Company Registration No. 06979090 (England and Wales)

POTTERMORE LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

POTTERMORE LIMITED

COMPANY INFORMATION

Directors	N. Blair J. Hill J. Phillips T. Greene
Secretary	L. Hughes
Company number	06979090
Registered office	Devonshire House 1 Devonshire Street London W1W 5DR
Auditor	Citroen Wells Chartered Accountants Devonshire House 1 Devonshire Street London W1W 5DR

POTTERMORE LIMITED

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STRATEGIC REPORT

FOR THE YEAR ENDED 31 MARCH 2021

The directors present the strategic report for the year ended 31 March 2021.

Fair review of the business

Pottermore is the global digital publisher of the Harry Potter and Fantastic Beasts series as well as other digital audiobooks and eBooks from the Wizarding World. It leads the way in innovative digital publishing and brings new generations of readers together with long-standing fans, celebrating the stories that first began with the Boy Who Lived.

Pottermore Publishing continues to manage the digital publishing and on-line sales of the original Harry Potter series as well as *Harry Potter and the Cursed Child* playscript, the *Fantastic Beasts* screenplays and the Hogwarts Library Books. It also publishes digital non-fiction relating to the Wizarding World.

Wizarding World's digital channels continue to be managed through Wizarding World Digital LLC, a joint venture between Pottermore Inc and Warner Bros.

Summary

Pottermore Ltd had an exceptional year benefiting from a significantly increased appetite for digital reading, strong sales performance of the Harry Potter eBooks and digital audiobooks and continued investment in franchise planning in partnership with Warner Bros.

The company was proud to support the Harry Potter At Home campaign, a project delivered by Wizarding World Digital LLC, to support reading during lockdown. The foundation of this campaign saw celebrities from the Wizarding World and beyond each read a chapter from Harry Potter and the Philosopher's Stone out loud to a global audience. The chapter reads were made available free on wizardingworld.com. Pottermore Publishing also worked with partners such as Audible and Overdrive during this time to allow free access to the audio book and eBook of Harry Potter and the Philosopher's Stone in multiple languages.

Pottermore Publishing has continued to benefit from the open commerce strategy it initiated in 2015, making its content increasingly available globally through online retail and library partners such as Amazon, Apple, Audible, Google, Storytel, Bookbeat, Nextory, Overdrive and Hoopla.

Compared to the prior year, revenue increased to £40.4m (2020: £32.5m).

The company recorded a pre-tax profit of £9.5m (2020 restated: £3.8m) after paying out all royalty obligations delivering a 23% margin.

Financial performance

The company exceeded all target KPIs in the year to 31 March 2021.

Revenues of £40.4m (2020: £32.5m) reflect sales growth during the global lockdown.

Pottermore Publishing also continues to develop its language catalogue, releasing new audio editions of Harry Potter in Bulgarian, Brazilian-Portuguese, Castilian Spanish and Dutch and eBooks in Icelandic.

Cost of sales of £29.0m (2020 restated: £23.7m), including commissions and royalties, are a direct function of the mix of publishing sales in the year.

Administrative expenses at £3.5m (2020: £4.0m) were in line with expectations.

The resulting pre-tax profit is £9.5m and margin of 23% (2020 restated: £3.8m, 12%) after paying out royalty obligations.

A retrospective transfer pricing adjustment was agreed with HMRC in November 2021. This led to an increase to royalties paid by the company in the years to 31 March 2018, 2019, 2020 and 2021.

Current trading and outlook

Pottermore Publishing continues to drive sales of the core Harry Potter and Wizarding World digital publishing catalogue through innovative marketing, the development of new content and expansion into new markets and languages.

With global distribution now broadly established through the open commerce strategy, a decision was also taken to close Pottermore's online shop, with final sales recorded in September 2021.

Digital channels continue to be managed by Wizarding World Digital LLC through subsidiary Pottermore Inc. and Warner Bros.

Sales have continued to be solid, in-line with management expectations during the first half of the 2021/22 financial year. The current financial year to 31 March 2022 is set to deliver another profitable performance, though one more in-line with pre-pandemic trading.

