
Company No: 5204176

**MESSAGING INTERNATIONAL PLC
ANNUAL REPORT AND FINANCIAL
STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011**



28 June 2012

Messaging International Plc ('the Company')

Messaging International Plc ('the Company')

Final Results

Messaging International Plc, the AIM traded company and provider of innovative messaging services, announces its results for the year ended 31 December 2011

Overview

- Continued revenue growth – increased by 26.6% to £3,673,747 (2010 £2,901,985)
- Pre tax profit for the year - £361,226 (2010 Profit £357,245) with positive cash flow generated
- Strengthening offering and investing in new products to offer creative and user friendly messaging products and services to existing and new clients
- New Messaging Gateway gaining traction and being adopted by an increasing number of operators and enterprises
- Blue-chip client list – seven new telecom operator customers added during the year
- Healthy new business pipeline

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Company information

Directors

H Furman
G Levit
I Fishman FCA
D Rubner
G Simmonds FCA

Non- executive chairman
Chief executive
Finance director
Non- executive director
Non- executive director

Secretary

I Fishman FCA

Registered office

58-60 Berners Street
London W1T 3JS

Company number

5204176

Company websites

www.messaginginternational.com
www.telemessage.com

Bankers

Barclays Bank Plc
1 Churchill Place
London
E14 5HP

Nominated advisor

Seymour Pierce Limited
7th Floor
20 Old Bailey
London
EC4N 7EN

Auditors

Jeffreys Henry LLP
Finsgate
5-7 Cranwood Street
London
EC1V 9EE

Broker

Seymour Pierce Limited
7th Floor
20 Old Bailey
London
EC4N 7EN

Legal advisors

Epstein Rosenblum Maoz
111 Arlozorov Street
Tel Aviv 62098
Israel

Registrars

Share Registrars Limited
1st Floor
9 Lion and Lamb Yard
Farnham
Surrey GU9 7LL

Operational Review

Trading has been solid for Messaging during 2011 and into 2012, as we continue to focus on developing converged messaging solutions, through our subsidiary TeleMessage, to improve the way users manage messages across various communication mediums. We have close relationships with our blue-chip client base, a highly creative R&D team and innovative messaging solutions which ensure that the company retains its place as a leading provider in this sector.

Our converged messaging products and services are provided to carriers and enterprises to deliver text, voice, video and multimedia messages to and from any communication device. Users can send, receive, and manage SMS, MMS, IP, Voice, Fax and E-mail messages from the Internet, E-Mail clients, iOS/Android Smartphones and Tablets, Fixed or Mobile phones and APIs.

Our clients include, among others, companies such as Sprint in the US, Rogers Wireless, Bell Mobility and Telus in Canada, USI in Russia and T-Mobile in Macedonia. We ensure stable revenues by either hosting messaging services for a per-message fee or by selling software licences, which are usually linked to the number of messages that can be sent through the system or to the number of active users.

As the messaging world is changing, from SMS/MMS to IP messaging, we have increased our R&D capacity to stay ahead in the market and to continue to seize opportunities in the messaging space. Specifically, we are investing in the new standards and the emerging devices (e.g. smartphones, tablets etc) and interfaces consumers and enterprises use to send and receive messages. We have already soft launched our new Android Messenger on Google Play and our new iPad Messenger on the Apple Store to be able to demonstrate these new capabilities to our customers.

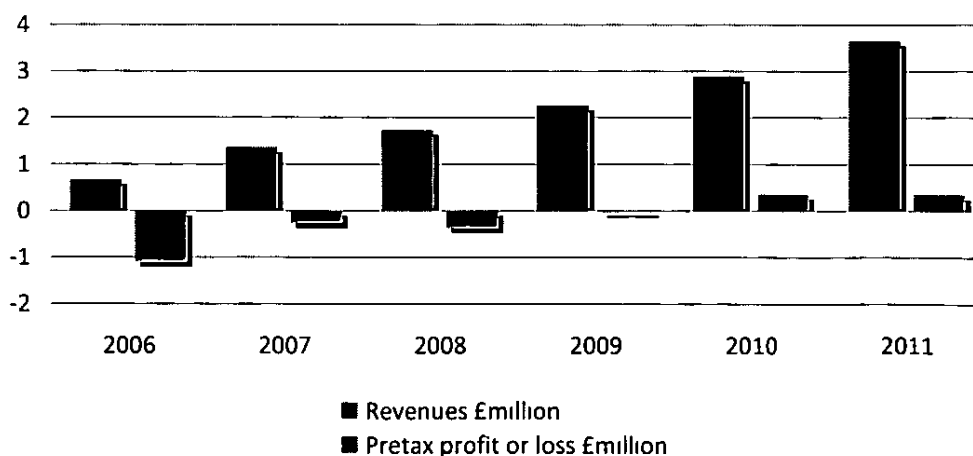
Sales of our 'Messaging Gateway' product to Mobile operators and directly to enterprises, offering a range of interfaces for content providers, enterprises and Facebook developers, continue to increase. The product enables enterprises to manage messages (mainly SMS/MMS, but also voice, fax and email) for customers and employees on a wide scale and uptake is gaining momentum particularly as more clients understand its convenience and cost-saving benefits.

Financial Results

Messaging continues to show growth and maintain profitability. For the year ended 31 December 2011, we are reporting a pre-tax profit of £361,226 (2010: £357,245) based on gross revenues of £3,673,747 (2010: £2,901,985).

A history of the group's financial performance both in terms of pre-tax profit and gross revenues is displayed graphically as follows -

Financial Results 2006 to 2011



The group's cash balances at 31 December 2011 totalled £543,684 (2010: £357,319).

Chairman's statement

In February 2012, the company completed the buyback of 80,007,853 ordinary shares in the company from Pacific Continental Securities UK Limited ('Pacific') for £127,500. The acquired shares were cancelled leaving the company with 155,872,147 ordinary shares of 0.5 pence each in issue.

As part of the agreement and following completion of the buyback, Pacific were granted options to subscribe for up to 10,000,000 new ordinary shares at 0.5 pence per share exercisable in whole or in part, which will lapse on the earlier of three years from the date of grant or the date on which Pacific is dissolved. Details of the capital cancellation can be found in the circular to shareholders dated 23 November 2011. The financial effect of this capital cancellation and reorganisation is illustrated by way of pro forma financial statements set out on pages 14 and 15.

In June 2012, the company's subsidiary, TeleMessage Ltd, signed an agreement for a loan of US\$1,000,000 from Mizrahi Tefahot Bank Ltd. This loan will be used for the development of new innovative products and services as well as assisting the group's working capital requirements.

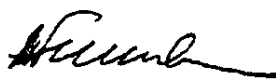
Under the terms of the agreement, repayments will be over 36 equal monthly instalments with an interest rate based on the London Interbank Offered Rate plus 5.5%.

In addition, as part of the agreement, the company will grant to Mizrahi Tefahot Bank Ltd 3,896,804 warrants exercisable at any time from grant until 17 June 2017. The warrants are exercisable at a price of 0.63p per share, although in certain circumstances the exercise price might be subject to adjustment.

Outlook

Our focus remains on increasing our presence within the telecom sector both geographically and technologically. We are a profitable company with a growing team of technical experts that has again proven its ability to provide innovative messaging services that add value to our blue chip customers, thus positioning the Company for continued growth.

I would like to thank our team for their hard work and dedication over the past year, and our shareholders for their continued support. I look forward to reporting another successful period of trading at our Interims.



H Furman
Chairman
28 June 2012

Horacio Furman, (aged 65), non-executive chairman

Horacio is the chief executive officer of Prideway Holdings Ltd. He is a director of Arba Finance Company Ltd and has worked with Estevan International Ltd, a telecommunications equipment marketing company in the development of new markets, primarily for Israeli high-tech telecom technology companies. He was previously a director of the Israeli Corporation (listed in Israel) as well as executive vice president for Projects at UDI, Inc, a trading company, where as head of the China operations he was involved in the introduction to China of various telecom technologies. Prior to that, he held positions in Production and Marketing at ISCAR, Ltd. Horacio holds a B Sc in Mechanical Engineering and a M Sc degree in Materials Engineering from the Technion, Israel's Institute of Technology, and an MBA from INSEAD.

Guy Levit, (aged 41), chief executive officer

Guy was one of the founders of TeleMessage in 1999 and was appointed chief executive officer in July 2002. Prior to this he held various sales, marketing and operational positions within the group. Between 1996 until 1999 he was the head of the planning and development department of the elite technical unit of the intelligence corps of the Israeli Defence Force (IDF). In this role he was in charge of budgets, project management and the design, development, implementation and maintenance of organisational, managerial and logistical information systems. Guy holds a BSc in Industrial Engineering from the Technion, Israel's Institute of Technology and holds an MBA from Tel Aviv University.

Irvin Fishman, (aged 62), finance director

Irvin qualified as a chartered accountant in 1974. He is currently a director of Montpelier Professional (West End) Ltd, formerly Auerbach Hope, Chartered Accountants in which he was a partner. He has held the position of finance director for several publicly quoted companies and has extensive experience in corporate and strategic planning, acquisitions and finance.

David Rubner, (aged 72) non-executive director

Mr Rubner is chairman and chief executive officer of Rubner Technology Ventures Ltd, a venture capital firm, and is a general partner at Hyperion Israel Advisors Ltd, a venture capital fund. Prior to founding Rubner Technology Ventures, Mr Rubner served as president and chief executive officer of ECI Telecommunications Ltd, a provider of telecommunications networking infrastructure solutions from September 1991 to February 2000. Prior to his appointment as president and chief executive officer, Mr Rubner held various management positions at ECI Telecom. Mr Rubner serves as a member of the boards of directors of Elbit Imaging Ltd, Radware Ltd, Check Point Software Technologies Ltd and a number of private companies. Mr Rubner is also a member of the board of trustees of Bar-Ilan University and Shaare Zedek Hospital. Mr Rubner holds a B S in Engineering from Queen Mary College, University of London and an M S in Electrical Engineering from Carnegie Mellon University, and he was a recipient of the Industry Prize in 1995.

Geoffrey Simmonds, (aged 69), non-executive director

Geoffrey is the chief executive officer of Westside Investments Plc, and a non-executive director of Fitbug Holdings Plc, both AIM listed companies. He qualified as a chartered accountant in 1966. He has extensive involvement and experience in corporate and strategic planning, acquisitions and finance. Geoffrey holds various other private company directorships.

