Publishing Technology PLC
(the "Group" or the "Company")
Final Audited Results

Publishing Technology PLC (AIM: PTO) the leading provider of world-class software and services to the global publishing industry, announces its final audited results for the twelve months ended 31 December 2014.

Trading Highlights

- Gross revenues down 15% to £14.4m (2013: £16.9m)
- Gross profit down 72% to £1.6m (2013: £5.8m)
- Pre-tax loss £4.0m (2013: profit of £0.7m)
- Strategic review by new management team resulted in substantial non-cash charges:
    - Deferral of £1m of revenue related to an onerous contract.
    - Accrual of £1m of additional costs related to the same onerous contract which is expected to be released in 2015.
- Cash outflow from operating activities £0.7m (2013: £1.0m)
- Gross profit calculated after Research & Development spend of £2.7m (2013: £2.5m)
- Total loss per share down to 42.8p (2013: earnings per share 10.5p)
- Beijing Ingenta Digital Publishing Technology Limited (China JV) increased revenue by 56% to £1.4m (2013: £0.9m) with a strong order book for 2015
- Three successful go-lives of *advance* modules
- Two successful go-lives of pub2web
- BioOne contract with PCG renewed
- ingentaconnect re-launched in June and achieved a 10% increase in publisher clients in the second half
- Beijing Ingenta Digital Publishing Technology Ltd, the Chinese joint venture awarded International book Industry Technology Supplier Award at London Book Fair
- Post year end placing of up to £9m and offer of £1m

Chairman's statement

2014 developments

2014 was a year of considerable change in our business. In April, Michael Cairns stepped up to the position of CEO and immediately set out to conduct a root and branch review of the entire business. His findings were clear: we have excellent products and exceptional potential, but we had an inefficient structure and lacked leadership in several key areas to scale the business and get the best possible return on our substantial investments.

Since then, we have appointed a Chief Technology Officer, a Global Projects Director and strengthened our professional services team with additional project management resource, as well as replacing the management team in PCG.   We have extended the successful Vista customer services model to pub2web and advance, we have developed a clearer platform-based product strategy, we have formed strategic relationships with a number of implementation partners and we are working towards a Valued Added Reseller (VAR) model for our new products.

From his strategic review, Michael's focus is to build a successful and efficient sales and implementation culture on top of a clear strategic vision of our products and markets. The first step in this has been to restructure the business from one that operates divisionally by product to a skills-based enterprise that will concentrate on product strategy, sales growth and improved operational efficiency.

Michael has also taken firm control of both internal and client-facing projects that have taken substantially longer to complete than we first envisaged. By making the right hires and demanding transparency, he has now positioned the business to develop our products efficiently and implement them profitably in future. There remains one major project that will require additional investment from the business in 2015, this has been provided for in 2014, further extending the 2014 loss, but clearing future years for unencumbered growth and profitability.

The Vista business remains solid, with a 100% customer retention rate and a modest reduction in time-based revenue as we expected to see, and continues to be integral to the Group's success. Indeed, Vista will remain at the core of our business strategy for many years to come.

The China joint venture (JV) continues to grow in size and status, with around 75 staff based in Beijing, working on more than a dozen pub2web and advance implementation projects. On recent trips to Beijing, I have been impressed by the ability of the JV to grow its revenues and its influence in the Chinese market.

Results
The audited results for the year ended 31 December 2014 are disappointing and highlight the degree of change within Publishing Technology. Our revenues are substantially down on the prior year and the Group took a loss of £4.0m before tax, mainly as a result of additional expenditure on development activities, in particular to fulfil a contract to install a highly customised version of the advance Product Manager module in the US.

The enormous extra effort this custom solution required during the year meant this project cost more and took us longer than we envisaged. This delayed implementation also had an opportunity cost and reduced our ability to earn revenue from other customers.

Fundraising / Equity Deal
Announced alongside these results is an equity raising by way of a placing of up to £9m plus an open offer to existing shareholders of £1m to pay down debt accumulated over a number of years of investment in product and to provide working capital to scale the business by 'productising' advance and pub2web so that they can be implemented by third party valued added resellers. Publishing Technology will enter the second half of 2015 debt free, cleansed of the onerous contract which has held the business back in 2014, financed for growth and with a new management team focussed on growth with profitability.

Shareholders' returns and dividends
The Directors do not recommend the payment of a dividend (2013: £nil).

Outlook
Despite the obvious difficulties faced during this transition year, we have restructured the business for future scalability to drive a return from our investments in advance and pub2web. We have hired the skills we require and we have provided for all past and future losses on the onerous contracts inherited by the new management team. I am confident that, moving forward, we have built the right team to ensure the success of our strategy.

M C Rose
Chairman
22 May 2015

Group strategic report

The first half of 2014 saw a change of Chief Executive Officer, the replacement of the top three management positions within PCG, and a change in the leadership of both ingentaconnect and service delivery. After the strategic review, the second half of the year saw a number of existing senior staff changing roles as the company restructured. Additionally, David Montgomery came on board as Chief Technology Officer, we hired a North American Sales Director and made additional hires in project management and professional services.