Research and Development

Pottermore Publishing continues to invest in consumer and industry research to ensure products and distribution agreements align with future reading and listening habits as well as in infrastructure and systems to efficiently manage business processes from product concept through to sales and royalty reporting.

Principal risks and uncertainties

Management seek to adopt a low risk approach to all areas of the business.

Non-financial risks include brand and intellectual property protection. These risks are managed through digital file security processes and investment in anti-piracy services.

Credit risk

Risk is minimal as digital products are paid for prior to fulfilment. In relation to income from other business to business sources, all third parties are subject to verification procedures carried out by management to ensure agreements are made with reputable companies.

Foreign currency risk

Foreign currency is a key risk. Transaction currencies have been limited to GBP, USD and EUR. Funds payable in respect of commissions, royalties and expenses are maintained and paid for in the respective currencies to minimise any exposure to potential exchange losses on conversion of funds.

Where future foreign currency income is guaranteed, Pottermore purchases forward trades to minimise foreign exchange risk on receipt of funds and protect against fluctuations from budget rates.

Liquidity and cash flow risk

The directors consider the company to have sufficient available funds for operations and planned development. Cash flow forecasts and cash requirements are monitored closely, to ensure the company has sufficient liquid resources to meet the operating needs of the business.

Price risk

Various options are available in relation to the services required for the company's operating needs. These are regularly reviewed and authorised by management to ensure that the goods and services required are not obtained at a higher price than necessary.

On behalf of the board

N. Blair
Director
14 January 2022

POTTERMORE LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2021

The directors present their annual report and financial statements for the year ended 31 March 2021.

Principal activities
The principal activity of the company is that of digital publishing, including publishing and distributing eBooks and Digital Audio Books, online retail and digital channels.

Directors
The directors who held office during the year and up to the date of signature of the financial statements were as follows:

N. Blair
J. Hill
J. Phillips
T. Greene

Results and dividends
The results for the year are set out on page 8.

The directors do not recommend the payment of a final dividend.

Auditor
The auditor, Citroen Wells, is deemed to be reappointed under section 487(2) of the Companies Act 2006.

Statement of directors' responsibilities
The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with applicable accounting standards, identify those standards, and note the effect and the reasons for any material departure from those standards; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of disclosure to auditor

So far as the directors are aware, there is no relevant audit information of which the company's auditor is unaware. Additionally, the directors have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditor is aware of that information.

The company has chosen in accordance with Companies Act 2006, s. 414C(11) to set out in the company's strategic report information required by Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, Sch. 7 to be contained in the directors' report. It has done so in respect of an assessment of the assets, liabilities, financial position and profit or loss of the company, an indication of financial risk management objectives and policies, an indication of exposure to price risk, credit risk, liquidity risk and cash flow risk and important events occurring since the year end.

On behalf of the board

N. Blair
Director
14 January 2022

POTTERMORE LIMITED

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF POTTERMORE LIMITED

Opinion

We have audited the financial statements of Pottermore Limited (the 'company') for the year ended 31 March 2021 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of our audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report and the directors' report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The extent to which the audit was considered capable of detecting irregularities including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are those that relate to the reporting framework (FRS 102, the Companies Act 2006) and the relevant direct and indirect tax compliance regulation in the United Kingdom.
- We understood how the company is complying with those frameworks by making enquiries of management and seeking representations from those charged with governance. We corroborated our understanding by reviewing supporting documentation including board meeting minutes.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by considering the risk of management override of internal control and by designating revenue recognition as a fraud risk. We performed journal entry testing by specific risk criteria, with a focus on journals indicating large or unusual transactions based on our understanding of the business. We tested completeness of income through substantive tests performed, analytical review procedures and cut off tests on the revenue recognised.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved enquiries of management and those charged with governance, review of legal and professional expenses and review of board meeting minutes.
- The engagement partner ensured that the engagement team collectively had the appropriate competence, capabilities and skills to identify or recognise non-compliance with applicable laws and regulations.

A further description of our responsibilities is available on the Financial Reporting Council's website at: https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report
This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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.