The directors present their report and financial statements for the year ended 31 December 2011

Results and dividends

The profit for the group before and after tax is given on page 12. The directors do not recommend the payment of a dividend.

Principal activity

The principal activity of Messaging International Plc ("the company") is as a holding company to its trading subsidiary in Israel, TeleMessage Limited. The company's subsidiary undertaking in Israel together with its own subsidiary undertaking TeleMessage Inc., based in the USA, continued to develop messaging systems to enable converged messaging products and services.

Business review, key performance indicators and future developments

The board continues to focus on all activities carried on by its trading subsidiaries. Details of these activities and a review of the business and future developments are given in more detail in the chairman's statement on pages 2 and 3.

The group's key performance indicators are measured by reference to revenues and operating performance. Details are given in note 7 in the notes to the group and parent company financial statements.

Business risk

The operating performance and future prospects of the company are dependent on the ability of its subsidiary undertakings to develop and improve messaging systems and identify a market that will provide an ongoing income stream.

Financial risk

The main financial risks to the group are market, credit, liquidity and foreign exchange fluctuations.

Market risk is the risk that changes in general economic conditions and will adversely affect the level of business necessary to maximise revenues from trading activities.

Credit risk arises from trade receivables where the party fails to discharge their obligation in relation to the financial instrument. To minimise this risk, management have appropriate credit assessment methods to establish credit worthiness of new customers and monitor receivables by regularly reviewing aged receivable reports. There is no concentration of credit risk.

Liquidity risk arises in relation to the group's management of working capital and the difficulties that the company or any of its subsidiary undertakings may encounter in meeting financial obligations as and when they fall due. To minimise this risk the liquidity position and working capital requirements are regularly reviewed by management.

As the majority of the group's revenue is denominated in US dollars, there is exposure to adverse currency movements which might affect operating performance. The group monitors this risk and take whatever steps are necessary to minimise its adverse financial effects.

The group's interest rate risk derives mainly from a long-term liabilities which includes a bank loan that is linked to the LIBOR interest rate. There is therefore a risk that cash flow may be adversely affected by changes in the rate of interest. However, the directors do not consider changes in interest rates have a significant impact on the group's cost of finance or operating performance.

Directors' report

Directors

The directors holding office at 31 December 2011 were -

H Furman
G Levit
I Fishman
D Rubner
G Simmonds

In accordance with the company's Articles of Association, one third of the board are subject to re-election at the forthcoming annual general meeting. Accordingly, H Furman retires by rotation and being eligible offers himself for re-election.

Directors' interests

At the date of this report the directors held the following beneficial interest in the ordinary share capital, and share options of the company

	Ordinary shares No	Share options No
H Furman*	68,808,276	-
G Levit	4,387,608	8,000,000
I Fishman	-	-
D Rubner	1,088,512	500,000
G Simmonds **	200	-

* H Furman's holding includes 34,492,934 ordinary shares owned by Prideway Holdings Limited, a company under his control, 17,782,009 personally and 16,533,333 by Lynchwood Nominees

**G Simmonds is the registered holder of 200 ordinary shares held in trust for Reverse Take-Over Investments Plc a company in which he is a director

No other director has been granted share options

The company maintains directors and officers liability insurance

Substantial interests

As at 21 June 2012, the following had an interest of 3% or more in the ordinary share capital of the company

	Ordinary shares	Percentage
Prideway Holdings Limited*	34,492,934	22.1
Reverse Take-over Investments Plc	24,000,000	15.4
H Furman*	17,782,009	11.4
Lynchwood Nominees*	16,533,333	10.6
W Weston	11,250,000	7.2

Supplier payment policy for the payment of creditors

The group's policy is to settle its liabilities within terms of payment agreed with suppliers. The group's normal terms of payment are 30 days. The parent company adheres to terms of payment agreed with suppliers. At 31 December 2011, and at all other times during the year, trade creditors were minimal.

The ratio, expressed in days, of the amounts owed to trade creditors at the year end as compared with amounts invoiced to suppliers during the year was 62 days (2010 – 72 days)

Health and safety

The company recognises the importance of safeguarding the health, safety and welfare of all employees in the group and the subsidiary undertakings in both Israel and USA have health and safety policies in place

Environmental policy

The group recognises the importance of environmental responsibilities and where practicable has an environmental policy in place which includes the recycling of paper and all office material. The directors believe the nature of its activities have a minimal effect on the environment

Research and development

The group continues to develop and improve its product range. Expenditure on research and development, including an element of wages, amounted to £796,344 (2010 £583,005). Grants received from the Israeli Office of the Chief Scientist towards these costs were £119,421 (2010 £100,264). This support provides the company with additional resources to invest in the development of new products

Directors' responsibilities

The statement of directors' responsibilities is set out on page 9

Auditors

In accordance with Section 489 of the Companies Act 2006 a resolution proposing that Jeffrey's Henry LLP be re-appointed as auditors of the company will be put forward at the forthcoming annual general meeting

Statement of disclosure to auditor

So far as the directors are aware, there is no relevant audit information of which the group's auditors are unaware, and each director has taken all steps that they ought to have taken as director in order to make himself aware of any relevant audit information and to establish that the group's auditors are aware of that information

By order of the board,


I Fishman
Company secretary
28 June 2012

The board of Messaging International Plc is accountable to its shareholders for good corporate governance and in so doing is committed to the principles outlined in the Combined Code. Although AIM listed companies are not required to report on the Combined Code, the directors are committed to proper standards of good governance and will continue to keep procedures under review. The following provides an outline of the principal policies and procedures established by the board.

Board and board committees

Board meetings are held on a regular basis throughout the year which with few exceptions have been fully attended. In view of the small size of the board, matters which should be dealt with by the remuneration committee are dealt with by the board as a whole.

The audit committee comprises of the two non-executive directors and meetings are held twice a year to review the company's interim and final results.

Messaging is quoted on AIM and, as such under AIM Rule 31, the company is required to

- have in place sufficient procedures, resources and controls to enable its compliance with the AIM rules,
- seek advice from its nominated adviser ("nomad") regarding its compliance with the AIM Rules whenever appropriate and take that advice into account,
- provide the company's nomad with any information it requests in order that the nomad can carry out its responsibilities under the AIM Rules for companies and the AIM rules for nominated advisers,
- ensure that each of the company's directors accepts full responsibility, collectively and individually, for compliance with the AIM Rules, and
- ensure that each director discloses without delay all information which the company needs in order to comply with AIM Rule 17 (Disclosure of Miscellaneous Information) insofar as that information is known to the director or could with reasonable diligence be ascertained by the director.

Even though an AIM committee has not yet been established, the board as a whole have considered their obligations under AIM Rule 31 and are satisfied that the objectives as set out above are being met.

Relationships and shareholders

The board places considerable importance on creating and maintaining a strong relationship with its shareholders.

Accountability and financial control

The board has overall responsibility for the systems of financial controls which reflect the current scale of the group's activities, the key features of which are as follows:

- (i) **Control environment**
There are clearly defined organisational responsibilities and the board is committed to employing suitably qualified staff so that the appropriate level of authority can be delegated with regard to accountability and acceptable levels of risk.
- (ii) **Information systems**
The group prepares an annual budget and monthly financial information is prepared and discussed at the monthly board meetings.
- (iii) **Identification and evaluation of business risks and controls**
Management control is exercised at all levels of the group and is regulated by appropriate limits of authority. The directors have considered various areas of business risks and take decisions whenever there are perceived changes to the risks.
- (iv) **Quality and integration of personnel**
The group attaches high importance to the values of trust, honesty and integrity of personnel in positions of responsibility and operates a policy of recruiting suitably experienced personnel with defined duties.

The board has considered the need for an internal audit function but does not consider that the size of the business justifies a fulltime appointment. The board continues to monitor this appointment and will act accordingly.

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, as required by the AIM Rules of the London Stock Exchange, elected to prepare the group and company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. 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 the group and of the profit or loss of the group for that period. In preparing these financial statements the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether the group financial statements have been prepared in accordance with IFRS's as adopted by the European Union,
- state, with regard to the parent company financial statements, whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that company and the group will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions that disclose with reasonable accuracy at any time the financial position of the company and the group 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 group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of any corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditors' report to the shareholders of Messaging International Plc

We have audited the financial statements ("the financial statements") of Messaging International Plc for the year ended 31 December 2011 which comprise the consolidated statement of comprehensive income, the consolidated and company statement of changes in equity, the consolidated and company statement of financial position, the consolidated and company statements of cash flow and the related notes. The financial reporting framework has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS's) as adopted by the European Union (EU) and as regards the parent company financial statements as applied in accordance with the provisions of the Companies Act 2006.