Inevitably, these changes have had an effect on the smooth-running of the business in 2014, but they were necessary to ensure we had the right strategy for the future and the right skills to effect change.

Strategic Review
When I became CEO in April, my first task was to conduct a strategic review of the business, which by necessity focused on several short term issues that had to be addressed immediately. I then began the development of a long-term vision that would capitalise on the significant embedded value in our products.

The Board was rightly concerned that we had a number of issues which were jeopardising revenue and customer relationships, and was equally concerned that we revisit our long-term strategy to ensure that it would enhance shareholder value over a reasonable period of time.

The strategic review concentrated on the vision, development, delivery and business plan for our newest products, advance and pub2web, but we did not ignore our other important business divisions; Vista, PCG and ingentaconnect, which remain important to our overall strategy. The review looked at the management of the organisation, the skill-sets required and the functional aspects of each product area, such as product strategy, product development, sales strategy, project management, implementation methodology and customer service.

Outcome of the Strategic Review

The core of our business is stable and profitable. The customer services margins from recurring revenue in the Vista division are excellent and sustainable for some years to come. PCG is stable and profitable with a high number of retained clients, including BioOne, who renewed their services contract during the year. ingentaconnect now has over 300 publishers, including 30 new customers signed in 2014, and has a high retention rate. The advance and pub2web products are market-leading and our subject matter expertise in the publishing space is an important asset that supports all of our business segments.

As I conducted my review, it became readily apparent that we had recently made certain critical business management mistakes and then failed to react to the problems these mistakes caused quickly enough. For example, there were some areas where we lacked appropriate skills or had not committed the right level of resources to complete project deliverables on time and on budget. In other instances, we managed our clients poorly which resulted in significant changes to scope and delivery to our financial detriment. I also found that we could do more to control margins within PCG and improve customer service for ingentaconnect.

Despite these significant challenges, it was my observation that with the application of the right strategy, stronger management control and appropriate staffing, we could significantly improve in all of these areas. Some of the changes required to improve our business operations had already been implemented within our pub2web team, where we are seeing significant improvement as a result, and we expect to achieve similar success across the business as we address these issues in a similar way.

Next-generation products: advance and pub2web

A number of issues relating to the roll-out and delivery of our next-generation products were highlighted in the review. Firstly, we agreed too many deals with early-adopter customers, which, in-turn required custom functionality to be created as part of the install. It is normal with new enterprise-level products to have some low margin or even loss-making projects early on in the products life cycle to establish a footprint or develop more specific functionality. However, in retrospect, we took on too many projects of this nature and overcommitted our resources.

Secondly, we did not apply an adequate level of project management to some implementations and, as a direct result, customer expectations were not well managed as the projects expanded in scope and costs. In some cases, clients were also deficient in this area which compounded the issue. We overcommitted development resources which led to delays in the implementations and we allowed clients to dictate progress and activity, which created more development and more customisation than we anticipated, diverting resources from progressing road map developments to custom development activities, which was frequently contrary to our best interest.

The experience of these engagements suggests a new implementation model; one that is complementary to our strengths and is similar to the model practiced by package software providers. As a result, we have incorporated into our product vision and strategy a capability to work with Value Added Resellers (VAR). This will enable our business to scale with VARs supporting our sales efforts and augmenting implementation resource. We can continue to implement on our own but also allow VARs to implement with support from our subject matter experts. Importantly, as this capability grows we will be able to concentrate on enhancing our core products and utilising our higher margin subject matter expertise on an increasing number of client engagements. This strategy requires our products to be ‘productised’, which will protect our IP and allow VARs (and customers) to build additional functionality applicable to differing client and industry requirements. We believe this mixed model will encourage close cooperation between Publishing Technology, our VAR partners and our customers and enable more significant growth for Publishing Technology.

Business structure

Previously, the Group was divided into five divisions built around products and services; advance, Vista, pub2web, ingentaconnect and PCG. Whilst each has its unique aspects, most of our product divisions have similar skill-set requirements. We determined that the current organisational structure was inefficient and did not allow us to share best practice or manage client relationships across the business. As a result, I have restructured the business around our global skill-sets rather than in individual product silos.

Product Strategy
Randy Petway has moved into the position of EVP Global Product Strategy, leading our product direction and vision across advance, pub2web and ingentaconnect. Randy is building the five and ten year plans for our product set, working closely with customers and our internal knowledge base to do so.

Product development
David Montgomery joined the Group in October 2014 as CTO and is responsible for product development in advance, pub2web and ingentaconnect, as well as Group wide service delivery and infrastructure. David's first role was to assess the position of the final development phases of advance and pub2web and develop (with Randy Petway) the strategy for near and mid-term development.

Implementation Projects
We recently hired a Global Projects Director responsible for managing our projects across advance and pub2web to ensure that we achieve efficiency, define common goals and implement consistent methodologies across all our project implementations. This is part of our strategy to build a strong program management office (PMO) function supporting all implementation projects. We will also be hiring a lead program manager to manage our VAR relationships and ensure they are effective, managed appropriately and work to common objectives.