Stephen Simou FCA (Senior Statutory Auditor)
For and on behalf of Citroen Wells

17 January 2022

Chartered Accountants
Statutory Auditor

Devonshire House
1 Devonshire Street
London
W1W 5DR

POTTERMORE LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2021

	Notes	2021 £'000	2020 as restated £'000
Revenue	2	40,369	32,522
Cost of sales		(28,959)	(23,719)
Gross profit		11,410	8,803
Administrative expenses		(3,495)	(3,966)
Operating profit	3	7,915	4,837
Investment income		43	125
Other gains and losses	6	1,494	(1,116)
Profit before taxation		9,452	3,846
Tax on profit	7	(1,801)	(716)
Profit for the financial year		7,651	3,130

The income statement has been prepared on the basis that all operations are continuing operations.

POTTERMORE LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2021

	Notes	£'000	2021 £'000	£'000	2020 as restated £'000
Fixed assets					
Intangible assets	**8**		175		334
Plant and equipment	**9**		6		29
			181		363
Current assets					
Trade and other receivables	**13**	7,711		7,705	
Cash at bank and in hand		43,290		28,269	
		51,001		35,974	
Current liabilities	**14**	(32,915)		(25,721)	
Net current assets			18,086		10,253
Total assets less current liabilities			18,267		10,616
Equity					
Retained earnings			18,267		10,616

The financial statements were approved by the board of directors and authorised for issue on 14 January 2022 and are signed on its behalf by:

N. Blair
Director

Company Registration No. 06979090

POTTERMORE LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2021

	Retained earnings £'000
As restated for the period ended 31 March 2020:	
Balance at 1 April 2019	12,894
Effect of prior year adjustment	(5,408)
As restated	7,486
Year ended 31 March 2020:	
Profit and total comprehensive income for the year	3,130
Balance at 31 March 2020	10,616
Year ended 31 March 2021:	
Profit and total comprehensive income for the year	7,651
Balance at 31 March 2021	18,267

POTTERMORE LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2021

	Notes	£'000	2021 £'000	£'000	2020 as restated £'000
Cash flows from operating activities					
Cash generated from operations	**20**		16,856		9,139
Income taxes paid			(1,878)		(2,009)
Net cash inflow from operating activities			14,978		7,130
Investing activities					
Purchase of intangible assets		-		(245)	
Interest received		43		125	
Net cash generated from/(used in) investing activities			43		(120)
Net increase in cash and cash equivalents			15,021		7,010
Cash and cash equivalents at beginning of year			28,269		21,259
Cash and cash equivalents at end of year			43,290		28,269

1 Accounting policies

Company information

Pottermore Limited is a private company limited by shares incorporated in England and Wales. The registered office is Devonshire House, 1 Devonshire Street, London, W1W 5DR. The business correspondence address is PO Box 7828, London, W1A 4GE.

1.1 Accounting convention

These financial statements have been prepared in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" ("FRS 102") and the requirements of the Companies Act 2006.

The financial statements are prepared in sterling, which is the functional currency of the company. Monetary a mounts in these financial statements are rounded to the nearest £.

The financial statements have been prepared on the historical cost convention, modified to include certain financial instruments at fair value. The principal accounting policies adopted are set out below.

The company has taken advantage of the exemption under section 405(2) of the Companies Act 2006 not to prepare consolidated accounts on the basis that the net assets of the subsidiary as at 31 March 2021 are not material.

Therefore, the financial statements present information about the company as an individual entity and not about its group.

1.2 Going concern

At the time of approving the financial statements, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus, the directors continue to adopt the going concern basis of accounting in preparing the financial statements.

1.3 Revenue

Revenue represents royalties, other fees and online retail sales receivable stated net of VAT. Royalties and other fees are recognised as earned, when and to the extent that, the company obtains the right to consideration in exchange for its performance under contracts.

Revenue from the sale of online retail sales is recognised when the significant risks and rewards of ownership or the rights for usage have passed to the buyer, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the company and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

1.4 Intangible fixed assets other than goodwill

Software costs are recognised at cost, and subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised so as to write off the cost of the asset less the residual value over the useful life of 3-5 years, starting from the date the intangible asset is brought into use.

