-based Payment' requires the assignment of fair values at the date of grant to the sharesave options granted to employees after 7 November 2002 which had not vested by 30 May 2005. The expense is spread over the vesting period of those options.

1.5 Derivatives not qualifying for hedge accounting/hedge ineffectiveness
IAS 39 'Financial Instruments: Recognition and Measurement' requires the recognition of the fair value of forward foreign currency contracts that are in place at the balance sheet date to hedge future transactions. Where the designated forecast transaction is expected to fall below the value of the hedging instrument, an element of hedge ineffectiveness arises. Where hedge ineffectiveness arises or where the forward contracts in place do not meet the requirements of IAS 39 for hedge accounting to be applied, the movement in the related fair values is taken to the income statement.

NOTES TO THE FINANCIAL STATEMENTS continued

35. Summary reconciliation of net assets and operating profit under UK GAAP to IFRS continued

1.6 Fair value of derivatives that are in place to hedge future transactions

IAS 39 permits hedge accounting for forward foreign currency contracts designated as cash flow hedges of highly probable forecast transactions. The effective portion of the fair value of derivatives accumulate in equity (hedging reserve) until the hedged item affects the income statement in future periods.

1.7 Recognition of lease incentives/payments

The adoption of IAS 17 'Leases' requires any benefits received as an incentive to sign a lease to be charged on a straight line basis over the entire lease term rather than the period up to the first market rent review, as under UK GAAP. This resulted in the deferred element of lease incentives received being spread over a longer period.

1.8 Recognition of dividends

IAS 10 'Events after the Balance Sheet Date' requires that dividends should only be recognised when approved by shareholders. Hence, under IFRS, the final proposed dividend has been recognised in the following financial year. Under UK GAAP, dividends are recognised in the period to which they relate.

1.9 Deferred and current income taxes

The principles of IAS 12 'Income Taxes' have been applied to the adjustments made on the adoption of IFRS. Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences between the carrying amount in the balance sheet and the corresponding tax basis used in the computation of taxable profit.

36. Detailed reconciliations between UK GAAP and IFRS

The following seven reconciliations provide full details of the impact of the IFRS transition on:

- net income for the year to 29 May 2005;
- equity at 30 May 2004 and 29 May 2005;
- reconciliation of the consolidated cash flow statement.

Reconciliation of net income for the year to 29 May 2005

Group	Notes	UK GAAP to 29 May 2005 £000	Effect of transition to IFRS £000	IFRS to 29 May 2005 £000
Revenue		136,647	-	**136,647**
Cost of sales	1.1	(42,071)	(55)	**(42,126)**
Gross profit		94,576	(55)	**94,521**
Operating expenses	1.2	(81,056)	462	**(80,594)**
Other operating income - royalties receivable		374	-	**374**
Operating profit		13,894	407	**14,301**
Finance income		348	-	**348**
Finance costs	1.3	(734)	(6)	**(740)**
Profit before taxation		13,508	401	**13,909**
Income tax expense	1.4	(4,863)	(26)	**(4,889)**
Profit attributable to equity shareholders		8,645	375	**9,020**

Company	Notes	UK GAAP to 29 May 2005 £000	Effect of transition to IFRS £000	IFRS to 29 May 2005 £000
Operating expenses	1.2	(3,674)	13	**(3,661)**
Income from shares in group undertakings		3,315	-	**3,315**
Operating profit		(359)	13	**(346)**
Finance income		207	-	**207**
Finance costs	1.3	(372)	(6)	**(378)**
Profit before taxation		(524)	7	**(517)**
Income tax expense		975	-	**975**
Profit attributable to equity shareholders		451	7	**458**

36. Detailed reconciliations between UK GAAP and IFRS continued

Notes to the above reconciliations of net income are shown below:

1.1 Cost of sales

	Group Year to 29 May 2005 £000	Company Year to 29 May 2005 £000
IAS 39 'Financial Instruments: Recognition and Measurement' requires movements in the fair value of forward foreign currency contracts relating to forecast transactions that do not qualify for hedge accounting, or include an element of ineffectiveness, to be taken to the income statement.	**(55)**	**-**

