
**MESSAGING INTERNATIONAL PLC
ANNUAL REPORT AND FINANCIAL
STATEMENTS**

2007

Messaging International Plc, ("Messaging") the AIM traded company and provider of innovative messaging services, announces its results for the year ended 31 December 2007.

Highlights

- Strengthened position as leading provider of innovative messaging services especially in our "Text-to-Landline" and "PC to Mobile" solutions.
- Post-tax loss reduced to £259,892 (2006: loss £1,102,272)
- Total revenue increased by over 100% to £1,367,235 (2006: £674,620)
- Expansion into new geographic territories
- New relationships and extended existing contracts with leading mobile operators.

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Directors

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

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

Secretary

I Fishman FCA

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Company number

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Company website

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Nominated advisor

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Auditors

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Registrars

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The period under review has been a time of growth. Innovative messaging services, as developed by our wholly owned subsidiary, TeleMessage Ltd ('TeleMessage'), are becoming increasingly recognised as desirable tools in the competitive and rapidly changing telecommunication industry. Leading mobile operators in a growing number of countries and the millions of customers that subscribe to their services are acknowledging the position of our products in the reality of converged communication media. This translates in the continuing improvement in the company's performance with revenues growing by over 100% and a dramatic drop in losses.

The growth we have achieved this year is not only due to the strengthening of existing relationships but also to the forging of new alliances with blue-chip operators, both in our established regions and in new territories. With a firm foundation now in place, we firmly believe in our ability to continue building on this growth, delivering cutting edge technology and products and solutions that satisfy customer needs.

I am delighted to announce that TeleMessage has been successful in obtaining a research and development grant from Israel's Chief Scientist Office of in the region of £150,000 within a scheme developed in collaboration with the Eureka Programme. Created as an intergovernmental initiative in 1985, Eureka is a pan-European network which aims to enhance competitiveness through its support to businesses, research centres and universities in the development of innovative products, processes and services.

Financial Results

The results for the year ended 31 December 2007 show a loss of £259,892 (2006: loss of £1,102,272), on revenue of £1,367,235 (2006: £674,620). Included in revenue is £280,000 (2006: £nil) representing the sale of patent rights (net of costs).

In March 2007, the group raised £900,000 before costs through a placing of new shares. These funds were used for general working capital and the development of new products and services.

The group's cash position at 31 December 2007 was £355,780 (2006: £86,869 overdrawn).

The board does not recommend the payment of a dividend.

Operations

The products and services developed by TeleMessage continue to provide new and more convenient forms of integration between mobile phones, the Internet, personal computers and landline phones. The agreements and partnerships that the company have developed with telecom operators and enterprises provide two main revenue streams for TeleMessage:

- "Software licensing" – which is usually linked to the number of messages that can be sent through the system or the number of active users.
- "Hosted platform" - where we host messaging services for customers and where we receive a fixed fee or are paid per message.

TeleMessage not only gained further recognition within the telecommunications industry this year, but also achieved a high ranking (14th) in the prestigious Deloitte Israel Technology Fast 50 Awards. As a result of this award, TeleMessage Ltd. became eligible for the Deloitte Technology Fast 500 award which recognises growth in the revenue of companies operating in Europe, the Middle East and Africa. This second prestigious award has given the company further market exposure and credibility.

North America

We expanded two of our existing contracts held with major North American operators during the year. The first deal was an extension of the "PC to Mobile" contract with Rogers Wireless, Canada's largest wireless operator, through the launch of its Mail Plug-in application. Using the "PC to Mobile" technology, Rogers Wireless subscribers can now compose and send text messages directly from within Microsoft Outlook® and Outlook® Express. We also strengthened our relationship with Sprint Nextel, the third largest wireless operator in the US, as it launched a Spanish language feature to its popular Text-to-Landline application. In addition to the original service in English, Sprint Nextel customers are now able to compose text messages that are converted into voice messages and delivered to landline phones in Spanish, a feature that increases substantially the appeal of the service among Sprint's subscriber base.

New blue chip mobile operators added to our distinguished list of customers which now includes amongst others, Telus, a leading national telecommunications company in Canada and EMBARQ, a USA based communications provider. Both have launched the Text-to-Landline application during this past year.

Subsequently, several other major communication providers have also launched this service including Bell Canada, Qwest and Alltel. These new agreements offer further proof of the strengthening of our position in the "Text-to-Landline" market in North America.

Europe

We have continued to expand our presence in Europe through Dominion, our partner based in Spain and have to date secured close to £150,000 in orders through two public sector agencies for our Mail Plug-in and Multi Alert products. We also launched our "PC to Mobile" suite of applications with T-Mobile Macedonia, Macedonia's largest mobile operator. This was a great endorsement of our technology as T-Mobile is often regarded as one of the most innovative operators in the region and the first to launch this kind of service.

Our operations in Israel remain of vital importance to the group, as we continue to secure contracts and partnerships with leading operators in this demanding and competitive market. TeleMessage now has contracts with several of the major wireless operators in Israel for various products, including Orange, Pelephone and Israel's leading business mobile operator, MIRS Communications Ltd ('MIRS'), which launched our Mail Plug-in product. This enables MIRS mobile subscribers to send SMS to any local mobile phone directly from their Microsoft Outlook; an important tool which is progressively being integrated in corporate communication solutions worldwide.

The company also won a competitive tender process initiated for Israel Discount Bank Ltd., one of Israel's leading financial institutions, to implement a service enabling the bank to contact its customers via text and fax. This tender process saw the company competing against a number of strong contenders. Implementation of the service is scheduled for December 2008.

In October 2007, TeleMessage was chosen to showcase its "PC to Mobile" applications at DEMO Germany, the premier launch venue for new products, technologies and companies. Our innovative "PC to Mobile" applications were identified and chosen by the DEMO's Advisory Board, which screens dozens of companies to uncover 25 emerging technology companies that demonstrate the most promise. DEMO's recognition of the importance of this application underlines our belief that our technology will have significant impact on the marketplace and market trends in the coming years.

Other Territories

We continue to be proactive in targeting operators in new markets. During the year we strengthened our market presence in Asia-Pacific through an agreement with AIS (Advanced Info Service), the largest operator in Thailand, to launch our converged "PC to Mobile" products. The messaging industry is booming in Asia, and we are confident that the adoption of our services will play a major role in future messaging growth.

