

Registered no: 1467092

Games Workshop Limited
Annual report
for the year ended 31 May 1998



Games Workshop Limited

Annual report and accounts for the year ended 31 May 1998

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Directors' report for the year ended 31 May 1998

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

Principal activities

The principal activities of the Company are the manufacture of miniature metal figures and games and retail and wholesale distribution of these products.

Business review

Both the level of business and the year end financial position were satisfactory and the directors expect the present level of activity will continue in the foreseeable future.

Dividends

The directors have declared and paid an interim ordinary dividend of £14.40 per share (1997: £28.80 per share) and a final ordinary dividend of £28.80 per share (1997: £Nil per share) in respect of the year ended 31 May 1998.

Employees

The company'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 company's performance.

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

The company'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 for their aptitudes and abilities.

Directors

The directors of the company, who held office during the year were as follows:

T H F Kirby (resigned 1 June 1998)
T J M Wilson
J A J Stallard
S A Godber
N D Green (appointed 9 February 1998)

N P Fleming was appointed a director on 1 June 1998.

Directors' interests

None of the directors at 31 May 1998 had an interest in the shares of the company. The interests of all the directors except T J M Wilson and N D Green in the shares of the ultimate holding company are shown in the financial statements of that company.

N D Green has no interest in the shares of the ultimate holding company.

The interests of T J M Wilson in the shares of the ultimate holding company are as follows:

	As at 31 May 1998	As at 1 June 1997		
	No	No		
Ordinary shares of 5p each	9,288	11,488		
Options	Exercise dates			
	As at 1 June 1997 and 31 May 1998	Commence- ments	Expiry	Exercise price
	No			
	3,538	Nov 2000	Apr 2001	195p
	2,982	Nov 2001	Apr 2002	347p
	5,000	Sept 1999	Sept 2006	463p
	3,154	Aug 1998	Aug 2005	208p

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

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 as at the end of the financial year and of the profit or loss of the company for that period.

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

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

Year 2000

During the year to 31 May 1998 the Company established a Year 2000 compliance programme to address the issues arising as a result of the Millennium date. Progress towards compliance is subject to regular reviews by the board of directors and includes co-operation with both key suppliers and customers.

All business critical systems are planned to be compliant by mid 1999. The directors best estimate of these costs where they exceed existing system renewal plans, is less than £60,000.

Creditor payment policy

The company's current policy concerning the payment of the majority of its trade creditors is to follow the CBI's Prompt Payers Code. For other suppliers, the company's policy is to:

- settle the terms of payment with those suppliers when agreeing the terms of each transaction;
- ensure that those suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
- pay in accordance with its contractual and other legal obligations.

The payment policy applies to all payments of creditors for revenue and capital supplies of goods and services without exception.

The number of days credit taken by the company from its suppliers at the year end is 46 days (1997: 48 days).

Taxation status

The company was not a close company within the provisions of the Income and Corporation Taxes Act 1988 and this position has not changed since the end of the financial year.

Auditors

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

By order of the board



T J M Wilson
Director

**Report of the auditors to the members of
Games Workshop Limited**

We have audited the financial statements on pages 6 to 19 which have been prepared under the historical cost convention modified by the revaluation of certain investments, and the accounting policies set out on pages 8 to 10.

Respective responsibilities of directors and auditors

As described on page 3 the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

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



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Nottingham
11 August 1998

Profit and loss account for the year ended 31 May 1998

	Notes	Year to 31 May 1998 £'000	Year to 1 June 1997 £'000
Turnover	2	37,876	37,860
Cost of sales		(13,811)	(16,891)
Gross profit		24,065	20,969
Net operating expenses	3	(16,854)	(14,296)
Operating profit on ordinary activities before taxation		7,211	6,673
Royalty income		2,362	331
Operating profit		9,573	7,004
Interest payable and similar charges	6	(325)	(37)
Interest receivable		47	105
Profit on ordinary activities before taxation	7	9,295	7,072
Taxation on profit on ordinary activities	8	(2,849)	(2,501)
Profit for the financial year		6,446	4,571
Dividends	9	(6,000)	(4,000)
Retained profit for the financial year	17	446	571

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

The company has no recognised gains and losses other than the profits above and therefore no separate statement of total recognised gains and losses has been presented.

