annual report & accounts 2007

Maintel Holdings Plc

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Directors, Company details and advisers

Directors

J D S Booth	Chairman, Non-Executive Director
T T Mason	Chief Executive
A J McCaffery	Sales and Marketing Director
W D Todd	Finance Director
N J Taylor	Non-Executive Director

Secretary and registered office

W D Todd, 61 Webber Street, London SE1 0RF

Company number

3181729

Auditors

BDO Stoy Hayward LLP, 55 Baker Street, London W1U 7EU

Nominated broker and nominated adviser

KBC Peel Hunt Ltd, 111 Old Broad Street, London EC2N 1PH

Registrars

Computershare Investor Services PLC, The Pavilions,

Bridgwater Road, Bristol BS99 6ZY. ✆ 0870 707 1182

Chairman's statement

Maintel's revenue in 2007 continued to grow at a very satisfactory rate, by 20% from £16.2m to £19.3m, with network services and VoIP equipment sales putting in especially good performances. Our recurring revenues increased by 16% from £11.5m to £13.4m during the year.

We are reporting our results under IFRS for the first time. Group profit before tax was £2.0m (2006: £2.0m). Adjusted IFRS profit before tax (IFRS profit before tax, but adjusting for IFRS goodwill impairment and intangible amortisation and one-off professional costs) increased from £2.0m to £2.3m and IFRS earnings per share were 11.1p, the same as in 2006. As these figures demonstrate, margin pressure continued over the year as a whole. It was a key objective of 2007 to improve margins as the year progressed and more detailed analysis of 2006 and 2007 comparisons show that margins improved sharply in the second half of 2007:

	H1 06 £000	H2 06 £000	2006 £000	H1 07 £000	H2 07 £000	**2007 £000**
Revenue	7,063	9,103	16,166	8,910	10,419	**19,329**
PBT	916	1,096	2,012	780	1,199	**1,979**
Margin*	13.0%	12.0%	12.4%	8.8%	11.5%	**10.2%**

* PBT as a % of Revenue

On the maintenance and equipment side of our business recent margin pressure has come partly from our continuing investment in greater sales and engineering resource as we have emphasised top line growth and built our platform for the future, but also from the greater pricing power enjoyed by the bigger corporate and institutional clients from whom we have increasingly won business. The bigger end of the market remains competitive but our Nortel engineering capacity is now fully built and trained to the highest standards to take advantage of the huge installed base of Nortel systems we are targeting as clients. Rebuilding margins in this part of our business continues to be a priority as we enter 2008 and further efficiencies have been identified.

Network services grew turnover by 38% to £4.7m with gratifyingly low customer attrition. This division's size means that it is now well positioned to tender for bigger contracts. We have added to our sales force here too and believe the business is well positioned for significant growth in 2008.

Cash flow from operations remained strong at £1.1m for the year (2006: £1.0m) and cash balances at year-end were £2.1m (2006: £2.2m) after dividends of £672,000 and share buy backs of £117,000. We also acquired Callmaster's contract base for £448,000 during the year, continuing our practice of funding acquisitions out of cash. We are proposing a final dividend of 3p giving a total of 5.5p for the year, an increase of 10%.

We enter the new year with a strong pipeline of business and a robust platform for future growth. It remains for me to thank all our staff for their continuing hard work and commitment as we build on our achievements in 2008.

J D S Booth
Chairman

14 March 2008

IFRS (International Financial Reporting Standards)

This is the first year for which the Group, as described in note 1 to the accounts, is required to report under IFRS, the main effects of which are to alter the treatment of goodwill and its impairment, and to create a provision for accrued holiday pay. Prior period accounts have been restated under IFRS, and reconciliations between UK GAAP and IFRS are shown in note 27.

Results

The revenue growth highlighted at the half year has been sustained in the second half, so that Group revenue for the year amounted to £19.3m, an increase of £3.2m (20%) over that of 2006.

The primary areas of growth were the continued strong performance from the network services division (assisted by the delayed termination of a major, though low margin, client), VoIP equipment sales, and a full year's contribution from customers of District Holdings Limited and its subsidiaries (the "District group") which was acquired in June 2006. In addition, the acquisition of a contract base from Callmaster Limited contributed £270,000 revenue from 1 August 2007. An overview of Group revenue is as follows:

Revenue analysis (£000)	**2007**	2006
Maintenance related	**8,756**	8,072
Equipment, installations and other	**5,979**	4,801
Total maintenance and equipment division	**14,735**	12,873
Network services division	**4,682**	3,400
Intercompany	**(88)**	(107)
Total Maintel Group	**19,329**	16,166

Group recurring revenue (maintenance plus network services) has therefore increased from £11.5m (71% of total Group revenue) in 2006 to £13.4m (69%) in 2007, providing a firm foundation for the Group.

