

Company No: 5204176

MESSAGING INTERNATIONAL PLC ANNUAL REPORT AND FINANCIAL STATEMENTS

2014

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Directors

H Furman
G Levit
I Fishman FCA
D Rubner

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

Secretary

I Fishman FCA

Registered office

30 City Road
London EC1Y 2AB

Company number

5204176

Company website

www.telemessaga.com

Bankers

Mizrahi Tefahot Bank Limited
30 Old Broad Street
London
EC2N 1HQ

Nominated advisor

Cantor Fitzgerald Europe
One Churchill Place
London
E14 5RB

Auditors

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

Broker

Cantor Fitzgerald Europe
One Churchill Place
London
E14 5RB

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

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 2014.

Overview

Continued progress of new product: "Secure Mobile Messaging for Enterprise"

Gross revenues of £3,607,978 down 4.4% from £3,775,910 in 2013

Adjusted pre-tax loss for the year before goodwill impairment- £334,798 (2013: loss £92,073)

Pre-tax loss for the year £2,884,798 after goodwill impairment (2013:£92,073)

The results for the year have been significantly affected by the impairment of goodwill of £2,550,000 reducing the carrying value of goodwill in these financial statements to £803,957.

Transition period

2014 marks a transition year for our wholly owned subsidiary, TeleMessage, from its legacy Text-to-Landline product, into new offerings including the Secure Mobile Messaging for Enterprise solutions.

Revenues in the Text-to-Landline product have declined. Some customers were lost due to market consolidation and, as announced on 27 March 2015, the Company has reached an agreement on a change of the Text-to-Landline business model with one of its key mobile carrier customers in North America (with which the Company has contracts on a number of other products not affected by this change). The change transitions the Text-to-Landline service from a standard SMS fee to a premium SMS fee resulting in a lower amount of transmitted messages with a corresponding decline in the revenue generated from this customer, albeit with a higher gross margin percentage.

Since the end of 2013, the company has been focused on developing its new product line Secure Mobile Messaging for Enterprise. Unlike other messaging applications such as Viber and WhatsApp, TeleMessage's app is targeted at business clients and offers a "managed, secure, reliable and IT ready" application and service. The target market has shifted from mobile carriers to businesses. A number of existing customers have already purchased the new products and others are currently running pilot trials. In addition to such enterprise deals, the company continues to explore partnership opportunities for these products through its relationship with carriers.

The revenues derived from our Messaging Gateway solutions have remained solid during 2014.

The Company has directed its R&D resources to the new product lines and, accordingly, increased its investment in marketing to support the change in target market including the implementation of automated sales and marketing systems, content creation and branding, all of which should lead to higher exposure to businesses and ultimately generate sales.

Apart from the goodwill impairment adjustment of £2,550,000 referred to above, the continued investment in R&D and the increased investment in marketing have contributed towards the increase in operating losses. In addition, in previous years, the company obtained funding from the Office of the Chief Scientist which reduced our net expense on R&D. In 2014 the lower grants from this source resulted in a higher R&D expense.

As announced on 1 April 2015, despite funding of \$900k having been approved by the BIRD foundation in mid-2014 out of which TeleMessage could have received 70% for "Secure RCS Messaging", the Company informed BIRD that it will not pursue this project. As a result, the net R&D expenses in 2014 were eventually higher than internally projected in the beginning of the year.

Financial Results

For the year ended 31 December 2014, we are reporting a pre-tax loss of £2,884,798 (2013: loss £92,073) based on gross revenues of £3,607,978 (2013: £3,775,910).

The results for the year are after adjusting for goodwill impairment of £2,550,000 (2013 – Nil).

The above adjustment reducing the carrying value of goodwill arises from the Board's annual goodwill impairment review in accordance with our accounting policy.

Although the Board expects future products to succeed and for revenues to grow in the long term, we have taken what we believe is a prudent approach when carrying out an impairment review of goodwill. This involved taking the cautious approach of only incorporating historic growth when considering future discounted cash flows used in calculations to generate a net present value for goodwill.

During 2014, the Company received a far lower support from the Israeli Office of the Chief Scientist (OCS) in relation to some elements of R&D. In 2014, the resources provided by the OCS net of royalties totalled £17,978. (2013: £147,552)

The group's cash balances at 31 December 2014 totalled £381,109 (2013: £765,026).

Employee Incentives

On 31 March 2014, the company granted 15,025,000 options over ordinary shares of 0.5p in the Company ("Ordinary Shares") to certain Directors, employees and consultants at an exercise price of 1.22p being the average closing price of the Ordinary Shares during the 30 trading days immediately preceding the grant of such options.

In addition, the Company approved a 6% carve out bonus to senior managers conditional on the value of the consideration of any future sale of the Company being greater than \$6,000,000 and such sale being completed within five years.

Outlook

TeleMessage has made substantial efforts to partially compensate for the reduction of revenues from the US mobile carrier as described above by selling more of its legacy product. To partially offset the loss of BIRD funding the company has adjusted its expenses.

Following the intensive R&D effort, the company has now initial revenues and additional pilots with clients for its "Secure Mobile Messaging for Enterprise". In addition, thanks to TeleMessage's increased marketing efforts the company has identified growing interest in its Messaging Gateway solutions from several customers as well as within the developers' community.

I would like to thank our team for their hard work and dedication over the past year in adapting to changing markets and changing technologies as well as to our shareholders for their continued support.

Horacio Furman
Chairman
25 June 2015

Horacio Furman, (aged 68), 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 44), 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 (I.D.F.). 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 65), 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 75) 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.

Directors' report

The directors present their report and financial statements for the year ended 31 December 2014.

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.