1.5 Property, plant and equipment

Plant and equipment costing £2,000 or more are capitalised and are measured at cost or valuation, net of depreciation and any impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Fixtures, fittings and computer equipment	Straight line over 5 years

1 Accounting policies **(Continued)**

The gain or loss arising on the disposal of an asset is determined as the difference between the sale proceeds and the carrying value of the asset, and is credited or charged to profit or loss.

1.6 Non-current investments

Interests in subsidiaries are initially measured at cost and subsequently measured at cost less any accumulated impairment losses. The investments are assessed for impairment at each reporting date and any impairment losses or reversals of impairment losses are recognised immediately in profit or loss.

A subsidiary is an entity controlled by the company. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

As detailed in note 1.1 a subsidiary may be excluded from consolidation when its inclusion is not material for the purpose of giving a true and fair.

A subsidiary excluded from consolidation on these grounds and where the parent still exercises a significant influence over the subsidiary is treated as an associate using the equity method.

1.7 Impairment of non-current assets

At each reporting period end date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Recognised impairment losses are reversed if, and only if, the reasons for the impairment loss have ceased to apply. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

1.8 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

1 Accounting policies **(Continued)**

1.9 Financial instruments

The company has elected to apply the provisions of Section 11 'Basic Financial Instruments' and Section 12 'Other Financial Instruments Issues' of FRS 102 to all of its financial instruments.

Financial instruments are recognised in the company's statement of financial position when the company becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are offset, with the net amounts presented in the financial statements, when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Basic financial assets

Basic financial assets, which include trade and other receivables and cash and bank balances, are initially measured at transaction price including transaction costs and are subsequently carried at amortised cost using the effective interest method unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest. Financial assets classified as receivable within one year are not amortised.

Other financial assets

Other financial assets are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss.

Impairment of financial assets

Financial assets, other than those held at fair value through profit and loss, are assessed for indicators of impairment at each reporting end date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been affected. If an asset is impaired, the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been, had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Derecognition of financial assets

Financial assets are derecognised only when the contractual rights to the cash flows from the asset expire or are settled, or when the company transfers the financial asset and substantially all the risks and rewards of ownership to another entity, or if some significant risks and rewards of ownership are retained but control of the asset has transferred to another party that is able to sell the asset in its entirety to an unrelated third party.

Classification of financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

1 Accounting policies **(Continued)**

Basic financial liabilities
Basic financial liabilities, including trade and other payables are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest. Financial liabilities classified as payable within one year are not amortised.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Amounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Other financial liabilities
Debt instruments that do not meet the conditions in FRS 102 paragraph 11.9 are subsequently measured at fair value through profit or loss. Debt instruments may be designated as being measured at fair value though profit or loss to eliminate or reduce an accounting mismatch or if the instruments are measured and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Derecognition of financial liabilities
Financial liabilities are derecognised when the company's contractual obligations expire or are discharged or cancelled.

1.10 Equity instruments
Equity instruments issued by the company are recorded at the proceeds received, net of transaction costs. Dividends payable on equity instruments are recognised as liabilities once they are no longer at the discretion of the company.

1.11 Derivatives
Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to fair value at each reporting end date. The resulting gain or loss is recognised in profit or loss immediately.

A derivative with a positive fair value is recognised as a financial asset, whereas a derivative with a negative fair value is recognised as a financial liability, to the extent that it is not covered by cash held by the broker.

1.12 Taxation
The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

1 Accounting policies **(Continued)**

Deferred tax

Deferred tax liabilities are generally recognised for all timing differences and deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Such assets and liabilities are not recognised if the timing difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each reporting end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when the company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

1.13 Employee benefits

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of stock or non-current assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

Termination benefits are recognised immediately as an expense when the company is demonstrably committed to terminate the employment of an employee or to provide termination benefits.