Under IFRS, Group profit before tax in 2007 was £2.0m, £33,000 less than in 2006. Adjusted profit before tax (IFRS profit before tax, but adjusting for IFRS goodwill impairment and intangible amortisation and one-off professional costs) shows an increase from £2.0m in 2006 to £2.3m in 2007.

IFRS earnings per share were 11.1p in 2007, the same as in 2006, and adjusted earnings per share (IFRS earnings per share adjusted for IFRS goodwill impairment, intangible amortisation and one-off professional costs) were 13.1p against 12.4p in 2006, the 2007 figures in each case benefiting from share buy backs, and a reduced absorption of residual tax losses from the District Group compared with 2006.

Cash flow from operating activities continues to be strong, at £1.1m in 2007 (2006 - £1.0m), and cash balances remained healthy at £2.1m (2006 - £2.2m) after the acquisition of the Callmaster contract base for £448,000 in cash, dividend payments of £672,000 and the use of £117,000 to buy back shares in the Company.

Divisional performance is described further below in conjunction with the following KPIs.

Maintenance and equipment division

The maintenance and equipment division provides maintenance, service and support of office-based voice and data equipment across the UK on a contracted basis. It also supplies and installs voice and data equipment to maintenance customers.

The division's revenues increased from £12.9m in 2006 to £14.7m in 2007, as shown in the table above.

We acquired two maintenance bases in the year, WGTS Limited (c£60,000 pa in February 2007) for which negligible maintenance income was recognised in the year and Callmaster Limited (c£135,000 pa in August 2007) for which we recognised just under 6 months of revenue. These combined with organic growth have seen our maintenance revenue grow by 8% against 2006. The annual value of the maintenance base at the end of the year was at a record high of £8.5m.

There has been significant growth in sales of VoIP hardware solutions to our customer base this year and to take advantage of this, further sales resource was invested in account management teams to encourage and develop equipment refresh programs within the base.

Division average headcount during the year	**2007**	2006
Sales and customer service	**59**	54
Engineers	**86**	72

This investment has produced equipment sales of £6.0m in 2007, a 25% increase on 2006 sales of £4.8m, with equipment sales now representing 41% (2006 – 37%) of the division's sales.

As mentioned last year, Maintel is the supplier of choice to many larger organisations but this has meant that our normal high margin model cannot always be achieved and this is demonstrated by the division's gross profit % in 2007 being 3 percentage points down on 2006, although £318,000 up on last year.

	2007	2006
Division gross profit (£000)	**5,403 (37%)**	5,085 (40%)

A further factor impacting on the margin in the year was the continued investment in employment and training of senior Nortel engineers. The large base of Nortel systems installed by BT over the past 6 or 7 years gives us a huge sales opportunity and we are increasing our resource to take advantage of this. Although this has had a negative effect on our profitability in 2007 we anticipate it will stand us in good stead for 2008. Maintel has always positioned itself as one of the few organisations able to provide multi-product support and we continue to invest in other product areas including Mitel, Siemens and Avaya allowing us to tender for and win multisite mixed maintenance opportunities.

Given the application of common resource across both maintenance and equipment sales, it is not practical to quote definitive margin data on the separate business sectors, however estimated management figures are used to monitor results internally.

Net margin (operating profit as a percentage of revenue) from the division reduced in line with gross margin, but remained strong at 11.4% (2006 – 13.0%), the division's overheads remaining tightly controlled during the year.

Network services division

The network services division re-sells a portfolio of products providing the interconnectivity between customers and their staff and offices as well as the outside world. This includes call minutes, line rental, ADSL/Broadband, Wide area IP networking and non-geographic numbers.

Increased emphasis has been placed on growing the recurring revenues of the network services division as we have seen expansion in requirements for interconnectivity from our customers. In particular the connection of head offices to remote sites and home workers to provide flexible working and centralised database and telephony applications. This has allowed the division to have another successful year, increasing revenues to £4.7m, from £3.4m in 2006, a rise of 38%.