We also signed a contract to launch "Text-to-Landline" with a leading mobile operator in Latin America, part of a market leading mobile phone communications network with over 2.5 million users. This gives us significant exposure to operators and customers in Latin America, a region in which, to date, we have not had a market presence. We believe that we are now well positioned to target other operators in the rapidly expanding Latin American telecommunications market.

Prospects

The demand for easier and more convenient methods of integrated communication continues to increase worldwide and we are confident that TeleMessage's pioneering technologies will benefit customers across the globe. We are fast becoming leaders in "Text-to-Landline" and "PC to Mobile" solutions with the use of such merging solutions gaining popularity, we will benefit from our technology and our position in the market.

We remain committed to our corporate growth strategy of targeting blue-chip operators and constantly reviewing potential acquisition opportunities in order to expand our offering into new geographic regions and markets.

I would like to take this opportunity to thank all those involved in the Messaging International family for their hard work and dedication over the past year.

H Furman
Chairman
27 June 2008

Horacio Furman, (aged 61), Non executive chairman

Horacio is the CEO OF Prideway Holdings Ltd. He is a director of Arba Finance Company Ltd. and Picom Software Systems 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 technologies' companies. Mr Furman previously was 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 telecoms technologies. Prior to that, Mr Furman held positions in Production and Marketing at ISCAR, Ltd. Mr Furman holds a B.Sc in Mechanical Engineering and a M.SC in Materials Engineering from the Technion, Israel's Institute of Technology, and an MBA from INSEAD.

Guy Levit, (aged 37) Chief executive

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

Irvin Fishman, (aged 58), Finance director

Irvin qualified as a chartered accountant in 1974 and has been a partner in Auerbach Hope, Chartered Accountants, since 1978. He held the position of finance director at Entertainment Rights Plc, a public company quoted on the official list of the London Stock Exchange for several years before more recently becoming a non-executive director and chairman of its audit committee. He is also finance director of Pantheon Leisure Plc, an AIM quoted company.

David Rubner, (aged 68) Non executive director

David is chairman and chief executive officer of Rubner Technology Ventures Ltd. and partner in Hyperion Israel Advisors Ltd., a venture capital firm. From 1991 until 2000 Mr Rubner was president and chief executive officer of ECI Telecom Ltd. (NYSE: ECIL), one of Israel's largest communication companies. Mr Rubner served on the board of directors of Check Point Software Technologies Ltd. (NASDAQ: CHKP), Koor Industries Ltd., Elbit Imaging Ltd., Lipman Electronic Engineering Ltd., cVidya Networks and Bamboo Media Casting Inc. Mr Rubner holds a B.Sc degree in Engineering from Queen Mary's College, University of London and an M.Sc. degree from Carnegie Mellon University.

Geoffrey Simmonds, (aged 65), Non executive director

Geoffrey is the chief executive officer of Westside Acquisitions PLC, and a non-executive director of ADDleisure PLC and Pantheon Leisure Plc, all AIM quoted companies. He qualified as a chartered accountant in 1966. He has extensive involvement and experience in corporate and strategic planning, acquisitions and finance. Geoffrey holds various other private company directorships.

The directors present their report and accounts for the year ended 31 December 2007.

Results and dividends

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

Principal activity

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

Business review and Key performance Indicators

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

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

Business risk

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

Financial risk

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

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

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

Liquidity risk arises in relation to the group's management of working capital and the 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.

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

The directors do not consider changes in interest rates have a significant impact on the group's cost of finance or operating performance.

Directors

The directors holding office at 31 December 2007 were:-

H Furman
G Levit
I Fishman
D Rubner
G Simmonds

In accordance with the company's Articles of Association, one third of the board are subject to re-election at the forthcoming annual general meeting. Accordingly, G Levit 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, warrants and share options of the company:

	Ordinary shares No.	Warrants No.	Share options No.
H Furman	70,704,564	20,329,678	-
G Levit	4,387,608	1,828,170	4,021,821
I Fishman	-	-	-
D Rubner	1,088,512	120,213	500,000
G Simmonds	200	-	-

During the year the company granted 4,000,000 share options to G Levit pursuant to the terms of the unapproved share option scheme. These share options can be exercised at 0.5p per share between 27 July 2009 and 27 July 2017.

No other director has been granted share options.

The company maintains directors' and officers' liability insurance.

Substantial Interests

At the date of this report, the following had an interest of 3% or more in the ordinary share capital of the company:

	Ordinary shares	Percentage
Pacific Continental Securities (UK) Limited *	81,007,853	34.4
Prideway Holdings Limited	34,492,934	14.6
Reverse Takeover Investments Plc	23,000,000	9.7
Prideway II LP	19,678,297	8.2
H Furman	16,533,333	7.0
Jeffries International (Nominees)	10,300,000	4.3
W Weston	10,000,000	4.2

* Pacific and Continental Securities (UK) Limited acted as a nominee for investors. Although this company went into liquidation in 2007, the holdings remain unaffected.

Supplier payment policy for the payment of creditors

The group's policy is to settle its liabilities within terms of payment agreed with suppliers. The group's normal terms of payment are 30 days. The parent company adheres to terms of payment agreed with suppliers. At 31 December 2007, and at all other times in the year, trade creditors were minimal.

The ratio expressed in days of the amounts owed to trade creditors at the year end to amounts invoiced to suppliers during the year was 45 days (2006 – 39 days).

Health and safety

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

Environmental policy

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

Post balance sheet events

The directors are currently in the process of negotiating further funding from an Israeli bank to assist the group with its future working capital requirements.

The directors consider that there are adequate financial resources to continue financial operations for the foreseeable future and as such, these financial statements have been prepared on a going concern basis.

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 £333,668 (2006: £489,429).