Directors

The following directors have held office since 1 January 2014:-

H Furman
G Levit
I Fishman
D Rubner
G Simmonds

Resigned on 31 March 2015

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, D Rubner 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	11,000,000
I Fishman	-	-
D Rubner ***	1,088,512	975,000

* 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 Levit was granted 3,000,000 new share options on 31 March 2014.

***D Rubner was granted 475,000 new share options on 31 March 2014.

No other director has been granted share options.

The company maintains directors and officers liability insurance.

Substantial interests

As at 25 June 2015, 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	29.8
H Furman*	17,782,009	15.3
Lynchwood Nominees*	16,533,333	14.3
Reverse Take-Over Investments Limited	4,482,289	3.9
Guy Levit	4,387,608	3.8
Gil Shapira	4,387,608	3.8

Principal activity, review of the business and future developments

Details are given in both the chairman's statement on page 2 and in the Strategic report on Page 7.

Principal risks and uncertainties

Details of those risks considered to be relevant to the group's activities are set out in the Strategic report on pages 7.

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 £1,271,892 (2013: £1,353,451). Grants from the Israeli Office of the Chief Scientist towards these costs and recognised in the statement of comprehensive income were £36,822 (2013: £164,951). This support provides the company with additional resources to invest in the development of new products

Employee share options

As additional incentive to employees, the company granted 15,025,000 share options to employees on 31 March 2014.

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 Jeffreys 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.



I Fishman
Company secretary
25 June 2015

Principal activity, review of the business and future developments

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.

The trading companies continue to focus on developing innovative messaging solutions and services to improve the way users manage messages across various communication media. Companies have close relationships with its client base, a highly creative R&D team and innovative messaging solutions.

The directors monitor the performance of the business through the key performance indicators (KPIs) being the achievement of monthly and annual budgeted levels of sales, gross profit, overheads and cash flow by the operating entity. A more detailed review of the business and future developments is given in the chairman's statement on page 2.

Principal risks and uncertainties

The market for products and services in the messaging sector continues to grow and is highly competitive. The group continues to attract new customers and manage the risk of losing existing customers for lack of interest or to competitors by the continuing development and provision of innovative solutions and added value services to its existing customers.

The company is exposed to technical risks including technical issues of its hosting and communication vendors, errors in their systems and security attacks. The company uses advanced tools to secure its own systems, disaster recovery procedures, quality assurance teams and control centre all focused on minimising the risk of technical error as well as providing client support.

The group's credit risk is primarily attributable to its trade debtors where parties fail to discharge their financial obligations. In order to minimise this risk, management maintain close relationship with key clients and monitor receivables by regularly reviewing aged receivable reports.

The group monitors cash flow and working capital requirements as part of its day-to-day control procedures. The board and managers review cash flow projections and profit forecasts on a regular basis to ensure adequate cash resources are available to meet financial obligations as and when they fall due.

As the majority of the group's revenue is denominated in US dollars and a substantial part of its costs are in Israeli Shekels, there is exposure to adverse currency movements which can 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.

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.



I Fishman
Company secretary
25 June 2015

The board of Messaging International Plc is accountable to the company's shareholders for good corporate governance. The directors are committed to proper standards of good governance and will continue to keep their 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 been dealt with by the board as a whole.

The audit committee comprise of the two non-executive directors and meetings are held in the 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 regular informal meetings. Full board meetings take place as and when required.
- (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 strategic report, directors' 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.

We have audited the group and parent company financial statements of Messaging International Plc for the year ended 31 December 2014 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 to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report 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, strategic report, directors' report and corporate governance statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2014 and of the group's loss and the group's and parent company's cash flow 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 and the strategic report for the financial year for which the financial statements are prepared are 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 matters where the Companies Act 2006 requires us 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 parent company 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

Finsgate
5-7 Cranwood Street
London EC1V 9EE

25 June 2015

	Notes	2014 £	2013 £
Continuing operations:			
Revenues	5b, 7	3,607,978	3,775,910
Cost of revenues		(1,218,844)	(1,411,536)
Gross profit		<u>2,389,134</u>	<u>2,364,374</u>
Operating expenses			
Research and development		(1,235,070)	(1,188,500)
Selling and marketing		(865,147)	(739,249)
General and administrative		(552,676)	(463,304)
Goodwill impairment		(2,550,000)	-
Total operating expenses		<u>(5,202,893)</u>	<u>(2,391,053)</u>
Operating loss	8	(2,813,759)	(26,679)
Finance costs (net)	11	(71,039)	(65,394)
(Loss)/profit before taxation		(2,884,798)	(92,073)
Taxation	12	(8,914)	2,914
Comprehensive (loss)/profit for the year attributable to equity holders of the parent company		<u>(2,893,712)</u>	<u>(89,159)</u>
Other comprehensive (loss)/profit			
Re-measurement of loss from defined benefit plan		(71,715)	(5,576)
Foreign exchange difference on translation of foreign operations		21,632	(3,858)
Foreign exchange difference arising from restating the carrying value of goodwill associated with foreign operations		(78,802)	(85,286)
		<u>(128,885)</u>	<u>(94,720)</u>
Total comprehensive loss attributable to equity holders of the parent company		<u>(3,022,597)</u>	<u>(183,879)</u>
Loss per share			
Loss per share from operations	13	<u>(2.50)p</u>	<u>(0.07)p</u>
Diluted loss per share from operations	13	<u>(2.50)p</u>	<u>(0.07)p</u>

The notes on pages 19 to 38 form part of these financial statements.