The division's two main revenue streams – call traffic and line rental – both grew strongly in the year, the former up 25% and the latter 102%, including revenues of £138,000 and £117,000 respectively from the Callmaster acquisition on 1 August 2007.

Revenue analysis (£000)	**2007**	2006
Call traffic	**3,120**	2,487
Line rental	**1,185**	586
Other	**377**	327
Total network services	**4,682**	3,400
Division gross profit (£000)	**1,232**	1,005

The change in revenue mix – line rental earning lower margins than call traffic – together with some price pressure on call traffic margins, has caused the division's overall gross margin to drop from 30% in 2006 to 26% in 2007, although overall gross profit has continued to grow, from £1.00m in 2006 to £1.23m in 2007.

As noted in the interim report, the division has received notice of cancellation from one of its larger but lower margin customers. The reduction in revenue from this was anticipated to have commenced in August 2007, but the transfer from Maintel has not yet begun, though is now thought to be imminent. Likewise, the significant new customer highlighted at the half year has taken longer than anticipated to migrate and contribute fully, and so the full effects of this customer will be seen in 2008.

Attrition otherwise continues to be low in the division.

Sales and administrative costs continue to be closely controlled, though naturally increased in 2007 to support the revenue growth. Further specialist sales resource has been recruited in 2008, in particular to promote sales of interconnectivity mentioned above, with administrative support to follow.

As the division grows, it is becoming able to tender for increasingly high value business, although as with its existing large customers, this often comes with a lower margin than its historical SME business which continues to provide a profitable but competitive base.

Administrative expenses, excluding goodwill impairment and intangibles amortisation

Administrative expenses (£000)	2007	2006
Sales expenses	**2,290**	1,878
Other administrative expenses (excluding goodwill impairment)	**2,115**	1,844
District sales and admin costs	**-**	211
Total other administrative expenses	**4,405**	3,933

Administrative expenses increased by £472,000 (12%) in the year, including a full year (2006 - 6½ months) of District costs, albeit the District costs were at a reduced level. Sales headcount increased slightly, but with some higher calibre individuals being employed and the increase in revenues impacting on variable overheads, such as commission.

Otherwise administration costs, including corporate, service and admin staff, remain controlled and we have re-signed our Head Office lease in Waterloo to March 2010 providing us with flexible reasonably priced office space.

	2007	2006
Average Group headcount during the period	**171**	160
Average sales and service headcount	**65**	64
Average corporate and admin headcount	**20**	20
Group revenue (£000)	**19,329**	16,166

Acquisition of contract base

On 1 August 2007, the Group acquired a contract base of maintenance, call traffic, line rental and VoIP hosted service customers from Callmaster Limited, for a cash consideration of £440,000 plus £8,000 costs. Two of Callmaster's engineers joined the Group at the same time. The annual value of the contracts at the date of acquisition was around £850,000, £715,000 in network services revenue and £135,000 in maintenance revenue.

In February 2007, the Group acquired a maintenance contract base of c£60,000 per annum from WGTS Limited. Negligible revenue was recognised from this arrangement in 2007, but will be during 2008.

The Group continues to seek bolt-on customer bases at the right price, together with suitable acquisitions to accelerate the ongoing development of its IT capabilities which have allowed the Group to secure increasingly complex voice and data contracts.

Taxation

The income statement shows a tax rate of 30.1% (2006 – 29.4%). The two main trading companies are taxed at 30%, so that with disallowables the effective rate is above this, increased further by an element of the goodwill impairment charge which does not attract tax relief, but benefiting from the effect on deferred tax of next year's reduction in the rate of corporation tax from 30% to 28%. In the year under review, use of the remaining portion of District's tax losses has reduced the taxation charge by £15,000 (2006 - £49,000).

Dividends

A final dividend for 2006 of 2.9p per share (£361,000 in total) was paid on 25 April 2007, and an interim 2007 dividend of 2.5p per share (£311,000) was paid on 5 October 2007.

It is proposed to pay a final dividend of 3.0p in respect of 2007, subject to shareholder approval at the AGM, and payable on 30 April to shareholders on the register at the close of business on 28 March. In accordance with accounting standards, this dividend is not accounted for in the financial statements for the period under review as it had not been committed to pay it as at 31 December 2007.

Balance sheet

The balance sheet remains solid, with £2.1m of cash, as noted above, facilitating continued growth in equipment sales and network services from existing resources.

No significant expenditure has been required on plant and equipment, or on stock, during the period.