Directors' responsibilities

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

Auditors

In accordance with Section 385 of the Companies Act 1985 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

- (a) As far as the directors are aware, there is no relevant audit information of which the group's auditors are unaware, and
- (b) They have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

By order of the board,

I Fishman
Company secretary
27 June 2008

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

Board and board committees

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

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

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

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

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

Relationships and shareholders

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

Accountability and financial control

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

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

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

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare financial statements for each financial period. The directors have elected to prepare the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. The consolidated financial statements are required by law to give a true and fair view of the state of affairs of 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 applicable International Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the group and to enable them to ensure that the financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the group and 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 ("the financial statements") of Messaging International Plc on pages 11 to 32 for the year ended 31 December 2007 which comprise the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated and company balance sheets, the consolidated and company cash flow statements, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and International Financial Reporting Standards "(IFRS's)", as adopted by the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 and as regards to group financial statements Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes the specific information presented in the Chairman's Statement that is cross referred from the business review section of the directors' report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Directors' Report, the Chairman's Statement, and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion:

- The group financial statements give a true and fair view, in accordance with IFRS's as adopted by the European Union, of the state of group's affairs as at 31 December 2007 and of its loss for the year then ended;
- The parent company financial statements give a true and fair view in accordance with IFRS's as adopted in the European Union as applied in accordance with the provisions of the Companies Act 1985 of the state of the parent company's affairs at 31 December 2007.
- The financial statements have been properly prepared in accordance with the Companies Act 1985; and as regards the group financial statements, Article 4 of the IAS Regulation;
- The information given in the Directors' Report is consistent with the financial statements.

Emphasis of matter: - Going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in note 5a to the financial statements concerning the group's ability to continue as a going concern. The group incurred a net loss of £259,892 during the year ended 31 December 2007. These conditions, along with the other matters explained in notes to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

Jeffreys Henry LLP
Chartered Accountants and Registered Auditors
5-7 Cranwood Street
Finsgate
London EC1V 9EE
27 June 2008

Consolidated income statement for the year ended 31 December 2007

	Notes	2007 £	2006 £
Revenues	5b, 7	1,367,235	674,620
Cost of revenues		<u>(536,697)</u>	<u>(466,001)</u>
Gross profit		830,538	208,619
Operating expenses			
Research and development		(333,668)	(489,429)
Selling and marketing		(368,481)	(440,968)
General and administrative		(368,158)	(362,174)
Total operating expenses		<u>(1,070,307)</u>	<u>(1,292,571)</u>
Operating loss	8	(239,769)	(1,083,952)
Financial income	11	(20,123)	(18,320)
		<u>-</u>	<u>-</u>
Loss before taxation		(259,892)	(1,102,272)
Taxation	12	<u>-</u>	<u>-</u>
Loss for the year		<u>(259,892)</u>	<u>(1,102,272)</u>
Basic and diluted loss per share	13	<u>(0.12)p</u>	<u>(0.7)p</u>

The notes on pages 18 to 32 form part of these financial statements.

Consolidated statement of recognised income and expense

	2007 £	2006 £
Exchange difference on translation of foreign operation	(11,334)	(14,158)
Loss for the year	(259,892)	(1,102,272)
Total recognised income and expense for the year	<u>(271,226)</u>	<u>(1,116,430)</u>

The notes on pages 18 to 32 form part of these financial statements.

Consolidated balance sheet as at 31 December 2007

	Notes	2007 £	2006 £
Non-current assets			
Goodwill	15	3,236,617	3,236,617
Other intangible assets		-	715
Tangible assets	16	25,047	43,592
Other investments	17	107,500	53,929
Total non-current assets		3,369,164	3,334,853
Current assets			
Trade and other receivables	18	380,610	191,346
Cash and cash equivalents	27	355,780	84,965
Total current assets		736,390	276,311
Total assets		4,105,554	3,611,164
Current liabilities			
Trade and other payables	19	(200,520)	(381,181)
Total current liabilities		(200,520)	(381,181)
Non-current liabilities			
Provisions	20	(121,000)	(90,894)
Total non-current liabilities		(121,000)	(90,894)
Total liabilities		(321,520)	(472,075)
Net assets		3,784,034	3,139,089
Equity			
Share capital	21	1,176,900	576,900
Share premium	22	4,266,227	3,999,475
Foreign currency translation reserve		(34,379)	(23,045)
Revenue reserves	23	(1,624,714)	(1,414,241)
Total Equity		3,784,034	3,139,089

The financial statements were approved and authorised for issue by the board on 27 June 2008 and signed on its behalf by:

H Furman
Director

I Fishman
Director

The notes on pages 18 to 32 form part of these financial statements.

Company balance sheet as at 31 December 2007

	Notes	2007 £	2006 £
Non current assets			
Investment in subsidiary undertakings	15	3,269,000	3,269,000
Total non-current assets		<u>3,269,000</u>	<u>3,269,000</u>
Current assets			
Trade and other receivables	18	2,000,038	1,276,593
Cash and cash equivalents	27	160,011	45,243
Total current assets		<u>2,160,049</u>	<u>1,321,836</u>
Total assets		5,429,049	4,590,836
Current liabilities			
Trade and other payables	19	(27,959)	(33,793)
Total liabilities		<u>(27,959)</u>	<u>(33,793)</u>
Net assets		<u>5,401,090</u>	<u>4,557,043</u>
Equity			
Share capital	21	1,176,900	576,900
Share premium	22	4,266,227	3,999,475
Revenue reserves	23	(42,037)	(19,332)
Total equity		<u>5,401,090</u>	<u>4,557,043</u>

The financial statements were approved and authorised for issue by the board on 27 June 2008 and signed on its behalf by:

H Furman
Director

I Fishman
Director

The notes on pages 18 to 32 form part of these financial statements.

Consolidated cash flow statement for the year ended 31 December 2007

	Notes	2007 £	2006 £
Cash flow from operating activities			
Loss before taxation		(239,769)	(1,083,952)
Adjustments for:			
Share based payment charges		49,419	80,950
Depreciation and amortisation		19,394	23,292
Foreign currency differences		(26,640)	(46,529)
		<u>42,173</u>	<u>57,713</u>
Operating cash flow before working capital movements		(197,596)	(1,026,239)
Increase in receivables		(189,264)	(9,845)
Decrease in payables		(8,827)	(11,202)
Increase/(decrease) in provisions		30,106	(25,334)
		<u>(167,985)</u>	<u>(46,381)</u>
Cash outflow from operating activities		(365,581)	(1,072,620)
Investing activities			
Interest (paid)/received		(3,945)	7,072
Investments		(53,571)	30,401
Purchase of tangible assets		(1,006)	(6,610)
Net cash (absorbed by)/from investing activities		(58,522)	30,863
Financing activities			
Issue of equity capital		900,000	-
Share issue costs		(33,248)	-
Net cash from financing activities		866,752	-
Net change in cash and cash equivalents		442,649	(1,041,757)
Cash and cash equivalents and bank overdraft at the beginning of the year		(86,869)	954,888
Cash and cash equivalents and bank overdraft at the end of the year	27	<u>355,780</u>	<u>(86,869)</u>

The notes on pages 18 to 32 form part of these financial statements.

