

GAMES WORKSHOP GROUP PLC

Annual report 2004

FINANCIAL HIGHLIGHTS

	2004	2003
Turnover	£151.8m	£129.1m
Operating profit	£19.9m	£17.5m
Pre-tax profit	£19.6m	£17.5m
Year end net funds	£8.2m	£11.7m
Earnings per share	40.8p	37.0p
Dividend per share	18.75p	17.00p

- Turnover at £151.8m (2003: £129.1m) up £22.7m
- Sales growth in all territories in constant currency terms*
- Operating profit at £19.9m (2003: £17.5m) up £2.4m
- Earnings per share of 40.8p (2003: 37.0p) up 3.8p
- Dividend per share of 18.75p (2003: 17.00p) up 1.75p

* Constant currency terms are calculated by comparing sales in the underlying currencies for 2003 and 2004, both converted at the 2003 average exchange rates as set out on page 11.

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CHAIRMAN'S PREAMBLE

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.



Tom Kirby
Chairman and Chief Executive

OPERATING REVIEW

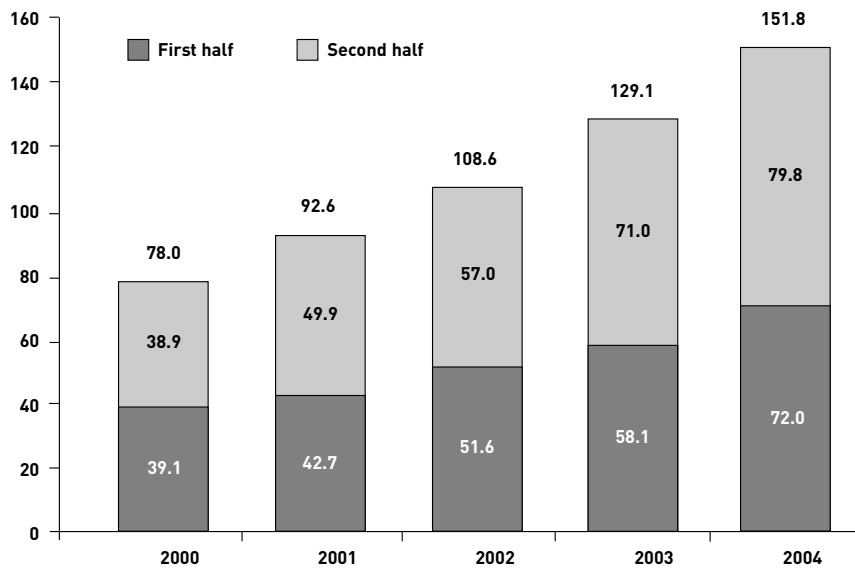
Summary of results

I am delighted to report on another year of very strong sales growth (+£22.7m) and operating profit growth (+£2.4m). The Games Workshop Hobby, and the business which supports and maintains it, continue to enjoy good health. This has also been a very busy year operationally, and we have taken some bold steps forward in the Americas, in our global manufacturing and supply chain and with our management team.

Sales

Sales growth remains a consistent feature of the Games Workshop Group, as demonstrated in the following chart:

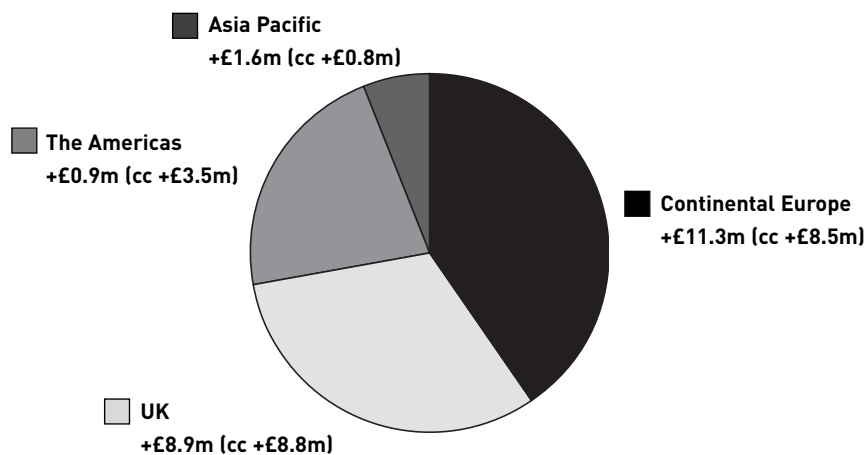
Total sales - £m



Sales have grown in all key territories, with particularly impressive growth continuing in both Continental Europe and the UK.

Sales by territory

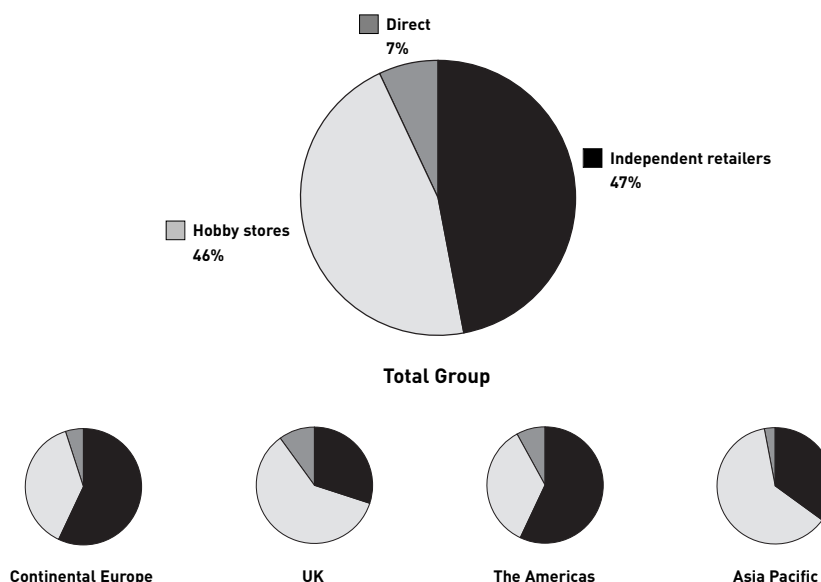
cc - constant currency*



* Constant currency growth is calculated by comparing sales in the underlying currencies for 2003 and 2004, both converted at the 2003 average exchange rates as set out on page 11.

In 2004 sales made through our own Games Workshop Hobby stores made up 46% of turnover, as we continued to open more stores throughout the world. We opened 37 stores during the year taking our total to 310 at the end of May 2004. The balance of our sales was made through independent retailers (47%) and direct, through the internet and mail order (7%).

Sales by channel



Continental Europe

There are five autonomous sales businesses in Continental Europe, whose mission it is to develop the Games Workshop Hobby in France, Germany, Spain, Northern Europe and Italy. We now have 90 Games Workshop Hobby stores, up from 81 last year. Each of these businesses enjoyed strong sales growth during the year except for the Spanish business, which saw sales slip slightly backwards after strong growth over the last three years. The Italian business, whose sales function had previously been based in Nottingham, relocated to the outskirts of Rome during the year. In spite of this disruption the sales for this relatively small business continued to grow impressively, and we believe that the sales operation is now well placed to develop the Games Workshop Hobby properly in Italy.

UK

Over the last two years we have enjoyed a period of very strong growth in this business, where we now have 117 Games Workshop Hobby stores (2003: 116). We reported last year that DeAgostini, a third party business which had been granted a licence by the Games Workshop Group to produce a serialised gaming supplement based upon our Lord of the Rings tabletop battle game, launched its 'Battle Games in Middle-earth' product in the UK. This product, which was sold through traditional magazine newsstand distribution channels, was heavily TV advertised, and this resulted in an unexpected increase in the sales of our Lord of the Rings products. At the time we indicated that this 'bubble' effect increase in sales might not be sustainable in the future. In 2004 this effect continued during the first half of the year, however during the second half we have seen a return to a more normal level of sales. The healthy growth which we have continued to enjoy through both the independent and direct channels, further confirms the underlying strength of our UK business.

The Americas

2004 has been a year of significant investment and structural change in the Americas, which for us comprises the USA and Canada. We believe that we now have a sales infrastructure which can deliver long-term growth in this exciting territory. At the beginning of the year we established three new regional sales offices for the US in Chicago (Mid-West), Los Angeles (West) and Memphis (South) in addition to the

OPERATING REVIEW continued

Baltimore (North-East) operation, which was previously our sales centre for the entire country. These offices, and the dedicated sales teams which each has established, are now responsible for growing the Games Workshop Hobby in each region, and for providing customer service both through independent retailers and through our own Games Workshop Hobby stores. To support these efforts on the ground we have opened 21 new Games Workshop Hobby stores, taking the total to 75. Sales in the year through our own stores and through the direct internet and mail order channels have shown healthy growth, while sales to independent retailers have remained sluggish. We remain confident that the investment we have put into growing the Hobby in each region will result in continued sales growth in our own Games Workshop Hobby stores and the direct channel, and that this will also help to restore the health of our sales to independent retailers.

Asia Pacific

This business comprises Australia and New Zealand. We made the decision during the year to close our three stores in Hong Kong and Singapore as these activities were a serious and unprofitable distraction from the core business in Australia and New Zealand. During the year we opened three new Games Workshop Hobby stores in Australia and New Zealand, and we are confident that this business will benefit from the improved focus which it now receives.

Manufacturing and supply chain

We have made significant investment in our vertically integrated design, manufacturing and distribution supply chain this year. This has enabled it to respond positively to the growing demands of the sales businesses and will underpin its ability to do so in the future.