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

**Balance sheet
at 31 May 1998**

	Notes	As at 31 May 1998 £'000	As at 1 June 1997 £'000
Fixed assets			
Tangible assets	10	10,769	7,541
Current assets			
Stocks	11	6,464	3,179
Debtors	12	9,984	3,962
Cash at bank and in hand		791	1,794
		<u>17,239</u>	<u>8,935</u>
Creditors: amounts falling due within one year	13	<u>18,381</u>	<u>9,765</u>
Net current liabilities		<u>(1,142)</u>	<u>(830)</u>
Total assets less current liabilities		<u>9,627</u>	<u>6,711</u>
Creditors: amounts falling due after more than one year	14	<u>2,775</u>	<u>260</u>
Net assets		<u><u>6,852</u></u>	<u><u>6,451</u></u>
Capital and reserves			
Called up share capital	16	139	139
Revaluation reserve	17	213	217
Profit and loss account	17	6,500	6,095
Equity shareholder's funds	18	<u><u>6,852</u></u>	<u><u>6,451</u></u>

The financial statements on pages 6 to 19 were approved by the board of directors on 11 August 1998 and were signed on its behalf by:

T. Wilson

T J M Wilson
Director

**Notes to the financial statements
for the year ended 31 May 1998****1 Principal accounting policies**

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

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention modified by the revaluation of certain investments. The company has four subsidiaries, Marauder Miniatures Ltd and Warhammer Historical Wargames Ltd which in the opinion of the directors are not material and therefore consolidated financial statements have not been prepared in accordance with the exemption allowed by section 229 (2) of the Companies Act 1985, and Games Workshop Deutschland Ltd and Games Workshop Retail Ltd which are included within the consolidated financial statements of Games Workshop Group PLC.

Development expenditure

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

Basis of preparation

These financial statements present information about the company as an individual undertaking and not about its group. The company has taken advantage of the exemption from preparing group accounts under the provisions of Section 228 of the Companies Act 1985.

Cash flow

The company is a wholly owned subsidiary of Games Workshop Group PLC and the cash flows of this company and its subsidiaries are included in the consolidated group cash flow statement of Games Workshop Group PLC. Consequently, the company is exempt under the terms of Financial Reporting Standard No 1 (Revised 1996) from publishing a cashflow statement.

Segmental information

Segmental information does not wholly comply with the provisions of Statement of Standard Accounting Practice No 25 as in the opinion of the directors it would be seriously prejudiced to the interests of the business.

All of the turnover and profit on ordinary activities of the company originates from production facilities in the United Kingdom.

Tangible fixed assets

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

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

	%
Freehold buildings	2
Plant and machinery	20 - 50
Motor vehicles	33
Fixtures and fittings	20 - 33
Moulding tools	25

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

Operating leases and hire purchase contracts

Costs in respect of operating leases including any benefits received as an incentive to sign a lease, are charged on a straight line basis over the lease term. Hire purchase contracts which transfer to the company substantially all the benefits and risks of ownership of an asset, are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the hire purchase commitment is shown as obligations under hire purchase contracts. The capital element of the payment is applied to reduce the outstanding obligations and the interest element is charged against profit in proportion to the reducing capital element outstanding.

Stocks and work in progress

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

Foreign currencies

Assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year and transactions are recorded at the rate of exchange on the date of the transaction. Differences are taken to the profit and loss account in the year in which they arise.

Turnover

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

Deferred taxation

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

Pension costs

Contributions are made to the Games Workshop Group PLC group personal pension plan. The contributions are charged to the profit and loss scheme as they accrue.

2 Geographical analysis

Turnover

	1998 £'000	1997 £'000
By geographical area of destination		
United Kingdom	21,803	21,282
North America	3,591	2,949
Continental Europe	11,025	11,040
Australasia	1,045	1,886
Other	412	703
	<u>37,876</u>	<u>37,860</u>

3 Net operating expenses

	1998 £'000	1997 £'000
Selling and distribution costs	13,902	10,676
Administrative costs	1,113	1,856
Design and development costs	1,839	1,764
	<u>16,854</u>	<u>14,296</u>

4 Remuneration of directors

The aggregate emoluments of all the directors except T J M Wilson and N D Green are disclosed in the financial statements of Games Workshop Group PLC, the ultimate parent company.