Company cash flow statement for the year ended 31 December 2007

	Notes	2007 £	2006 £
Cash flow from operating activities			
Loss before taxation		(32,586)	(40,589)
Operating cash flow before working capital movements		<u>(32,586)</u>	<u>(40,589)</u>
Increase in receivables		(723,445)	(776,548)
(Decrease)/increase in payables		(5,834)	14,472
Cash flow from operating activities		<u>(761,865)</u>	<u>(802,665)</u>
Financial income		9,881	7,072
Net cash used in operating activities		<u>(751,984)</u>	<u>(795,593)</u>
Financing activities			
Issue of equity capital		900,000	-
Share issue costs		(33,248)	-
Net cash from financing activities		<u>866,752</u>	<u>-</u>
Net change in cash and cash equivalents		114,768	(795,593)
Cash and cash equivalents and bank overdraft at the beginning of the year		45,243	840,836
Cash and cash equivalents and bank overdraft at the end of the year	27	<u><u>160,011</u></u>	<u><u>45,243</u></u>

The notes on pages 18 to 32 form part of these financial statements

1. General information

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

2. Basis of Accounting

The consolidated financial statements of the company for the year ended 31 December 2007 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.

(a) Standards, amendments and interpretations effective at 1 January 2007.

The following interpretations to existing standards have been published that are mandatory for the company's accounting periods beginning on or after 1 January 2007:

- IFRS 7, 'Financial Instruments: Disclosure', and complementary amendment to IAS 1, 'Presentation of financial statements – Capital disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the company's financial instruments, or the disclosures relating to taxation and trade and other payables.
- IFRIC 8, 'Scope of IFRS 2', requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issues in order to establish whether or not they fall within the scope of IFRS 2. This standard does not have any impact on the company's financial statements.

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the group

The following interpretations to existing standards have been published that are mandatory for the company's accounting periods beginning on or after 1 January 2008 or later periods but that the company has not adopted early:

- IAS 1 Revised – Presentation of Financial Statements (effective from 1 January 2009). Key changes include, the requirement to aggregate information in the financial statements on the basis of shared characteristics, the introduction of a Statement of Comprehensive Income & changes in titles of some of the financial statements.
- IFRS 8 – Operating Segments (effective from 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about segments of an enterprise and related information". The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. The expected impact is still being assessed in detail by management, but it appears likely that the number of reportable segments, as well as the manner in which segments are reported, will change in a manner that is consistent with the internal reporting provided to the chief operating decision-maker.

(c) Interpretations to existing standards that are not yet effective and not relevant for the company's operations

The following interpretations to existing standards have been published and are mandatory for the group's accounting periods beginning on or after 1 January 2008 or later periods but are not relevant to the group's operations:

- IFRIC 11 – IFRS 2 – Group and Treasury Share Transactions (effective from 1 March 2007)
- IFRIC 12 – Service Concession Arrangements (effective from 1 January 2008)
- IFRIC 13 – Customer Loyalty Programmes (effective from 1 July 2008)
- IFRIC 14 – IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. (effective from 1 January 2008)

3. Basis of Consolidation

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

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

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

Details of subsidiary undertakings are set out in note 15.

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

4. Presentational currency

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

5. Significant accounting policies

(a) Going concern

This statement has 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 generate future sales.

The uncertainty as to the timing of the future growth in sales, require the directors to consider the group's ability to continue as a going concern

The directors are currently in the process of negotiating further funding from an Israeli bank to assist the group with its future working capital requirements.

Therefore the directors consider that it is appropriate to prepare the group's financial statements on a going concern basis, which assumes that the company is to continue in operational existence for the foreseeable future.

Were the Group is unable to continue as a going concern, adjustments may have to be made to the balance sheet of the Group to reduce balance sheet values of assets to their recoverable amounts, to provide for future liabilities that might arise and to reclassify non-current assets and long-term liabilities as current assets and liabilities.

(b) Revenue recognition

The group generates revenue primarily from licensing its messaging services, hosting and maintenance fees and sale of patent rights net of discounts, value added tax and other sales taxes.

The group recognise revenue when delivery of the product has occurred, a fee is determinable, no further obligations exist and collectability is probable.

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

(c) **Goodwill**

Goodwill arising on consolidation represents the excess of the cost of acquisition over the group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entities at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the group's cash generating units expected to benefit from synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

(d) **Investment in subsidiary undertakings**

Investments in subsidiary undertakings are 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.

(e) **Property, plant & equipment**

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

	%
Computers	33
Electronic Equipment	15–25
Furniture and Office Equipment	7–15
Leasehold Improvements	10

The carrying values of property plant and equipment are 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.

(f) **Research and development**

Research and development costs are treated as an expense and are written off in the group's consolidated income statement in the year incurred.

(g) **Employee costs:**

Share options

The group has applied the requirements of IFRS 2 "Share-based Payments". In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7th November 2002 that was unvested as of 27 July 2005.

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

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

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

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.

(h) **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

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

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

The carrying amount of deferred tax is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

(i) **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.

(j) **Investments**

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

(k) **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.

(l) **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.

(m) **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 the nominal value of their holdings net of issue costs.

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

6. Critical accounting judgements and key sources of estimation uncertainty

Share based payments

The group has made awards of options over its un-issued share capital to certain directors and employees as part of their remuneration package.

The valuation of these options involved making a number of critical estimates relating to price volatility, future dividend yields, expected life of the options and forfeiture rates. These assumptions have been described in more detail in note 29.

Impairment of goodwill

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

The carrying amount of goodwill at the balance sheet date was £3,236,617, being the carrying amount after provisions for impairment at 31 December 2007.