1.14 Retirement benefits

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

2 Revenue

An analysis of the company's revenue is as follows:

	2021	2020
	£'000	£'000
Revenue analysed by class of business		
Digital publishing	40,369	32,522

	2021	2020
	£'000	£'000
Revenue analysed by geographical market		
United Kingdom	730	529
European Union	11,625	7,617
Rest of the World	28,014	24,376
	40,369	32,522

3 Operating profit

	2021	2020
Operating profit for the year is stated after charging/(crediting):	£'000	£'000
Fees payable to the company's auditor for the audit of the company's financial statements	31	32
Fees payable to the company's auditor for all other non-audit services	5	12
Depreciation of plant and equipment	23	23
Amortisation of intangible assets	159	159

4 Employees

The average monthly number of persons employed by the company during the year was:

	2021	2020
	Number	Number
Directors	4	4
Other staff	24	25
Total	28	29

4 Employees **(Continued)**

Their aggregate remuneration comprised:

	2021	2020
	£'000	£'000
Wages and salaries	1,080	2,222
Social security costs	120	211
Pension costs	44	76
	1,244	2,509

5 Directors' remuneration

	2021	2020
	£'000	£'000
Remuneration for qualifying services	45	314
Company pension contributions to defined contribution schemes	-	4
	45	318

The number of directors for whom retirement benefits are accruing under defined contribution schemes amounted to 0 (2020 - 1).

Remuneration disclosed above includes the following amounts paid to the highest paid director:

Remuneration for qualifying services	25	180

The key management personnel of the company comprise the directors and the senior management team. The total amount of compensation received by key management personnel for their services to the company was £ 126,870 (2020: 452,201).

Certain directors were remunerated by an entity controlled by key management personnel. Consideration payable on behalf of the entity in exchange for directors services rendered to the entity was £270,365 (2020: £nil). This consideration was not included in directors remuneration.

6 Other gains and losses

	2021	2020
	£'000	£'000
Fair value (losses)/gains on financial instruments		
Gains/(losses) on forward foreign exchange contracts	1,651	(1,640)
Other gains/(losses)		
(Loss)/gain on foreign exchange	(157)	524
	1,494	(1,116)

7 Taxation

	2021 £'000	2020 £'000
Current tax		
UK corporation tax on profits for the current period	1,801	684
Deferred tax		
Origination and reversal of timing differences	-	32
Total tax charge	1,801	716

The actual charge for the year can be reconciled to the expected charge for the year based on the profit or loss and the standard rate of tax as follows:

	2021 £'000	2020 £'000
Profit before taxation	9,452	3,846
Expected tax charge based on the standard rate of corporation tax in the UK of 19.00% (2020: 19.00%)	1,796	731
Change in deferred tax assets	-	32
Permanent capital allowances in excess of depreciation	5	(47)
Tax expense for the year	1,801	716

8 Intangible fixed assets

	£'000
Cost	
At 1 April 2020 and 31 March 2021	538
Amortisation and impairment	
At 1 April 2020	204
Amortisation charged for the year	159
At 31 March 2021	363
Carrying amount	
At 31 March 2021	175
At 31 March 2020	334

9 Plant and equipment

	Fixtures, fittings and computer equipment
	£'000
Cost	
At 1 April 2020 and 31 March 2021	105
Depreciation and impairment	
At 1 April 2020	76
Depreciation charged in the year	23
At 31 March 2021	99
Carrying amount	
At 31 March 2021	6
At 31 March 2020	29

10 Fixed asset investments

	Notes	2021	2020
		£	**£**
Investments in subsidiaries	**11**	8	8

Movements in fixed asset investments

	Shares in group undertakings
	£
Cost	
At 1 April 2020 & 31 March 2021	8
Carrying amount	
At 31 March 2021	8
At 31 March 2020	8

11 Subsidiaries

Details of the company's subsidiary at 31 March 2021 are as follows:

Name of undertaking	Country of incorporation	Nature of business	Class of shares held	% Held Direct	% Held Indirect
Pottermore Inc.	USA	Digital Entertainment	Ordinary	100.00	-

11 Subsidiaries **(Continued)**

Registered Office addresses:

1 Santa Monica Blvd, Suite 1750, Los Angeles, CA, 90025

12 Financial instruments

	2021	2020
	£'000	£'000
Carrying amount of financial assets		
Instruments measured at fair value through profit or loss	41	(1,610)