	1998 £'000	1997 £'000
Aggregate emoluments	<u>61</u>	<u>45</u>
Company pension contributions to money purchase schemes	<u>3</u>	<u>2</u>

Retirement benefits are accruing to two directors (1997: one director) under the Group's money purchase pension plan. As noted above, the pension contributions of all the directors except T J M Wilson and N D Green are disclosed in the financial statements of Games Workshop Group PLC, the ultimate parent company.

5 Employee information

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

	1998 No	1997 No
Production	360	289
Selling and distribution	556	433
Administration	61	41
	<u>977</u>	<u>763</u>

	1998 £'000	1997 £'000
Staff costs (for the above persons)		
Wages and salaries	10,878	8,329
Social security costs	744	541
Other pension costs	174	138
	<u>11,796</u>	<u>9,008</u>

6 Interest payable and similar charges

	1998 £'000	1997 £'000
On bank loans and overdrafts	174	37
Other interest	-	-
Discount on convertible loan stock	151	-
	<u>325</u>	<u>37</u>

7 Profit on ordinary activities before taxation

	1998 £'000	1997 £'000
Profit on ordinary activities is stated after charging/(crediting):		
Profit on disposal of fixed assets	(99)	(25)
Depreciation		
Tangible owned fixed assets	1,666	1,431
Tangible fixed assets under hire purchase contracts	10	6
Operating leases		
Property	2,075	1,901
Other	198	162
Auditors' remuneration		
Audit	27	30
Non-audit	12	5
Group management charge (net)	105	-
	<u>105</u>	<u>-</u>

8 Taxation on profit on ordinary activities

	1998 £'000	1997 £'000
United Kingdom corporation tax at 31% (1997: 32.7%)		
Current	2,247	1,900
Under/(over) provision in respect of prior years	130	(128)
	<u>2,377</u>	<u>1,772</u>
Amounts due to Group Companies in respect of Group relief surrendered	472	729
	<u>472</u>	<u>729</u>
	<u>2,849</u>	<u>2,501</u>

9 Dividends

	1998	1997
	£'000	£'000
Ordinary		
Interim paid of £14.40 per share (1997: £28.80 per share)	2,000	4,000
Final paid of £28.80 per share (1997: £Nil per share)	4,000	-
	<u>6,000</u>	<u>4,000</u>

10 Tangible fixed assets

	Freehold land and buildings £'000	Long leasehold land and buildings £'000	Short leasehold premises £'000	Plant & equipment & vehicles £'000	Fixtures and fittings £'000	Moulding tools £'000	Total £'000
Cost or valuation							
At 1 June 1997	1,139	3,776	103	2,886	2,085	1,914	11,903
Additions	-	2,509	-	1,038	876	891	5,314
Disposals	(73)	-	(6)	(407)	(24)	-	(510)
Group transfers	-	-	-	10	-	-	10
Reclassifications	(20)	-	-	11	9	-	-
At 31 May 1998	1,046	6,285	97	3,538	2,946	2,805	16,717
Depreciation							
At 1 June 1997	174	-	103	1,835	1,212	1,038	4,362
Charge for the year	25	99	-	571	667	314	1,676
Group transfers	-	-	-	8	-	-	8
Disposals	(5)	-	(6)	(350)	(21)	-	(382)
Utilisation of write down provision	240	-	-	14	30	-	284
At 31 May 1998	434	99	97	2,078	1,888	1,352	5,948
Net book value at 31 May 1998	612	6,186	-	1,460	1,058	1,453	10,769
Net book value at 1 June 1997	965	3,776	-	1,051	873	876	7,541

In 1998 the net book value of tangible fixed assets included an amount of £27,783 in respect of assets held under hire purchase contracts. The depreciation charged on these assets was £9,589.

Certain freehold land and buildings were valued independently in December 1991 at £400,000 on the basis of open market value for existing use.