Customer services
Jay Teitelbaum becomes EVP Global Client Services, retaining all of the Vista business and adding the responsibility to extend the successful Vista customer services recurring revenue model across advance and pub2web for completed implementation projects.

Business Development
Jane Tappuni, EVP Business Development, has added to the sales team with a new Head of Business Development in North America, who joined the Group in December 2014, and a new European Sales Manager, who joined the Group in January 2015.

ingentaconnect
In late 2014, we hired a new senior manager to head up the ingentaconnect division who is responsible for driving revenue and ensuring customer satisfaction for publishers on the platform. During the year 30 new publishers were added to the platform, increasing our client base by 10%. We expect a similar level of success for 2015 supported by some necessary platform improvements.

PCG
The senior management team of PCG changed over the course of the year in a set of managed transitions. This did not impact on client relationships with PCG's largest client extending its full service representation contract out to the end of 2016 in the year. Melissanne Scheld joined the group in May 2014 as Managing Director of PCG, tasked with improving revenue and margins across content sales, consulting and research. Going forward, we are also making a concerted effort to involve PCG in more of the activities of other segments of the Group (and vice versa), particularly in coordinating our client engagements across the organisation.

Group
Underpinning these divisions are the Group functions of Marketing, Finance, HR and Administration. This new structure avoids the repetition of skill-sets across multiple product silos and instead focusses the Group on the important aspects of our business: establishing the right vision for our company and products, creating the right product for the future of our market, selling at the right price, implementing our solutions efficiently and profitably, maintaining a profitable recurring revenue stream from the install base thereafter, and then scaling this model to achieve significant organic growth.

Strategy
In the last few years, we have not delivered the required returns on our investments in advance and pub2web and this is where the greatest effort will be made to change our approach. We will invest where necessary but play to our strengths in the development of industry leading software solutions, teaming with partners and creating a community around platform solutions.

Our approach can be broken down into actions on a product critical path: envisage, create, sell, implement, manage and scale. The structure of the business and the management team mirrors these steps to success.

Our corporate strategy is to achieve consistently high levels of organic growth and profitability by maintaining Vista margins; developing PCG's content sales and consulting business, growing ingentaconnect and creating strong scalable platforms with advance and pub2web

Product Vision

The vision for advance and pub2web is to develop both as 'packaged solutions' of pre-configured software, implementation services and training able to be implemented by Publishing Technology or Value Added Resellers (VARs) in partnership with us or directly with clients.

Our packaged solutions will be 'platforms', which VARs and customers can leverage by building functionality on top to support business specific objectives. The intellectual property ('IP') of this functionality may be owned by the developer and sold into the install base creating a community market place. This model ensure the integrity of the core product IP and scales our business.

Products vs. Platforms

Solutions can be characterised in terms of product and platform. Platforms can be extended and built on but tend to have less industry specific functionality, whereas products have more industry functionality but are less extensible.

Solutions like SAP have a high install cost and a high cost of ownership, because they are very feature full. For clients who need 25% of the functionality, the solution provider still has to support 100% of the features. Our sweet spot has the relevant functionality for the target market, with extensibility that doesn't constrain our development.

Products that are less extensible, unless highly functional, are always constrained by the development organisation, release schedule, customer commitments and strategic roadmaps. Companies such as SAP realised that to reach different industries and geographies they needed a highly functional product that could be extended by VARs and in some instances, the customers.

Publishing Technology now faces the same challenges:

pub2web is a Web CMS (Web based content management system), delivering customised websites on a standardised platform solution. The platform is geared towards academic and scholarly publishing but we are creating a more open platform which will support other media and content markets.

There are many VARs in a number of industries building functionality on top of a generic web CMS. We will provide the solution that innovates around generic content management functions such as searching; enrichment; delivery to multiple devices; ingestion; authoring; planning; and experience management, as well as emerging standards such as responsive design, and VARs can focus on features required within their vertical, creating their own IP and expanding the addressable market.

Our CMS solution, pub2web, needs to improve cross-publishing integrations, with variable content authoring, workflows and planning solutions but it also needs clearer separation between the bespoke solution and the platform. This effort has been initiated.

advance is a highly functional industry specific enterprise product proven in the current market; however, it will need to change when being introduced into new industries or geographies, which we believe represents an opportunity to scale using a platform methodology.

Creating a platform by separating product from project

We intend to achieve our platform objectives by creating a clear, defined separation between the complex business logic of the platform and the user interface using an application programming interface (API), which enables VARs to create bespoke websites and extend base functionality without being able to impact the source code and the Group's IP, an important consideration in some geographies.

Updates to the platform can then be rolled out across the install base quickly as the API separates the platform code from the functional layer built around it by VARs. This is likely to reduce the number of major product releases annually.

The professional services team will be treated as an internal VAR; fiscally independent of the product development group and expected to drive that group to create the best product for all VARs to use.