13 Trade and other receivables

	2021	2020
Amounts falling due within one year:	£'000	£'000
Trade receivables	4,145	5,139
Corporation tax recoverable	1,355	1,278
Amounts owed by group undertakings	74	69
Other receivables	1,674	751
Prepayments and accrued income	368	373
	7,616	7,610
Deferred tax asset (note 15)	95	95
	7,711	7,705

14 Current liabilities

	2021	2020
	£'000	£'000
Trade payables	1,619	3,004
Other taxation and social security	53	55
Other payables	25,563	17,803
Accruals and deferred income	5,680	4,859
	32,915	25,721

15 Deferred taxation

Deferred tax assets and liabilities are offset where the company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	Assets	Assets
	2021	2020
Balances:	£'000	£'000
Accelerated capital allowances	95	95

15 Deferred taxation **(Continued)**

There were no deferred tax movements in the year.

16 Retirement benefit schemes

Defined contribution schemes	2021 £'000	2020 £'000
Charge to profit or loss in respect of defined contribution schemes	44	76

The company operates a defined contribution pension scheme for all qualifying employees. The assets of the scheme are held separately from those of the company in an independently administered fund.

17 Share capital

	2021 £	2020 £
Ordinary share capital		
Issued and fully paid		
1 Ordinary Share of £1	1	1

18 Related party transactions

During the year the company entered into the following transactions with related parties:

	Sales		Purchases	
	2021	2020	2021	2020
	£'000	£'000	£'000	£'000
Entities controlled by key management personnel	-	-	6,690	5,641
Entities under common control	-	-	159	525
Entities over which the company has joint control or significant influence	93	304	-	-
Individuals with control over the company	-	-	14,224	11,101

The following amounts were outstanding at the reporting end date:

Amounts due to related parties	2021 £'000	2020 £'000
Entities controlled by key management personnel	3,045	4,442
Entities under common control	66	544
Individuals with control over the company	25,548	17,778

Amounts due from related parties	2021 £'000	2020 £'000
Entities over which the company has joint control or significant influence	259	334

Income and expenses between related parties are made in the ordinary course of business. All outstanding balances with related parties are unsecured, interest-free and payable in accordance with the agreements held with those related parties and all fall for settlement within one year.

Prior year related party transaction disclosures have been restated, see note 21 for further information.

The company is controlled by J. K. Rowling.

19 Analysis of changes in net funds

	1 April 2020	Cash flows	31 March 2021
	£'000	£'000	£'000
Cash at bank and in hand	28,269	15,021	43,290

20 Cash generated from operations

	2021	2020
	£'000	£'000
Profit for the year after tax	7,651	3,130
Adjustments for:		
Taxation charged	1,801	716
Investment income	(43)	(125)
Amortisation and impairment of intangible assets	159	159
Depreciation and impairment of plant and equipment	23	23
Movements in working capital:		
Decrease/(increase) in trade and other receivables	71	(1,340)
Increase in trade and other payables	7,194	6,576
Cash generated from operations	16,856	9,139

21 Prior period adjustment

Following a retrospective transfer pricing adjustment, as approved by HM Revenue & Customs, royalties payable have been adjusted for the year ended 31 March 2018, 2019 & 2020. This adjustment, including the necessary tax amendments, is summarised as follows:

Changes to the statement of financial position

	As previously reported	Adjustment	As restated at 31 Mar 2020
	£'000	£'000	£'000
Current assets			
Debtors due within one year	6,427	1,278	7,705
Creditors due within one year			
Taxation and social security	(929)	874	(55)
Other payables	(14,342)	(11,324)	(25,666)
Net assets	19,788	(9,172)	10,616
Capital and reserves			
Profit and loss	19,788	(9,172)	10,616

Changes to the income statement

	As previously reported	Adjustment	As restated
Period ended 31 March 2020	£'000	£'000	£'000
Cost of sales	(19,072)	(4,647)	(23,719)
Taxation	(1,599)	883	(716)
Profit for the financial period	6,894	(3,764)	3,130