If land and buildings had not been revalued they would have been included at the following amounts:

	1998 £'000	1997 £'000
Cost	861	934
Aggregate depreciation based on cost	(442)	(178)
	<u>419</u>	<u>756</u>

11 Stocks

	1998 £'000	1997 £'000
Raw materials and consumables	2,328	1,508
Finished goods and goods for resale	4,136	1,671
	<u>6,464</u>	<u>3,179</u>

12 Debtors

	1998 £'000	1997 £'000
Amounts falling due within one year		
Trade debtors	2,786	2,594
Other debtors	289	387
Amounts owed by group undertakings	6,437	437
Prepayments and accrued income	29	94
	<u>9,541</u>	<u>3,512</u>
Amounts falling due after more than one year		
ACT recoverable	443	450

13 Creditors: amounts falling due within one year

	1998 £'000	1997 £'000
Bank loans	26	114
Bank overdrafts	4,826	-
Obligations under hire purchase contracts	26	9
Trade creditors	3,210	3,706
Corporation tax payable	1,884	1,782
Other taxation and social security	687	648
Other creditors and accruals	1,102	2,153
Amounts owed to group undertakings	6,620	1,353
	<u>18,381</u>	<u>9,765</u>

14 Creditors: amounts falling due after more than one year

	1998 £'000	1997 £'000
Bank loans	209	235
Obligations under hire purchase contracts	-	25
Amounts owed to group undertakings	2,566	-
	<u>2,775</u>	<u>260</u>

Amounts owed to group undertakings relates to £3,900,000 unsecured convertible redeemable loan stock 1997 - 2002 issued in the year at a discount of £1.3million. The loan stock is repayable on or at any time after 29 September 2002, and each holder is entitled to require the issuer to convert each £1 nominal value of loan stock into £1 shares.

Bank loans

	1998 £'000	1997 £'000
Repayable as follows:		
In one year or less	26	114
Between one and two years	28	26
Between two and five years	99	166
In five years or more	82	43
	<u>235</u>	<u>349</u>

Finance leases

The net hire purchase obligations to which the company are committed are:

	1998 £'000	1997 £'000
In one year or less	26	9
Between one and two years	-	25
	<u>26</u>	<u>34</u>

15 Provisions for liabilities and charges

The company has had no potential liability for deferred taxation in 1998 and 1997.

16 Called up share capital

	1998 £'000	1997 £'000
Authorised 3,900,000 preference shares of £1 each	3,900	-
Authorised 1,000,000 ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
Allotted called up and fully paid 138,889 ordinary shares of £1 each	<u>139</u>	<u>139</u>

17 Reserves

	Profit and loss account £'000	Revaluation reserve £'000
At 1 June 1997	6,095	217
Exchange adjustments	(45)	-
Retained profit for the year	446	-
Transfer from revaluation reserve	4	(4)
At 31 May 1998	<u>6,500</u>	<u>213</u>

18 Reconciliation of movements in shareholders' funds

	1998 £'000	1997 £'000
Profit for the financial year	6,446	4,571
Dividends	(6,000)	(4,000)
	<u>446</u>	<u>571</u>
Exchange adjustments	(45)	16
Opening shareholders' funds	<u>6,451</u>	<u>5,864</u>
Closing shareholders' funds	<u><u>6,852</u></u>	<u><u>6,451</u></u>

19 Capital commitments

	1998 £'000	1997 £'000
Contracted but not provided for	<u>38</u>	<u>2,908</u>

20 Financial commitments

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

	Land and buildings 1998 £'000	Other 1998 £'000	Land and buildings 1997 £'000	Other 1997 £'000
Expiring within one year	57	48	120	31
Expiring between two and five years inclusive	342	98	399	103
Expiring in over five years	1,712	-	1,579	-
	<u>2,111</u>	<u>146</u>	<u>2,098</u>	<u>134</u>

21 Related party disclosures

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

22 Ultimate parent company

The directors regard Games Workshop Group PLC, a company registered in England and Wales, as the ultimate parent company. Games Workshop Group PLC has a 100% interest in the equity capital of Games Workshop Limited at 31 May 1998. Copies of the parent's consolidated financial statements may be obtained from:

The Secretary
Games Workshop Group PLC
Willow Road
Lenton
NOTTINGHAM
NG7 2WS