In June 2003 we opened our new Memphis warehousing and distribution facility, which has supplied the needs of our American business this year. Towards the end of the year we introduced a box packing activity in the new facility, and over the next twelve months we plan to introduce both metal casting and plastic injection moulding. In the medium-term we expect that the Memphis facility will supply the majority of the needs of both our American and Asia Pacific regions.

We have also continued to invest in the Nottingham operations where we are currently reorganising our administrative offices ahead of building a new warehouse. This programme will ensure that the needs of our Continental European and UK businesses are catered for into the medium-term.

Other activities

Warhammer Online

In 2001 we established a venture, owned 71.25% by Games Workshop Group, with our partner Climax Development Limited to operate a massively multiplayer online computer game set in the Warhammer world. This operation continued until 21 June 2004 when, following a fundamental review, Games Workshop Group and Climax decided to terminate the venture. This decision was taken following a full review of the progress, costs, market and risks associated with the operations.

This decision is treated for accounting purposes as a post balance sheet event, and the costs of termination will be dealt with in the results of the Group for the year to May 2005.

BL Publishing

Our publishing business, which made sales of some £1m this year, has begun to extend its activities outside the Warhammer and Warhammer 40,000 intellectual properties into other fantasy, science fiction and horror properties. This business is developing a small but profitable niche publishing portfolio, while continuing to enhance and develop the existing Games Workshop intellectual property.

Sabertooth Games

We have taken action this year to refocus this US based collectible card game business, which has been struggling to break even since we acquired it in 2002. We have acquired the outstanding minority shareholding (15%), reduced the cost base and moved the business to our Memphis location to ensure that it can obtain the maximum benefit from Games Workshop's operational logistical structures. We believe that these actions will place this small business (sales this year of \$3.4m) on a firmer footing for the future.

Management team

While we believe in evolutionary rather than revolutionary change in our management structures, this year we have made an important move to establish a more clearly defined divisional management structure for the Games Workshop Group. We now have four management groups, each with clearly defined responsibilities as follows:

Games Workshop Tabletop Wargaming division – responsible for the development of the Hobby throughout the world. This encompasses the sales businesses in each territory 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.

Having established this divisional structure we believe that we are now better placed to address the key areas of management recruitment, development and succession planning in a more systematic way.

Workforce

Games Workshop is a special business with an even more special workforce. Many share a passion for the Games Workshop Hobby, and those who do not, have an equally strong passion for providing excellent quality service to support the Games Workshop Hobby. So we are fortunate in that the Hobby is at the centre of all that we do. But while managers can talk about divisional structures until the cows come home, it is not structures which have delivered Games Workshop's remarkable growth, it is the often heroic efforts of this special workforce who all understand that what they are doing matters. That is why we have managed to make such significant changes to our business while still delivering growth in both sales and profits. We now employ 3,200 people around the world, and one of my (few) regrets is that I can no longer talk to them all personally. So once again, I would like to use this annual report to say thank you to all our staff and I trust that our shareholders will join me.

Risks facing the business

Managing the risks which face our business is what we do every day. The establishment of the divisional management structure referred to above is a natural step towards making this process more transparent and accountable. The Games Workshop Tabletop Wargaming division is responsible for keeping the 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 the Group is responsible for managing treasury and legal risks. We have a formal risk reporting process as part of our annual budgeting and planning cycle, but the management of these risks is an integral part of the daily management process.

Amongst the product delivery risks are those relating to input prices. The cost of raw materials, such as metal and plastic, represents no more than 2% of our sales. While the prices of these commodities have shown significant volatility during the second half of this year, we do not believe that this volatility represents a significant threat to our long-term profitability.

In the short-term our buying team is working hard to minimise these risks and the Manufacturing and Supply division is seeking out process efficiencies to offset any cost impact.

Many of our risks are mitigated by the significant portfolio effect which we enjoy with different geographies, different routes to market and different currencies. This leads me to conclude that the main source of risk

OPERATING REVIEW continued

for us remains management error. This is why management recruitment, development and succession planning are so important.

Prospects

We believe that Games Workshop Group can continue to deliver consistent linear growth in sales and profits. We believe that by doing what we are doing, in the territories in which we are already doing it, our sales can grow to a multiple of what they are today. Therefore the directors believe the prospects for the business remain very good.

Tom Kirby

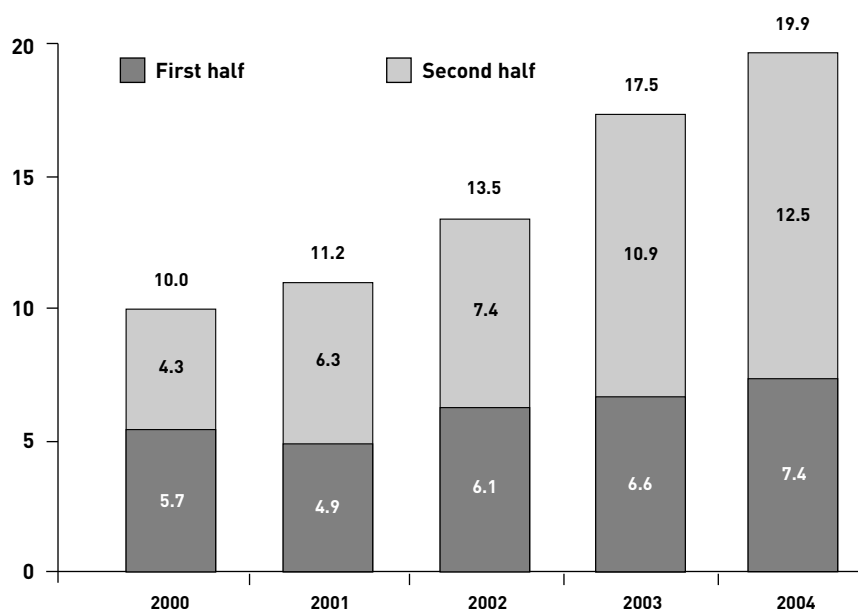
Chairman and Chief Executive

FINANCIAL REVIEW

Profits

The profits earned by the business, split by half year, are as follows:

Operating profit (pre-exceptional) - £m



Cash generation

The Group's operating activities generated £23.5m (2003: £23.2m) of cash during the year, and after capital expenditure of £14.0m we had net cash at the year end of £8.6m. Our stocks at the beginning of the year were unusually high because we chose to build stocks ahead of the transfer of our US distribution activities to the new Memphis facility which began operations in June 2003. The May 2004 levels, which show a year end stock turn of 4.1 times (2003: 3.4 times), represent what we believe to be a more normal level of stockholding for the business. Our capital additions were in the following asset categories:

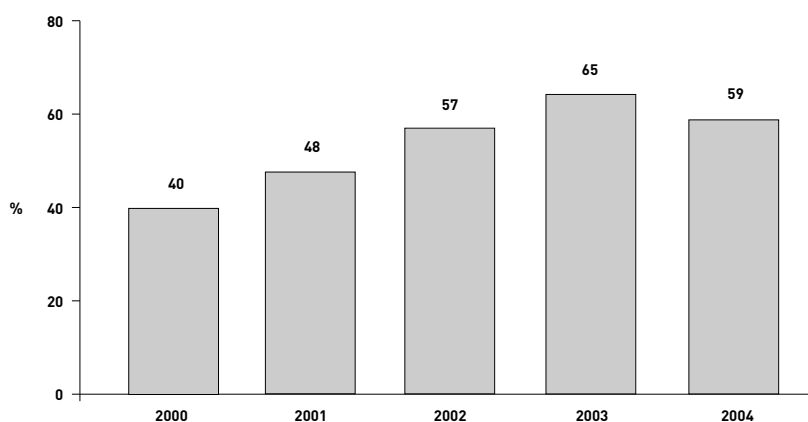
	2004	2003
	£m	£m
Shop fits for new and existing stores	3.0	2.4
Production equipment and tooling	2.7	2.3
Computer equipment and software	2.8	2.4
Office facilities	1.2	1.1
Building developments – Nottingham	5.1	-
	<hr/>	<hr/>
Total fixed asset additions	14.8	8.2
	<hr/>	<hr/>

We expect to maintain our capital expenditure well ahead of depreciation over the next few years, as we continue to invest in the infrastructure of the business to underpin its growth. In particular we will continue to develop the new supply chain facility in Memphis to support our North American business, and we expect to invest further to develop our core site in Nottingham.

FINANCIAL REVIEW continued

Return on average capital employed (ROACE)*

The business makes relatively high returns on its capital employed. These have been consistently improving over recent years as set out in the chart below:



In the current year, our investment in manufacturing and property assets has begun to reduce these returns, and this process is likely to continue over the next few years. However, we still expect our returns to remain well in excess of the Group's cost of capital, which we currently estimate to be 9%.

Interest

Our interest costs have risen in 2004 as we have invested more heavily in fixed assets, as described above. Our working capital cycle requires us to build stocks and receivables ahead of the Christmas period. 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, however this exposure has not been significant in recent years.

Taxation

The effective rate of tax for the year is 37.0% (2003: 37.1%). This rate is higher than that of a business with activities based only in the UK due to higher overseas tax rates and tax losses in subsidiaries not being recognised.

Dividend

We expect to maintain a progressive dividend policy based principally on the growth in the Company's earnings per share.

Dividend reinvestment plan

We also offer investors the chance 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.

Warhammer Online

As stated above, a decision to terminate this venture was taken in June 2004. Games Workshop Group's accounting policy is to write off 100% of the development costs in respect of this activity. The costs of termination will be accounted for in the results for 2005.