Statements of changes in equity for the year ended 31 December 2014

The group

	Share capital £	Capital redemption reserve fund £	Foreign exchange reserve £	Revenue reserves £	Total £
As at 1 January 2013	779,361	400,039	207,746	3,340,006	4,727,152
Capital reorganisation	(200,000)	200,000	-	-	-
Share buyback	-	-	-	(400,000)	(400,000)
Loss for the year	-	-	-	(89,159)	(89,159)
Re-measurement of loss from defined benefit plan	-	-	-	(5,576)	(5,576)
Foreign currency translation changes for goodwill	-	-	(85,286)	-	(85,286)
Other foreign currency translation changes	-	-	(3,858)	-	(3,858)
Share based payments for employee share options	-	-	-	-	-
At 31 December 2013	579,361	600,039	118,602	2,845,271	4,143,273
Loss for the year	-	-	-	(2,893,712)	(2,893,712)
Re-measurement of loss from defined benefit plan	-	-	-	(71,715)	(71,715)
Foreign currency translation changes for goodwill	-	-	(78,802)	-	(78,802)
Other foreign currency translation changes	-	-	35,208	-	35,208
Share based payments	-	-	-	56,725	56,725
At 31 December 2014	579,361	600,039	75,008	(63,431)	1,190,977

The company

	Share capital £	Capital redemption reserve fund £	Foreign exchange reserve	Revenue reserves £	Total £
As at 1 January 2013	779,361	400,039	-	4,125,329	5,304,729
Capital reorganisation	(200,000)	200,000	-	-	-
Share buyback	-	-	-	(400,000)	(400,000)
Share based payments	-	-	-	-	-
Loss for the year	-	-	-	(8,193)	(8,193)
At 31 December 2013	579,361	600,039	-	3,717,136	4,896,536
Share based payments	-	-	-	-	-
Loss for the year	-	-	-	(2,568,831)	(2,568,831)
Foreign currency translation gain on capital note	-	-	117,839	-	117,839
At 31 December 2014	579,361	600,039	117,839	1,148,305	2,445,544

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.

Capital redemption reserve fund: The amount equivalent to the nominal value of shares redeemed by the company.

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 19 to 38 form part of these financial statements.

Consolidated statement of financial position at 31 December 2014

	Notes	2014 £	2013 £
Non-current assets			
Intangible assets	15	803,957	3,432,759
Property, plant and equipment	16	86,526	162,655
Other investments	17	343,699	323,704
Total non-current assets		1,234,182	3,919,118
Current assets			
Trade and other receivables	18	696,068	784,654
Cash and cash equivalents	26	381,109	765,026
Total current assets		1,077,177	1,549,680
Total assets		2,311,359	5,468,798
Current liabilities			
Trade and other payables	19	(525,664)	(616,701)
Borrowings	20	(110,013)	(199,019)
Total current liabilities		(635,677)	(815,720)
Non-current liabilities			
Other payables	22	(5,049)	(23,618)
Provisions	21	(479,656)	(382,190)
Borrowings	20	-	(103,997)
Total non-current liabilities		(484,705)	(509,805)
Total liabilities		(1,120,382)	(1,325,525)
Net assets		1,190,977	4,143,273
Equity attributable to owners of the parent company			
Share capital	23	579,361	579,361
Capital redemption reserve		600,039	600,039
Foreign currency translation reserve		75,008	118,602
Revenue reserves		(63,431)	2,845,271
Total Equity		1,190,977	4,143,273

The financial statements were approved and authorised for issue by the board on 25 June 2015 and signed on its behalf by:



I Fishman
Director

Company number: 5204176

The notes on pages 19 to 38 form part of these financial statements.

Company statement of financial position at 31 December 2014

	Notes	2014 £	2013 £
Non current assets			
Investment in subsidiary undertakings	15	719,000	3,269,000
Other investments	17	1,538,461	-
Total non-current assets		2,257,461	3,269,000
Current assets			
Receivables due after one year	18	202,130	1,636,680
Trade and other receivables	18	4,594	16,156
Cash and cash equivalents	26	859	4,148
Total current assets		207,583	1,656,984
Total assets		2,465,044	4,925,984
Current liabilities			
Trade and other payables	19	(19,500)	(29,448)
Total liabilities		(19,500)	(29,448)
Net assets		2,445,544	4,896,536
Equity			
Share capital	23	579,361	579,361
Capital redemption reserve		600,039	600,039
Foreign currency translation reserve		117,839	-
Revenue reserves		1,148,305	3,717,136
Total equity		2,445,544	4,896,536

The financial statements were approved and authorised for issue by the board on 25 June 2015 and signed on its behalf by:



I Fishman
Director

Company number: 5204176

The notes on pages 19 to 38 form part of these financial statements.

Consolidated statement of cash flows for the year ended 31 December 2014

	Notes	2014 £	2013 £
Cash flow from operating activities			
Operating (loss)/profit		(2,813,759)	(26,679)
Adjustments for:			
Goodwill impairment		2,550,000	-
Share based payments		56,725	-
Defined benefit plan		(71,715)	(5,576)
Depreciation and amortisation		100,094	64,533
Foreign currency differences		(2,899)	(39,461)
		<u>2,632,205</u>	<u>19,496</u>
Operating cash flow before working capital movements		(181,554)	(7,183)
Decrease in receivables		75,086	301,617
(Decrease)/increase in payables		(105,019)	71,623
Increase in provisions		97,466	52,333
		<u>67,533</u>	<u>425,573</u>
Cash (outflow)/inflow from operating activities		(114,021)	418,390
Investing activities			
Interest received		232	235
Investments		(19,995)	(48,012)
Purchase of tangible assets		(14,581)	(52,405)
Repurchase of shares		-	(400,000)
Net cash used in investing activities		(34,344)	(500,182)
Taxation		-	2,914
Financing activities			
Interest and related costs		(25,068)	(25,684)
Bank loan repayments		(210,484)	(200,073)
Net cash used from financing activities		(235,552)	(225,757)
Net change in cash and cash equivalents		(383,917)	(304,635)
Cash and cash equivalents and bank overdraft at the beginning of the year		765,026	1,069,661
Cash and cash equivalents and bank overdraft at the end of the year	26	<u>381,109</u>	<u>765,026</u>

The notes on pages 19 to 38 form part of these financial statements.