Our platform approach will allow us to engage with VARs in secondary publishing verticals (such as magazines, newspapers and broadcast media), and look further afield (such as in hospitality, finance and retail).

We will also incorporate third-party functionality to accelerate development and improve our offering rather than try to build all functionality in-house. This plays to our strengths in industry specific knowledge and utilises the expertise of partners to achieve quick improvements to functionality in areas such as analytics, or functionality specific to potential new industry sectors such as broadcast capability or video play-out and rendering.

Strengthened sales model
We have strengthened our senior sales team and are building a solid pipeline to drive sales for advance and pub2web. Under the direction of Jane Tappuni, we have formalised more of our sales activities and improved the sales qualification process by imposing contract estimation procedures to address some of the issues raised in the strategic review.

All sales decisions involve key stakeholders across the Group, including sales, engineering, project managers, customer services and senior executive management at the proposal stage. In cases where the project is of sufficient size, the proposal may also be reviewed at Board level. Projects are only approved when we believe them to be commercially sound.

Maintaining a solid core
When we began the re-engineering of our products, we estimated that there would be a high level of cannibalisation with Vista customers moving to advance, however, it is now clear that publishers have slowed spend on new software related to physical content, but are investing in complementary digital solutions. We now estimate that three quarters of the Vista install base will still be using the system in the 2020's.

We will, of course, use the Vista install base as a pipeline for advance sales and offer those customers a migration path when this transition fits with their business priorities. At that point we will proactively engage with customers to ensure they have a migration path in place or a stand-alone digital solution that allows them to remain with Publishing Technology for their next generation of software.

We expect the majority of Vista customers will want to retain Vista as the reliable core element in their business and therefore we will continue to provide the highest level of customer service. At the same time, we will keep the customer base informed about the functionality and scale of our new generation products, making us a trusted partner when they explore new solutions.

So far, only one module of advance sold has been a direct move from Vista to advance. Our current advance pipeline is made up almost entirely of customers that are new to Publishing Technology or are current customers seeking additional functionality but not a replacement for Vista.

Extending the successful Vista client services model
We intend to leverage the knowledge and expertise gained with Vista and extend that model to our expanding advance and pub2web customer base. To that end, Jay Teitelbaum has moved into the position of EVP Global Client Services, responsible for the Vista business and client services for advance and pub2web. Jay and his team will be involved at every stage of a project and will take over management of the customer at go-live.

Scale
Our goal is to make our products scalable so that our business can become scalable. This means that our products must be capable of being implemented independently and open to third-party VARs to add functionality. This strategy will open our products to broader media, geographic and industry expansion, and create opportunities we would struggle to achieve on our own without the scalability that comes from partnerships and VAR relationships.

A scalable product enables the business to grow by multiplying our revenue opportunities and our sales capabilities as VARs actively work with us to market and sell our products. Our VAR program is developing and we are working on live implementations and pitching for new deals with third parties already.

Operating results
Gross revenue was 15% lower than the prior year at £14.4m (2013: £16.9m) and cost of sales were 13%

higher than the prior year at £12.1m (2013: £10.7m) reducing gross margin to £1.6m (2013: £5.8m) for the year to 31 December 2014. This was mostly the result of lower revenue and higher costs in the advance division. Revenue for ingentaconnect reduced as expected, as two of its larger publishers moved to new platforms, including one which moved to our pub2web solution. PCG revenue was 15% down on the prior year as change of management impacted the first half.

Vista revenues were lower in the year as expected with lower licence revenue being recognised but Vista recurring revenue increased and various cost saving initiatives maintained net contribution values at the same level as 2013.

Revenue from pub2web increased year on year by 18%, as large implementations moved to recurring revenue hosting deals.

Vista once again delivered a solid, highly-profitable performance which, as in previous years, has allowed continued investment elsewhere in the business. The Group has invested around £20m over the last ten years to create advance and pub2web, funded mostly from the profitability and cash generation of the Group's legacy products. The Board anticipates that this source of profit and cash will continue for many more years to come.

In the year to 31 December 2014, pub2web still required investment but it was the substantial investment in the advance division that impacted profitability the most as we recognised less revenue and accrued for additional costs on one large loss-making contract in particular.

The Board believes the historic issues with advance will not reoccur because we have made fundamental changes to the structure of the business. We have filled skills gaps through recruitment and strengthened processes and procedures to ensure all deals are reviewed and analysed prior to engagement.

Cost of sales increased, mainly as a result of additional staff hires, including contractors onshore and offshore, to deliver the increased functionality we wanted to build into the advance product.

Sales and marketing expenses remained flat year on year but administrative expenses increased by 8% to £3.6m (2013: £3.4m) due partly to adverse foreign exchange movements and the costs of restructuring the business during the year, including the search for a CEO.

Net liabilities increased in the year to £4.0m (2013: £0.4m) as the additional investments in advance increased net borrowings (loans and overdrafts offset by cash balances) to £4.3m (2013: £3.5m) and trade and other payables to £8.8m (2013: £7.5m). The lower revenue especially for advance impacted the trade receivables balance which reduced to £3.8m (2013: £4.5m) as at 31 December 2014 and accrued income reduced to £0.5m (2013: £1.3m) as a result of reversing out revenue for the loss making contract in advance.