1.2 Operating expenses

	Group Year to 29 May 2005 £000	Company Year to 29 May 2005 £000
IAS 38 'Intangible Assets' requires the capitalisation of development expenditure that meets certain criteria. These amounts were previously written off as incurred.	294	-
IAS 39 'Financial Instruments: Recognition and Measurement' requires movements in the fair value of forward foreign currency contracts that relate to a recognised asset to be taken to the income statement.	(13)	-
IAS 19 'Employee Benefits' requires an accrual to be made for the holiday pay and the expected cost of providing one off benefits to employees who reach 10 years service (10 Year Veterans).	(95)	7
IFRS 3 'Business Combinations' removes the requirement to amortise goodwill, and requires the write back of amortisation charged since the transition date.	383	-
IFRS 2 'Share-based Payment' requires the recognition of the fair value of share based payments to be reflected in the income statement over the period that the related services are received.	(145)	-
Foreign exchange transactions losses on loans reclassified to interest.	6	6
Other adjustments	32	-
	462	**13**

1.3 Finance costs

	Group Year to 29 May 2005 £000	Company Year to 29 May 2005 £000
Foreign exchange transaction losses on loans reclassified from operating expenses.	**(6)**	**(6)**

1.4 Income tax expense

	Group Year to 29 May 2005 £000	Company Year to 29 May 2005 £000
IAS 12 'Income Taxes' requires deferred tax to be recognised on temporary differences between the tax computation and balance sheet. It was previously recognised on timing differences between taxable profits and results as stated in the financial statements.	19	-
The effect on taxation of the other IFRS adjustments to the income statement.	(45)	-
	(26)	**-**

NOTES TO THE FINANCIAL STATEMENTS continued

Reconciliation of equity at 30 May 2004

Group	Notes	UK GAAP as at 30 May 2004 £000	Effect of transition to IFRS £000	IFRS as at 30 May 2004 £000
Non-current assets				
Goodwill	2.1	2,463	-	**2,463**
Other intangible assets	2.2	-	3,184	**3,184**
Property, plant and equipment	2.3	25,627	(1,610)	**24,017**
Other receivables		267	-	**267**
Deferred income tax assets	2.4	1,848	(374)	**1,474**
		30,205	1,200	**31,405**
Current assets				
Inventories		12,102	-	**12,102**
Trade and other receivables	2.5	11,497	387	**11,884**
Financial assets - derivative financial instruments	2.6	-	948	**948**
Cash and cash equivalents	2.7	8,570	(405)	**8,165**
		32,169	930	**33,099**
Total assets		62,374	2,130	**64,504**
Current liabilities				
Financial liabilities - derivative financial instruments	2.6	(161)	(2)	**(163)**
Trade and other payables	2.8	(23,736)	3,603	**(20,133)**
Current income tax liabilities		(2,661)	-	**(2,661)**
Provisions	2.9	-	(95)	**(95)**
		(26,558)	3,506	**(23,052)**
Net current assets		5,611	4,436	**10,047**
Non-current liabilities				
Financial liabilities - borrowings		(204)	-	**(204)**
Other non-current liabilities		(584)	-	**(584)**
Provisions	2.10	(924)	(359)	**(1,283)**
		(1,712)	(359)	**(2,071)**
Net assets		34,104	5,277	**39,381**
Capital and reserves				
Called up share capital		1,542	-	**1,542**
Share premium		6,301	-	**6,301**
Other reserves	2.11	(949)	431	**(518)**
Retained earnings		27,210	4,846	**32,056**
Total shareholders' equity		34,104	5,277	**39,381**

Reconciliation of equity at 30 May 2004

Company	Notes	UK GAAP as at 30 May 2004 £000	Effect of transition to IFRS £000	IFRS as at 30 May 2004 £000
Non-current assets				
Investments in subsidiaries		30,281	-	**30,281**
Other receivables		3,900	-	**3,900**
Deferred income tax assets	2.4	-	115	**115**
		34,181	115	**34,296**
Current assets				
Trade and other receivables	2.5	6,002	(98)	**5,904**
Cash and cash equivalents		551	-	**551**
		6,553	(98)	**6,455**
Total assets		40,734	17	**40,751**
Current liabilities				
Trade and other payables	2.8	(9,833)	4,246	**(5,587)**
Net current (liabilities)/assets		(3,280)	4,148	**868**
Non-current liabilities				
Provisions	2.10	(392)	(13)	**(405)**
Net assets		30,509	4,250	**34,759**
Capital and reserves				
Called up share capital		1,542	-	**1,542**
Share premium		6,301	-	**6,301**
Other reserves		101	-	**101**
Retained earnings		22,565	4,250	**26,815**
Total shareholders' equity		30,509	4,250	**34,759**