Sabertooth Games

Games Workshop Group acquired the outstanding 15% interest in this subsidiary during the year for a nominal consideration. This formed part of the restructuring of this business whereby we have reduced its cost base and moved its head office to Memphis. All of the costs associated with these changes have been expensed in the results for 2004.

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

Currency exposures

During the year sterling strengthened against both the euro and the US dollar. The principal exchange rates used to translate our earnings and our balance sheet are as follows:

	euro		US dollar	
	2004	2003	2004	2003
Year end rate used for the balance sheet	1.50	1.39	1.83	1.64
Average rate used for earnings	1.46	1.52	1.74	1.58

The net impact of these fluctuations on our results for the year was slightly favourable to our earnings when converted into sterling. If our results for 2004 had been converted at the rates used in 2003, they would have been lower by some £0.9m.

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

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

Share based commitments

Under a long-term incentive plan, the Group has a future commitment to provide shares to the scheme participants. Shares have been purchased in the market to cover some 90% of the anticipated liability. The final three year performance period for this scheme ended on 1 June 2003 and the share options will be exercisable in June 2005. In the past the Company has issued various executive share options and the details of the options outstanding are set out in note 22 on page 45 of this annual report. There have been no significant grants under these executive schemes since August 2000. It is now our intention only to operate sharesave schemes which are made available on equal terms to all our staff.

Share buy-back programme

Having considered the potential uses of our surplus cash, we commenced a programme of share buy-backs in 2001. During the year we have not purchased any shares as our investment programme in both the Americas and in our Nottingham property has used up our surplus cash. We intend to continue with the share buy-back programme when our cash generation once again renders this possible.

Bank facilities

We have a four year unsecured revolving credit facility of £10m, and a working capital facility of £5m. The covenants, based on interest cover and gearing, were comfortably met. Interest was paid at floating rates, which equated to 4.4% during the year.

International accounting standards (IAS)

For the year ending May 2006, Games Workshop Group will be required to prepare its consolidated accounts using IAS. These first IAS accounts will include comparative figures for the year to May 2005, also prepared using IAS. We have established a project team to assess the potential impact of the adoption of these new standards for Games Workshop Group and to plan for their implementation. This planning is now at an advanced stage, and during the year to May 2005 we intend to establish our opening (May 2004) balance sheet using IAS. We plan to have this balance sheet, and any IAS adjustments which are required to be made to the consolidated reserves, reviewed by our auditors so that we are able to enter the year to May 2006 with a clear and agreed view of the effect of the accounting policies being adopted. When we report our results for the year ending May 2005 we will report further on the progress of this project.

Michael Sherwin

Finance Director

DIRECTORS' REPORT

The directors present their annual report together with the financial statements and independent auditors' report for the year ended 30 May 2004. 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 29 October 2004 to ordinary shareholders on the register at close of business on 8 October 2004.

Substantial shareholdings

The following interests in 3% or more of the issued share capital of the Company as at 14 July 2004 have been disclosed to the Company:

	No. of ordinary shares	Percentage
Schroder Investment Management Limited	5,409,121	17.5
Fidelity International Limited	3,958,971	12.8
Henderson Investors Limited	2,339,693	7.6
Barclays Global Investors Limited	1,574,180	5.1
Scottish Widows Investment Partnership Limited	1,278,626	4.1
Legal & General Investment Management Limited	1,233,416	4.0
Standard Life Investments Limited	1,170,750	3.8

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 23.

Directors

The present directors of the Company are listed on page 26. All of the directors were members of the board throughout the year. C J Myatt and M Sherwin are retiring by rotation and being eligible, offer themselves for re-election.

Directors' interests

The interests of the directors in the shares of the Company are disclosed in the remuneration report on page 23, 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 54), 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. He is also Visiting Professor of Business and Management to the Derbyshire Business School at the University of Derby.

M Sherwin (age 45), 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. On 7 July 2004 he was appointed a non-executive director of Plusnet plc.

Information on non-executive directors

C J Myatt (age 60). Chris Myatt is the senior non-executive director, joining the board on 18 April 1996. He is chairman of Palgrave Brown Holdings Limited and a non-executive 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 44). Alan Stewart joined the board as a non-executive director on 12 September 1996. Alan was an executive director of Thomas Cook AG and chief executive of Thomas Cook UK Limited until 2003. He was previously an executive director with HSBC Investment Bank and is a qualified chartered accountant.

N J Donaldson (age 50). Nick Donaldson was appointed to the board on 18 April 2002. A barrister by profession, Nick was until recently head of corporate finance at Arbutnot Securities Limited (formerly Old Mutual Securities Limited). He has spent the majority of his career to date in investment banking, and has previously held senior positions at Robert W Baird Limited and at Credit Lyonnais Securities. He is a non-executive director of The Clapham House Group PLC and chairman of F4G Software plc.

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. Both executive directors have been actively involved during the year in supporting both undergraduate and postgraduate education.

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. Games Workshop helped them to realise their fundraising targets by matching the sponsorship monies raised. This matching cost for the Group was £13,000 during the year. In addition to staff fundraising, gifts in kind have been donated to a number of charities. The Group made no contributions for political purposes.

Employees

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

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

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

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

DIRECTORS' REPORT *continued*

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

The number of days credit taken by the Group from its suppliers at the year end is 41 days (2003: 39 days).

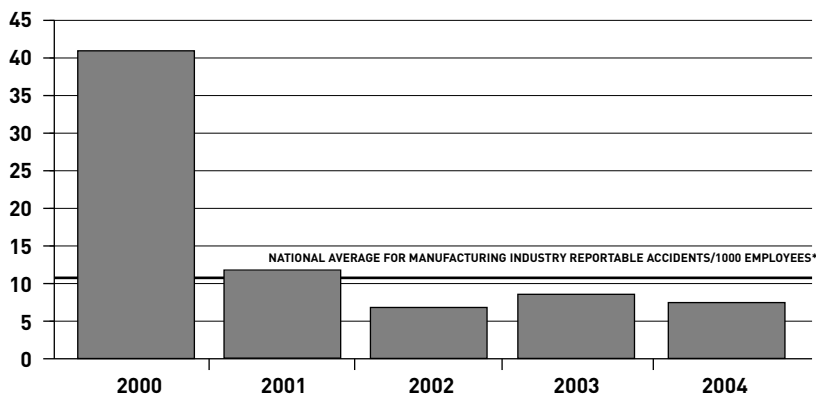
Health and safety

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 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. Health and safety 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, and the following table indicates the progress that has been made in our manufacturing activities, which has been assessed as the area of highest risk in our operations:

Reportable accidents/1000 employees – UK Manufacturing



* Source: Page 31 of the Office for National Statistics, Health and Safety Statistics for 2002/03

Risk assessments are reviewed annually, or when a change to a process or to an item of machinery is made. In our manufacturing and supply activities, compliance audits of the Group's policy and practices have been carried out annually, or more frequently if a new process has been introduced. The audit process is now being included in the job descriptions of line managers to embed health and safety further into the day-to-day activities of the business.

To enhance further health and safety at all sites, extensive training programmes are being undertaken ranging from induction improvements through cell leader training to senior management responsibilities training.

In the UK sales business a full time health and safety officer has now been employed to audit performance and to promote improved practices throughout the business.

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.

Last year a three year strategic environmental management system was established, to focus upon:

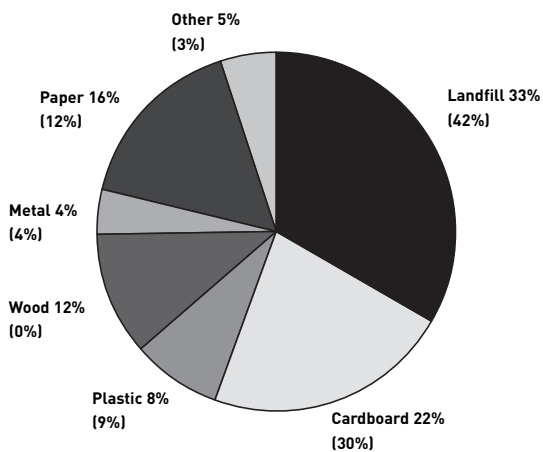
- Year 1 – 2003 waste management
- Year 2 – 2004 pollution assessment and control
- Year 3 – 2005 energy management

The progress that has been made in the first two years of this programme is reported below:

Waste management

During the year significant improvements were made to the Group's waste reduction and recycling programme, adding wood recycling to the portfolio.

2004 Waste - proportions recycled by category (numbers in brackets are 2003 values)



A life cycle analysis has been instigated for all manufactured goods to ensure that the impact of our products on the environment and upon energy consumption can be assessed. The first stage of this has been completed by working with suppliers to set environmental standards. The next stage is to determine the point of origin of all raw materials. The Group is working to integrate an environmental management system into all aspects of the business. Packaging is a key marketing, logistical, economic and environmental concern. Therefore environmental considerations are introduced at the beginning of the packaging design, to include legislative compliance, material use and future initiatives, whilst striving for environmental and business improvements. The Group continues to explore ways of reducing the amount of waste which our products generate for the 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.

Pollution assessment and control

The environmental management system has been developed to cover pollution present in the air, water and on land. A pollution control barrier has been erected around our main UK manufacturing and distribution site to eliminate the possibility of wind blown litter leaving the site. A full water services network map has been produced and a wash-down containment station has been constructed. Staff are trained in the use of pollution clean up response kits to respond to any possible acidic or oil based spillage on the site. The environmental training library has been expanded, highlighting the need for awareness to all employees.