Cash and cash equivalents reduced by £0.4m to a net liability of £1.7m (2013: £1.3m) This was a relatively small reduction despite the loss in the year as there were large positive cash movements from a reduction in trade receivables (£0.8m), a reduction in accrued income (£0.7m) and an increase in other payables (£1.4m) which is partly a timing difference for PCG receipts but mainly the accrual of costs associated with the loss making contract in advance.

Deferred income of £3.6m (2013: £4.0m) is 10% lower at year end compared to the prior year but remains significant reflecting the high level of recurring revenue billed for 2015 before the end of 2014 which underlines the stability of the core business.

Vista
Vista had another solid year in 2014, with recurring revenue increasing by £106K (2%) and contribution to group costs increasing from 51% to 55%.

84% of Vista revenue was recurring in the year to 31 December 2014 (2013: 76%) and the division had a 100% customer retention rate from 2013 to 2014.

Total Vista revenue was down £430K (6%) as a result of additional licence revenues achieved in 2013. There was a small reduction in time-based services revenue as some ad hoc services moved into annual managed services contracts which has improved the ability to forecast revenue. By way of comparison, Vista revenue in the year to 31 December 2014 is higher than the year to 31 December 2012, which excluded the one-off licence revenue in 2013.

advance

The advance product has been built in modules, which has allowed revenue to be generated as the product is in development. However, as is frequently the case with new software, a certain amount of development as part of implementations has taken place and special early-adopter pricing has been agreed to help move the product forward and ensure the functionality is powerful and of value.

Loss-making contracts are a feature in the early stages of product roll-out, but the Board believes that we have seen the last of these and we have initiated a number of activities to ensure projects are correctly estimated, contracted and implemented going forward.

So far, ten publishers have gone live on 13 modules of advance, with a further five modules being implemented currently. Of these implementations, the majority have been profitable, however there have been two large implementations in particular that are loss-making as a result of significant customisation. In both cases, the additional development required was underestimated and the deals were under-priced as a consequence. There is always the need to attract early adopters to a product set, but we were guilty of signing too many deals that required additional investment which over-committed the business. These commitments have ceased or been provided for in the year to 31 December 2014.

In particular, in 2013 we signed a deal to deliver a highly-customised version of our Product Manager module in the US. This work was significantly underestimated, which led to delays in the completion of the first phase of the roll-out in the US, which in turn has delayed our progress in other proposed regions for the delivery.

This impacted on the advance results in a number of ways:

- Revenue recognition was re-evaluated, partly because of a change in the scope which the Company agreed to within the original price quote, subsequent delayed development and the higher risk to further roll-out phases. The reassessment of the stage of completion resulted in the reversal of some revenue previously recognised in 2013. This revenue will now be recognised in 2015 and beyond as the percentage of the project complete increases. The revenue recognition methodology was consistent with prior years and is a reflection of the facts and circumstances that exist at the review date.

- Additional development work was required which increased costs (all of which is written off to the statement of comprehensive income).

- Additional resource required on this project reduced internal resources available to earn revenue elsewhere and increased staff costs over the prior year as additional staff and contractors were hired to meet demand.

- The contract is loss-making and extends into 2015, therefore, management's estimates of the additional costs to complete it have been brought forward into 2014 under the loss-making contracts provisions. This provision will be fully released during 2015 by the time of go-live.

These issues have reduced revenue and increased costs significantly beyond target.

More positively, three advance projects went live in the last quarter of the year, one of each of the Contracts and Rights, Order to Cash and Product Manager modules.

pub2web

Revenue for pub2web increased by £277K (18%) in the year as a result of recurring hosting and maintenance revenue improvements due to the launch of client sites for American Institute of Physics (AIP) and the American Society of Microbiology (ASM).

Implementation revenue was slightly down on 2013, but gross margin after staff costs was £430K better, producing the first positive gross margin for pub2web for the first time.

A further £0.4m (2013: £0.5m) was invested in research and development on the pub2web platform in the year.

Ingentaconnect

Net revenue for ingentaconnect (after publisher royalties for pay per view sales) fell by £0.5m in 2014 to £1.9m (2013: £2.6m). As reported in the 2013 annual report, this was mainly the result of two larger publishers moving off the platform in 2014, one of which moved to a pub2web solution.

A total of 30 new publishers joined ingentaconnect in the year and the Board believes that the platform will continue to show growth as a result of site improvements and better management.

Investment in ingentaconnect increased by more than 100% in the year to 31 December 2014 compared to 2013, and as a result we launched a new front end in July and have further enhancements planned for 2015.

PCG

PCG revenue decreased by 15% compared to the prior year to £2.0m (2013: £2.4m).

This was partly due to a reduction in sales of Bloomsbury's Drama Online and Churchill archives as a result of Bloomsbury taking sales of these titles back in-house at the end of 2014 (as planned and anticipated), and partly due to the hiatus caused by the management changes in the first quarter, which impacted on telemarketing, consulting and content sales revenue.