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 geographical 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:

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

	2007	2006
	£	£
Europe and Middle East	618,000	183,673
North America	644,500	424,752
Rest of the world	104,735	66,195
	<u>1,367,235</u>	<u>674,620</u>

8. Operating loss

	2007	2006
	£	£
The operating loss is stated after charging:		
Staff costs	765,267	940,025
Research and development	333,668	489,429
Auditors' remuneration	22,500	26,087
Depreciation and amortisation	<u>18,679</u>	<u>22,376</u>

Included in the audit fee for the group is an amount of £12,500 (2006: £12,500) in respect of the Company.

9. Staff Costs

	Group	
	2007	2006
	£	£
Payroll costs include:		
Staff payroll and related costs	656,348	850,482
Directors' remuneration	108,919	89,543
	<u>765,267</u>	<u>940,025</u>

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

	2007	2006
	No.	No.
Administration	2	2
Sales and marketing	5	5
Research and development	11	13
Operations	3	3
Directors	<u>5</u>	<u>5</u>
	<u>26</u>	<u>28</u>

10 Directors' remuneration

	2007	2006
	£	£
An analysis of directors' remuneration (who are the key management personnel) is set out below		
Executive directors	98,919	79,543
Non-executive directors	10,000	10,000
	<u>108,919</u>	<u>89,543</u>

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

Details of share options granted to directors under the unapproved share option scheme are as shown in the directors' report.

11. Financial income

	2007	2006
	£	£
Interest receivable	2,319	7,072
Interest payable	(6,264)	-
Net losses on foreign currency transactions	<u>(16,178)</u>	<u>(25,392)</u>
	<u>(20,123)</u>	<u>(18,320)</u>

12. Taxation

	2007	2006
	£	£
Current tax charge	<u>-</u>	<u>-</u>
Factors affecting the tax charge in the year		
Loss on ordinary activities before taxation	<u>(259,892)</u>	<u>(1,102,272)</u>
Loss on ordinary activities before taxation at the standard rate of UK corporation tax 30% (2006: 30%)	(77,967)	(330,682)
Effects of:		
Depreciation and amortisation	5,818	23,295
Non recognition of losses	<u>72,149</u>	<u>307,387</u>
Tax charge/(credit)	<u>-</u>	<u>-</u>

In accordance with IAS12, the company and the group have not recognised deferred tax assets as they do not anticipate that profits generated in the short term will exceed accumulated losses generated by subsidiary undertakings.

In addition, TeleMessage Ltd in Israel was granted approved enterprise status for its investment programme. The main benefit arising from such status is the reduction in tax rates on income. The company's income from the "Approved Enterprises Scheme" is tax exempt for four years commencing with the year it first earns taxable income and then would be subject to a reduced tax rate of between 10% and 25% for a period of up to six years. Since the company has incurred losses to date it has not utilised any of the aforementioned tax benefits.

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 £259,892 (2006: £1,102,272) and on the weighted average number of shares in issue during the year, which was 217,498,000 (2006: 115,380,000,).

In view of the group loss for the year, share warrants and options to subscribe for ordinary shares in the company are anti-dilutive and therefore diluted earnings per share information is not presented.

14. Loss for the financial year

As permitted by Section 230 of the Companies Act 1985, 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 £22,705 (2006: loss £33,517).

15. Goodwill and investment in subsidiary undertakings**Goodwill**

	2007	2006
	£	£
Cost		
At 1 January 2006, 31 December 2006 and 31 December 2007	3,236,617	3,236,617
Provision for impairment		
At 1 January 2006, 31 December 2006 and 31 December 2007	<u>-</u>	<u>-</u>
Carrying value	<u>3,236,617</u>	<u>3,236,617</u>

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

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

- (i) Based on current forecasts revenues are expected to increase in 2008 and 2009.
- (ii) Operational systems will be more efficient

A discount factor to reflect the time value of money has not been applied in these calculations as the impact is not material given the relatively short period that future cash inflows are expected to exceed the carrying value of goodwill.

Company – Investment in subsidiary undertakings

	2007	2006
	£	£
Cost of shares:		
At 1 January 2006, 31 December 2006 and 31 December 2007	3,269,000	3,269,000
Provision for impairment		
At 1 January 2006, 31 December 2006 and 31 December 2007	<u>-</u>	<u>-</u>
	<u>3,269,000</u>	<u>3,269,000</u>

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

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

* held indirectly through TeleMessage Limited

As at 31 December 2007 the aggregate capital and reserves for Telemesssage Ltd and its wholly owned subsidiary Telemesssage Inc. were £(1,421,590) (2006: £(1,233,830)) and the aggregate loss for the year was £237,182 (2006: loss of £983,255).

16. Tangible assets

Group	2007	2006
	£	£
Cost		
At 1 January	71,864	60,652
Additions	1,008	18,639
Foreign exchange movement	(1,440)	(7,427)
	<u>71,432</u>	<u>71,864</u>
Depreciation		
At 1 January	(28,272)	(8,281)
Depreciation in the year	(18,679)	(22,376)
Foreign exchange	566	2,385
	<u>(46,385)</u>	<u>(28,272)</u>
Carrying value		
At 31 December 2007 and 2006	<u>25,047</u>	<u>43,592</u>
At 1 January 2007 and 2006	<u>43,592</u>	<u>53,371</u>

All the above assets are included in the accounts of subsidiary undertakings

17. Other investments

Other investments of £107,500 represents the funds at 31 December 2007 (2006: £53,929) invested in insurance policies, in order to meet the group's severance pay obligations to its employees in Israel pursuant to Israeli severance pay law and staff employment contracts.

18. Trade and other receivables

	Group		Company	
	2007	2006	2007	2006
	£	£	£	£
Trade receivables	343,522	149,131	-	
Amounts due from subsidiary undertakings	-	-	1,989,207	1,262,542
Due from government authorities	6,853	6,024	5,106	6,024
Other receivables and prepaid expenses	30,236	36,191	5,725	8,027
	<u>380,611</u>	<u>191,346</u>	<u>2,000,038</u>	<u>1,276,593</u>

The amount due from subsidiary undertakings of £1,989,207 includes an amount of £1,924,207 which is due after more than one year. The amount due from subsidiary undertakings includes an interest-bearing amount of £630,000.

The average credit period given for trade receivables at the end of the year is 91 days (2006: 81 days).