In the 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.

DIRECTORS' REPORT continued

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.

Constructive use of the annual general meeting

The chairmen of the audit, and 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

The directors are currently authorised to allot relevant securities under section 80 of the Companies Act 1985 and to allot equity securities under section 95 of the Companies Act 1985. Those authorities expire at the conclusion of the annual general meeting. Resolutions are therefore being put to the annual general meeting to renew those authorities, resolution 7, to give the directors authority to allot relevant securities up to an aggregate nominal amount of £514,120 (representing one third of the Company's current issued share capital). The directors have no present intention of exercising this authority. Resolution 8 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 £77,118 (representing 5% of the Company's current issued share capital).

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 9 renews this authority for up to a maximum of 4,596,238 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, which came into force on 1 December 2003, the Company is allowed to hold its own shares in treasury following a buy-back as an alternative to cancelling them. Shares held in treasury may be subsequently sold for cash, but all rights attaching to them, including voting rights and the right to receive dividends, are suspended while they are held in treasury.

Auditors

Resolution 5 for the re-appointment of Deloitte & Touche LLP will be proposed at the forthcoming annual general meeting.

Going concern

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

By order of the board

M Sherwin

Secretary
26 July 2004

CORPORATE GOVERNANCE

The Listing Rules of the Financial Services Authority require listed companies to disclose, in relation to section 1 of the Combined Code 1998 (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 24, explains how the Company has applied the principles and complied with the provisions set out in the Code.

The Company is aware of the requirements introduced in the new Combined Code (the New Code), which applies for reporting years beginning on or after 1 November 2003.

Some measures have already been taken, including the adoption of new terms of reference for the board committees (as set out below) and the schedule of matters reserved for decision by the board and/or its committees, all of which have been revised in light of the New Code. Where appropriate, these documents are available on the Company's web site. The Company will continue to review its compliance throughout the current financial year.

The board

The board comprises the chairman and chief executive, one further executive director and three independent non-executive directors. It is chaired by the chairman and chief executive, T H F Kirby. The senior independent non-executive director is C J Myatt. The three non-executive directors have a breadth of successful commercial and professional experience and are considered by the board to be independent of the Group as explained on page 54.

Following the return of T H F Kirby to executive responsibilities in September 2000, the board considers it appropriate, for the time being, for the roles of the chairman and chief executive to be combined. This situation will be kept under review by the board.

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 judgment to bear on issues of strategy, performance, resources, including key appointments, and standards of conduct. In 2004 the board and its committees had 11 scheduled meetings. There is a procedure for directors to take independent professional advice at the Company's expense where relevant to the execution of their duties. The board considers that it has been supplied with sufficient timely and accurate information to enable it to discharge its duties.

All members of the board have access to the services and advice of the company secretary.

During the current financial year the board intends to introduce a process for the evaluation of its own performance and that of its committees.

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 remuneration and nomination, committees are expected to be available to answer questions at the Company's annual general meeting.

Audit committee

The audit committee comprises the three non-executive 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 cost-effectiveness of the external and internal audits and the independence of the Group's external auditors.

CORPORATE GOVERNANCE continued

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

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 activity including operational and financial performance, capital expenditure proposals, human resource issues and the planning and forecasting processes. The business committee held 11 meetings in the year, each of which was attended by all members of the committee.

City committee

The city committee comprises the non-executive 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 non-executive directors and is chaired by C J Myatt. It meets not less than twice a year and is responsible for making recommendations to the board on remuneration policy for senior executives and all directors (including determining specific remuneration packages, terms of employment and performance incentive arrangements). It is also responsible for nominating, for approval by the board, candidates for appointment to the board, and for vetting and approving the appointment of senior executives. The procedures and guidelines used by the remuneration and nomination committee in determining remuneration are outlined in the separate remuneration report. The remuneration and nomination committee held two meetings in the year, each of which was attended by all members of the committee.

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 <http://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, Baird, 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 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 non-executive directors, are set out in the board report on remuneration on pages 20 to 24.

Internal control

Detailed reviews of the performance of the Group's main business activities are included in the operating 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 independent auditors' reports.

The Group has continued its programme of internal audit reviews during the year. The audit committee agrees an annual internal audit plan, focussing 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.

Auditors' independence

The audit committee has reviewed a report from the Company's auditors confirming their independence. The review included the audit, audit related and tax services provided by Deloitte & Touche LLP, and compliance with the Group policy which prescribes the types of engagements for which external auditors may be used. The audit committee concluded that there are sufficient controls and processes in place to ensure the required level of independence.

Statement of compliance with the Combined Code

Provision A.6.1 of the Combined Code requires that non-executive directors should be appointed for specified terms. However, the board has decided that it is preferable to retain the flexibility of rolling contracts which can be terminated without notice or compensation, but which, under normal circumstances, operate with a maximum of six months' notice. The board believes that the requirement for at least one third of the directors to seek re-election by rotation at each annual general meeting adequately ensures that appointment periods are not excessive.

Save as set out above, 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
26 July 2004

REMUNERATION REPORT

Remuneration and nomination committee

The committee is composed solely of independent non-executive 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 Company is aware of the requirements of the New Code and will review its compliance throughout the current financial year, with additional disclosures being made, if appropriate, in its next annual report. The contents of this report also comply with the Directors' Remuneration Report Regulations 2002.

Non-executive directors

The remuneration of all non-executive 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 non-executive directors are only entitled to fees and do not participate in any of the Company's bonus, pension or share schemes. As disclosed in the corporate governance report, non-executive directors do not have service contracts.

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 their review of remuneration packages of the executive directors. Salaries, excluding bonuses, are pensionable.

Bonuses – from 2 June 2003

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 (50% in the year to 30 May 2004). In the year to 30 May 2004 the performance conditions were based on earnings per share growth and individual performance targets, while in the year to 29 May 2005 the conditions relate to the growth in operating profit.

Bonuses – year to 1 June 2003

Following the appointment of T H F Kirby as chairman and chief executive in September 2000, the following bonus scheme was implemented to secure his services in an executive capacity and to provide the type of leadership that the Group needed at this pivotal time in its development.

The board linked a significant proportion of his remuneration to the improvement in the Group's fortunes over the period of his appointment. The performance related bonus arrangement was in two parts: the first was linked to achieving an increase in earnings per share of over 15% per year for three years ('the EPS Bonus'), and the second was linked to the share price ('the SP Bonus'). The EPS bonus was shown in the remuneration report for the year ended 1 June 2003.

The EPS Bonus was payable if the earnings per share before exceptional items of the Company ('EPS') increased by at least a cumulative rate of 15% per annum from a base EPS of 20.2 pence (being the EPS of the Company for the financial year ending 28 May 2000) in the three financial years which ended on 1 June 2003. If the performance condition was satisfied the EPS Bonus would be £250,000 and, in addition, £125,000 for each 1% by which the EPS growth exceeded a cumulative rate of 15% per annum, provided that the maximum aggregate EPS Bonus would not exceed £1,000,000. This performance condition was met in full and was paid within 30 days of 29 July 2003. It was payable on one occasion only.

The SP Bonus was payable if the average closing middle market price of the shares of the Company for the 30 dealing days starting with 30 July 2003 ('Actual Share Price') was equal to or greater than 250 pence per share (representing an increase of more than 100% over the share price of 123 pence, being the share price on the day of his appointment). On satisfaction of the performance condition, the SP Bonus would be £250,000 and, in addition, £2,000 for each one pence that the Actual Share Price was greater than 250 pence. The SP Bonus was paid within 10 working days of determination of the Actual Share Price and was payable on one occasion only. The SP Bonus was paid in September 2003 and amounted to £1,158,000.

The benefits under this bonus arrangement were not pensionable.

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 executive share option schemes or long-term share incentive plan.

Service contracts

Each of the executive directors has a service agreement 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 contract is 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 the 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 28 September 1994 and M Sherwin on 18 June 1999. 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.

Under the letters of appointment of the non-executive directors, the period of appointment is not specified and may terminate at any point without notice and without compensation. However, under normal circumstances the party terminating the agreement will seek to give the other six months' notice of intention

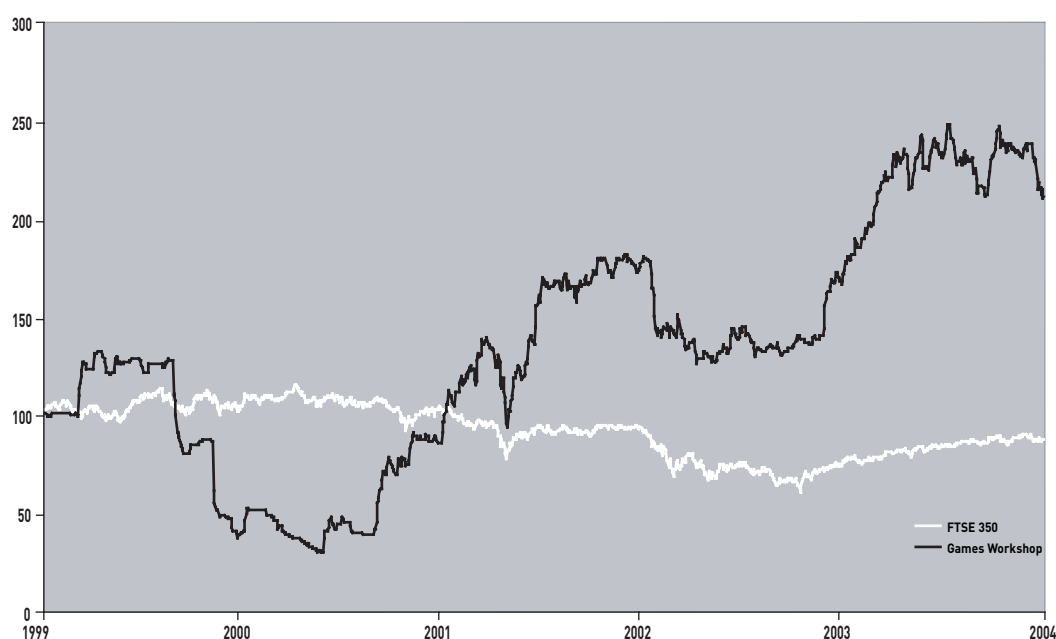
REMUNERATION REPORT *continued*

to terminate. Agreements on this basis were entered into by C J Myatt on 16 July 1999 which took effect from 18 April 1999, A J H Stewart on 16 July 1999 which took effect from 12 September 1999 and N J Donaldson on 18 April 2002 (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 350 companies during the previous five years (i.e. 1 June 1999 to 1 June 2004). The index of the FTSE 350 companies has been used because the constituents of this index appropriately reflect the Company's size when compared to alternative indices. It is also the index used to measure the Group's performance under the long-term share incentive plan.