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 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 and for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement whether caused by fraud or error. This includes an assessment of whether, the accounting policies are appropriate to the group and parent company's circumstances and have been consistently applied and accurately disclosed, the reasonableness of accounting estimates made by the directors and the overall presentation of the financial statements. In addition we read all the financial and non-financial information in the chairman's statement and directors' report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's state of affairs as at 31 December 2011 and of the group's profit for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRS's as adopted by the European Union,
- the parent company financial statements have been properly prepared in accordance with IFRS's as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the provisions of the Companies Act 2006.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following

Under the Companies Act 2006 we are required to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, 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 directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Jonathan Isaacs (Senior Statutory Auditor)
For and on behalf of Jeffreys Henry LLP, Statutory Auditor

5-7 Cranwood Street
Finsgate
London EC1V 9EE

28 June 2012

Consolidated statement of comprehensive income for the year ended 31 December 2011

	Notes	2011 £	2010 £
Continuing operations:			
Revenues	5b, 7	3,673,747	2,901,985
Cost of revenues		<u>(1,507,492)</u>	<u>(1,142,621)</u>
Gross profit		<u>2,166,255</u>	<u>1,759,364</u>
Operating expenses			
Research and development		(676,923)	(482,741)
Selling and marketing		(606,382)	(494,328)
General and administrative		(480,264)	(410,760)
Total operating expenses		<u>(1,763,569)</u>	<u>(1,387,829)</u>
Operating profit	8	402,686	371,535
Finance costs (net)	11	<u>(41,460)</u>	<u>(14,290)</u>
Profit before taxation		361,226	357,245
Taxation	12	<u>(36,850)</u>	-
Comprehensive profit for the year attributable to equity holders of the parent company		<u>324,376</u>	<u>357,245</u>
Other comprehensive profit/(loss)			
Foreign exchange difference on translation of foreign operations		3,009	(48,686)
Foreign exchange difference arising from restating the carrying value of goodwill associated with foreign operations		4,538	106,348
		<u>7,547</u>	<u>57,662</u>
Total comprehensive profit attributable to equity holders of the parent company		<u>331,923</u>	<u>414,907</u>
Earnings per share			
Earnings per share from operations	13	<u>0 14p</u>	<u>0 15p</u>
Diluted earnings per share from operations	13	<u>0 12p</u>	<u>0 13p</u>

The notes on pages 18 to 38 form part of these financial statements

Statements of changes in equity for the year ended 31 December 2011

The group

	Share capital	Share premium	Foreign exchange reserve	Revenue reserves	Total
As at 1 January 2010	1,179,400	4,298,727	336,730	(1,881,674)	3,933,183
Profit for the year	-	-	-	357,245	357,245
Foreign currency translation changes for goodwill	-	-	106,348	-	106,348
Other foreign currency translation changes	-	-	(52,517)	-	(52,517)
Share based payments for employee share options	-	-	-	3,831	3,831
At 31 December 2010	1,179,400	4,298,727	390,561	(1,520,598)	4,348,090
Profit for the year	-	-	-	324,376	324,376
Foreign currency translation changes for goodwill	-	-	4,538	-	4,538
Other foreign currency translation changes	-	-	3,009	-	3,009
Share based payments for employee share options	-	-	-	1,496	1,496
At 31 December 2011	1,179,400	4,298,727	398,108	(1,194,726)	4,681,509

The company

	Share capital	Share premium	Revenue reserves	Total
As at 1 January 2010	1,179,400	4,298,727	(67,431)	5,410,696
Loss for the year	-	-	(9,373)	(9,373)
At 31 December 2010	1,179,400	4,298,727	(76,804)	5,401,323
Profit for the year	-	-	33,204	33,204
At 31 December 2011	1,179,400	4,298,727	(43,600)	5,434,527

The following describes the nature and purpose of each reserve within owners' equity

Share capital. The amount subscribed for shares at nominal value

Share premium. The amount subscribed for share capital in excess of nominal value

Foreign exchange reserve The effect of changes in exchange rates arising from translating the financial statements of subsidiary undertakings into the company's reporting currency

Revenue reserves Cumulative realised profits less losses and distributions attributable to equity holders of the group

The notes on pages 18 to 38 form part of these financial statements

Consolidated statement of financial position at 31 December 2011

	Note	Pro- forma 2011 £	Notes	2011 £	2010 £
Non-current assets					
Intangible assets		3,673,203	15	3,673,203	3,668,665
Property, plant and equipment		118,807	16	118,807	57,148
Other investments		238,230	17	238,230	206,362
Total non-current assets		4,030,240		4,030,240	3,932,175
Current assets					
Trade and other receivables		1,144,714	18	1,144,714	845,225
Cash and cash equivalents		416,184	26	543,684	357,319
Total current assets		1,560,898		1,688,398	1,202,544
Total assets		5,591,138		5,718,638	5,134,719
Current liabilities					
Trade and other payables		(706,348)	19	(706,348)	(464,449)
Borrowings		-	20	-	(44,737)
Total current liabilities		(706,348)		(706,348)	(509,186)
Non-current liabilities					
Other payables		(58,100)	22	(58,100)	(39,582)
Provisions		(272,681)	21	(272,681)	(237,861)
Total non-current liabilities		(330,781)		(330,781)	(277,443)
Total liabilities		(1,037,129)		(1,037,129)	(786,629)
Net assets		4,554,009		4,681,509	4,348,090
Equity attributable to owners of the parent company					
Share capital	27	779,361	23	1,179,400	1,179,400
Share premium	27	-		4,298,727	4,298,727
Capital redemption reserve	27	400,039		-	-
Foreign currency translation reserve	27	398,108		398,108	390,561
Revenue reserves	27	2,976,501		(1,194,726)	(1,520,598)
Total Equity		4,554,009		4,681,509	4,348,090

The financial statements were approved and authorised for issue by the board on 28 June 2012 and signed on its behalf by

The group pro-forma statement of financial position represents the balance sheet at 31 December 2011 subsequent to the capital reorganisation approved by shareholders on 16 December 2011 and by the High Court on 25 January 2012 and illustrates the financial position at 31 December 2011 had the reorganisation taken place at that date. The pro-forma statement of financial position does not form part of the statutory financial statements.

G Simmonds
Director

I Fishman
Director

The notes on pages 18 to 38 form part of these financial statements

Company statement of financial position at 31 December 2011

	<i>Pro-forma</i> 2011 £	Notes	2011 £	2010 £
Non current assets				
Investment in subsidiary undertakings	3,269,000	15	3,269,000	3,269,000
Total non-current assets	<u>3,269,000</u>		<u>3,269,000</u>	<u>3,269,000</u>
Current assets				
Receivables due after one year	1,994,056	18	1,994,056	2,125,132
Trade and other receivables	32,515	18	32,515	21,688
Cash and cash equivalents	49,286	26	176,786	15,452
Total current assets	<u>2,075,857</u>		<u>2,203,357</u>	<u>2,162,272</u>
Total assets	<u>5,344,857</u>		<u>5,472,357</u>	<u>5,431,272</u>
Current liabilities				
Trade and other payables	(37,830)	19	(37,830)	(29,949)
Total liabilities	<u>(37,830)</u>		<u>(37,830)</u>	<u>(29,949)</u>
Net assets	<u>5,307,027</u>		<u>5,434,527</u>	<u>5,401,323</u>
Equity				
Share capital	779,361	23	1,179,400	1,179,400
Share premium	-		4,298,727	4,298,727
Capital redemption reserve	400,039		-	-
Revenue reserves	4,127,627		(43,600)	(76,804)
Total equity	<u>5,307,027</u>		<u>5,434,527</u>	<u>5,401,323</u>

The financial statements were approved and authorised for issue by the board on 28 June 2012 and signed on its behalf by

The company pro-forma statement of financial position represents the balance sheet at 31 December 2011 subsequent to the capital reorganisation approved by shareholders on 16 December 2011 and by the High Court on 25 January 2012 and illustrates the financial position at 31 December 2011 had the reorganisation taken place at that date. The pro-forma statement of financial position does not form part of the statutory financial statements.

G Simmonds
Director

I Fishman
Director

The notes on pages 18 to 38 form part of these financial statements

Consolidated statement of cash flows for the year ended 31 December 2011

	Notes	2011 £	2010 £
Cash flow from operating activities			
Operating profit		402,686	371,535
Adjustments for:			
Share based payments		12,056	21,331
Depreciation and amortisation		36,803	30,756
Foreign currency differences		(29,152)	(8,169)
		<u>19,707</u>	<u>43,918</u>
Operating cash inflow before working capital movements		422,393	415,453
Increase in receivables		(299,489)	(236,619)
Increase in payables		235,679	190,849
Increase in provisions		34,820	57,628
		<u>(28,990)</u>	<u>11,858</u>
Cash inflow from operating activities		393,403	427,311
Investing activities			
Interest received		6,687	-
Interest and related costs		(15,762)	(22,130)
Investments		(31,868)	(48,800)
Purchase of tangible assets		(98,686)	(30,163)
Net cash used in investing activities		<u>(139,629)</u>	<u>(101,093)</u>
Taxation		<u>(12,112)</u>	<u>-</u>
Financing activities			
Bank loan repayments		(55,297)	(171,590)
Net cash used from financing activities		<u>(55,297)</u>	<u>(171,590)</u>
Net change in cash and cash equivalents		186,365	154,628
Cash and cash equivalents and bank overdraft at the beginning of the year		357,319	202,691
Cash and cash equivalents and bank overdraft at the end of the year	26	<u>543,684</u>	<u>357,319</u>

The notes on pages 18 to 38 form part of these financial statements

Company statement of cash flows for the year ended 31 December 2011

	Notes	2011 £	2010 £
Cash flow from operating activities			
Operating profit/(loss)		5,466	(38,568)
Share based payments		-	17,500
Operating cash flow before working capital movements		5,466	(21,068)
Decrease/(increase) in receivables		120,249	(9,416)
Increase in payables		7,881	2,699
Cash flow from operating activities		133,596	(27,785)
Finance income		27,738	29,195
Net cash inflow from operating activities		161,334	1,410
Net cash from financing activities		-	-
Net change in cash and cash equivalents		161,334	1,410
Cash and cash equivalents and bank overdraft at the beginning of the year		15,452	14,042
Cash and cash equivalents and bank overdraft at the end of the year	26	176,786	15,452

The notes on pages 18 to 38 form part of these financial statements

1 General information

Messaging International Plc is a company incorporated in the UK and its activities are as described in the chairman's statement and directors' report

2 Basis of Accounting

The consolidated financial statements of the company for the year ended 31 December 2011 have been prepared on a historical cost basis and are in accordance with International Financial Reporting Standards ('IFRS') as adopted by the EU. These have been applied consistently except where otherwise stated.

The group has adopted the following new and amended IFRSs as of 1 January 2011

IAS 32 (amendment), 'Financial instruments presentation – classification of rights issue', is effective from annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro-rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the company after initial application.

IAS 24 (Amendment), 'Related party transactions'. The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The company does not expect any impact on its financial position or performance.

IFRIC 14 (Amendment), 'Prepayments of a minimum funding requirement'. The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the company.

IFRIC 19, 'Extinguishing financial liabilities with equity instruments', is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the company.

Standards, interpretations and amendments to published standards that are not yet effective

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 January 2011 and have not been early adopted.

IFRS 9, 'Financial instruments classification and measurement', as issued reflects the first phase of the IASB work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address classification and measurement of financial liabilities and hedge accounting. The adoption of the first phase of IFRS 9 might have an effect on the classification and measurement of the company's assets. At this juncture it is difficult for the company to comprehend the impact on its financial position and performance.