The first half results were disappointing, but under new leadership the business improved with a 50% increase in content sales commissions achieved in the second half.

Significantly, BioOne signed a long-term extension to its service contract in the year. The loss of Bloomsbury is likely to reduce PCG representation revenues by a small amount in 2015.

The Board believes that the new management can increase year on year revenues in telemarketing, consulting and content sales on a lower cost base.

China

The Chinese joint venture (JV), Beijing Ingenta Digital Publishing Technology (BIDPT), in which the Group holds a 49% stake, increased its revenue by 56% in the year to 31 December 2014 as a result of continuing to work on the contracts won as part of the government-sponsored initiative to drive publishers towards online platforms, and partly as a result of a number of new contract wins in the year for both pub2web and advance.

The JV now has around 75 staff delivering software solutions and services in the Chinese market.

Taxation

A tax credit of £400K (2013: £240K) is included in the results for 2014 relating to amounts expected to be receivable under the research and development tax credit scheme. The claim has been prepared on the same basis as in prior years and is subject to HMRC approval. The value is higher for 2014 as a result of the higher losses which increases the amount which can be claimed as a cash repayment.

The Group has unutilised tax losses at 31 December 2014 in the UK and the USA of £14.9m (2013: £14.7m) and $14.8m (2013: $11.9m) respectively. The tax losses in the USA are restricted from April 2008 due to change of control rules being triggered by the issue of new shares in the parent company. The Group may use a maximum of $491K per annum of the brought forward US losses for a maximum of 20 years from April 2008. The Board believes that the US legal entities have the potential to make use of $8.7m (2013: $6.3m) of the unutilised losses carried forward.

Funding and Going Concern

The Group has an overdraft facility of £3.0m with HSBC plc and a short term loan facility of £1.25m from Directors as at 31 December 2014. Management have assured themselves that continued bank funding and short-term loan capabilities of the Directors is adequate for the needs of the business based on the cash flow forecasts.

The Group continues to have a seasonal cash flow, which has been taken into account in assessing the working capital requirements. The overdraft facility is due for renewal in April 2015. Management has received confirmation from HSBC that, based on their knowledge of the Group's performance, they do not see any reason that a facility should not continue to be provided until June 2016.

The Group's treasury policy is to ensure regional excess cash is transferred and offset against overdraft to minimise interest charges. The Company did not redeem any loan notes during 2014. The loan notes are accruing interest at 12% per annum (paid bi-annually) until redemption is made. The loan note holder has agreed to waive any rights to repayment until June 2016. During the year the Group made use of short term loans from Directors to cover the cash requirement peaks at mid-year and year end.

As detailed in the Chairman's statement, it has been announced that a placing and open offer will go ahead allowing the business to pay down all debt and provide working capital with a positive cash balance post placing.

Review of business and future developments

The Directors use a number of key performance indicators to measure the success of the business. These include, but are not limited to: revenue, gross margin, EBITDA, cash flow, sales pipeline data, and data on internet usage including site visits and downloads. These KPIs are measured monthly against budget and forecast.

The main business risks are not meeting revenue targets, not being able to attract the required funding for the Group's cash profile, and the risk of delays to implementations from human error in estimation or development, customer readiness or software bugs.

The revenue risk is reduced by providing customer service which maintains current and recurring revenue and by continuing to develop new products which continue to attract new customers and bring in new licence and implementation revenues.

The funding risk is reduced by having an agreed facility with the Group's bankers, by Director's being prepared to lend on a short term basis and by the business having the right future strategy to return profitability and generate cash to reduce debt.

The technology risk is reduced by the experience of the employees who develop and implement the products, on-going training, robust processes for development and implementation, and the competitive advantage of having what the board believes to be the most advanced software available in the market.

Outlook

Having been in the CEO position for almost 12 months, I believe that we have made the right decisions in restructuring the business, hiring the skills we lacked, building procedures to avoid estimation errors and implementation issues, and fixing or extracting ourselves from loss-making contracts.

All of this has been challenging but we have made good progress and I am confident that our products are in good shape and demonstrable, that our services are clearly understood, and that we have the right team to deliver real growth in revenue and profit across the business.

On behalf of the Board.

M P Cairns
Chief Executive Officer
22 May 2015

Group Statement of Comprehensive Income
For the year ended 31 December 2014

	note	Year ended 31 Dec 14 £'000	Year ended 31 Dec 13 £'000
Gross revenue		14,364	16,910
Less revenue from joint venture	3	(687)	(439)
Group revenue		13,677	16,471
Cost of sales		(12,068)	(10,703)
Gross profit		1,609	5,768
Sales and marketing expenses		(1,517)	(1,507)
Administrative expenses		(3,646)	(3,372)
(Loss) / profit from operations	2	(3,554)	889
Share of profit / (loss) from joint venture	3	20	104
Finance costs		(460)	(328)
(Loss) / profit before income tax		(3,994)	665
Income tax	4	395	216
(Loss) / profit for the year attributable to equity holders of the parent		(3,599)	881
Other comprehensive expenses which will be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		(5)	(57)
Total comprehensive (loss) / income for the year attributable to equity holders of the parent		(3,604)	824
Basic and diluted (loss) / earnings per share (pence)	5	(42.77)	10.47