The following sections of the remuneration report have been audited.

Directors' emoluments for the year ended 30 May 2004

	Fees 2004 £000	Salary 2004 £000	Bonus- annual scheme 2004 £000	Bonus-three year scheme* 2004 £000	Benefits in kind 2004 £000	Total emoluments 2004 £000	Total emoluments 2003 £000	Pension contributions 2004 £000	Pension contributions 2003 £000
Executive directors									
T H F Kirby	-	300	199	1,158	4	1,661	1,266	30	26
M Sherwin	-	210	100	-	3	313	285	21	19
Non-executive directors									
N J Donaldson	20	-	-	-	-	20	20	-	-
C J Myatt	25	-	-	-	-	25	25	-	-
A J H Stewart	20	-	-	-	-	20	20	-	-
Gains on exercise of share options	65	510	299	1,158	7	2,039	1,616	51	45
						26			
	65	510	299	1,158	7	2,065	1,616	51	45

*The details of the three year scheme for T H F Kirby are described in the unaudited section 'Bonus - year to 1 June 2003' above. The payment of £1,158,000 included in the table above relates to the SP Bonus and was payable as the average share price over the 30 days following the announcement of the results for 2003 was 704p.

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 30 May 2004 Ordinary shares of 5p each		As at 1 June 2003 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	41,000	-	37,519	-
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 1 June 2003	Granted	Exercised	Number as at 30 May 2004	Exercise dates		Exercise price
					Commencement	Expiry	
M Sherwin	4,130	-	(4,130)	-	Nov 2003	Apr 2004	106p
	1,408	-	-	1,408	Nov 2005	Apr 2006	335p
	-	763	-	763	Nov 2006	Apr 2007	580p
	-	39,427	-	39,427	June 2005	July 2008	-

The options above with exercise prices of 106p, 335p and 580p were granted under the Games Workshop Group PLC 1995 Sharesave Scheme. This scheme is open to all eligible UK employees and directors who satisfy a service qualification of at least one year.

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 has 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). Both the basic and the matching share awards are in the form of a promise that at the end of a three year period an option will be granted, subject to performance criteria being satisfied, over a number of shares. The exercise price of an option will be nil and the option will not normally be exercisable until five years after the date of the basic or matching share awards. 25% of the total award will only vest if the Company's share price growth is 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. None of that part of the award will vest if it is not. The remaining 75% of the total award will depend on the Company's cumulative EPS growth over the three year performance period. Cumulative EPS growth must reach 15% per annum for the EPS related condition to be satisfied in full. If cumulative EPS growth is less than 10% per annum, the EPS related condition is not satisfied. If cumulative EPS growth is between 10% and 15% per annum, then the award will vest proportionately.

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 30 May 2004 and the date of this report.

REMUNERATION REPORT continued

The mid-market price of the Company's shares on 30 May 2004 was 649p and the range of the market prices during the year was 560.5p to 767.5p.

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

26 July 2004

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 30 May 2004. The directors also confirm that applicable accounting standards have been followed.

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

By order of the board

M Sherwin
Secretary
26 July 2004

COMPANY DIRECTORS AND ADVISERS

Directors

T H F Kirby, Chairman and Chief Executive
M Sherwin, Finance Director
C J Myatt, Senior Non-executive Director
N J Donaldson, Non-executive Director
A J H Stewart, Non-executive Director

Company secretary

M Sherwin

Registered office

Willow Road
Nottingham NG7 2WS

Registered number

2670969

Financial advisers and stockbrokers

Robert W Baird Limited
Mint House
77 Mansell Street
London E1 8AF

Principal bankers

Bank of Scotland
55 Temple Row
Birmingham B2 5LS

Registered auditors

Deloitte & Touche LLP
Four Brindleyplace
Birmingham B1 2HZ

Solicitors

Shoosmiths
Lock House
Castle Meadow Road
Nottingham NG2 1AG

Registrars

Lloyds TSB Registrars Scotland
PO Box 28506
Finance House
Orchard Brae
Edinburgh EH4 1XZ

INDEPENDENT AUDITORS' REPORT

To the members of Games Workshop Group PLC

We have audited the financial statements of Games Workshop Group PLC for the year ended 30 May 2004 which comprise the profit and loss account, the balance sheets, the cash flow statement, the statement of total recognised gains and losses, the statement of accounting policies and the related notes 1 to 29 together with the notes to the cash flow statement. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the directors' remuneration report. Our responsibility is to audit the financial statements and the part of the directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions with the Company and other members of the group is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the 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 the directors' report and the other information contained in the annual report for the above year as described in the contents section including the unaudited part of the directors' remuneration report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company and the group, 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 described as having been 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 described as having been audited.

INDEPENDENT AUDITORS' REPORT continued

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the group as at 30 May 2004 and of the profit of the group for the year then ended; and
- the financial statements and part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

Birmingham

26 July 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year to 30 May 2004

	Notes	2004 £000	2003 £000
Turnover	2	151,775	129,109
Cost of sales	3	(50,099)	(42,592)
Gross profit	3	101,676	86,517
Net operating expenses	3	(81,821)	(69,056)
Operating profit	2	19,855	17,461
Interest receivable		145	265
Interest payable and similar charges	6	(427)	(274)
Profit on ordinary activities before taxation	7	19,573	17,452
Taxation on profit on ordinary activities	8	(7,245)	(6,470)
Profit on ordinary activities after taxation		12,328	10,982
Equity minority interests	24	1	-
Profit for the financial year	9	12,329	10,982
Dividends	10	(5,749)	(5,086)
Profit retained for the financial year	23	6,580	5,896
Basic earnings per ordinary share	11	40.8p	37.0p
Diluted earnings per ordinary share	11	40.1p	36.3p
Dividend per ordinary share	10	18.75p	17.00p

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

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

The accompanying notes are an integral part of this profit and loss account.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year to 30 May 2004

	2004 £000	2003 £000
Profit for the financial year	12,329	10,982
Currency translation differences on foreign currency net investments	(2,012)	95
Total recognised gains and losses relating to the year	10,317	11,077

BALANCE SHEETS

as at 30 May 2004

	Notes	Group 2004 £000	2003 £000	Company 2004 £000	2003 £000
Fixed assets					
Goodwill	12	2,463	3,190	-	-
Tangible assets	13	25,627	17,623	-	-
Investments	14	-	-	30,281	27,867
		28,090	20,813	30,281	27,867
Current assets					
Stocks	15	12,102	12,496	-	-
Debtors	16	13,612	13,212	9,902	9,109
Cash at bank and in hand		8,570	11,728	551	-
		34,284	37,436	10,453	9,109
Creditors: amounts falling due within one year	17	(26,558)	(28,335)	(9,833)	(14,875)
Net current assets/(liabilities)		7,726	9,101	620	(5,766)
Total assets less current liabilities		35,816	29,914	30,901	22,101
Creditors: amounts falling due after more than one year	18	(788)	(16)	-	-
Provisions for liabilities and charges	20	(924)	(1,725)	(392)	(1,232)
Net assets		34,104	28,173	30,509	20,869
Capital and reserves					
Called up share capital	21	1,542	1,503	1,542	1,503
Capital redemption reserve	23	101	101	101	101
Share premium	23	5,251	1,267	13,279	9,295
Profit and loss account	23	27,210	25,301	15,587	9,970
Equity shareholders' funds	25	34,104	28,172	30,509	20,869
Equity minority interests	24	-	1	-	-
Total capital employed - all equity		34,104	28,173	30,509	20,869

The accompanying notes are an integral part of these balance sheets.