IFRS 7, 'Financial instruments disclosures (amendment)', is effective for annual periods beginning on or after 1 July 2011. The amendments requires additional quantitative and qualitative disclosures relating to transfers of financial assets, where financial assets are derecognised in their entirety, but where the entity has a continuing involvement in them and where financial assets are not derecognised in their entirety. In addition to the above there has been a subsequent amendment effective for annual periods beginning on or after 1 January 2013 related to the offsetting of financial assets and financial liabilities. The adoption of these will have no effect on the financial statements of the company.

Basis of Accounting (continued)

IAS 12, 'Income taxes (amendment) – Deferred taxes recovery of underlying assets', is effective for annual periods beginning on or after 1 January 2012. It introduces a rebuttable presumption that deferred tax on investment properties measured at fair value will be derecognised on a sale basis, unless an entity has a business model that would indicate the investment property will be consumed in the business. If consumed a use basis would need to be adopted. The amendments also introduce the requirement that deferred tax on non-depreciable assets measured using the revaluation model in IAS 16 should always be measured on a sale basis. The adoption of this interpretation will have no effect on the financial statements of the company.

IFRS 11 Joint Arrangements is effective from 1 January 2013. The core principle of the standard is that a party to a joint arrangement determines type of joint arrangements in which it is involved by assessing the rights and obligations and accounts for those rights and obligations in accordance with the type of joint arrangement. Joint ventures now must be accounted for using the equity method. Joint operator which is a newly defined term recognises its assets, liabilities, revenues and expenses and relative shares thereof. The adoption of this will have no effect on the financial statements of the company.

IFRS 12 Disclosures of Interests with Other Entities is effective from 1 January 2013. It requires increased disclosure about the nature, risks and financial effects of an entity's relationship with other entities along with its involvement with other entities. The adoption of this will have no effect on the financial statements of the company.

IFRS 13 Fair Value Measurement is effective from 1 January 2013. It defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. It includes a three-level fair value hierarchy which priorities the inputs in a fair value measurement. The adoption of this will have no effect on the financial statements of the company.

IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosures of Interests with Other Entities along with related amendments to IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures will have an effective date of 1 January 2013. Early adoption of these standards is permitted, but only if all five are early adopted together.

IFRS 10 does not change consolidation procedures but changes whether an entity is consolidated by revising the definition of control and provides a number of clarifications on applying the new definition of control. The adoption of this will have no effect on the financial statements of the company.

IFRS 1 First-time Adoption of International Financial Reporting Standards (amendment) – Severe Hyperinflation and removal of Fixed Dates for First-time adopters has an effective date for annual periods beginning on or after 1 July 2011. This provides further guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to severe hyperinflation. Early adoption of these standards is permitted. The adoption of this will have no effect on the financial statements of the company.

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1 is effective for annual periods beginning on or after 1 July 2012. Items that would be reclassified to the profit and loss at a future point would be presented separately from items that will never be capitalised. The adoption of this will have no effect on the financial statements of the company.

AS19 Employee Benefits (Revised) effective for annual periods beginning on or after 1 January 2013. For defined benefit plans the ability to defer recognition of actuarial gains and losses has been removed. There are new objectives for disclosure stated in the revised standard along with new or revised disclosure requirements. Plus the recognition of termination benefits and the distinction of short-term and other long-term employee benefits have changed. The adoption of this will have no effect on the financial statements of the company.

3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company (its subsidiaries) made up to 31 December each year. Control is achieved where the company has the power to govern the financial and operating policies of any subsidiary undertaking so as to obtain benefits from its activities.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to profit and loss in the period of acquisition.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the group.

Details of subsidiary undertakings are set out in note 15.

All intra-group transactions and balances have been eliminated in preparing the consolidated financial statements.

4 Presentational currency

These financial statements are presented in pounds sterling because the parent is an AIM traded company on the London Stock Exchange.

5 Significant accounting policies

(a) Going concern

These financial statements have been prepared on the assumption that the group is a going concern. When assessing the foreseeable future, the directors have looked at a period of twelve months from the date of approval of this report. The forecast cash-flow requirements of the business are contingent upon the ability of the group to retain revenues from existing contracts and generate future revenues from future business. As the directors have reasonable expectations that the group has adequate resources to continue trading for the foreseeable future they continue to adopt the going concern basis in preparing the financial statements.

Were the group unable to continue as a going concern, adjustments would have to be made to the statement of financial position of the group to reduce the value of assets to their recoverable amounts, to provide for future liabilities that might arise and to reclassify non-current assets and long-term liabilities as current assets and liabilities.

(b) Revenue recognition

The group generates revenue primarily from licensing its messaging services to service providers, corporations and other distributors as well as from hosting and maintenance fees and from the use of messaging services by end users.

The group recognises revenue when delivery of the product has occurred, a fee can be reliably measured and the ability to collect such revenues is probable.

Deferred revenue includes amounts received from customers for which revenue has not yet been recognised.

(c) Research and development costs

Research costs are expensed to operations as incurred. Development costs are also expensed to operations as incurred if such costs do not meet the criteria for capitalisation as set forth in IAS 38, "Intangible assets". In the years ended 31 December 2011 and 2010 no development costs have been capitalised.

Significant accounting policies (cont.)

(d) Goodwill and impairment

The carrying amounts of assets are reviewed at each reporting date to determine whether there is any indication of impairment

If any such indication exists then the asset's recoverable amount is estimated. For goodwill that has an indefinite useful life, recoverable amount is estimated at each reporting date or more frequently when indications of impairment are identified.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount unless the asset is carried at a revalued amount, in which case the impairment loss is recognised directly against any revaluation surplus for the asset to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same asset. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in the income statement in the period in which it arises. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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.

Impairment loss on goodwill is not reversed in a subsequent period. An impairment loss for an asset other than goodwill is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of an asset other than goodwill is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of impairment loss for an asset other than goodwill is recognised in the income statement unless the asset is carried at revalued amount, in which case, such reversal is treated as a revaluation increase.

(e) Investment in subsidiary undertakings

The investment in subsidiary undertakings is stated in the balance sheet at cost less any provision for impairment. Impairment is recognised immediately in the income statement and is not subsequently reversed.

(f) Property, plant and equipment

Property, plant, and equipment are stated at cost net of accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets at the following annual rates:

	%
Computers	33
Electronic equipment	15–25
Furniture and office equipment	7–15
Leasehold improvements	10

The carrying value of property plant and equipment is reviewed for impairment when events or changes indicate the carrying value may not be recoverable. If any such indication exists and carrying values exceed recoverable amounts such assets are written down to their recoverable amounts.

(g) Operating leases

Rentals applicable to operating leases, where substantially all of the benefits and risks of ownership remain with the lessor, are charged against income as and when incurred.

Significant accounting policies (cont)

(h) Share options

Employee share options

The group has applied the requirements of IFRS 2 "Share-based Payments"

The group issues equity-settled and cash-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the group's estimate of shares that will eventually vest.

Fair value is measured by use of a Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

A liability equal to the portion of the goods or services received is recognised at the current fair value determined at each balance sheet date for cash-settled share-based payments.

Other share options and equity instruments

Where equity instruments are granted to persons other than employees the income statement is charged with the fair value of services received.

This policy has been applied to share warrants issued to Mizrahi Tefahot Ltd as part of their loan agreement with the company's subsidiary undertaking in Israel and to the company's nominated advisers in relation to reduced fees for a two year period. Details in relation to these agreements are given in notes 20 and 23 to the financial statements.

(i) Severance pay

Pursuant to Israel's severance pay law, employees of more than one year are entitled to one month's salary for each year employed or a portion thereof. The cost of providing severance pay is determined using an independent actuary. Actuarial gains and losses are recognised immediately in the income statement in the period in which they occur.

The value of deposited funds is based on the cash surrender value of the insurance policies. The deposited funds include profits accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon fulfilment of the severance pay obligation, pursuant to Israel's severance pay law or labour agreements.

(j) Government grants

Government grants are recognised when there is reasonable assurance that the grants will be received and the company will comply with the attached conditions. Government investment grants related to assets, such as property, plant and equipment, are presented as a deduction from the carrying amount of the assets.

Government grants received from the Office of the Chief Scientist ("OCS") in Israel as support for a research and development project which include an obligation to pay to the State royalties that are conditional on future sales arising from the project, are recognised upon receipt as a liability, pursuant to IAS 39 'Financial Instruments: Recognition and Measurement', if future economic benefits are expected from the project that will result in royalty-bearing sales. If no such economic benefits are expected, the grants are recognised as a reduction of the related research and development expenses. In that event, the royalty obligation is treated as contingent liability in accordance with IAS 37.

At each reporting date, the company evaluates whether there is reasonable assurance that the royalty liability, in whole or in part, will or will not be settled based on the best estimate of future sales. If the estimate of future sales indicates that there is no such reasonable assurance, the appropriate liability reflecting the anticipated royalty payments is recognised with a corresponding charge to research and development expenditure.

Royalty payments are treated as a reduction of the liability.

Significant accounting policies (cont.)

(k) Taxation

Income tax expense represents the sum of the current tax payable and the deferred tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the same 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 balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax is reviewed at each balance sheet 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 realised. Deferred tax is charged or credited to 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 there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

(l) Foreign currency

Transactions in foreign currency are recorded at the rate of exchange prevailing at the date of the transaction. All differences are taken to the income statement. Assets and liabilities denominated in foreign currency are translated into sterling at the rate of exchange prevailing at the balance sheet date.

On consolidation, income and expenditure of subsidiary undertakings are translated into sterling at average rates of exchange in the period. Assets and liabilities are translated into sterling at the rate of exchange ruling at the balance sheet date. Exchange differences arising from the use of average rates for translating the results of foreign subsidiaries or from the translation of net assets on the acquisition of foreign subsidiary undertakings are taken to the group's translation reserves.

(m) Investments

Investments represent funds invested in insurance policies in order to meet severance pay obligations pursuant to Israeli severance pay law and staff contracts of employment relevant to the company's principal subsidiary undertaking in Israel.

(n) Trade receivables

Trade receivables are recognised at fair value. A provision for impairment of trade receivables is established where there is objective evidence that the company or group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or liquidation and default or delinquency of payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original rate of interest. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement within administrative expenses. When a trade receivable is uncollectable it is written off against the allowance account for trade receivables.

Significant accounting policies (cont.)