Company statement of cash flows for the year ended 31 December 2014

	Notes	2014 £	2013 £
Cash flow from operating activities			
Operating loss		(2,563,680)	(20,237)
Impairment of investments		2,550,000	-
Operating cash flow before working capital movements		(13,680)	(20,237)
Decrease/(Increase) in receivables		11,990	(3,900)
(Decrease)/increase in payables		(9,948)	7,973
Cash flow from operating activities		(11,638)	(16,164)
Investing activities			
Repurchase of shares		-	(400,000)
Net cash used in investing activities		-	(400,000)
Taxation (recovered)/paid		-	(2,969)
Financing activities			
Finance income		8,349	15,013
Loan repayment		-	400,000
Net cash from financing activities		8,349	415,013
Net change in cash and cash equivalents		(3,289)	(4,120)
Cash and cash equivalents and bank overdraft at the beginning of the year		4,148	8,268
Cash and cash equivalents and bank overdraft at the end of the year	26	859	4,148

The notes on pages 19 to 38 form part of these financial statements

1. General information

Messaging International Plc is a company incorporated and domiciled in the UK and its activities are as described in the chairman's statement and directors' report. The principle place of business of the company is the same as its registered office.

2. Basis of Accounting

The consolidated financial statements of the company for the year ended 31 December 2014 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 following new and amended IFRSs have been adopted during the year:

- Amendments to IAS 36: Recoverable Amount Disclosures for Non-Financial Assets
- Amendments to IAS 39: Novation of Derivatives and Continuation of Hedge Accounting
- Amendments to IFRS 10, IFRS 12 and IAS 27: Investment Entities
- Amendments to IFRS 10, IFRS 11 and IFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities - Transition Guidance
- Annual Improvements to IFRS 2009-2011 Cycle (issued by the IASB in May 2012)
- IFRIC 21 Levies

The Group has not yet adopted certain new standards, amendments and interpretations to existing standards, which have been published but are only effective for the Group's accounting periods beginning on or after 1 January 2015. The new pronouncements are listed below:

- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations (effective 1 January 2016)*
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation (effective 1 January 2016)*
- Amendments to IAS 16 and IAS 41: Bearer Plants (effective 1 January 2016)*
- Amendments to IAS 27: Equity Method in Separate Financial Statements (effective 1 January 2016)*
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective 1 January 2016)*
- Amendments to IAS 1: Disclosure Initiative (effective 1 January 2016)*
- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception (effective 1 January 2016)*
- IFRS 15: Revenue from Contracts with Customers (effective 1 January 2017)*
- IFRS 9: Financial Instruments (effective 1 January 2018)

The directors anticipate that the adoption of these standards and interpretations in future periods will have no material effect on the financial statements of the group.

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. The functional currency of the trading subsidiaries is US dollars.

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 company's trading subsidiaries generate revenues primarily from sales of messaging services to mobile operators and corporations for use by end-customers (such as Text to Landline).

Revenues are recognised when the revenues can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the company and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenues are measured at the fair value of the consideration received less any trade discounts, volume rebates and returns.

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

(c) Research and development costs

Research expenditure is recognised in profit or loss when incurred. An intangible asset arising from development or from the development phase of an internal project is recognised if the company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale; the company's intention to complete the intangible asset and use or sell it; the company's ability to use or sell the intangible asset; how the intangible asset will generate future economic benefits; the availability of adequate technical, financial and other resources to complete the intangible asset; and the company's ability to measure reliably the expenditure attributable to the intangible asset during its development.

The asset is measured at cost less any accumulated amortisation and any accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use.

In the years ended 31 December 2014 and 2013, no development costs were capitalised.

(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.

Significant accounting policies (cont).

Goodwill and impairment (cont).

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	Over the term of the lease

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.

(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.

Significant accounting policies (cont).

Share options (cont).

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 the cost of warrants issued to Mizrahi Tefahot Ltd in June 2012 as part of their loan agreement with the company's subsidiary undertaking in Israel and is written off to as part of the company's cost of finance over the term of the loan.

(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 grants received from the Office of the Chief Scientist ("OCS") are recognized upon receipt as a liability if future financial benefits are expected from the project that will result in royalty-bearing sales.

A liability for the loan is first measured at fair value using a discount rate that reflects a market rate of interest. The difference between the amount of the grant received and the fair value of the liability is accounted for as a Government grant and recognised as a reduction of research and development expenses. After initial recognition, the liability is measured at amortised cost using the effective interest method. Royalty payments are treated as a reduction of the liability. If no economic benefits are expected from the research activity, the grant receipts are recognised as a reduction of the related research and development expenses. In that event, the royalty obligation is treated as a contingent liability in accordance with IAS 37.

In 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.

(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.

Significant accounting policies (cont).

Taxation

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.

(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.

Significant accounting policies (cont).

(p) Trade payables

Trade payables are recognised at fair value

(p) Provisions

A provision in accordance with IAS 37 is recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are measured according to the estimated future cash flows discounted using a pre-tax interest rate that reflects the market assessments of the time value of money and, where appropriate, those risks specific to the liability.

(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 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 23 and 30.

Significant accounting policies (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.

As set out in note 15, the carrying amount of goodwill at the balance sheet date has required impairment of £2,550,000. Taking into account exchange rate fluctuations, the carrying value at 31 December 2014 was £803,957 (2013: £3,432,759).

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 2014 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:

	2014 £	2013 £
Customer location		
North America	3,171,573	3,359,569
Europe and Middle East	405,494	378,194
Rest of the world	30,911	38,147
	<u>3,607,978</u>	<u>3,775,910</u>
Revenues originating from:-		
	2014 £	2013 £
USA	2,142,978	2,305,008
Canada	1,028,596	1,054,561
Other countries	<u>436,404</u>	<u>416,341</u>

Revenues of £1,693,165 (2013: £1,885,040) are derived from a single external customer located in the USA. No disclosure has been made in relation to non-current assets by geographic market as the cost to obtain such information would be uneconomic and of limited value by way of additional information.