The financial statements on pages 29 to 46 were approved by the board of directors on 26 July 2004 and were signed on its behalf by:

T H F Kirby, Director

M Sherwin, Director

CONSOLIDATED CASH FLOW STATEMENT

for the year to 30 May 2004

	2004 £000	2003 £000
Net cash inflow from operating activities	23,490	23,180
Returns on investments and servicing of finance		
Interest received	147	260
Interest paid	(408)	(269)
Interest paid on finance leases	(9)	-
Net cash outflow from returns on investments and servicing of finance	(270)	(9)
Taxation		
UK corporation tax paid	(6,201)	(4,616)
Overseas taxation paid	(1,977)	(1,257)
Net cash outflow from taxation	(8,178)	(5,873)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(13,968)	(8,202)
Sale of tangible fixed assets	117	22
Net cash outflow from capital expenditure and financial investment	(13,851)	(8,180)
Equity dividends paid	(5,218)	(3,958)
Net cash (outflow)/inflow before financing	(4,027)	5,160
Financing		
Issue of ordinary share capital	1,363	399
Repayment of principal under finance leases/hire purchase contracts	(124)	(20)
Repayment of medium-term revolving credit facility	-	(2,500)
Own shares purchased/cancelled	-	(443)
Net cash inflow/(outflow) from financing	1,239	(2,564)
(Decrease)/increase in cash in the year	(2,788)	2,596

The accompanying notes are an integral part of this cash flow statement.

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of operating profit to operating cash flow

	2004 £000	2003 £000
Operating profit	19,855	17,461
(Profit)/loss on disposal of tangible fixed assets	(35)	130
Depreciation of tangible fixed assets	6,080	5,709
Amortisation of goodwill	366	457
Amortisation of own shares	-	121
Exchange movements	-	135
Decrease/(increase) in stocks	263	(3,236)
Increase in debtors	(1,754)	(2,414)
(Decrease)/increase in creditors	(484)	5,098
Decrease in provisions	(801)	(281)
Net cash inflow from operating activities	23,490	23,180

Analysis of net funds

	As at 2 June 2003 £000	Cash flow £000	Other non- cash changes £000	Exchange movement £000	As at 30 May 2004 £000
Cash at bank and in hand	11,728	(2,788)	-	(370)	8,570
Finance leases	-	124	(491)	3	(364)
Net funds	11,728	(2,664)	(491)	(367)	8,206

Reconciliation of net cash flow to movement in net funds

	2004 £000	2003 £000
(Decrease)/increase in cash in the year	(2,788)	2,596
Cash outflow from decrease in debt and lease financing	124	2,520
Change in net funds resulting from cash flows	(2,664)	5,116
New finance leases	(491)	-
Translation difference	(367)	-
Net funds at 2 June 2003	11,728	6,612
Net funds at 30 May 2004	8,206	11,728

NOTES TO THE FINANCIAL STATEMENTS

1. Principal accounting policies

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom.

A summary of the principal accounting policies, which have been applied consistently is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

Basis of consolidation

The consolidated financial statements include the Company and its subsidiary undertakings drawn up to 30 May 2004.

Goodwill

Goodwill arising on acquisition of subsidiaries, representing any excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired, is capitalised and amortised on a straight line basis over its useful economic life. The goodwill arising on the acquisition of Sabertooth Games, Inc. is being amortised over six years. All other acquired goodwill is amortised over 20 years. Provision is made for any impairment.

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. In the event of disposal or closure of a previously acquired business, the attributable amount of goodwill previously written off to reserves will be included in determining the profit or loss on disposal.

Development expenditure

Product development and design expenditure is written off as it is incurred. The development costs in respect of the Warhammer Online venture are also written off.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

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

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

Operating leases and finance leases

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

Stocks

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

Foreign currencies

Assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year or at rates of exchange fixed using forward foreign currency contracts where they exist. The results of overseas subsidiary companies are translated at the average rate of exchange for the year.

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

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

Investments

Shares and loans in subsidiary undertakings are stated at cost less provision for impairment. Own shares are stated at cost less amortisation. Where the Company's shares have been acquired to fulfil future commitments under incentive plans, the cost of those shares is amortised over the performance period of the incentive plans.

NOTES TO THE FINANCIAL STATEMENTS continued

Turnover

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

Turnover 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. Turnover on a sale or return basis represents no more than 1% of consolidated turnover.

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

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid/(recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Pension costs

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

Bonus and incentive plans

The costs of annual bonus schemes are charged to the profit and loss account 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 profit and loss account based upon the directors' estimate of the likely future outcome of those criteria. Where the criteria include the Company's share price, costs are charged by reference to the evolution of the share price over the lifetime of the scheme, with the annual expense taking account of the year end price. These estimates are revised at each period end.

2. Geographical analysis

Turnover

By geographical area of sales operation

	2004 £000	2003 £000
Continental Europe	61,290	50,030
United Kingdom	48,241	39,353
The Americas	33,110	32,218
Asia Pacific	9,134	7,508

Turnover 151,775 129,109

By geographical area of destination

	2004 £000	2003 £000
Continental Europe	66,643	51,672
United Kingdom	42,143	37,160
The Americas	33,291	32,384
Asia Pacific	9,501	7,683
Other	197	210

Turnover 151,775 129,109

2. Geographical analysis (continued)

Operating profit

By geographical area of sales operation	2004 £000	Restated 2003 £000
Continental Europe	19,948	14,096
United Kingdom	11,370	11,590
The Americas	(829)	1,573
Asia Pacific	756	1,162
	31,245	28,421
Design and development costs	(3,549)	(3,725)
New business development costs	(3,085)	(2,531)
Central costs	(4,942)	(4,901)
Operating profit before royalties	19,669	17,264
Royalty income	186	197
Operating profit	19,855	17,461

New business development costs include £2.5 million (2003: £1.7 million) in respect of the Warhammer Online venture. The prior year allocation of operating profit by geographical area has been restated to better reflect the allocation of manufacturing costs between the UK and US based production activities.

Net assets

By geographical area of sales operation	2004 £000	Restated 2003 £000
Continental Europe	10,919	6,169
United Kingdom	8,252	2,769
The Americas	10,377	10,568
Asia Pacific	398	708
	29,946	20,214
Unallocated net assets/(liabilities)		
- cash	8,570	11,728
- taxation	(813)	(1,764)
- central	(3,599)	(2,005)
Net assets	34,104	28,173

The prior year has been restated to allocate goodwill across the appropriate geographical area and to remove short-term intra group indebtedness from the territories, in line with cash.

3. Turnover, cost of sales, gross profit and net operating expenses

	2004 £000	2003 £000
Turnover	151,775	129,109
Cost of sales	50,099	42,592
Gross profit	101,676	86,517
Selling and distribution costs	45,035	37,996
Administrative costs	36,972	31,257
Other operating income - royalty income	(186)	(197)
Net operating expenses	81,821	69,056
Operating profit	19,855	17,461

NOTES TO THE FINANCIAL STATEMENTS continued

3. Turnover, cost of sales, gross profit and net operating expenses (continued)

	2004 £000	2003 £000
Administrative costs include:		
Design and development costs	3,549	3,725
New business development costs	3,085	2,531
Other administrative costs	30,338	25,001
Total administrative costs	36,972	31,257

4. Directors' emoluments

	2004 £000	2003 £000
Aggregate emoluments and benefits	2,039	1,616
Pension contributions	51	45
	2,090	1,661

Further information relating to directors' emoluments, shareholdings and share options are disclosed in the audited section of the remuneration report on pages 22 to 23.

5. Employee information

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

	2004 Number	2003 Number
Production	349	372
Selling and distribution :		
Full time	1,517	1,319
Key time *	825	779
Administration	486	402
	3,177	2,872

* Key time employees are employed in our Hobby stores and typically work a 20 hour week.

	2004 £000	2003 £000
Staff costs (for the above persons)		
Wages and salaries	47,540	41,378
Social security costs	5,793	4,437
Other pension costs	1,117	863
	54,450	46,678

6. Interest payable and similar charges

	2004 £000	2003 £000
On bank loans and overdrafts	402	270
On finance leases and hire purchase contracts	9	4
Other	16	-
	427	274

7. Profit on ordinary activities before taxation

	2004 £000	2003 £000
Profit on ordinary activities before taxation is stated after charging:		
Amortisation		
goodwill	366	457
own shares	-	121
Depreciation		
tangible owned fixed assets	5,958	5,689
tangible fixed assets under finance leases and hire purchase contracts	122	20
Operating leases		
property	8,935	7,388
plant and equipment	384	242
other	121	115
Auditors' remuneration for audit services	226	198
Auditors' remuneration for non-audit services		
taxation services - compliance	33	23
taxation services - advisory	178	109
further assurance services	21	60

8. Taxation on profit on ordinary activities

	2004 £000	2003 £000
Current taxation		
UK corporation tax	4,716	6,341
Over provision in respect of prior years	(306)	(1,137)
Overseas taxation	4,410	5,204
Total current taxation	2,193	1,844
Origination and reversal of timing differences	642	(578)
Taxation on profit on ordinary activities	7,245	6,470

	2004 £000	2003 £000
Profit on ordinary activities before taxation	19,573	17,452
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	5,872	5,236
Effects of:		
Expenses not deductible for tax purposes	(211)	402
Movement in deferred tax not recognised	1,182	1,515
Origination and reversal of timing differences	(222)	578
Losses attributable to minority interests	218	168
Higher tax rates on overseas earnings	208	167
Adjustments to tax charge in respect of previous years	(444)	(1,018)
Current tax charge for the year	6,603	7,048

NOTES TO THE FINANCIAL STATEMENTS continued

9. Profit for the financial year

As permitted by section 230 of the Companies Act 1985, the Company's profit and loss account has not been included in these financial statements. Of the profit for the financial year, £11.4 million (2003: £7.4 million) is attributable to the Company, after including dividends from subsidiary companies of £18.3 million (2003: £13.0 million).