(o) Cash and cash equivalents

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

(p) Provisions

A provision is recognised when the group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation and the effect is material.

(q) Financial liabilities and equities

Financial liabilities and equities 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 group after deducting all of its liabilities.

Ordinary shares are classified as equity. Incremental costs directly attributable to new shares are shown in equity as a deduction from the proceeds.

Share premium represents funds raised from shareholders in excess of their nominal value net of issue costs.

Revenue reserves represent the cumulative net gains and losses of the group along with increases in equity for services received in equity settled share-based transactions.

Borrowings represent bank borrowings and are measured at amortised cost.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(r) Borrowing costs

Borrowing costs are expensed to the comprehensive income statement in the period incurred.

(s) Managing capital

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

6 Critical accounting judgements and key sources of estimation uncertainty

The key assumptions made in the financial statements concerning uncertainties at the date of financial position and the critical estimates computed by the group that may cause a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Share based payments

The group has made awards of options over its unissued share capital to certain directors, employees as part of their remuneration package, and Seymour Pierce, the company's nominated advisors in lieu of fees and warrants to Mizrahi Tefahot Ltd, bankers to TeleMessage Ltd.

The valuation of share options and warrants involve making a number of critical estimates relating to price volatility, future dividend yields, expected life of the options and forfeiture rates. The assumptions have been described in more detail in notes 20, 23 and 29.

6 Critical accounting judgements and key sources of estimation uncertainty (cont)

Employee benefits liability

The measurement of the liability in respect of the defined benefit pension plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about, among others, discount rates, expected rates of return on assets, future salary increases and mortality rates. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. Further details are given in Note 21.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which the goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value.

The carrying amount of goodwill at the year end has not required impairment. However after taking into account exchange rate fluctuations, the carrying value at 31 December 2011 was £3,673,203 (2010 £3,668,665).

Property, plant and equipment

The costs of property, plant and equipment of the group are depreciated on a straight-line basis over the useful lives of the assets. Management estimates the useful lives of the property, plant and equipment to be within 3 to 5 years. These are common life expectancies applied in the industry. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised. The carrying amounts of the group's property, plant and equipment as at 31 December 2011 are disclosed in Note 16 to the financial statements.

7 Revenues

(a) Group activities

The group activities are in a single business segment, being the development of end-user media messaging systems.

(b) Revenues by geographic market and customer location

The group's operations are located primarily in Israel and the business is managed on the basis of one reportable segment and for this reason the only relevant information is as set out below.

The analysis of revenues by geographical market and customer location are as follows:

Customer location	2011 £	2010 £
Europe and Middle East	639,183	437,824
North America	2,988,368	2,442,306
Rest of the world	46,196	21,855
	<u>3,673,747</u>	<u>2,901,985</u>

Revenues originating from -

	2011 £	2010 £
USA	1,984,367	1,581,826
Canada	1,004,001	860,480
Other countries	<u>685,379</u>	<u>332,490</u>

Revenues of £1,563,000 (2010 £844,000) are derived from a single external customer located in the USA.

8. Operating profit

	2011	2010
	£	£
The operating profit is stated after charging		
Staff costs	1,286,393	1,004,917
Research and development	796,344	583,005
Government grant for research and development	(119,421)	(100,264)
Leasing costs	130,517	108,521
Auditors' remuneration	25,610	25,000
Fees to auditors for other services	2,925	2,250
Depreciation and amortisation	36,803	30,756

Included in the audit fee for the group is an amount of £14,850 (2010 £15,000) in respect of the company

9 Staff Costs

Payroll costs include

	Group	
	2011	2010
	£	£
Staff payroll and related costs	1,039,532	795,566
Directors' remuneration	212,899	171,647
Defined benefit scheme expense	32,494	33,873
Employee share option costs	1,468	3,831
	<u>1,286,393</u>	<u>1,004,917</u>

Payroll costs included above for key personnel including the directors totalled £552,290 (2010 £474,842)

The average numbers of employees, including directors during the year, was as follows -

	2011	2010
	No	No
Administration	1	2
Sales and marketing	6	5
Research and development	12	9
Operations	4	3
Directors	5	5
	<u>28</u>	<u>24</u>

10 Directors' remuneration

	2011	2010
	£	£
An analysis of directors' remuneration (who are the key management personnel) is set out below		
Executive directors	202,899	159,590
Non-executive directors	10,000	10,000
Share option costs	-	2,057
	<u>212,899</u>	<u>171,647</u>

Notes to the group and parent company financial statements

	2011	2010
	£	£
G Levit	182,899	141,647
I Fishman	20,000	20,000
G Simmonds	5,000	5,000
D Rubner	5,000	5,000
	<u>212,899</u>	<u>171,647</u>

H Furman has waived his right to director's fees of £5,000 per annum

11 Financial income and finance costs

	2011	2010
	£	£
Finance income.		
Interest received	<u>6,687</u>	<u>-</u>
Finance costs		
Interest payable	15,762	54,993
Loss/(profit) on foreign currency transactions	<u>32,385</u>	<u>(40,703)</u>
	<u>48,147</u>	<u>14,290</u>
Total	<u>41,460</u>	<u>14,290</u>

12 Taxation

	2011	2010
	£	£
Current tax charge	<u>36,850</u>	<u>-</u>
Factors affecting the tax charge in the year		
Profit/loss on ordinary activities before taxation	<u>402,688</u>	<u>357,245</u>
Profit/(loss) on ordinary activities before taxation at the standard rate of UK corporation tax 26.5% (2010 28%)	106,712	100,028
Effects of		
Depreciation and amortisation	(9,853)	(8,612)
Foreign taxation	36,850	-
Used losses	<u>(96,859)</u>	<u>(91,416)</u>
Tax charge	<u>36,850</u>	<u>-</u>

The tax charge for the year represents amounts due for US State tax in relation to the profits of Telemessage Inc based in the USA. US operating losses from previous years are subject to annual limitations due to the "change in ownership" provisions of the Internal Revenue Code of 1986 and similar state provisions.

TeleMessage Ltd in Israel was granted approved enterprise status for its investment programme. The main benefit arising from such status is the reduction in tax rates on income. The company's income from the "Approved Enterprises Scheme" is tax exempt for four years commencing with the year it first earns taxable income and then would be subject to a reduced tax rate of between 10% and 25% for a period of up to six years. Since the company has made a profit in the year to December 2011 it has now begun to utilise the aforementioned tax benefits.

The group's accumulated trading losses to date are approximately £8.7 million. Trading losses of approximately £6 million in relation to TeleMessage Ltd in Israel may be carried forward and offset against future trading income indefinitely and without restriction. The remaining £2.7 million originates from TeleMessage Inc in the US which can be utilised for up to 20 years subject to restrictions.

In accordance with IAS12, the company and the group have not recognised deferred tax assets whilst the level of future profits that will be generated in the foreseeable future remains uncertain.

Notes to the group and parent company financial statements

13 Basic and diluted loss per share

Basic earnings per share has been calculated on the group's profit attributable to equity holders of the parent company of £324,376 (2010 £357,245) and on the weighted average number of shares in issue during the year, which was 235,880,000 (2010 235,880,000)

Diluted earnings per share has been calculated on the group's profit of £324,376 (2010 £357,245) which in addition to 235 million ordinary shares in issue, takes into account 15 million warrants and 23 million options to subscribe for ordinary shares

14 Loss for the financial year

As permitted by Section 408 of the Companies Act 2006, the profit and loss account for the company is not presented as part of these financial statements

The profit for the year dealt with in the financial statements of the company was £33,204 (2010 loss £9,373)

15 Intangible assets

Goodwill and investment in subsidiary undertakings

Goodwill

	2011 £	2010 £
Cost At 31 December 2011, 31 December 2010 and 1 January 2010	<u>3,236,617</u>	<u>3,236,617</u>
Exchange rate changes At 31 December 2010 and 1 January 2010	432,048	325,700
Exchange rate change in the year At 31 December 2011	<u>4,538</u>	<u>106,348</u>
	<u>436,586</u>	<u>432,048</u>
Carrying value at 31 December 2011 and 31 December 2010	<u>3,673,203</u>	<u>3,668,665</u>

Goodwill acquired in a business combination is allocated, at acquisition, to cash generating units (CGUs) that are expected to benefit from that business combination. The carrying amount of goodwill relates wholly to the group's single trading activity and business segment.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding forecast revenues and operating costs. Management have taken into account the following two elements:

- (i) Based on current forecasts revenues are expected to increase in 2011 and 2012
- (ii) Operational systems will be more efficient

A discount factor of 10 % to reflect the time value of money has been applied in these calculations

Company – Investment in subsidiary undertakings

	2011 £	2010 £
Cost of shares At 31 December 2011 and 31 December 2010 and 1 January 2010	<u>3,269,000</u>	<u>3,269,000</u>

Notes to the group and parent company financial statements

Goodwill and investment in subsidiary undertakings (cont)

The following were subsidiaries at the balance sheet date and have been included in these consolidated financial statements

Subsidiary undertakings	Description and proportion of share capital owned	Country of incorporation or registration	Nature of business
TeleMessage Limited	Ordinary 100%	Israel	Trading
TeleMessage Inc *	Ordinary 100%	USA	Trading

* held indirectly through TeleMessage Limited

As at 31 December 2011 the aggregate capital and reserves for TeleMessage Ltd and its wholly owned subsidiary TeleMessage Inc were £(1,148,364) (2010 £(1,452,925)) and the profit after tax for the year was £291,701 (2010 £366,617)

16 Property, plant and equipment

Group	2011 £	2010 £
Cost		
At 1 January	160,642	126,695
Additions	98,686	30,163
Foreign exchange movement	(632)	3,784
At 31 December	<u>258,696</u>	<u>160,642</u>
Depreciation		
At 1 January	103,494	70,628
Depreciation in the year	36,803	30,756
Foreign exchange	(408)	2,110
At 31 December	<u>139,889</u>	<u>103,494</u>
Carrying value		
At 31 December 2011 and 2010	<u>118,807</u>	<u>57,148</u>
At 1 January 2011 and 2010	<u>57,148</u>	<u>56,067</u>

All the above assets are included in the accounts of subsidiary undertakings at their net book values comprising computers and related equipment of £108,923 (2010 £48,268) and office furniture and equipment of £9,884 (2010 £8,880)