8. Operating profit

	2014	2013
	£	£
The operating profit is stated after charging:		
Staff costs	2,127,782	1,871,705
Research and development	1,271,892	1,353,451
Government grant for research and development	(36,822)	(164,951)
Leasing costs	144,021	156,610
Auditors' remuneration	29,495	28,365
Fees to auditors for other services	4,460	2,550
Goodwill impairment	2,550,000	-
Depreciation and amortisation	94,634	64,533

Included in the audit fee for the group is an amount of £14,950 (2013: £14,950) in respect of the company.

9. Staff Costs

Payroll costs include:

	Group	
	2014	2013
	£	£
Staff payroll and related costs	1,873,181	1,604,643
Directors' remuneration	208,188	192,618
Defined benefit scheme expense	46,413	74,444
	<u>2,127,782</u>	<u>1,871,705</u>

Payroll costs included above for key personnel including the directors totalled £410,555 (2013: £530,616)

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

	2014	2013
	No.	No.
Administration	2	2
Sales and marketing	8	8
Research and development	20	20
Operations	6	7
Directors	5	5
	<u>41</u>	<u>42</u>

10 Directors' remuneration

	2014	2013
	£	£
An analysis of directors' remuneration (who are the key management personnel) is set out below		
Executive directors	198,188	182,618
Non-executive directors	10,000	10,000
	<u>208,188</u>	<u>192,618</u>

Directors' remuneration includes pension contributions of £17,004 (2013: £16,366)

	2014	2013
	£	£
G Levit	178,188	162,618
I Fishman	20,000	20,000
G Simmonds	5,000	5,000
D Rubner	5,000	5,000
	<u>208,188</u>	<u>192,618</u>

No share options granted to directors were exercised in the year.

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

There is one director enrolled under the defined benefit scheme

Notes to the group and parent company financial statements

11. Financial income and finance costs

	2014 £	2013 £
Finance income:		
Interest received	232	235
Finance costs:		
Interest payable	25,068	25,684
Loss on foreign currency transactions	46,203	39,945
	<u>71,271</u>	<u>65,629</u>
Total	<u>71,039</u>	<u>65,394</u>

12. Taxation

Current tax charge/(credit)	2014 <u>8,194</u>	2013 <u>(2,914)</u>
Factors affecting the tax charge in the year		
Loss on ordinary activities before taxation	<u>(2,884,798)</u>	<u>(92,073)</u>
Loss on ordinary activities before taxation at the applicable rate of corporation tax 21.5% (2013: 23.25%)	(620,232)	(21,407)
Effects of:		
Depreciation and amortisation	20,346	15,004
Goodwill Impairment	548,250	-
US taxation	(986)	(1,368)
Israeli withholding tax deemed irrecoverable	13,500	-
Unused losses	<u>47,316</u>	<u>4,857</u>
Tax charge	<u>8,194</u>	<u>(2,914)</u>

There was no tax in relation to any components of comprehensive income.

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. As TeleMessage has suffered trading losses to date it has been unable to take advantage of tax incentives otherwise available.

The group's accumulated trading losses to date are approximately £9.4 million. Trading losses of approximately £5.6 million in relation to TeleMessage Ltd in Israel may be carried forward and offset against future trading income indefinitely and without restriction. The remaining £3.8 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 of £2 million (2013: £2million) whilst the level of future profits that will be generated in the foreseeable future remains uncertain.

13 Basic and diluted loss per share

Basic loss per share has been calculated on the group's loss attributable to equity holders of the parent company of £2,893,712 (2013: loss £89,159) and on the weighted average number of shares in issue, which was 115,872,148 (2013: 134,064,000).

In view of the group loss for the year, share warrants and options to subscribe for shares in the company are anti-dilutive and therefore diluted earnings per share is the same as basic loss per share.

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 loss for the year dealt with in the financial statements of the company was £2,568,831 (2013 - loss: £8,193). The loss for the year is after impairment of the company's investment of £2,550,000 (2013 - Nil).

15. Intangible assets

Goodwill and investment in subsidiary undertakings

Goodwill

	2014 £	2013 £
Cost		
At 1 January and 31 December	3,236,617	3,236,617
Impairment		
At 1 January	-	-
Charge in the year	(2,550,000)	-
At 1 January and 31 December	686,617	3,236,617
Exchange rate changes		
	196,142	281,428
Exchange rate change in the year	(78,802)	(85,286)
At 31 December 2014	117,340	196,142
Carrying value at 31 December	803,957	3,432,759

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 amount of this cash-generating unit is determined based on a value in use calculation, which uses cash flow projections based on financial forecasts approved by the directors and a discount rate of 10.0% (2013 10.0%). The discounted rate which is calculated on a weighted average cost of capital basis assumes a long-term growth rate of 6%. A single annual expected future cash flow is derived from these cash flow projections representing the directors' best estimate of annual cash flow associated with the cash generating unit, from which the value in use has been calculated. The expected future cash flow used in the calculation is based on the directors' cash flow forecast for the year ended 31 December 2014.

The directors' assessment of goodwill suggested that impairment of £2,550,000 should be made to the carrying value of goodwill. The directors believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

The key assumptions used in the value in use calculations of TeleMessage Ltd, the cash-generating unit, are as follows:-

	2014
Revenue growth rate	6%
Annual expected future growth	£167,684
Revenue growth rate	10%

The discount rates used are pre-tax and reflect specific risks associated with the group's activities and its cost of borrowings.