NOTES TO THE FINANCIAL STATEMENTS continued

Reconciliation of equity at 29 May 2005

Group	Notes	UK GAAP as at 29 May 2005 £000	Effect of transition to IFRS £000	IFRS as at 29 May 2005 £000
Non-current assets				
Goodwill	2.1	2,085	383	**2,468**
Other intangible assets	2.2	-	4,008	**4,008**
Property, plant and equipment	2.3	31,049	(2,090)	**28,959**
Other receivables		674	-	**674**
Deferred income tax assets	2.4	2,487	(309)	**2,178**
		36,295	1,992	**38,287**
Current assets				
Inventories		12,838	-	**12,838**
Trade and other receivables	2.5	9,880	195	**10,075**
Current tax assets		308	-	**308**
Financial assets - derivative financial instruments	2.6	-	476	**476**
Cash and cash equivalents	2.7	8,610	12	**8,622**
		31,636	683	**32,319**
Total assets		67,931	2,675	**70,606**
Current liabilities				
Financial liabilities - borrowings		(143)	-	**(143)**
Financial liabilities - derivative financial instruments	2.6	-	(109)	**(109)**
Trade and other payables	2.8	(21,399)	3,673	**(17,726)**
Current income tax liabilities		(2,005)	-	**(2,005)**
Provisions	2.9	-	(322)	**(322)**
		(23,547)	3,242	**(20,305)**
Net current assets		8,089	3,925	**12,014**
Non-current liabilities				
Financial liabilities - borrowings		(5,038)	-	**(5,038)**
Other non-current liabilities		(640)	-	**(640)**
Provisions	2.10	(633)	(248)	**(881)**
		(6,311)	(248)	**(6,559)**
Net assets		38,073	5,669	**43,742**
Capital and reserves				
Called up share capital		1,553	-	**1,553**
Share premium		7,592	-	**7,592**
Other reserves	2.11	(949)	718	**(231)**
Retained earnings		29,877	4,951	**34,828**
Total shareholders' equity		38,073	5,669	**43,742**

Reconciliation of equity at 29 May 2005

Company	Notes	UK GAAP as at 29 May 2005 £000	Effect of transition to IFRS £000	IFRS as at 29 May 2005 £000
Non-current assets				
Investments in subsidiaries		30,281	-	**30,281**
Other receivables		3,900	-	**3,900**
Deferred income tax assets	2.4	-	57	**57**
		34,181	57	**34,238**
Current assets				
Trade and other receivables	2.5	3,928	100	**4,028**
Cash and cash equivalents	2.7	2,115	-	**2,115**
		6,043	100	**6,143**
Total assets		40,224	157	**40,381**
Current liabilities				
Trade and other payables	2.8	(7,342)	4,326	**(3,016)**
Provisions	2.9	-	(3)	**(3)**
		(7,342)	4,323	**(3,019)**
Net current (liabilities)/assets		(1,299)	4,423	**3,124**
Non-current liabilities				
Financial liabilities - borrowings		(5,000)	-	**(5,000)**
Other non-current liabilities		(1,503)	-	**(1,503)**
Provisions	2.10	-	(13)	**(13)**
		(6,503)	(13)	**(6,516)**
Net assets		26,379	4,467	**30,846**
Capital and reserves				
Called up share capital		1,553	-	**1,553**
Share premium		7,592	-	**7,592**
Other reserves	2.11	101	-	**101**
Retained earnings		17,133	4,467	**21,600**
Total shareholders' equity		26,379	4,467	**30,846**

NOTES TO THE FINANCIAL STATEMENTS continued

Notes to the above reconciliations of shareholders' equity are shown below:

2.1 Goodwill

	Group		Company	
	As at 29 May 2005 £000	**As at 30 May 2004 £000**	**As at 29 May 2005 £000**	**As at 30 May 2004 £000**
IFRS 3 'Business Combinations' removes the requirement to amortise goodwill and requires the write back of amortisation charged since the transition date.	**383**	**-**	**-**	**-**

2.2 Other intangible assets

	Group		Company	
	As at 29 May 2005 £000	**As at 30 May 2004 £000**	**As at 29 May 2005 £000**	**As at 30 May 2004 £000**
IAS 38 'Intangible Assets' requires computer software to be classified as an intangible asset.	1,994	1,464	-	-
IAS 38 'Intangible Assets' requires the capitalisation of development expenditure that meets certain criteria. These amounts were previously written off as incurred.	2,014	1,720	-	-
	4,008	**3,184**	**-**	**-**