The deferred tax liability arises from the application of IFRS, whereby a liability of £290,000 was created on the recognition of the intangible asset relating to District. This is likely to be released in parallel with the amortisation of the intangible and is partially offset by deferred tax assets.

Intangible assets

Following the adoption of IFRS, the Group has three intangible assets – goodwill arising on the acquisition of Maintel Network Services Limited (previously Pinnacle Voice and Data Limited) and an intangible asset represented by customer contracts and relationships acquired from District Holdings Limited and Callmaster, together with goodwill relating to the District acquisition.

The Maintel Network Services goodwill is subject to an impairment test at each reporting date. Impairment of £18,000 has been charged to the income statement in 2007 (2006 - £62,000), and the carrying value is £294,000 at that date.

The intangible assets represented by the customer contracts and relationships are subject to an amortisation charge of 20% of cost per annum in respect of maintenance contract relationships and 14.2% per annum in respect of network services contracts, £222,000 having been amortised in 2007, leaving a carrying value of £1,094,000.

The goodwill relating to the District acquisition has been subject to an impairment charge of £58,000 in 2007 (2006 - £29,000), leaving a carrying value of £203,000.

Purchase of own shares

Further to the authority granted at the last AGM, the Company repurchased and cancelled 70,000 of its own shares in December 2007, at a price of 166p, at a total cost of £117,000 and 240,000 shares in 2008 at 161.5p at a total cost of £391,000. The share price at 31 December 2007 was 167p.

Cash flow

At 31 December 2007 the group had cash and bank balances of £2.109m (2006 - £2.234m), all of it unrestricted. Net cash inflow from operating activities in the year was £1.103m, Callmaster contracts were acquired for £448,000 net cash, £672,000 was paid in dividends, £117,000 used to buy back shares in the Company, and £759,000 corporation tax was paid.

The group invests its surplus cash in high interest, low risk accounts or funds.

Outlook

Following on from a steady performance in 2007 we are pleased to report a solid start to 2008 with a number of material sales including a large support win and another two major prospects.

The Group also continues to develop its IT capabilities to expand its target market and encompass further constituent parts of larger contracts which might otherwise be outsourced, including 24/7 network and server monitoring, remote backup and application development with Microsoft Communications Server.

Margin on equipment sales continues to improve from 2007 and we look forward to the remainder of the year with confidence.

Tim Mason
Chief Executive

14 March 2008

Board of directors

John Booth, 49
Non-executive chairman
John was appointed chairman of Maintel in 1996. He is also chairman of Integrated Asset Management plc, a non-executive director of several other private companies and consultant to Herald Venture Partners. John spent twelve years in investment banking where he held various senior positions culminating as managing director and head of international equities at Bankers Trust Co. He is currently executive chairman of Link Asset & Securities Co.

Tim Mason, 43
Chief executive
Tim has an extensive knowledge of both communications and IT systems. He started his career in the telecommunications industry in 1989 as a sales consultant for Lynton Europe Limited where he progressed to sales manager. In 1991 he co-founded Maintel Europe and became chief executive of the Group in 1996.

Angus McCaffery, 41
Sales director
Angus joined Lynton Europe Limited on the same day as Tim Mason in 1989. He co-founded Maintel Europe in 1991 and was appointed sales director of Maintel Holdings in 1996. His role with the Group has been to develop its sales strategy and promote the Maintel brand within the industry.

Dale Todd, 49
Finance director
Dale qualified as a chartered accountant with Thomson McLintock (now KPMG) in 1982 and joined the Group in March 2002. Prior to this he held positions as group finance director at Rolfe & Nolan Plc, Best International Group Plc and HS Publishing Group Ltd.

Nicholas Taylor, 41
Non-executive director
Nicholas has extensive experience of working with growing companies, in both an executive and non-executive capacity. A former management consultant, he joined Luther Pendragon Limited, a communications consultancy, in 1995, where he rose to become Managing Partner, before leaving in 2000 to become Chief Executive of WPP subsidiary Metro Broadcast Limited. After two years in the not-for profit sector, as a director of the Royal Institute of British Architects, he is currently Chief Operating Officer of EU affairs consultancy, G Plus Limited.

Report on corporate governance

As a company listed on the Alternative Investment Market of the London Stock Exchange, Maintel Holdings Plc is not required to comply with the Financial Reporting Council Combined Code ("the Code"). However, the board of directors recognises the importance of, and is committed to, ensuring that proper standards of corporate governance operate throughout the Group and has taken steps to comply with it insofar as it can be applied practically, given the size of the Group and the nature of its operations.