10. Dividends

	2004 £000	2003 £000
Interim paid of 4.725 pence per share (2003: 4.5 pence)	1,444	1,335
Final proposed of 14.025 pence per share (2003: 12.500 pence)	4,290	3,759
Under/(over) provision in respect of prior years	15	(8)
	5,749	5,086

11. Earnings per ordinary share

The calculation of basic earnings per ordinary share has been based on profit for the year of £12.3 million (2003: £11.0 million) and the weighted average number of shares in issue throughout the year.

The calculation of diluted earnings per ordinary share has been based on profit for the year 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.

	2004	2003
Weighted average number of shares:		
For basic earnings per ordinary share	30,223,087	29,689,168
Dilution effect of share options outstanding	495,036	600,302
For diluted earnings per ordinary share	30,718,123	30,289,470

12. Goodwill

£000

Group

Cost

At 2 June 2003	4,217
Exchange adjustments	(452)

At 30 May 2004 **3,765**

Amortisation

At 2 June 2003	1,027
Charge for the year	366
Exchange adjustments	(91)

At 30 May 2004 **1,302**

Net book value at 30 May 2004 **2,463**

Net book value at 1 June 2003 3,190

The Company had no goodwill at either year end.

13. Tangible fixed assets

	Freehold land and buildings £000	Long leasehold premises £000	Short leasehold premises £000	Plant & equipment & vehicles £000	Fixtures and fittings £000	Moulding tools £000	Total £000
Group							
Cost							
At 2 June 2003	639	5,876	597	12,659	14,219	7,453	41,443
Exchange adjustments	-	-	(44)	(453)	(790)	-	(1,287)
Additions	5,124	-	112	4,396	3,834	1,290	14,756
Disposals	-	-	-	(217)	(250)	-	(467)
Reclassifications	5,876	(5,876)	(50)	1	49	-	-
At 30 May 2004	11,639	-	615	16,386	17,062	8,743	54,445
Depreciation							
At 2 June 2003	87	1,023	335	7,330	9,334	5,711	23,820
Exchange adjustments	-	-	(25)	(251)	(425)	-	(701)
Charge for the year	19	161	73	2,745	2,131	951	6,080
Eliminated in respect of disposals	-	-	-	(170)	(211)	-	(381)
Reclassifications	1,184	(1,184)	(25)	(16)	41	-	-
At 30 May 2004	1,290	-	358	9,638	10,870	6,662	28,818
Net book value at 30 May 2004	10,349	-	257	6,748	6,192	2,081	25,627
Net book value at 1 June 2003	552	4,853	262	5,329	4,885	1,742	17,623

The net book value of tangible fixed assets includes an amount of £367,000 (2003: £nil) in respect of assets held under finance leases. The depreciation charged on these assets was £122,000 (2003: £20,000). Freehold land amounting to £3,841,000 (2003: £341,000) has not been depreciated.

During the year the freehold interest of the core Nottingham site was acquired. Accordingly the related fixed assets have been reclassified from long leasehold premises to freehold land and buildings.

Assets in the course of construction, and not depreciated, amount to £2,588,000 (2003: £nil).

The Company held no tangible fixed assets at either year end.

14. Fixed asset investments

	Group		Company	
	2004 £000	2003 £000	2004 £000	2003 £000
Cost				
Subsidiary undertakings – equity	-	-	30,281	27,867
Own shares	-	-	-	-
	-	-	30,281	27,867

The increase in equity investments of £2.4 million relates to the recapitalisation of Games Workshop America, Inc.

NOTES TO THE FINANCIAL STATEMENTS continued

14. Fixed asset investments (continued)

Interests in group undertakings

The directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length. The following information relates to those subsidiary undertakings whose results or financial position, in the opinion of the directors, principally affect the Group.

Name of undertaking	Country of incorporation or registration	Description of shares held	Proportion of nominal value of issued shares held by:		Principal business activity
			Company	Subsidiary company	
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 Tooling Limited	England and Wales	£1 ordinary	100%		Manufacturer of tools for injection moulding
Games Workshop International Limited	England and Wales	£1 ordinary	100%		Holding company for overseas subsidiary companies
Warhammer Online Limited	England and Wales	£1 ordinary		71.25%	Developer of online games

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

Own shares

	Cost £000	Amortisation £000	Total £000
Group and Company			
At 2 June 2003	1,011	(1,011)	-
Amortisation	-	-	-
At 30 May 2004	1,011	(1,011)	-

The Company operates a long-term incentive plan for the senior management of the Group. An Employee Share Ownership Plan (ESOP), in the form of a discretionary trust, has been established to facilitate the operation of the incentive scheme. Details of the scheme are given in the remuneration report above. The number and market value of the ordinary shares held by the ESOP at 30 May 2004 was 260,492 (2003: 260,492) and £1,691,000 (2003: £1,424,000) respectively. Dividends have been waived on these shares.

15. Stocks

	2004 £000	2003 £000
Group		
Raw materials and consumables	1,959	1,636
Finished goods and goods for resale	10,143	10,860
	12,102	12,496

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

The Company held no stocks at either year end.

16. Debtors

	Group		Company	
	2004 £000	2003 £000	2004 £000	2003 £000
Amounts falling due within one year				
Trade debtors	8,598	7,499	-	-
Amounts owed by group undertakings	-	-	9,751	8,018
Other debtors	858	532	42	51
Prepayments and accrued income	2,041	2,215	11	61
Deferred taxation	824	1,572	86	720
	12,321	11,818	9,890	8,850
Amounts falling due after more than one year				
Amounts owed by group undertakings	-	-	-	252
Other debtors	267	328	-	-
Deferred taxation	1,024	1,066	12	7
	1,291	1,394	12	259
Total	13,612	13,212	9,902	9,109

Deferred taxation

Deferred tax can be analysed over the following timing differences:

	Group		Company	
Recognised	2004 £000	2003 £000	2004 £000	2003 £000
Accelerated depreciation	972	1,066	12	7
Short-term timing differences	824	1,572	86	720
Tax losses	52	-	-	-
	1,848	2,638	98	727
Unrecognised	2004 £000	2003 £000	2004 £000	2003 £000
Tax losses	3,475	2,107	-	-
Short-term timing differences	360	-	-	-
	3,835	2,107	-	-

No deferred tax asset has been recognised on unrelieved tax losses in certain countries due to the uncertainty at the balance sheet date as to their recovery over the next 12 months.

NOTES TO THE FINANCIAL STATEMENTS continued

17. Creditors: amounts falling due within one year

	Group		Company	
	2004 £000	2003 £000	2004 £000	2003 £000
Obligations under finance leases	161	-	-	-
Bank overdraft	-	-	-	3,406
Trade creditors	5,663	7,353	3	785
Amounts owed to group undertakings	-	-	4,135	5,263
Corporation tax	2,661	4,402	-	-
Other taxation and social security	2,373	1,984	93	74
Other creditors	1,451	1,353	20	11
Accruals and deferred income	9,959	9,484	1,292	1,577
Proposed dividend	4,290	3,759	4,290	3,759
	26,558	28,335	9,833	14,875

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

	Group		Company	
	2004 £000	2003 £000	2004 £000	2003 £000
Obligations under finance leases	204	-	-	-
Other creditors	93	-	-	-
Accruals and deferred income	491	16	-	-
	788	16	-	-

Analysis of borrowings

Secured

Finance leases

365

-

-

-

Unsecured

Uncommitted floating rate overdraft facility

-

-

-

3,406

365

-

-

3,406

Repayable:

Within 1 year or less or on demand

161

-

-

3,406

Between 1 and 2 years

203

-

-

-

Between 2 and 5 years

1

-

-

-

365

-

-

3,406

19. Financial instruments

The Group's treasury policy is explained in the financial review above.

Short-term debtors and creditors

Short-term debtors and creditors have been excluded from all of the following disclosures, other than the currency risk disclosures.

Interest rate risk and maturity profile of financial liabilities and borrowing facilities

The Group has sterling drawings of £nil (2003: £nil) against a revolving credit facility of £10 million at 30 May 2004. This facility, which is available until 30 September 2007, is unsecured. The covenants are based upon interest cover and gearing and have been complied with during the year. Interest is accrued monthly at a floating rate.

The Group also has sterling uncommitted floating rate overdraft facilities of £5 million (2003: £5 million) available at 30 May 2004.

Financial liabilities include finance lease obligations that accrue a fixed rate of interest (sterling liability at 2%: £313,000, US dollar liability at 4%: £52,000).

The maturity profile of the Group's financial liabilities is disclosed in note 18 above.

19. Financial instruments (continued)

Interest rate risk profile of financial assets

The Group's cash at bank and in hand balance can be analysed as follows:

	2004 £000	2003 £000
Sterling	(4,211)	1,034
US dollar	1,920	1,705
EU currencies (other than sterling)	8,895	7,034
Other currencies	1,966	1,955
	8,570	11,728

The above cash balances earn interest at short-term floating rates available locally.

Currency exposure

The following table shows the extent to which group companies have external net monetary assets and liabilities in currencies other than their operating currency.

As at 30 May 2004 these external monetary assets and liabilities were as follows:

Functional currency of group operation	Sterling £000	US dollar £000	EU currencies (other than sterling) £000	Other currencies £000	Total £000
Sterling	-	427	5,318	1,835	7,580
US dollar	(17)	-	241	-	224
EU currencies (other than sterling)	130	3	-	-	133
	113	430	5,559	1,835	7,937

At 1 June 2003 these external monetary assets and liabilities were as follows:

Functional currency of group operation	Sterling £000	US dollar £000	EU currencies (other than sterling) £000	Other currencies £000	Total £000
Sterling	-	970	3,923	1,134	6,027
EU currencies (other than sterling)	(219)	8	-	-	(211)
Other currencies	-	-	-	146	146
	(219)	978	3,923	1,280	5,962

Fair values of financial assets and liabilities

There are no differences between the book values and the fair values of financial assets and liabilities.