2.3 Property, plant and equipment

	Group		Company	
	As at 29 May 2005 £000	**As at 30 May 2004 £000**	**As at 29 May 2005 £000**	**As at 30 May 2004 £000**
IAS 38 'Intangible Assets' requires computer software to be classified as an intangible asset.	(1,994)	(1,464)	-	-
IAS 17 'Leases' requires any benefit or cost relating to lease incentives received or given to be netted off the related lease liability and included within current or non-current assets/liabilities as appropriate.	(96)	(146)	-	-
	(2,090)	**(1,610)**	**-**	**-**

2.4 Deferred income tax assets

	Group		Company	
	As at 29 May 2005 £000	**As at 30 May 2004 £000**	**As at 29 May 2005 £000**	**As at 30 May 2004 £000**
IAS 12 'Income Taxes' requires deferred tax to be recognised on temporary differences between the tax computation and the balance sheet. It was previously recognised on timing differences between taxable profits and results as stated in the financial statements.	85	62	-	-
IAS 1 'Presentation of Financial Statements' requires all assets, liabilities and provisions to be split between current and non-current amounts. As a result, part of the year end deferred tax assets have been reclassified.	-	-	42	99
The effect on taxation of other IFRS adjustments.	(394)	(436)	15	16
	(309)	**(374)**	**57**	**115**

2.5 Trade and other receivables

	Group		Company	
	As at 29 May 2005 £000	**As at 30 May 2004 £000**	**As at 29 May 2005 £000**	**As at 30 May 2004 £000**
IAS 17 'Leases' requires any benefit relating to lease incentives received to be spread over the entire period of the related lease, netted off the related lease liability and included within current or non-current assets/liabilities as appropriate.	200	200	-	-
IAS1 *'Presentation of Financial Statements' requires all assets,* liabilities and provisions to be split between current and non-current amounts. As a result, part of the year end deferred tax assets have been reclassified.	-	-	(45)	(98)
IFRS 2 'Share-based Payment' requires the recognition of costs and benefits relating to share based payments to be recognised. As a result, there is an increase in receivables in the Company as they are owed monies by subsidiaries who are recognising these costs.	-	-	145	-
IAS 39 'Financial Instruments: Recognition and Measurement' requires all assets and liabilities relating to forward foreign currency contracts to be included within derivative financial instruments.	(5)	187	-	-
	195	**387**	**100**	**(98)**

2.6 Derivative financial instruments

	Group		Company	
	As at 29 May 2005 £000	**As at 30 May 2004 £000**	**As at 29 May 2005 £000**	**As at 30 May 2004 £000**
IAS 39 *'Financial Instruments: Recognition and Measurement' requires* assets and liabilities relating to the closing fair value of forward foreign currency contracts in place at the year end to be included within derivative financial instruments/financial liabilities.				
Derivative financial instruments - assets	**476**	**948**	**-**	**-**
Derivative financial instruments - liabilities	**(109)**	**(2)**	**-**	**-**

2.7 Cash and cash equivalents

	Group		Company	
	As at 29 May 2005 £000	**As at 30 May 2004 £000**	**As at 29 May 2005 £000**	**As at 30 May 2004 £000**
IAS 39 'Financial Instruments: Recognition and Measurement' requires all assets and liabilities relating to financial instruments to be included within derivative financial instruments.	**12**	**(405)**	**-**	**-**

2.8 Trade and other payables

	Group		Company	
	As at 29 May 2005 £000	**As at 30 May 2004 £000**	**As at 29 May 2005 £000**	**As at 30 May 2004 £000**
IAS 17 'Leases' requires any benefit or cost relating to lease incentives received or given to be spread over the entire period of the related lease, netted off the related lease liability and included within current or non-current assets/liabilities as appropriate.	(323)	(291)	-	-
IAS 19 'Employee Benefits' requires the recognition of holiday pay accruals and other service benefits not previously recognised under UK GAAP.	(172)	(193)	(32)	(45)
IAS 10 'Events after the Balance Sheet Date' requires that dividends that are declared after the balance sheet date should not be recognised as a liability at that balance sheet date.	4,357	4,290	4,357	4,290
Other adjustments	(189)	(203)	1	1
	3,673	**3,603**	**4,326**	**4,246**