19. Trade and other payables

	Group		Company	
	2007 £	2006 £	2007 £	2006 £
Bank overdraft	-	171,834	-	-
Trade payables	60,402	46,956	-	-
Taxes and social security	88,375	108,589	-	3,963
Accruals	46,714	48,430	27,959	29,830
Deferred revenue	5,029	5,372		
	<u>200,520</u>	<u>381,181</u>	<u>27,959</u>	<u>33,793</u>

The average credit period taken for trade payables at the end of the year is 45 days (2006: 39 days).

20. Non-current liabilities

	Group 2007 £	Company 2007 £	Group 2006 £	Company 2006 £
Severance pay obligations of subsidiary undertakings	<u>121,000</u>	<u>-</u>	<u>90,894</u>	<u>-</u>

Severance pay liability

(a) The amounts recognised in the balance sheet are as follows:

	Group 2007 £	Group 2006 £
Defined benefit obligation	(121,000)	(90,894)
Fair value of plan assets	107,500	53,929
Benefit liability	<u>(13,500)</u>	<u>(36,965)</u>

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

	Group 2007 £	Group 2006 £
Current service cost	24,221	27,217
Interest cost	6,086	4,638
Expected return on assets	(4,503)	(854)
Net actuarial(loss)/gain recognised in the year	(29,455)	1,465
Adjustments for corrections	2,678	
Total expense included in statement of operations	<u>(973)</u>	<u>32,466</u>

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

	Group 2007 £	Group 2006 £
Liability at the beginning of the year	89,077	116,228
Current service cost	24,221	27,217
Interest cost	6,086	4,638
Benefits paid	(14,606)	(21,968)
Actuarial losses on obligation	5,964	3,784
Foreign exchange differences	10,258	(39,005)
Liability at the end of the year	<u>121,000</u>	<u>90,894</u>

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

	Group 2006	Group 2005
	£	£
Plan assets at the beginning of the year	52,850	84,338
Expected return	4,504	854
Contributions by employer	23,613	25,264
Benefits paid	(14,606)	(20,138)
Actuarial losses	35,419	2,319
Adjustments for corrections	(2,678)	-
Foreign exchange difference	8,398	(38,708)
	<u>107,500</u>	<u>53,929</u>

(e) The actuarial assumptions used are as follows:

	Group 2007	Group 2006
Discount rate	6.30%	5.83%
Future salary increase	3.50%	3.5% – 5%
Average expected remaining working years	15.3	15.6

21. Share capital

	2007	2006
	£	£
Authorised		
800,000,000 ordinary shares of 0.5p each	<u>4,000,000</u>	<u>4,000,000</u>
Issued:		
235,380,000 (2006 – 115,380,000) ordinary shares of 0.5p each	<u>1,176,900</u>	<u>576,900</u>

During the year, the company raised £900,000 (before issue costs) by way of an issue of 120,000,000 ordinary shares of 0.5p each which increased the issued share capital by £600,000. The premium received on these shares was £300,000 representing 0.25p per share.

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

Share options

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

At 31 December 2007 there were in existence 12,878,738 options to acquire ordinary shares in the company of which 6,633,936 options were exercisable at 31 December 2007. During the year 140,148 share options lapsed due to holders of those options leaving employment with the group.

	Number of options	Date granted	Exercise price	Exercisable between
Directors:				
Guy Levit	4,000,000	27.7.2007	0.5p	20.7.2009 – 20.7.2017
Guy Levit	20,266	27.7.2005	5p	20.7.2006 – 7.6.2010
Guy Levit	1,555	27.7.2005	2.17p	27.7.2005 – 15.11.2011
David Rubner	500,000	27.7.2005	5p	20.7.2006 – 20.7.2015
	<u>4,521,821</u>			
Other employees	8,978	27.7.2005	2.17p	27.7.2005 – 1.8.2012
Other employees	882,669	27.7.2005	3.06p	27.7.2005 – 31.12.2014
Other employees	18,443	27.7.2005	3.67p	27.7.2005 – 1.11.2012
Other employees	113,329	27.7.2005	5p	27.7.2005 – 3.8.2015
Other employees	2,613,014	1.3.2006	5p	1.3.2006 – 1.3.2016
Other employees	431,614	6.10.2006	5p	6.10.2006 – 6.10.2016
Other employees	288,870	6.10.2006	3.2p	6.10.2006 – 6.10.2016
Other employees	4,000,000	27.7.2007	0.5p	20.7.2009 – 20.7.2017
	<u>12,878,738</u>			

Warrants

In May 2005, the company authorised 100,000,000 warrants entitling holders to subscribe for ordinary shares at 5p per share.

At the date of this report there were 50,000,000 warrants in issue.

Warrants were issued to:

	Number
The directors	22,278,061
Holders of more than 3% of warrants in issue:	
Reverse Takeover- Investments Plc	10,000,000
Seymour Pierce Limited	5,000,000
Others	<u>12,721,939</u>
	<u><u>50,000,000</u></u>

22. Share premium

	2007	2006
At 1 January	3,999,475	3,999,475
Premium on share issue	300,000	-
Share issue costs	(33,248)	-
	<u>4,266,227</u>	<u>3,999,475</u>
At 31 December	<u><u>4,266,227</u></u>	<u><u>3,999,475</u></u>

23 Revenue reserves

Group	2007	2006
	£	£
At January	(1,414,241)	(392,919)
Loss for the year	(259,892)	(1,102,272)
Equity-settled share based payments	49,419	80,950
	<u>(1,624,714)</u>	<u>(1,414,241)</u>
At 31 December	<u><u>(1,624,714)</u></u>	<u><u>(1,414,241)</u></u>

Company	2007	2006
	£	£
At 1 January	(19,332)	14,185
Loss for the year	(22,705)	(33,517)
	<u>(42,037)</u>	<u>(19,332)</u>
At 31 December	<u><u>(42,037)</u></u>	<u><u>(19,332)</u></u>

24 Statements on movement in equity

	2007 £	2006 £
Group		
Loss for the year	(259,892)	(1,102,272)
Equity-settled share based payments	49,419	80,950
Foreign currency translation differences	(11,334)	(14,158)
Share issue net of costs	866,752	-
Equity at 1 January	3,139,089	4,174,569
	<u>3,784,034</u>	<u>3,139,089</u>
Company		
Loss from continuing operations	(22,705)	(33,517)
Equity at 1 January	4,557,043	4,590,560
Share issue net of costs	866,752	-
Equity at 31 December	<u>5,401,090</u>	<u>4,557,043</u>

25. Financial 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 2009.

Future minimum commitments at 31 December 2007 are as follows

	2007 £	2006 £
2007	25,225	21,030
2008	16,883	4,313
2009	4,644	-
	<u>46,752</u>	<u>25,343</u>

26. Related parties**Auerbach Hope**

The group made payments to Auerbach Hope of £5,000 (excluding vat) (2006: £12,000) for professional services. Auerbach Hope Chartered Accountants is a practice in which I Fishman is a partner.