The directors have applied the principles and provisions of the Code in the following manner:

Board of directors

The board includes two non-executives - John Booth, who is chairman, and Nicholas Taylor. It is not considered necessary, given the Company's size and stage of development, to actively seek a further non-executive director.

Other than in respect of their shareholdings in the Company, both non-executive directors are independent of management and are free from any business or other relationship which could materially interfere with the exercise of their independent judgement.

The board also consists of three executive directors, of whom Tim Mason is chief executive, Angus McCaffery is Sales and Marketing Director and Dale Todd is Finance Director.

The directors' biographies on page 9 demonstrate the range and depth of experience they bring to the Group.

The board meets regularly, normally on a monthly basis, and both reviews operations and assesses future strategy for the two operating subsidiaries and for the Group as a whole. It operates to a schedule of matters specifically reserved for its decision.

The Company's articles of association require that Tim Mason and Angus McCaffery retire by rotation at the forthcoming annual general meeting; both offer themselves for re-election at the annual general meeting.

The Company has purchased insurance to cover its directors and officers against any costs they may incur in defending themselves in any legal proceedings instigated against them as a direct result of duties carried out on behalf of the Company.

The directors are able to seek independent professional advice as necessary, for the furtherance of their duties, at the Company's expense within designated financial limits.

The following committees deal with specific aspects of the Group's affairs:

Audit committee

The audit committee is chaired by Nicholas Taylor with John Booth being the other member. Tim Mason and Dale Todd (who acts as secretary to the committee) attend meetings by invitation, as do the external auditors.

The remit of the committee is to:

- consider the continued appointment of the external auditors, and their fees.
- liaise with the external auditors in relation to the nature and scope of the audit.
- review the financial statements and any other financial announcements issued by the Company.
- review any comments and recommendations received from the external auditors.
- review the Company's statements on internal control systems and the policies and process for identifying and assessing business risks and the management of those risks by the Company.

The audit committee convenes at least twice a year.

Remuneration committee

The remuneration committee is chaired by Nicholas Taylor, its other member being John Booth. The committee meets at least once a year. The committee's report to shareholders on directors' remuneration is set out on page 12.

Nomination committee

The nomination committee has at least three members, the majority being non-executive, and is currently comprised of John Booth, chairman, Nicholas Taylor and Tim Mason. The committee meets as required under the terms of its remit.

The committee's remit includes:

- regularly reviewing the structure, size and composition of the board.
- identifying and nominating suitable candidates to fill vacancies on the board.

Relationship with shareholders

The chairman's statement and the business review on pages 2 to 8 include a detailed review of the business and future developments.

The directors meet with institutional and other shareholders when possible, usually following the announcement of the Company's results, to keep them informed about the performance and objectives of the business.

The annual general meeting provides a further forum for shareholders to communicate with the board. Details of resolutions to be proposed at the annual general meeting are set out in the notice of meeting.

Internal control

The board is ultimately responsible for the Group's systems of internal control, and for reviewing their effectiveness. Such systems can provide reasonable, but not absolute, assurance against material misstatement or loss. The Board believes that the Group has internal control systems in place appropriate to the size and nature of its business.

The directors do not consider that an internal audit function is required, given the size and nature of the business at this time. This situation will be reviewed annually.

The Group maintains a comprehensive process of financial reporting. The annual budget is reviewed and approved by the board before being formally adopted, following which the board receives at least monthly financial reports of the Group's performance compared to the budget, with explanations of significant variances. Monthly cash flow forecasts are provided to the board, as are budget reforecasts if deemed appropriate.

The executive directors monitor key performance indicators on a monthly basis, management of these being delegated to the Group's senior management.

The board undertakes a rolling review of known and potential risks, and addresses newly identified risks as they arise, with controls put in place to minimise their potential effect on the Group.

Operating control

Each executive director has defined responsibility for specific aspects of the Group's operations. The executive directors, together with key senior executives, meet regularly to discuss day-to-day operational matters.

Investment appraisal

Capital expenditure is controlled via the budgetary process, the budget being approved by the board. Expenditure is approved as required by the chief executive.

Risk management

The board is responsible for identifying the major business risks faced by the Group and for determining the appropriate course of action to manage these risks.