NOTES TO THE FINANCIAL STATEMENTS continued

2.9 Provisions - current

	Group		Company	
	As at 29 May 2005 £000	**As at 30 May 2004 £000**	**As at 29 May 2005 £000**	**As at 30 May 2004 £000**
IAS 19 'Employee Benefits' requires a liability to be recognised for the expected cost of providing one off benefits to employees who reach 10 years service (10 Year Veterans).	(111)	(64)	(3)	-
IAS 1 'Presentation of Financial Statements' requires provisions to be split between current and non-current amounts. As a result, a number of property provisions have been reclassified.	(211)	(31)	-	-
	(322)	**(95)**	**(3)**	**-**

2.10 Provisions - non-current

	Group		Company	
	As at 29 May 2005 £000	**As at 30 May 2004 £000**	**As at 29 May 2005 £000**	**As at 30 May 2004 £000**
IAS 19 'Employee Benefits' requires a liability to be recognised for the expected cost of providing one off benefits to employees who reach 10 years service (10 Year Veterans).	(436)	(367)	(13)	(13)
IAS 19 'Employee Benefits' requires an accrual to be made for the expected cost of providing retirement indemnities to employees from certain EU territories who finish their working lives with a group company.	(23)	(23)	-	-
IAS 1 'Presentation of Financial Statements' allows provisions to be split between current and non-current amounts. As a result a number of property provisions have been reclassified.	211	31	-	-
	(248)	**(359)**	**(13)**	**(13)**

2.11 Other reserves

	Group		Company	
	As at 29 May 2005 £000	**As at 30 May 2004 £000**	**As at 29 May 2005 £000**	**As at 30 May 2004 £000**
IAS 39 'Financial Instruments: Recognition and Measurement' allows movements in the fair value of derivatives used as hedging instruments for future transactions and that meet the hedge accounting criteria, to be taken to reserves then recycled to the income statement in the period the transaction occurs.	331	615	-	-
Deferred tax relating to the above	(99)	(184)	-	-
IAS 21 'The Effects of Changes in Foreign Exchange Rates' requires the net exchange differences arising on consolidation of overseas subsidiaries to be recognised as a separate component of equity (translation reserve).	486	-	-	-
	718	**431**	**-**	**-**

Reconciliation of the consolidated cash flow statement

The principal difference between UK GAAP and IFRS in the Group's cash flow statement is the reconciliation to cash and bank overdrafts rather than net debt (which includes bank loans and finance lease creditors).

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 consolidated financial statements.

	2006 £000	2005 £000	2004 £000	2003 £000	2002 £000
Revenue	**115,150**	136,647	151,775	129,109	108,557
Operating profit	**4,217**	14,301	19,855	17,461	13,505
Finance income	**238**	348	145	265	253
Finance costs	**(797)**	(740)	(427)	(274)	(235)
Profit before taxation	**3,658**	13,909	19,573	17,452	13,523
Income tax expense	**(1,660)**	(4,889)	(7,245)	(6,470)	(4,935)
Profit after taxation	**1,998**	9,020	12,328	10,982	8,588
Equity minority interests	**-**	-	1	-	-
Profit attributable to equity shareholders	**1,998**	9,020	12,329	10,982	8,588
Basic earnings per ordinary share	**6.5p**	29.4p	40.8p	37.0p	28.2p

FINANCIAL CALENDAR

Annual general meeting	13 September 2006
Final ordinary dividend payable	27 October 2006
Announcement of interim results	January 2007
Interim ordinary dividend payable	April 2007
Financial year end	3 June 2007
Announcement of final results	July 2007

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 13 September 2006 for the following purposes:

Ordinary business

Resolution 1

To receive the Company's annual accounts for the financial year ended 28 May 2006 together with the directors' report, the directors' remuneration report and the auditors' report on these accounts and the auditable part of the remuneration report.

Resolution 2

To declare a final dividend of 14.025 pence per share on the ordinary shares of the Company for the year ended 28 May 2006.

Resolution 3

To re-elect T H F Kirby 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 by reason of length of service.

Resolution 5

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

Resolution 6

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 7

To approve the remuneration report for the year ended 28 May 2006.

Special business

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

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 12 December 2007 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 £518,809 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,

and shall expire at the conclusion of the next annual general meeting of the Company or on 12 December 2007, 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.

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 12 December 2007 whichever is the earlier;

(b) the maximum number of ordinary shares shall be limited to 4,638,153 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
24 July 2006

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 11 September 2006 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 11 September 2006 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.

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.

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.

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.

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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.