27. Cash and cash equivalents and bank overdraft

	At 1 January 2007 £	Cash Flow £	At 31 December 2007 £
Group			
Cash and cash equivalents	84,965	270,815	355,780
Bank overdraft	(171,834)	171,834	-
	<u>(86,869)</u>	<u>442,649</u>	<u>355,780</u>
Company			
Cash and cash equivalents	<u>45,243</u>	<u>114,768</u>	<u>160,011</u>

28. Financial instruments and risk management

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

At 31 December 2007 and 31 December 2006, 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.

	2007 £	2006 £
Financial assets		
Cash and cash equivalents	355,780	84,965
Trade and other short term receivables	380,610	191,346
	<u>736,390</u>	<u>276,311</u>
Financial liabilities (which are included at amortised cost)		
Bank overdraft	-	(171,834)
Trade and other short term payables	(200,520)	(209,347)
	<u>(200,520)</u>	<u>(381,181)</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.

As the group's operations are conducted outside the UK and as the majority of group revenue is denominated in US dollars, there is exposure to adverse currency movements which effect operating performance. The group monitor this risk and take whatever steps are necessary to minimise its adverse financial effects.

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

Liquidity risk arises in relation to the group's management of working capital and the 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.

The directors do not consider changes in interest rates have a significant impact on the group's cost of finance or operating performance.

29. Share based payments – Equity settled share option scheme

Since incorporation the company has awarded share options over 13,846,973 unissued ordinary shares to directors and employees that have fixed exercise prices. 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
Share price at grant date	5p	5p	5p	5p
Exercise price	2.17p	3.06p	3.67p	5p
Shares under option	10,533	882,669	18,443	633,595
Vesting period	< 1 year	< 2.5 years	< 1.5 years	< 0-4 years
Expected volatility	39.80%	39.80%	39.80%	39.80%
Option life	10	10	10	10
Expected life	5 - 5.25	5 - 6	5 - 5.5	5 - 6
Risk free rate	3.86%	3.86%	3.86%	3.86%
Expected dividends expressed as dividend yield	0%	0%	0%	0%
Retention factor	100%	100%	100%	100%
Fair value per option	3.36p-3.39p	2.86p-3.00p	2.56p-2.64p	2.04p-2.24p
Grant date	1 March 2006	6 October 2006	6 October 2006	27 July 2007
Share price at grant date	4.6p	2.25p	2.25p	0.38p
Exercise price	5p	5p	3.2p	0.5p
Shares under option	2,613,014	431,624	288,860	8,000,000
Vesting period	< 4 years	< 3 years	< 4 years	< 2 years
Expected volatility	158.30%	151.40%	151.40%	194.40%
Option life	10	10	10	10
Expected life	5.25 - 6	5.25 - 6	5.25 - 6	5 - 6
Risk free rate	4.40%	5.01%	5.01%	4.95%
Expected dividends expressed as dividend yield	0%	0%	0%	0%
Retention factor	85%	85%	85%	85%
Fair value per option	3.66p-3.72p	1.71p-1.76p	1.75p-1.79p	0.31p-0.32p

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 and 27 July 2007 reflects the increased volatility of the messaging share price arising from movements in the relevant period to date. The expected life of the options is based on independent 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:

	2007	2006
	£	£
Group	<u>49,419</u>	<u>80,950</u>

Equivalent credits have been released to reserves

MESSAGING INTERNATIONAL PLC

("The Company")

(Incorporated in England and Wales with registered number 5204176)

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at the offices of Auerbach Hope 58 -60 Berners Street London W1T 3JS on 5 August 2008 at 10:00am for the transaction of the following business:

Ordinary Business

To consider, and, if thought fit, pass the following resolutions which will be proposed as Ordinary Resolutions:

1. To receive and adopt the Financial Statements for the year ended 31 December 2007 with the Reports of the Directors' and Auditors' thereon.
2. To approve the Directors' remuneration as set out in the 31 December 2007 accounts.
3. To re-elect G Levit as a Director of the Company, who retires by rotation in accordance with Article 23 of the Company's articles of association.
4. To re-appoint Jeffrey's Henry LLP, Chartered Accountants, as auditors to the Company and to authorise the Directors to agree and fix their remuneration.

Special Business

To consider, and, if thought fit, pass the following resolutions of which Resolution 5 will be proposed as an Ordinary Resolution and Resolution 6 will be proposed as a Special Resolution:

5. THAT for the purposes of section 80 of the Companies Act 1985 (the "Act") (and so that expressions used in this resolution shall bear the same meanings as in the said section 80) the Directors be and are hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities of the Company provided that such power is limited to:
 - 5.1 the grant of up to 50,000,000 warrants to subscribe up to 50,000,000 ordinary shares of 0.5 pence each in the capital of the Company ("**Ordinary Shares**") pursuant to the terms of a warrant instrument of the Company dated 24 May 2005 (the "**Warrant Instrument**");
 - 5.2 the allotment of up to 5,018,886 Ordinary Shares pursuant to or in connection with share options granted on or prior to the date of this resolution; and
 - 5.3 the allotment of equity securities (other than pursuant to paragraphs 5.1 and 5.2 above) for cash up to an aggregate nominal amount of £1,500,000,

provided that this authority shall (unless previously revoked or varied by the Company in general meeting) expire at the conclusion of the next year's Annual General Meeting or 15 months after the passing of the resolution, whichever is the earlier save that the Company may, before the expiry of this power, make offers or agreements which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offers or agreements notwithstanding such expiry as if this power had not so expired.