Company – Investment in subsidiary undertakings

	2014 £	2013 £
Cost of shares:		
At 1 January and 31 December	3,269,000	3,269,000
Impairment	(2,550,000)	-
	719,000	3,269,000

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

16. Property, plant and equipment

Group	2014 £	2013 £
Cost		
At 1 January	423,237	380,045
Additions	14,581	52,405
Foreign exchange movement	24,418	(9,213)
At 31 December	<u>462,236</u>	<u>423,237</u>
Depreciation		
At 1 January	260,582	200,920
Depreciation in the year	100,094	64,533
Foreign exchange	15,034	(4,871)
At 31 December	<u>375,710</u>	<u>260,582</u>
Carrying value		
At 31 December 2014 and 2013	<u>86,526</u>	<u>162,655</u>
At 1 January 2014 and 2013	<u>162,655</u>	<u>179,125</u>

All the above assets are included in the accounts of subsidiary undertakings at their net book values comprising computers and related equipment of £70,196 (2013: £145,308) and office furniture and equipment of £16,330 (2013: £17,347).

17. Other investments

	Group		Company	
	2014 £	2013 £	2014 £	2013 £
Investment plans for employee severance	343,699	323,704	-	-
Loan note due from subsidiary undertakings	-	-	1,538,461	-
	<u>343,699</u>	<u>323,704</u>	<u>1,538,461</u>	<u>-</u>

Other investments of £343,699 represents the funds at 31 December 2014 (2013: £323,704) 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.

In June 2014, The company issued its subsidiary undertaking TeleMessage Limited a five year US dollar denominated capital note for \$2,400,000 which was equivalent to £1,420,622 to be repaid at the end of the five year term or in instalments at the option of the borrower. The loan is interest free and can only be assigned with the approval of both parties. There were no repayments in the period.

The carrying value of the capital note at the year end was £1,538,461 giving rise to a foreign exchange translation gain of £117,839 reflected in the company's reserves.

18. Trade and other receivables

	Group		Company	
	2014	2013	2014	2013
	£	£	£	£
Trade receivables	625,487	625,483	-	-
Due from subsidiary undertakings after one year	-	-	202,130	1,636,680
Due from government authorities	1,313	31,349	1,313	13,726
Other receivables and prepaid expenses	69,268	127,822	3,281	2,430
	<u>696,068</u>	<u>784,654</u>	<u>206,724</u>	<u>1,652,836</u>

The amount due from subsidiary undertakings totals £1,622,752 comprising an interest-bearing loan of £202,130 and a capital note for £1,420,622 (2013: £1,636,680 including an interest-bearing amount of £216,058).

Full details of the terms relating to the capital note are given in note 17 above.

Trade receivables - ageing	Total	Neither overdue or impaired	<30 days	30-60 days	60-90 days	More than 90 days
	£	£	£	£	£	£
2014	625,487	65,845	323,583	134,090	64,351	37,618
2013	625,483	15,109	317,916	155,479	85,804	51,175

The average credit period given for trade receivables at the end of the year is 63 days (2013: 60 days).

19. Trade and other payables

	Group		Company	
	2014	2013	2014	2013
	£	£	£	£
Trade payables	105,888	214,495	-	-
Taxes and social security	223,979	230,891	-	-
Accruals and other payables	195,798	171,315	19,500	29,448
	<u>525,665</u>	<u>616,701</u>	<u>19,500</u>	<u>29,448</u>

The average credit period taken for trade payables at the end of the year is 66 days (2013: 58 days).

20. Borrowings

	Group 2014	Group 2013	Company 2014	Company 2013
	£	£	£	£
Due within one year	110,013	199,019	-	-
Due after one year	-	103,997	-	-
	<u>110,013</u>	<u>303,016</u>	<u>-</u>	<u>-</u>

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.

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

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 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 2014 £	Group 2013 £
Expense in respect of defined contribution plan.	46,582	45,200

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

	Group 2014 £	Group 2013 £
Defined benefit obligation	(479,656)	(382,189)
Fair value of plan assets	343,699	323,703
Benefit liability	(135,957)	(58,486)

(b) Expenses recognised in the statement of comprehensive income:

	Group 2014 £	Group 2013 £
Net actuarial loss recognised in the year	71,715	5,576
Total expenses included in the statement of comprehensive income	71,715	5,576

(c) Amounts recognised in arriving at the operating loss is as follows:

	Group 2014 £	Group 2013 £
Current service cost	39,468	35,649
Interest cost	1,694	34,249
Return differences transferred to employer	5,251	6,075
Total expense included in statement of income	46,413	75,973

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

	Group 2014 £	Group 2013 £
Liability at the beginning of the year	382,189	329,857
Current service cost	39,468	35,649
Interest cost	18,453	18,106
Benefits paid	(3,942)	(6,131)
Actuarial (loss)/gain on obligation	72,790	(12,427)
Foreign exchange differences	(29,302)	17,135
Liability at the end of the year	479,656	382,189

21. Provisions - severance pay liability (cont.)

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

	Group 2014 £	Group 2013 £
Plan assets at the beginning of the year	323,703	275,692
Expected return	16,662	(16,143)
Contributions by employer	33,683	29,909
Return differences transferred to employer	(5,251)	(6,075)
Actuarial loss	1,075	(6,885)
Foreign exchange differences	(26,173)	47,205
Plan asset at the end of the year	<u>343,699</u>	<u>323,703</u>

(f) The actuarial assumptions used are as follows:

	Group 2014	Group 2013
Discount rate	4.11%	4.73%
Future salary increase	3.50%	3.50%
Average expected remaining working years	12.89	13.20

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.