17. Other investments

Other investments of £238,230 represents the funds at 31 December 2011 (2010 £206,362) invested in insurance policies, in order to meet the group's severance pay obligations to its employees in Israel pursuant to Israeli severance pay law and staff employment contracts

18 Trade and other receivables

	Group		Company	
	2011 £	2010 £	2011 £	2010 £
Trade receivables	945,180	791,622	-	-
Amounts due from subsidiary undertakings	-	-	1,994,056	2,125,132
Due from government authorities	22,613	-	22,613	-
Deferred expenditure	47,997	-	-	-
Other receivables and prepaid expenses	128,924	53,603	9,902	21,688
	<u>1,144,714</u>	<u>845,225</u>	<u>2,026,571</u>	<u>2,146,820</u>

Notes to the group and parent company financial statements

Trade and other receivables (cont)

The amount due from subsidiary undertakings of £1,994,056 (2010 £2,125,132) is due after more than one year. The amount due from subsidiary undertakings includes an interest-bearing amount of £ 607,049 (2010 £727,077)

Trade receivables - ageing	Total	Neither	<30 days	30-60 days	60-90 days	90-120 days
		overdue or impaired				
	£	£	£	£	£	£
2011	945,180	14,355	378,883	273,822	236,508	41,612
2010	791,622	330,604	263,002	132,023	36,423	29,570

Items past due are unimpaired

The average credit period given for trade receivables at the end of the year is 94 days (2010 100 days)

19 Trade and other payables

	Group		Company	
	2011	2010	2011	2010
	£	£	£	£
Trade payables	130,476	118,991	-	-
Taxes and social security	184,017	132,645	-	-
Accruals and other payables	222,111	193,968	37,830	29,949
Deferred revenue	169,744	18,845	-	-
	<u>706,348</u>	<u>464,449</u>	<u>37,830</u>	<u>29,949</u>

The average credit period taken for trade payables at the end of the year is 62 days (2010 72 days)

20 Borrowings

	Group	Group	Company	Company
	2011	2010	2011	2010
	£	£	£	£
Due within one year	-	44,737	-	-
Due after one year	-	-	-	-
	<u>-</u>	<u>44,737</u>	<u>-</u>	<u>-</u>

In August 2008, the company's subsidiary in Israel, TeleMessage Limited, received a loan facility of \$750,000 from Mizrahi Tefahot Bank Ltd, one of Israel's largest banks which has been fully drawn-down

In January 2009 a further \$350,000 was advanced in order to assist the trading subsidiary undertakings with their growth strategy and ongoing working capital requirements on the same terms as the original loan. Interest on the loan was based on The London Inter-bank Offered Rate (LIBOR) plus 4.5%

As part of the agreement, the company granted Mizrahi Tefahot Bank Ltd warrants to the value of £100,000 to purchase ordinary shares, exercisable at any time from the time of the grant to 13 August 2014

The loan was repaid in full in March 2011

21. Provisions - severance pay liability

Under Israeli severance pay law, part of the compensation payments, pursuant to which the fixed contributions paid by the company into pension funds and/or policies of insurance companies release the group from any additional liability to employees for whom such contributions were made. These contributions and contributions for compensation represent defined contribution plans. The company accounts for that part of the payment of

21 Provisions - severance pay liability (cont)

compensation that is not covered by contributions in defined contribution plans, as above, as a defined benefit plan for which an employee benefit liability is recognized and for which the company deposits amounts in central severance pay funds and in qualifying insurance policies

	Group 2011 £	Group 2010 £
Expense in respect of defined contribution plan	<u>15,577</u>	<u>14,806</u>

(a) The amounts recognised in the statement of financial position are as follows

	Group 2011 £	Group 2010 £
Defined benefit obligation	(272,681)	(237,861)
Fair value of plan assets	238,230	206,362
Benefit liability	<u>(34,451)</u>	<u>(31,499)</u>

(b) Amounts recognised in the statement of operations are as follows

	Group 2011 £	Group 2010 £
Current service cost	25,786	20,922
Interest cost	13,398	11,230
Expected return on assets	(11,675)	(9,880)
Net actuarial (gain) recognised in the year	428	7,136
Adjustments for corrections	4,557	4,465
Total expense included in statement of income	<u>32,494</u>	<u>33,873</u>

(c) Changes in present value of defined benefit obligation are as follows

	Group 2011 £	Group 2010 £
Liability at the beginning of the year	237,861	180,233
Current service cost	25,786	20,922
Interest cost	13,398	11,230
Benefits paid	-	-
Net actuarial gain on obligation	15,653	6,013
Foreign exchange differences	(20,017)	19,463
Liability at the end of the year	<u>272,681</u>	<u>237,861</u>

(d) Changes in fair value of plan assets are as follows

	Group 2011 £	Group 2010 £
Plan assets at the beginning of the year	206,362	157,562
Expected return	11,675	9,880
Contributions by employer	24,847	27,616
Benefits paid	-	-
Return differences transferred to employer	(4,557)	(4,466)
Actuarial gain/(loss)	15,225	(1,123)
Foreign exchange differences	(15,322)	16,893
Plan asset at the end of the year	<u>238,230</u>	<u>206,362</u>

Provisions - severance pay liability (cont.)

(d) The actuarial assumptions used are as follows

	Group 2011	Group 2010
Discount rate	5.46%	5.87%
Future salary increase	3.50%	3.50%
Average expected remaining working years	14.19	14.60

22 Other payables

Royalty commitments

Under the research and development agreement with the Office of the Chief Scientist and pursuant to applicable laws, the subsidiary undertaking is required to pay royalties at the rate of 3% in the first three years and a rate of 3.5% from the fourth year of sales for products developed with funds provided by the OCS, up to an amount equal to 100% of the grants received, plus interest at the 12-month LIBOR rate. The subsidiary undertaking is obligated to make royalty payments in relation to the sale of products directly funded.

	2011 £	2010 £
Amount outstanding at 1 January	39,582	20,764
Foreign exchange difference	1,368	620
Grants received in the year	114,784	119,002
Royalties paid in the year	(1,094)	(1,850)
Taken to statement of comprehensive income	<u>(119,421)</u>	<u>(98,954)</u>
Amount outstanding at 31 December	<u>35,219</u>	<u>39,582</u>

Other payables include deferred liabilities of £22,881 (2010- nil)

23 Share capital

	2011 £	2010 £
Authorised		
800,000,000 ordinary shares of 0.5p each	<u>4,000,000</u>	<u>4,000,000</u>
Issued and fully paid		
235,880,000 (2010 – 235,880,000) ordinary shares of 0.5p each	<u>1,179,400</u>	<u>1,179,400</u>

The company has one class of ordinary share which have no rights to fixed income.

Since the year end, the company purchased 80,007,853 ordinary shares for £127,500. These ordinary shares have since been cancelled leaving 155,872,147 ordinary shares of 0.5p each in issue at 28 June 2012.

Share options

The unapproved share option scheme was adopted by the board on 27 July 2005. At 31 December 2010 there were 2,000,000 share options granted to non-employees. 500,000 share options were granted to a sales adviser to the company with an exercise price of 0.7p per share in addition to 1,500,000 share options issued to Arba Finance Limited in 2009 with an exercise price of 0.5p per share.

439,769 share options lapsed or were forfeited by employees no longer with the company.

At 31 December 2011 there were 19,981,717 (2010: 20,422,885) share options held by employees.

Notes to the group and parent company financial statements

Share options (cont)

The following tranches were granted in prior years and had share options expiring or were forfeited in 2011

Grant Date	27/07/2005	27/07/2005	27/07/2005	27/07/2005	01/03/2006
Exercise Price	2 17p	3 06p	3 67p	5p	5p
Outstanding as at 01/01/2011	6,142	547,125	18,443	574,698	1,163,913
Forfeited in the year	(4,824)	(382,723)	(18,443)	(35,178)	-
Outstanding as at 31/12/2011	1,318	164,402	-	539,520	1,163,913

	Number of options	Date granted	Exercise price	Exercisable between
Directors				
Guy Levit	4,000,000	27 7 2007	0 5p	27 7 2009 – 27 7 2017
Guy Levit	4,000,000	28 1 2009	0 5p	28 1 2011 – 28 1 2019
David Rubner	500,000	27 7 2005	5p	20 7 2006 – 20 7 2015
	<u>8,500,000</u>			
Other employees	1,318	27 7 2005	2 17p	27 7 2005 – 1 8 2012
Other employees	164,402	27 7 2005	3 06p	27 7 2005 – 31 12 2014
Other employees	39,520	27 7 2005	5p	27 7 2005 – 3 8 2015
Other employees	1,163,913	1 3 2006	5p	1 3 2006 – 1 3 2016
Other employees	431,624	6 10 2006	5p	6 10 2006 – 6 10 2016
Other employees	180,940	6 10 2006	3 2p	6 10 2006 – 6 10 2016
Other employees	4,000,000	27 7 2007	0 5p	27 7 2009 – 27 7 2017
Other employees	4,000,000	28 1 2009	0 5p	28 1 2011 – 28 1 2019
Other employees	1,500,000	28 1 2009	0 5p	28 1 2011 – 28 1 2019
	<u>19,981,717</u>			

Warrants in issue at 31 December 2011

Warrants issued in 2008

The company granted Mizrahi Tefahot Bank Ltd warrants to the value of £100,000 to purchase ordinary shares, exercisable at any time from the time of the grant to 13 August 2014. The first £50,000 value of warrants are exercisable at a price of 0 65p per share and the second £50,000 value of warrants are exercisable at 0 67p per share which was calculated based the average closing price of an ordinary share in the capital of the company during the first 90 days of trading commencing on 14 August 2008. The warrants were valued under IFRS 2 using the Black Scholes pricing model. The fair value per warrant granted and the assumptions used in the calculations were as follows

Grant date	14 August 2008	19 December 2008
Share price at grant date	0 60p	0 50p
Exercise price	0 65p	0 67p
Shares under option	7,692,308	7,456,504
Vesting period	Immediately	Immediately
Expected volatility	226%	221%
Option life	6	5 67
Expected life	6	5 67
Risk free rate	3 55%	2 85%
Expected dividends expressed as dividend yield	0%	0%
Fair value per option	0 5969p	0 4955p

Expected volatility was determined by calculating the historical volatility of the Company's share price since admission of the shares to AIM. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. The risk free rate is based on the redemption yield on US Federal Bonds with a life in line with the expected option life.