Gains and losses on hedges

As explained in the financial review the principal financial exposure to the Group is movements in exchange rates. The Group's transactional exposure on trading cash flows settled in non-sterling currencies is managed through the use of forward currency contracts covering a prospective period of 12 months rolling.

Under the Group's accounting policy, foreign currency assets which are hedged using forward foreign currency contracts are translated into sterling at the forward rate inherent in the contracts. Consequently, the carrying value of the relevant asset effectively includes the gain or loss on the hedging instrument. Such gains and losses are treated as recognised for the purpose of the table below.

NOTES TO THE FINANCIAL STATEMENTS continued

19. Financial instruments (continued)

The following table shows the extent to which the Group has unrecognised net gains and losses in respect of forward foreign currency contracts used as hedges:

	2004 £000	2003 £000
Unrecognised losses at 2 June 2003	(468)	(135)
Losses arising in previous years that were recognised in 2003/4	468	135
Losses/(gains) arising before 2 June 2003 that were not recognised	-	-
Gains arising in 2003/4 that were not recognised in 2003/4	1,096	-
Unrecognised gains on hedges at 30 May 2004	1,096	-
Unrecognised losses on hedges at 1 June 2003	-	(468)
Of which gains expected to be recognised in 2004/5	1,096	-
Of which losses expected to be recognised in 2003/4	-	(468)

Gains recognised in the current year in respect of foreign currency contracts were £1,183,000 (2003: losses £893,000).

Financial instruments held for trading purposes

The Group does not trade in financial instruments.

20. Provisions for liabilities and charges

	Bonus and incentive £000	Property £000	Total £000
Group			
At 2 June 2003	1,232	493	1,725
Charged to the profit and loss account	466	39	505
Paid	(1,306)	-	(1,306)
At 30 May 2004	392	532	924
		Bonus and incentive £000	
Company			
At 2 June 2003			1,232
Charged to the profit and loss account			466
Paid			(1,306)
At 30 May 2004			392

The bonus and incentive provision, at 30 May 2004, relates to the long-term incentive plan which will be utilised from May 2005 being the start of the exercise period for the last awards made from the plan.

The property provision relates to onerous lease commitments and will diminish over the lives of the underlying leases.

21. Called up share capital

	2004 £000	2003 £000
Authorised 42,000,000 ordinary shares of 5p each	2,100	2,100
Allotted, called up and fully paid 30,847,240 (2003: 30,069,696) ordinary shares of 5p each	1,542	1,503

During the year 264,984 ordinary shares of 5p were issued for £1,834,732 under the Games Workshop Group PLC 1995 Sharesave Scheme, 72,984 ordinary shares were issued for £83,087 under the Games Workshop Group PLC International Sharesave Scheme, 337,279 ordinary shares were issued for £1,804,416 under the Games Workshop Group PLC 1994 Executive Share Option Scheme and 102,297 ordinary shares were issued for £300,179 under the Games Workshop Group PLC 1994 Worldwide Executive Share Option Scheme.

22. Options in shares of Games Workshop Group PLC

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

Date granted	No of shares	Exercise price	Exercise dates
28 September 1994	9,462	115p	Sep 1997 to Sep 2004
17 September 1996	5,000	463p	Sep 1999 to Sep 2006
17 September 1997	57,956	687.5p	Sep 2000 to Sep 2004
17 September 1997	22,360	687.5p	Sep 2002 to Sep 2004
24 August 1999	6,522	460p	Aug 2002 to Aug 2006
24 August 1999	13,044	460p	Aug 2002 to Aug 2009
4 October 1999	28,866	394p	Nov 2004 to Apr 2005
21 August 2000	14,184	141p	Aug 2003 to Aug 2007
21 August 2000	35,460	141p	Aug 2003 to Aug 2010
31 July 2001	7,946	392.5p	July 2004 to July 2008
3 October 2001	104,986	338p	Nov 2004 to Apr 2005
26 July 2002	12,869	-	June 2004 to July 2007
3 October 2002	105,833	335p	Nov 2005 to Apr 2006
25 July 2003	284,690	-	June 2005 to July 2008
30 September 2003	98,905	580p	Nov 2006 to Apr 2007
	808,083		

23. Reserves

	Capital redemption reserve £000	Profit and loss account £000	Share premium £000
Group			
At 2 June 2003	101	25,301	1,267
Exchange adjustments	-	(2,012)	-
Profit retained for the financial year	-	6,580	-
Issue of ordinary share capital	-	(2,659)	3,984
At 30 May 2004	101	27,210	5,251
Company			
At 2 June 2003	101	9,970	9,295
Profit retained for the financial year	-	5,617	-
Issue of ordinary share capital	-	-	3,984
At 30 May 2004	101	15,587	13,279

The cumulative amount of goodwill written off against the Group's profit and loss account reserve is £1,159,000 (2003: £1,159,000).

NOTES TO THE FINANCIAL STATEMENTS continued

24. Equity minority interests

	£000
At 2 June 2003	1
Net loss on ordinary activities after taxation	(827)
Provision against minority loss	826
At 30 May 2004	-

25. Reconciliation of movements in equity shareholders' funds

	2004 £000	2003 £000
Group		
Profit for the financial year	12,329	10,982
Dividends	(5,749)	(5,086)
	6,580	5,896
Issue of new share capital	1,364	399
Own shares purchased/cancelled	-	(443)
Other recognised gains and losses	(2,012)	95
Opening equity shareholders' funds	28,172	22,225
Closing equity shareholders' funds	34,104	28,172

26. Capital commitments

The Group had capital commitments of £827,000 (2003: £79,000). The Company had no capital commitments at either year end.

27. Financial commitments

The Group had annual commitments under non-cancellable operating leases as follows:

	Land and buildings 2004 £000	Other 2004 £000	Land and buildings 2003 £000	Other 2003 £000
Expiring within 1 year	1,119	425	1,144	271
Expiring between 2 and 5 years inclusive	4,722	283	4,727	286
Expiring in over 5 years	2,420	-	2,250	-
	8,261	708	8,121	557

The Company had no financial commitments at either year end.

28. Contingent liabilities

The Group and Company had no contingent liabilities at either year end.

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

29. Post balance sheet event

Warhammer Online

A decision to terminate the venture was taken on 21 June 2004. The Group's accounting policy is to write off 100% of the development costs in respect of this activity. The costs of termination will be accounted for in the results for the year ending 29 May 2005.

FIVE YEAR SUMMARY

	2004	2003	2002	2001	2000
	£000	£000	£000	£000	£000
Turnover	151,775	129,109	108,557	92,634	77,993
Pre-exceptional operating profit	19,855	17,461	13,505	11,235	10,037
Exceptional item - restructuring costs	-	-	-	(1,857)	(3,374)
Operating profit	19,855	17,461	13,505	9,378	6,663
Interest receivable	145	265	253	483	390
Interest payable and similar charges	(427)	(274)	(235)	(496)	(508)
Profit on ordinary activities before taxation	19,573	17,452	13,523	9,365	6,545
Taxation	(7,245)	(6,470)	(4,935)	(3,609)	(2,983)
Profit on ordinary activities after taxation	12,328	10,982	8,588	5,756	3,562
Equity minority interests	1	-	-	-	-
Profit for the financial year	12,329	10,982	8,588	5,756	3,562
Dividends	(5,749)	(5,086)	(3,816)	(3,288)	(3,100)
Profit retained for the financial year	6,580	5,896	4,772	2,468	462
Basic earnings per ordinary share	40.8p	37.0p	28.2p	18.4p	11.4p
Pre-exceptional earnings per ordinary share	40.8p	37.0p	28.2p	22.8p	20.2p

FINANCIAL CALENDAR

Annual general meeting	16 September 2004
Final ordinary dividend payable	29 October 2004
Announcement of interim results	January 2005
Interim ordinary dividend payable	April 2005
Financial year end	29 May 2005
Announcement of results	July 2005

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 16 September 2004 for the following purposes:

Ordinary business

Resolution 1

To receive the report of the directors and the audited financial statements for the Company and the auditor's report thereon for the year ended 30 May 2004.

Resolution 2

To declare a final dividend of 14.025 pence per share on the ordinary shares of the Company.

Resolution 3

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

Resolution 4

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

Resolution 5

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

Resolution 6

To approve the remuneration report for the year ended 30 May 2004.

Special business

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

Resolution 7

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 15 December 2005 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 £514,120 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 8

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 £77,118,

and shall expire at the conclusion of the next annual general meeting of the Company or on 15 December 2005, 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 9

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 15 December 2005 whichever is the earlier;
- (b) the maximum number of ordinary shares shall be limited to 4,596,238 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
26 July 2004

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 14 September 2004 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 14 September 2004 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

APPENDIX 1

Chairman's preamble from the 2002 annual report

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

APPENDIX 2

Chairman's preamble from the 2003 annual report

Niche markets

Last year I wrote about how our business works. That piece is reprinted at appendix 1 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.

APPENDIX 2 continued

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.

To decide whether we are good custodians of your money I think it is useful to look at the chart on page 10 which shows the returns we are earning on the investments we are making on your behalf.

Non-executive directors

I have learnt over the years just how valuable good non-executive 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.

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