	2014 £	2013 £
Amount outstanding at 1 January	23,618	41,022
Foreign exchange difference	1,362	(994)
Grants received in the year	17,749	149,424
Royalties paid in the year	(858)	(883)
Taken to statement of comprehensive income	(36,822)	(164,951)
Amount outstanding at 31 December	<u>5,049</u>	<u>23,618</u>

23. Share capital

	2014 £	2013 £
Issued and fully paid		
115,872,148 (2013 – 115,872,148) ordinary shares of 0.5p each	<u>579,361</u>	<u>579,361</u>

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

Share capital (cont.)

Share options

The unapproved share option scheme was adopted by the board on 27 July 2005.

At 31 December 2014 there were 2,000,000 share options exercisable by 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 Company Ltd in 2009 with an exercise price of 0.5p per share.

During the year 15,025,000 share options were granted to employees and directors of the company and 1,209,402 share options lapsed or were forfeited by employees no longer with the company.

No share options were exercised in the year

At 31 December 2014 there were 33,960,399 (2013:19,980,399) share options held by employees and directors of the company.

Remaining share options exercisable by employees and directors at the year end are summarised below:

	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
Guy Levit	3,000,000	31.3.2014	1.22p	31.3.2014 – 31.3.2024
David Rubner	500,000	27.7.2005	5p	20.7.2006 – 20.7.2015
David Rubner	475,000	31.3.2014	1.22p	31.3.2014 – 31.3.2024
	<u>11,975,000</u>			
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
Other employees	10,505,000	31.3.2014	1.22p	31.3.2014 – 31.3.2024
	<u>33,960,399</u>			

Details of share option valuations are given in note 30.

Warrants in issue at 31 December 2014

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. These warrants were not taken up.

In February 2012 and as part of the agreement 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.

In June 2012, as part of a new loan agreement, the company granted to Mizrahi Tefahot Bank Ltd 3,896,804 warrants exercisable at any time from grant until 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.

The exercise period was extended to January 2020 as part of an agreement reached with the bank in January 2015, details of which are given in note 27 below.

All 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	20 February 2012	17 June 2012
Share price at grant date	0.60p	0.50p	0.90p	0.88p
Exercise price	0.65p	0.67p	0.50p	0.63p
Shares under option	7,692,308	7,456,504	10,000,000	3,896,804
Vesting period	Immediately	Immediately	Immediately	Immediately
Expected volatility	226%	221%	90.7%	89.5%
Option life	6	5.67	3	5
Expected life	6	5.67	3	5
Risk free rate	3.55%	2.85%	1.12%	1.07%
Expected dividends expressed as dividend yield	0%	0%	0%	0%
Fair value per option	0.5969p	0.4955p	0.6247p	0.6480p

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.

As no warrants were issued in 2014 there is no charge recognised in the accounts (2013: £Nil).

Further details in relation to share options is given in note 30.

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 2020.

Future minimum commitments at 31 December 2014 are as follows:-

	2014 £	2013 £
Within one year	96,469	116,826
Between two to five years	318,960	195,258
More than five years	13,157	320,575
	<u>428,586</u>	<u>632,659</u>

Leasing costs charged in the statement of comprehensive income in the year ended 31 December 2014 and 2013 were £144,021 and £156,610 respectively.

25. Related parties

A H Montpelier

The group made payments to AH Montpelier totalling £23,500 (excluding vat) (2013: £23,500) 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.

Parent company management fees and interest

The company charged fees of £84,000 (2013: £84,000) for management services of its subsidiary undertakings. Interest of £8,349 (2013: £15,013) was charged by the company in relation to the interest bearing element of monies due from subsidiary undertakings which at 31 December 2014 was £202,130 (2013: £216,058).

26 Cash and cash equivalents and net funds

	At 1 January 2014 £	Cash Flow £	At 31 December 2014 £
Group			
Cash and cash equivalents	765,026	(383,917)	381,109
Borrowings	(303,016)	193,003	(110,013)
	<u>462,010</u>	<u>(190,914)</u>	<u>271,096</u>
Company			
Cash and cash equivalents	<u>4,148</u>	<u>(3,289)</u>	<u>859</u>

27 Post balance sheet events

In January 2015, TeleMessage Limited signed a new loan agreement in the amount of \$ 1,000,000 from Mizrahi Tefahot Bank Ltd. Under the terms of the new loan agreement, the loan bears an interest rate of the London Interbank Offered Rate plus 6% to be repaid in 36 equal monthly instalments.

In addition, and as part of the agreement, the company granted Mizrahi Tefahot Bank Ltd a further 4,500,000 warrants to purchase ordinary shares, exercisable at any time from grant to January 24, 2020. These warrants are exercisable at a price of 0.91 pence per share. The company also extended the exercise period of the 3,896,804 warrants, granted to Mizrahi Tefahot Bank Ltd. under the agreement signed in 2012 from June 2017 to January 2020.

28 Controlling party

H Furman is the controlling party by virtue of his personal shareholding in the company together with other shareholdings in which he has a beneficial interest.

His shareholdings comprise of 68,808,276 ordinary shares representing 59.4% of the company's ordinary share capital and includes 34,492,934 ordinary shares owned by Prideway Holdings Limited, a company under his control, 16,533,333 shares in the name of Lynchwood Nominees as well as 17,782,009 owned personally.

29. Financial instruments and risk management

The group is funded by equity together with a bank loan of £110,000 which represents the group's capital.

The group's objectives when maintaining capital are:

- To safeguard the entity's ability to continue as a going concern, so that it can begin to provide returns for shareholders and benefits for other stakeholders; and
- To provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

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.

Financial instruments and risk management (cont)

At 31 December 2014 and 31 December 2013 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.

	2014 £	2013 £
Financial assets		
Cash and cash equivalents	381,109	765,026
Trade and other short term receivables	696,068	784,654
	<u>1,077,177</u>	<u>1,549,680</u>
Financial liabilities (which are included at amortised cost)		
Trade and other payables	530,714	640,319
Bank borrowings	110,013	303,016
	<u>640,727</u>	<u>943,335</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.