6. THAT, subject to the passing of Resolution 5 set out above, the directors be and are hereby empowered in accordance with section 95 of the Act to allot equity securities (as defined in section 95(2) of the Act) for cash pursuant to the authority conferred on them to allot relevant securities (as defined in section 80 of the Act) by that resolution, as if section 89(1) of the Act did not apply to any such allotment provided that this power be limited as follows:
 - 6.1 the allotment of equity securities in connection with or pursuant to an offer by way of rights to the holders of Ordinary Shares and other persons entitled to participate therein for cash in proportion (as nearly as may be) to the holdings of Ordinary Shares of such holders (or, as appropriate, to the numbers of Ordinary Shares which such other persons are for these purposes deemed to hold)

Notice of Annual General Meeting

- 6.2 subject only to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws or the requirements of any recognised regulatory body in any territory;
- 6.3 the grant of up to 50,000,000 warrants to subscribe up to 50,000,000 Ordinary Shares pursuant to the terms of the Warrant Instrument;
- 6.4 the allotment of up to 5,018,886 Ordinary Shares pursuant or in connection with share options granted on or prior to the date of this resolution;
- 6.5 the allotment of equity securities (other than pursuant to paragraphs 6.1 to 6.3 above) for cash up to an aggregate nominal amount of £1,500,000.

provided that this authority shall (unless previously revoked or varied by the Company in general meeting) expire on the earlier of fifteen months from the date of this resolution and the conclusion of the next Annual General Meeting of the Company after the passing of this resolution save that the Company may, before the expiry of this power, make offers or agreements which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offers or agreements notwithstanding such expiry as if this power had not so expired.

BY ORDER OF THE BOARD

IRVIN FISHMAN
SECRETARY

Registered Office: 58-60 Berners Street, London, W1T 3JS

Dated: 30 June 2008

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 the meeting. A proxy does not need to be a member of the Company.
- 2. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to any one share. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, please contact the Registered Office of the Company on +44 (0) 20 7637 4121.

A form of proxy is enclosed with this notice. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy forms. Completion and return of the form of proxy will not preclude a member from attending and voting at the meeting.

Form of Proxy

MESSAGING INTERNATIONAL PLC

("The company")

(Incorporated in England and Wales with registered number 05204176)

For use at the Annual General Meeting convened for 10 am on Tuesday 5 August 2008 at 58-60 Berners Street London W1T 3JS.

I/We (BLOCK LETTERS PLEASE)

Of
being a member of Messaging International Plc, hereby appoints the Chairman of the Meeting, or

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at the offices of Auerbach Hope at 58-60 Berners Street London W1T 3JS on Tuesday 5 August 2008 at 10am on the following resolutions, to be submitted to the Meeting and at any adjournment thereof, and any other business which may properly come before the Meeting and any adjournment thereof. I/we wish my/our proxy to vote as shown below in respect of the resolutions set out in the notice of the Annual General Meeting.

Ordinary Resolutions		For	Against	Vote Withheld**
1.	To receive and adopt the Financial Statements for the year ended 31 December 2007.			
2.	To approve the Directors' remuneration as set out in the 31 December 2007 accounts.			
3.	To re-elect G Levit as Director of the Company.			
4.	To re-appoint Jeffreys Henry LLP as auditors of the Company and to authorise the directors to agree and fix their remuneration.			
5.	THAT for the purposes of section 80 of the Companies Act 1985 ("the Act"), the Directors be and hereby are unconditionally authorised to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80(2) of the Act) of the Company, subject to certain limitations.			
Special Resolution		For	Against	Vote Withheld**
6.	THAT, subject to the passing of Resolution 5 set out above, the directors be and are hereby empowered in accordance with section 95 of the Act to allot equity securities (as defined in section 95 of the Act) for cash pursuant to the authority conferred on them to allot relevant securities (as defined in section 80 of the Act) by that resolution, as if section 89(1) of the Act did not apply to any such allotment, subject to certain limitations.			

Signature:

Dated:2008

* **You may, if you wish, in the space provided insert the name(s) of the person(s) of your choice to attend and vote at the meeting on your behalf.**

** **Please note that if the "Vote Withheld" box is marked with a "tick", the Shareholder will not be counted in the calculation of votes "For" and "Against" and the Shareholder will not be taken to have given his/her/their discretion to the Proxy, on how to vote.**

Notes:

- 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.
- Please indicate by placing a tick in the appropriate box how you wish your proxy to vote on the resolution to be submitted to the meeting. Unless otherwise instructed, the proxy may vote (or abstain from voting) as he or she thinks fit in relation to the business of the meeting.
- If you wish to appoint a proxy other than that stated above, please delete the words "Chairman of the meeting" and insert in block letters in the space marked * the name and address of your proxy(y)(ies) who need not be (a) member(s). Changes should be initialled.
- You may appoint more than one proxy provided each proxy as 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, please contact the Company's Registered Office no later than Friday 1 August 2008.
- Completion and return of the form of proxy will not preclude you from attending or voting at the meeting, if you so wish (in substitute for your proxy vote).
- To be effective, this proxy form must be lodged with the Company Registrars, Capita Registrars, The Registry, 34 Beckenham Road, Kent BR3 4TU, United Kingdom, not later than 48 hours before the time of the Meeting, or any adjournment thereof, together, if appropriate, with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or, where the proxy form has been signed by an officer on behalf of a corporation, a notarially certified copy of the authority under which it is signed.
- In the case of a joint holding, a proxy need only be signed by one joint holder. If more than one such joint holder lodges a proxy only that of the holder first on the register of members will be counted. Any alterations made in this proxy should be initialled.
- In the case of a corporation this proxy must be given under its common seal or be signed on its behalf by an attorney or officer duly authorised.
- As provided by Regulation 41 of the Uncertificated Securities Regulations 2001, only those members registered in the register of members of the Company 48 hours before the time set for the Meeting shall be entitled to attend and vote at the Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of members after that time shall be disregarded in determining the rights of any person to attend or vote at the Meeting.

SECOND FOLD

BUSINESS REPLY SERVICE
Licence No. MB 122



**Capita Registrars
Proxy Department
PO Box 25
Beckenham
Kent
BR3 4BR**

FIRST FOLD

THIRD FOLD AND TUCK IN