The group recognised £10,560 (2010 £32,833) relating to the above equity-settled share-based payments associated with the issue of warrants in 2008.

24 Financial commitments

Lease commitments

The group's subsidiary undertaking in Israel is committed to making the following future minimum lease payments under non-cancellable operating leases for office facilities and motor vehicles terminating in 2013

Future minimum commitments at 31 December 2011 are as follows

	2011 £	2010 £
Within one year	96,728	88,675
Between two to five years	<u>76,842</u>	<u>125,030</u>
	<u>173,570</u>	<u>213,705</u>

Leasing costs charged in the statement of comprehensive income in the year ended 31 December 2011 and 2010 were £130,517 and £108,521 respectively

25 Related parties

AH Montpelier

The group made payments to AH Montpelier of £23,000 (excluding vat) (2010 £23,000) for the services of I Fishman as a director and for the professional services of AH Montpelier Professional (West End) Limited, Chartered Accountants a company in which he was a director throughout the year. At 31 December 2011 there was nil (2010-£3,333) owing by the company for his services

Parent company management fees and interest

The company charged fees of £144,000 (2010 £84,000) for management services of its subsidiary undertakings which in 2011 included additional fees in relation to the group capital reorganisation. Interest of £27,738 (2010 £29,195) was charged by the company in relation to the formalised element of the inter company loan which at 31 December 2011 was £605,032 (2010 £727,077)

26 Cash and cash equivalents and bank overdraft

	At 1 January 2011 £	Cash Flow £	At 31 December 2011 £
Group			
Cash and cash equivalents	<u>357,319</u>	<u>186,365</u>	<u>543,684</u>
Company			
Cash and cash equivalents	<u>15,452</u>	<u>161,334</u>	<u>176,786</u>

27 Post balance sheet events

Share buyback and capital reorganisation

In February 2012, the company completed the buyback of 80,007,853 ordinary shares in the company from Pacific Continental Securities UK Limited '(Pacific)' for £127,500. The acquired shares were cancelled leaving the company with 155,872,147 ordinary shares of 0.5 pence each in issue. Details of the capital cancellation can be found in the circular to shareholders dated 23 November 2011. The financial effect on the group equity is as follows

27 Post balance sheet events (cont)

Share buyback and capital reorganisation (cont)

Group	Share capital	Share premium	Capital redemption reserve	Revenue reserves	Foreign currency reserve
	£	£	£	£	£
Equity at 31 December 2011	1,179,400	4,298,727	-	(1,194,726)	398,108
Cancellation of shares	(400,039)	-	400,039	-	-
Release of share premium to revenue reserves	-	(4,298,727)	-	4,298,727	-
Payment to repurchase shares	-	-	-	(127,500)	-
Post reorganisation	<u>779,361</u>	<u>-</u>	<u>400,039</u>	<u>2,976,501</u>	<u>398,108</u>

As part of the agreement and following completion of the buyback, Pacific were granted options to subscribe for up to 10,000,000 new ordinary shares at 0.5 pence per share exercisable in whole or in part, which will lapse on the earlier of three years from the date of grant or the date on which Pacific is dissolved

New venture lending loan

In June 2012, the company's subsidiary, TeleMessage Ltd, signed an agreement for a loan of US\$1,000,000 from Mizrahi Tefahot Bank Ltd. This loan will be used for the development of new innovative products and services as well as assisting the group's working capital requirements.

Under the terms of the agreement, repayments will be over 36 equal monthly instalments with an interest rate based on the London Interbank Offered Rate plus 5.5%.

In addition, as part of the agreement, the company have granted to Mizrahi Tefahot Bank Ltd 3,896,804 warrants exercisable at any time from grant until 17 June 2017. The warrants are exercisable at a price of 0.63p per share, although in certain circumstances the exercise price might be subject to adjustment.

28 Financial instruments and risk management

Financial assets and financial liabilities are recognised in the group's balance sheet when the group becomes a party to the contractual provision of the instrument.

At 31 December 2011 and 31 December 2010 there were no material differences between the fair value and the book value of the group's financial assets and liabilities which are set out below.

	2011 £	2010 £
Financial assets		
Cash and cash equivalents	543,684	357,319
Trade and other short term receivables	1,144,715	845,225
	<u>1,688,399</u>	<u>1,202,544</u>
Financial liabilities (which are included at amortised cost)		
Trade and other payables	764,448	504,031
Bank borrowings	-	44,737
	<u>764,448</u>	<u>548,768</u>

The group's financial instruments comprise investments, cash and cash equivalents, receivables and payables that arise directly from its operations.

The group has not adopted a policy of using financial derivatives and does not rely on the use of interest rate hedges.

28. Financial instruments and risk management (cont)

In common with other businesses, the group is exposed to risks that arise from its use of financial instruments. There have been no substantive changes to the group's response to financial instrument risk and the methods used to measure them from previous periods.

The main risks arising from the group's financial instruments are currency, credit and liquidity risks.

Currency risk

The Company operates internationally and is exposed to currency exchange risk arising from various currency exposures, primarily with respect to the new Israeli shekel ("NIS"), GBP and Euro. Currency exchange risk arises mainly from payroll and costs incurred in NIS, sale denominated in Euro and recognized assets and liabilities some of which denominated in GBP.

Credit risk

Credit risk arises from cash and cash equivalents as well as credit exposures to customers.

The group's cash and cash equivalents are invested in various financial institutions. The group's policy is spreading out its cash investments among the various institutions and assessing on an ongoing basis the relative credit strength of the various financial institutions.

Trade receivables are mainly derived from sales to customers primarily located in Israel and North America. The group performs ongoing credit evaluations of its customers and an allowance for doubtful accounts is determined with respect to those amounts that the Company has determined to be doubtful of collection. Bad debts are written-off when identified by management.

At 31 December 2011, the group had no significant off-balance sheet concentration of credit risk, such as forward exchange contracts, options contract or other foreign hedging arrangements.

At 31 December 2011, the company had significant risk concentration by virtue of inter company indebtedness from its subsidiary undertaking in Israel. The directors review the financial performance of its trading subsidiaries and its ability to commence reducing its debt to the company.

Liquidity risk

Liquidity risk arises in relation to the group's management of working capital and the risk that the company or any of its subsidiary undertakings will encounter difficulties in meeting financial obligations as and when they fall due. To minimise this risk the liquidity position and working capital requirements are regularly reviewed by management.

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities.

Management monitors rolling forecasts of the Company's cash and cash equivalents on the basis of expected cash flow.

Anticipated future cash flows - Year ended 31 December 2011

	Total projected cash flows £	First year £	Years 2-5 £	More than 5 years £
Trade payables	130,000	105,000	25,000	-
Other financial payables	373,000	373,000		-
Bank loans	-	-		-
Royalty bearing grants	43,000	13,000	30,000	-
	546,000	491,000	55,000	-

28 Financial instruments and risk management (cont)

Anticipated future cash flows - Year ended 31 December 2010

	Total projected cash flows £	First year £	Years 2-5 £	More than 5 years £
Trade payables	119,000	119,000	-	-
Other financial payables	247,000	247,000	-	-
Bank loans	45,000	45,000	-	-
Royalty bearing grants	47,000	8,000	39,000	-
	458,000	419,000	39,000	-

Interest rate risk

As the group's future long term liabilities will include a new bank loan drawn down in June 2012, the group's interest rate risk from this borrowing which is linked to the LIBOR interest rate is not considered to be material in terms of the effect on cash flow for changes in the rate of interest. As a result the directors do not consider variations in interest rates will have a significant impact on the group's cost of finance or operating performance.

29 Share based payments – Equity settled share option scheme

Since incorporation the company has awarded share options enabling directors and employees to subscribe for ordinary shares of 0.5p each. Exercise of an option is subject to continued employment. Options were valued using the Black Scholes pricing model. The fair value per option granted and the assumptions used in the calculations were as follows:

Grant date	27 July 2005	27 July 2005	27 July 2005	27 July 2005	1 March 2006
Share price at grant date	5p	5p	5p	5p	4.6p
Exercise price	2.17p	3.06p	3.67p	5p	5p
Shares under option	1,318	164,402	-	539,520	1,163,913
Vesting period	< 1 year	< 2.5 years	< 1.5 years	< 0-4 years	< 4 years
Expected volatility	39.80%	39.80%	39.80%	39.80%	158.30%
Option life	10	10	10	10	10
Expected life	5 - 5.25	5 - 6	5 - 5.5	5 - 6	5.25 - 6
Risk free rate	3.86%	3.86%	3.86%	3.86%	4.40%
Expected dividends expressed as dividend yield	0%	0%	0%	0%	0%
Retention factor	100%	100%	100%	100%	85%
Fair value per option	3.36p-3.39p	2.86p-3.00p	2.56p-2.64p	2.04p-2.24p	3.66p-3.72p

Grant date	6 October 2006	6 October 2006	27 July 2007	28 January 2009	12 November 2010
Share price at grant date	2.25p	2.25p	0.38p	0.25p	0.7p
Exercise price	5p	3.2p	0.5p	0.5p	0.7p
Shares under option	431,624	180,940	8,000,000	11,000,000	500,000
Vesting period	< 3 years	< 4 years	< 2 years	< 2 years	< 1 year
Expected volatility	151.40%	151.40%	194.40%	220.30%	223.29%
Option life	10	10	10	10	10
Expected life	5.25 - 6	5.25 - 6	5 - 6	5 - 6	5 - 5.5
Risk free rate	5.01%	5.01%	4.95%	2.06%	1.53%
Expected dividends expressed as dividend yield	0%	0%	0%	0%	0%
Retention factor	85%	85%	85%	85%	85%
Fair value per option	1.71p-1.76p	1.75p-1.79p	0.31p-0.32p	0.21p-0.25p	0.59p-0.69p

The expected volatility for the options issued on 27 July 2005 is based on the volatility of similar AIM listed companies, while the volatility of options issued on 1 March 2006, 6 October 2006, 27 July 2007, 28 January 2009 and 12 November 2010 and reflects the increased volatility of the messaging share price arising from movements in the relevant period to date. The expected life of the options is based on research that takes into account the seniority of the employees to whom share options are issued. The risk free rate is based on the redemption yield on US Federal Bonds with a life in line with the expected option life. Other than the options granted above, there were no movements in options granted or outstanding to employees at the end of the year.