All activities are classified as continuing

Group Statement of Financial Position
As at 31 December 2014

	note	31 Dec 14 £'000	31 Dec 13 £'000	31 Dec 12 £'000
Non-current assets				
Goodwill and other intangible assets		3,737	3,737	3,737
Property, plant and equipment		363	349	343
Investments accounted for using the equity method	3	298	278	24
		4,398	4,364	4,104
Current assets				
Trade and other receivables		4,377	5,971	4,762
Research and Development tax credit receivable	4	400	240	235
Cash and cash equivalents		2,790	1,235	1,774
		7,567	7,446	6,771
Total assets		11,965	11,810	10,875
Equity				
Share capital		841	841	841
Merger reserve		11,055	11,055	11,055
Reverse acquisition reserve		(5,228)	(5,228)	(5,228)
Translation reserve		(904)	(898)	(841)
Retained earnings		(9,807)	(6,208)	(7,089)
Investment in own shares		(6)	(7)	(7)
Total equity		(4,049)	(445)	(1,269)
Non-current liabilities				
Borrowings		1,500	1,500	1,500
Finance leases		134	72	87
		1,634	1,572	1,587
Current liabilities				
Trade and other payables		8,811	7,454	8,238
Borrowings		5,569	3,229	2,319
Provisions		-	-	-
		14,380	10,683	10,557
Total liabilities		16,014	12,255	12,144
Total equity and liabilities		11,965	11,810	10,875

Group Statement of Changes in Equity
For the year ended 31 December 2014

	Share capital £'000	Merger reserve £'000	Reverse acquisition reserve £'000	Translation reserve £'000	Retained earnings £'000	Investment in own shares £'000	Total attributable to owners of parent £'000
Balance at 1 January 2014	841	11,055	(5,228)	(898)	(6,208)	(7)	(445)
Employee Share Ownership Trust transactions	-	-	-	-	-	1	1
Transactions with owners	-	-	-	-	-	1	1
Loss for the year	-	-	-	-	(3,599)	-	(3,599)
Other comprehensive expense: Exchange differences on translating foreign operations	-	-	-	(6)	-	-	(5)
Total comprehensive expense for the year	-	-	-	(6)	(3,599)	-	(3,604)
Balance at 31 December 2014	841	11,055	(5,228)	(904)	(9,807)	(6)	(4,049)

For the year ended 31 December 2013

	Share capital £'000	Merger reserve £'000	Reverse acquisition reserve £'000	Translation reserve £'000	Retained earnings £'000	Investment in own shares £'000	Total attributable to owners of parent £'000
Balance at 1 January 2013	841	11,055	(5,228)	(841)	(7,089)	(7)	(1,269)
Profit for the year	-	-	-	-	881	-	881
Other comprehensive expense: Exchange differences on translating foreign operations	-	-	-	(57)	-	-	(57)
Total comprehensive (expense) / income for the year	-	-	-	(57)	881	-	824
Balance at 31 December 2013	841	11,055	(5,228)	(898)	(6,208)	(7)	(445)

Group Statement of Cash Flows
For the year ended 31 December 2014

	Year ended 31 Dec 14 £'000	Year ended 31 Dec 13 £'000
(Loss)/profit before taxation	(3,994)	665
Adjustments for		
Share of profit from joint venture	(20)	(104)
Depreciation	227	218
Interest expense	460	328
Unrealised foreign exchange differences	(5)	(57)
Decrease / (increase) in trade and other receivables	1,593	(1,210)
Increase / (decrease) in trade and other payables	1,269	(802)
Cash outflow from operations	(470)	(962)
Research and Development tax credit received	251	237
Tax paid	(16)	(25)
Net cash outflow from operating activities	(235)	(750)
Cash flows from investing activities		
Purchase of property, plant and equipment	(13)	(137)
Joint venture investment	-	(150)
Net cash used in investing activities	(13)	(287)
Cash flows from financing activities		
Interest paid	(433)	(285)
Proceeds from short term borrowings	401	634
Payment of finance lease liabilities	(95)	(103)
Net cash from financing activities	(127)	246
Net decrease in cash and cash equivalents	(375)	(791)
Cash and cash equivalents at the beginning of the year	(1,345)	(545)
Exchange differences on cash and cash equivalents	(9)	(9)
Cash and cash equivalents at the end of the year	(1,729)	(1,345)

1. Basis of preparation

The principal accounting policies of the Group are set out in the Group's 2013 annual report and financial statements. These remain unchanged for the year ended 31 December 2014.