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"), US Dollar, 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 2014, 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 2014, the company had significant risk concentration by virtue of monies due 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 2014

	Total projected cash flows £	First year £	Years 2-5 £	More than 5 years £
Trade payables	105,000	105,000		-
Other financial payables	400,000	400,000		-
Bank loans	110,000	110,000		-
Royalty bearing grants	5,000	5,000		-
	620,000	620,000		-

Anticipated future cash flows - Year ended 31 December 2013

	Total projected cash flows £	First year £	Years 2-5 £	More than 5 years £
Trade payables	215,000	215,000	-	-
Other financial payables	425,000	425,000	-	-
Bank loans	315,000	220,000	95,000	-
Royalty bearing grants	25,000	1,000	24,000	-
	980,000	861,000	119,000	-

Interest rate risk

As the group's long term liabilities include a 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.

30. 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	6 October 2006
Share price at grant date	5p	5p	5p	5p	4.6p	2.25p
Exercise price	2.17p	3.06p	3.67p	5p	5p	5p
Shares under option	-	164,402	-	539,520	1,163,913	431,624
Vesting period	< 1 year	< 2.5 years	< 1.5 years	< 0-4 years	< 4 years	< 3 years
Expected volatility	39.80%	39.80%	39.80%	39.80%	158.30%	151.40%
Option life	10	10	10	10	10	10
Expected life	5 - 5.25	5 - 6	5 - 5.5	5 - 6	5.25 - 6	5.25 - 6
Risk free rate	3.86%	3.86%	3.86%	3.86%	4.40%	5.01%
Expected dividends expressed as dividend yield	0%	0%	0%	0%	0%	0%
Retention factor	100%	100%	100%	100%	85%	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	1.71p-1.76p

Grant date	6 October 2006	27 July 2007	28 January 2009	12 November 2010	31 March 2015
Share price at grant date	2.25p	0.38p	0.25p	0.7p	1.22p
Exercise price	3.2p	0.5p	0.5p	0.7p	1.22p
Shares under option	180,940	8,000,000	11,000,000	500,000	15,025,000
Vesting period	< 4 years	< 2 years	< 2 years	< 1 year	< 0-4 years
Expected volatility	151.40%	194.40%	220.30%	223.29%	57%
Option life	10	10	10	10	10
Expected life	5.25 - 6	5 - 6	5 - 6	5 - 5.5	5.3 - 7
Risk free rate	5.01%	4.95%	2.06%	1.53%	1.84%
Expected dividends expressed as dividend yield	0%	0%	0%	0%	0%
Retention factor	85%	85%	85%	85%	85%
Fair value per option	1.75p-1.79p	0.31p-0.32p	0.21p-0.25p	0.59p-0.69p	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, 2 November 2010 and 31 March 2015 and reflects the changing 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:

	2014 £	2013 £
Group	56,725	-

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 Arram Berlyn Gardner, 30 City Road, London EC1Y 2AB on 23 July 2015 at 10:00 a.m. 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 resolutions 5 and 6 will be proposed as special resolutions:

ORDINARY RESOLUTION

1. That the report of the directors and auditors, and the audited accounts of the Company, for the year ended 31 December 2014 be received and considered.
2. To re-elect David Rubner as a director of the Company, who retires in accordance with the Company's Articles of Association.
3. That Jeffreys 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 17 June 2012 and (ii) a warrant instrument of the Company dated 25 January 2015 up to a maximum of nominal amount of £41,985.
 - (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 £180,405; 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 £580,000,

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 5, 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 17 June 2012 and (ii) a warrant instrument of the Company dated 25 January 2015 up to a nominal amount of £41,985;
 - (c) the allotment of equity securities pursuant to options granted by the Company up to a maximum nominal amount of £180,405; 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 £580,000,

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.

6. That the Company be authorised generally and unconditionally to make market purchases (within the meaning of section 693(4) of the Companies Act 2006) of up to 20,000,000 ordinary shares of 0.5 pence each in the capital of the Company (being approximately 17.3% of the current issued ordinary share capital of the Company) on such terms and in such manner as the Directors of the Company may from time to time determine, provided that:
- (a) the amount paid for each share (exclusive of expenses) shall not be more than the higher of (1) 5% above the average market value for the five business days before the date on which the contract for the purchase is made, and (2) an amount equal to the higher of the price of the last independent trade and current independent bid as derived from the AIM Appendix to the Daily Official List of the London Stock Exchange or less than 0.5 pence per share;
 - (b) the authority conferred by this resolution shall expire at the conclusion of the Company's next annual general meeting save that the Company may, before the expiry of the authority granted by this resolution, enter into a contract to purchase ordinary shares which will or may be executed wholly or partly after the expiry of such authority.

Registered office:
30 City Road
London
EC1Y 2AB

By order of the Board
I Fishman FCA
Company Secretary

Dated: 25 June 2014

General 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, Suite E, 1st Floor, 9 Lion and Lamb Yard, Farnham, Surrey, GU9 7LL not less than 48 hours before the time of holding of the meeting. In calculating the period the 48 hours as referred to above no account shall be taken of any part of a day that is not a working day.
- (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 10.00 a.m. on 23 July 2015 at Arram Berlyn Gardner 30 City Road London EC1Y 2AB

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 10.00 a.m. on 23 July 2015 at Arram Berlyn Gardner, 30 City Road, London EC1Y 2AB, 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 2014.			
2	To re-elect D Rubner as a director.			
3	To appoint Jeffreys 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.			
6	To generally and unconditionally authorise the Company to make market purchases of up to 20,000,000 ordinary shares.			

Signature (see note 7) Dated this day of 2015

Joint holders (if any) (see note 8)

Name Name

Name Name

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 notarised 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. In calculating the period the 48 hours as referred to above no account shall be taken of any part of a day that is not a working day.
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.
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