In accordance with International Financial Reporting Standard 2 ("IFRS2") the group is required to reflect the cost of share-based payments in the income statement. The provisions of IFRS2 have been applied to share options and the charge to the income statement in respect of equity settled share based payments is as follows:

	2011	2010
	£	£
Group	<u>1,467</u>	<u>3,831</u>

Equivalent credits have been released to reserves

Messaging International plc
(the "Company")

(Incorporated in England and Wales with registered number 5204176)

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting of the Company will be held at AH Montpelier, 58-60 Berners Street, London W1T 3JS on 7 August 2012 at 3 00 pm for the purpose of considering and, if thought fit, passing the following resolutions, of which resolutions 1, 2, 3 and 4 will be proposed as ordinary resolutions and resolution 5 will be proposed as a special resolution

ORDINARY RESOLUTION

- 1 That the report of the directors and auditors, and the audited accounts of the Company, for the year ended 31 December 2011 be received and considered
- 2 To re-elect Horacio Furman as a director of the Company, who retires in accordance with the Company's Articles of Association
- 3 That Jeffrey's Henry LLP be re-appointed as auditors of the Company until the conclusion of the next annual general meeting of the Company and that the directors of the Company be authorised to fix their remuneration
- 4 That
Pursuant to the provisions of Section 551 of the Companies Act 2006 ("the Act") the directors be and they are hereby generally and unconditionally authorised
 - (a) to exercise all powers of the Company to allot equity securities (as defined in Section 560(1) of the Act) in connection with a rights issue in favour of or other offer to shareholders and other persons entitled to participate therein where the equity securities respectively attributable to the interests of all the shareholders and such other persons are proportionate (as nearly as may be) to the number of ordinary shares held by them (or, as appropriate, to the number of ordinary shares which such other persons are for such purposes deemed to hold) (but subject to such exclusions and other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements and any legal or practical difficulties under the laws of any overseas territory or the requirements of any regulatory body or stock exchange),
 - (b) to exercise all powers of the Company to allot shares in the Company, and grant rights to subscribers for or convert any security into shares of the Company (such shares and rights to subscribe for or to convert any security into shares of the Company being ("relevant securities") pursuant to the terms of (i) a warrant instrument of the Company dated 13 August 2008 (ii) a warrant instrument of the Company dated 17 June 2012 up to a maximum of nominal amount of £95,211,
 - (c) to exercise all powers of the Company to allot relevant securities pursuant to options granted by the Company up to a maximum nominal amount of £159,909, and
 - (d) to exercise all of the powers of the Company to allot relevant securities (otherwise than pursuant to sub-paragraphs (a), (b) and (c) above) up to an aggregate nominal amount of £780,000,

provided that this authority, unless it is (prior to its expiry) duly revoked or varied or is renewed, shall expire on the date of the next annual general meeting of the Company save that the Company may, before such expiry, make an offer or agreement which would or might require relevant securities to be allotted after such expiry and, in that event, the directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired and such authority shall be in substitution for any authorities conferred upon the directors in accordance with the said section prior to the passing of this resolution, which authorities (to the extent they remain in force and unexercised) are hereby revoked

SPECIAL RESOLUTION

5 That

Subject to the passing of resolution 4, the directors be and they are hereby given power in accordance with Section 570 of the Act to allot equity securities (as defined in Section 560(1) of the Act) for cash pursuant to the general authority given to them by resolution 4, as if Section 561(1) of the Act did not apply to the allotment, provided that this power is limited to

- (a) the allotment of equity securities in connection with a rights issue in favour of or other offer to shareholders and other persons entitled to participate therein where the equity securities respectively attributable to the interests of all the shareholders and such other persons are proportionate (as nearly as may be) to the number of ordinary shares held by them (or, as appropriate, to the number of ordinary shares which such other persons are for such purposes deemed to hold) (but subject to such exclusions and other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements and any legal or practical difficulties under the laws of any overseas territory or the requirements of any regulatory body or stock exchange),
- (b) the allotment of equity securities pursuant to the terms of (i) a warrant instrument of the Company dated 13 August 2008 and (ii) a warrant instrument of the Company dated 17 June 2012 up to a nominal amount of £95,211,
- (c) the allotment of equity securities pursuant to options granted by the Company up to a maximum nominal amount of £159,909, and
- (d) the allotment (otherwise than pursuant to sub-paragraphs (a), (b) and (c) above) of equity securities up to an aggregate nominal amount of £780,000,

provided that this authority, unless it is (prior to its expiry) duly revoked or varied or is renewed, shall expire on the date of the next annual general meeting of the Company save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and, in that event, the directors may allot equity securities in pursuance of any such offer or agreement as if the power conferred hereby had not expired and such authority shall be in substitution for any authorities conferred upon the directors in accordance with the said section prior to the passing of this resolution, which authorities (to the extent they remain in force and unexercised) are hereby revoked

Registered office
58-60 Berners Street
London
W1T 3JS

By order of the Board
I Fishman FCA
Company Secretary

Dated 28 June 2012

Notice of an annual general meeting and proxy form

Notes

- (1) Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice.
- (2) To be valid any proxy form or other instrument appointing a proxy must be received by post or (during normal business hours only) by hand to the Company's registrars, Share Registrars Limited, 1st Floor, 9 Lion and Lamb Yard, Farnham, Surrey, GU9 7LL not less than 48 hours before the time of holding of the meeting.
- (3) The return of a completed proxy form, other such instrument will not prevent a shareholder attending the Annual General Meeting and voting in person if he/she wishes to do so.
- (4) Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.
- (5) The statement of the rights of shareholders in relation to the appointment of proxies in paragraphs 1 and 2 above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company.
- (6) Pursuant to Regulation 41(1) of the Uncertificated Securities Regulations 2001, the Company specifies that only those shareholders of the Company on the register 48 hours prior to the time of the Annual General Meeting (or, in the event of any adjournment, two days before the time of the adjourned meeting) shall be entitled to attend or vote at the Annual General Meeting in respect of the number of shares registered in their name at the time. Changes to the register of members after that time will be disregarded in determining the rights of any person to attend or vote at the meeting.
- (7) In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the chairman of the meeting as its corporate representative to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the chairman and the chairman will vote (or withhold a vote) as corporate representative in accordance with those directions, and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (www.icsa.org.uk) for further details of this procedure. The guidance includes a sample form of appointment letter if the chairman is being appointed as described in (i) above.

Messaging International plc
(the "Company")

(incorporated and registered in England and Wales under No 5204176)

Proxy for use at the Annual General Meeting of the Company taking place at 3pm on 7 August 2012 at AH Montpelier 58-60 Berners Street London W1T 3JS

I/We
(please use block letters)
of

Multiple Proxy Shares
(see note 4)

being (a) member(s) of the Company, hereby appoint the Chairman of the annual general meeting or
(see note 3)

as my/our proxy to attend, speak and vote for me/us and on my behalf at the annual general meeting to be held at 3 00 pm on 7 August 2012 at AH Montpelier, 58-60 Berners Street, London W1T 3JS, UK and at any adjournment thereof

I/We direct my/our proxy to vote on the following resolutions as I/we have indicated by marking the appropriate box with an 'X' If no indication is given, my/our proxy will vote or abstain from voting at his or her discretion and I/we authorise my/our proxy to vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is properly put before the meeting

ORDINARY RESOLUTIONS		FOR	AGAINST	VOTE WITHHELD
1	To receive the report of the directors and auditors, and the audited accounts for the year ended 31 December 2011			
2	To re-elect Horacio Furman as a director			
3	To appoint Jeffrey's Henry LLP as auditors			
4	To authorise the directors for the purpose of and pursuant to section 551 of the Act to allot shares in the Company, and grant rights to subscribers for or convert any security into shares of the Company, in connection with the issue of options and generally			
SPECIAL RESOLUTIONS		FOR	AGAINST	VOTE WITHHELD
5	To dis-apply statutory pre-emption rights in connection with a rights issue, the issue of options and warrants and generally			

Signature (see note 7) Dated this day of 2012

Joint holders (if any) (see note 8)

Name Name

Name Name

Notice of an annual general meeting and proxy form

NOTES

- 1 As a member of the Company you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at a general meeting of the Company. You can only appoint a proxy using the procedures set out in these notes.
- 2 If you wish to appoint some other person as your proxy please insert his/her name and address, initial and strike out the words "the Chairman of the Meeting". A proxy need not be a member of the Company. Appointing a proxy will not preclude you from personally attending and voting at the meeting (in substitution for your proxy vote) if you subsequently decide to do so.
- 3 You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, (an) additional proxy form(s) may be obtained by contacting the registrar on 01252 821390 or you may photocopy this form. Please indicate next to the word "Shares" next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. Please also indicate, by marking the space next to the words "Multiple Proxy" with an "X", if the proxy instruction is one of multiple instructions being given. All of the forms must be signed and should be returned together in the same envelope to the address shown on the reverse of the form.
- 4 To direct your proxy how to vote on the resolutions mark the appropriate box with an 'X'. To abstain from voting on a resolution, select the relevant "Vote withheld" box. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the meeting.
- 5 To be valid this Form of Proxy and any power of attorney or other authority under which it is executed (or a duly notated copy thereof) must be lodged with the Company's registrars, Share Registrars Limited, 1st Floor, 9 Lion and Lamb Yard, Farnham, Surrey, GU9 7LL not less than 48 hours before the time appointed for the meeting, or adjourned meeting at which it is to be used.
- 6 This Form of Proxy must, in the case of an individual, be signed by the appointer or his/her attorney or, in the case of a corporation, be given under its common seal or signed on its behalf by an attorney or a duly authorised person.
- 7 In the case of joint holders of a share the vote of the senior who tenders a vote whether in person or by proxy shall be accepted to the exclusion of the votes of the other joint holders and for this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of the share.
- 8 If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.
- 9 Any alteration in this Form of Proxy must be initialled by the person in whose hand it is signed or executed.

PLEASE SEND YOUR REPLY TO

Share Registrars Limited
1st Floor, 9 Lion and Lamb Yard
Farnham
Surrey
GU9 7LL