2. Profit from operations

(Loss) / profit from operations has been arrived at after charging:

	Year ended 31 Dec 14 £'000	Year ended 31 Dec 13 £'000
Research and development costs	2,652	2,504
Net foreign exchange gain /(loss)	19	(24)
Depreciation of property, plant and equipment		
- owned assets	145	121
- assets under finance leases	83	97
Operating lease rentals:		
- land and buildings	295	259
- other	72	89
Auditor's remuneration	73	71
Restructuring costs	88	43

3. Joint venture

The Group holds a 49% voting and equity interest in Beijing Ingenta Digital Publishing Technology Ltd (BIDPT) which was purchased during the year to 31 December 2012.

This investment is accounted for under the equity method. BIDPT has a reporting date of 31 December. The shares are not publicly listed on a stock exchange and hence published price quotes are not available.

Certain financial information on BIDPT is as follows:

	As at 31 Dec 14 £'000	As at 31 Dec 13 £'000
Assets	1,390	632
Liabilities	(766)	(50)

	Year ended 31 Dec 14	Year ended 31 Dec 13
Revenues	1,403	895
Profit / loss	42	212
Revenue attributable to the Group	687	439
Profit/loss attributable to the Group	20	104

Changes in equity accounted investments

	Year ended 31 Dec 14	Year ended 31 Dec 13

	£'000	£'000
Cost of 49% investment in BIDPT	278	52
Investment in the year	-	150
Retained profit / (loss) attributable to the Group	20	76
Investment book value	298	278

Dividends are subject to the approval of at least 51% of all shareholders of BIDPT. The Group has received no dividends.

4. Tax

	Year ended 31 Dec 14 £'000	Year ended 31 Dec 13 £'000
Analysis of credit in the year		
Current tax:		
Current research and development tax credit - UK	400	240
Current year State tax – US	(15)	(24)
Adjustment to prior year charge - UK	10	-
Taxation	395	216

The Group has unutilised tax losses at 31 December 2014 in the UK and the USA of £14.9m (2013: £14.7m) and $14.8m (2013: $11.9m) respectively. These losses are still to be agreed with the tax authorities in the UK and USA.

The US tax losses are restricted to $491K per annum as a result of change of control legislation. Losses carried forward from the change of control in April 2008 are restricted and must be used within 20 years. The Board believes the Group will be able to make use of $8.7m (2013: $6.3m) of the total unutilised losses at 31 December 2014.

No deferred tax has been recognised in accordance with advice from US tax accountants on the basis that the US losses are restricted and there is uncertainty on the value of losses which will be able to be used.

The differences are explained below:

Reconciliation of tax expense	Year ended 31 Dec 14 £'000	Year ended 31 Dec 13 £'000
(Loss)/profit on ordinary activities before tax	(3,994)	665
Tax at the UK corporation tax rate of 21.5% (2013: 23.25%)	(859)	155
Expenses not deductible for tax purposes	3	4
Additional deduction for Research and Development expenditure	(468)	(583)
Surrender of losses Research and Development tax credit refund	315	276
Unrelieved UK losses carried forward	31	34
Utilisation of US losses	(65)	(74)
Effect of foreign tax rates	-	19
Difference in timing of allowances	(61)	(54)
Adjustment to tax charge in respect of prior years	(10)	(3)
Unrelieved China losses carried forward	(4)	(24)
Unrelieved Brazilian losses carried forward	5	34

Unrelieved Australian losses carried forward	1	-
Unrelieved US losses carried forward	717	-
Total taxation	(395)	(216)

United Kingdom Corporation tax is calculated at 21.5% (2013: 23.25%) of the estimated assessable profit for the year.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. A deferred tax asset has not been recognised in relation to tax losses due to uncertainty over their recoverability.

5. Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. None (2013: 7500) of the potential ordinary shares from options are dilutive because the Group holds enough unallocated shares within the Employee Share Ownership Trust ('ESOT') to fulfil their exercise. As a result, no diluted Earnings per share has been calculated for the year ended 31 December 2014. For the year ended 31 December 2013, almost all outstanding options have an exercise price in excess of the average market price in the year, therefore there is no material dilutive impact from options granted and the basic and diluted earnings per share figures are the same.

	Year ended 31 Dec 2014 £'000	Year ended 31 Dec 2013 £'000
Attributable (loss)/profit	(3,599)	881
Weighted average number of ordinary shares ('000)	8,414	8,414
(Loss)/earnings per share (basic and diluted) arising from both total and continuing operations	(42.77p)	10.47p

6. Publication of non-statutory accounts

The financial information set out in this announcement does not constitute statutory accounts as defined in the Companies Act 2006.

The Group Statement of Comprehensive Income, Group Statement of Financial Position, Group Statement of Changes in Equity, Group Statement of Cash Flows and associated notes have been extracted from the Group's 2014 statutory financial statements upon which the auditor's opinion is unqualified and which do not include any statement under section 498 of the Companies Act 2006.

Those financial statements will be delivered to the Registrar of Companies following the release of this announcement.

This announcement and the annual report and accounts are available on the Company's website www.publishingtechnology.com. A copy of the report and accounts will be sent to shareholders who have elected to receive a printed copy with details of the annual general meeting in due course.

For further information please contact:

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