Compliance statement

Although not subject to the Code given its AIM-listed status, the board considers that, where relevant, it has adhered to the principles of the Code throughout the year, with the exception of not having a third non-executive director.

Going concern

After making enquiries, the directors have formed a judgement at the time of approving the annual financial statements that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

The committee consists of the two non-executive directors, Nicholas Taylor (chairman of the committee) and John Booth.

The committee's remit is to measure the performance of, and determine remuneration policy relating to directors and certain senior employees.

The committee consults with the chief executive with regard to his proposals and has access to professional and other advice external to the Group, then makes recommendations to the board.

Remuneration policy

The Group's executive director remuneration policy is designed to attract and retain directors of the calibre required to maintain the Group's position in its marketplace.

The executive director remuneration package consists of two elements:

(a) Basic salary

An executive director's basic salary is determined by the remuneration committee at the beginning of each year. In deciding appropriate levels the committee considers the relative responsibilities of each of the directors.

Basic salaries were reviewed in January 2008, with increases effective 1 January 2008.

Executive directors' service agreements, which include details of remuneration, will be available for inspection at the annual general meeting.

(b) Pension contributions and other benefits

Executive directors are entitled to employer pension contributions of 3% of basic salary, or additional salary in lieu thereof.

They also receive a car allowance and membership of private health, permanent health and life assurance schemes.

Directors' service agreements

Each executive director has a six month rolling service agreement.

Non-executive directors

Each of the non-executive directors has a three month rolling contract.

The remuneration of the non-executive directors is determined by the executive directors, and is based upon the level of fees paid at comparable companies. The non-executives receive no payment or benefits other than their fees.

Directors' remuneration

	Salaries/ fees £000	Benefits £000	Pension Contributions £000	**Total 2007[1] £000**	Total 2006[1,2] £000
J D S Booth	30	-	-	**30**	27
N J Taylor	18	-	-	**18**	17
T T Mason	116	15	4	**135**	127
A J McCaffery	109	16	3	**128**	120
W D Todd	111	11	-	**122**	115
	384	42	7	**433**	406

(1) Social security costs in respect of the above amounted to £50,000 (2006 - £46,000).
(2) Including employer pension contributions of £7,000 and benefits of £42,000, so that salaries amounted to £357,000.

The directors are the only employees of the Company.

Directors' interests in ordinary shares

The directors' interests in the ordinary shares of the Company are shown in the directors' report on page 15.

Share Incentive Plan

In 2006 the Company established the Maintel Holdings Plc Share Incentive Plan ("SIP"). The SIP is open to all employees with at least 6 months' continuous service with a Group company, and allows employees to subscribe for existing shares in the Company at open market price out of their gross salary. The employees own the shares from the date of purchase, but must continue to be employed by a Group company and hold their shares within the SIP for 5 years to benefit from the full tax benefits of the plan.

The Report of the remuneration committee was approved by the Board on 14 March 2008.

N J Taylor
Chairman of the remuneration committee

The directors present their report together with the audited financial statements for the year ended 31 December 2007.

Principal activities

The principal activities of the Group are the provision of contracted maintenance services to, and the sale of, fixed line telecommunications systems, the resale of voice and data minutes, line rentals and other telecommunications products.

Results and dividends

The consolidated income statement is set out on page 20 and shows the profit of the Group for the period.

During the period the Company paid a final dividend of 2.9p per ordinary share in respect of the 2006 financial year, amounting to £361,000 (2006 – 2.5p and £323,000 respectively) and an interim dividend in respect of 2007 of 2.5p per share, amounting to £311,000 (2006 – 2.1p and £268,000 respectively). The directors recommend the payment of a final dividend in respect of 2007 of 3.0p per share.

Business review

A review of the business and future developments is set out in the Business review on pages 3 to 8.

Principal risks

The directors consider that the principal risks to the Group relate to technological advance and marketplace pricing strategies.

Telecommunications hardware has historically focused on a PBX core, which is gradually being replaced, at least at the higher end, by Voice over Internet Protocol (VoIP) capabilities. Customers' acceptance of the new technologies moves at varying rates, however, so that legacy systems will continue to be serviced for some time to come. Maintel continues to address the technological shift by positioning itself to sell and maintain the new breed of telephone system, and has had notable success with this transition to date. As highlighted in the business review, maintenance income from this new technology can be reduced when compared to traditional telephony although every effort is made to counter this effect through reduced costs.

VoIP technology is also a potential threat to the reselling of call minutes. In practice, however, this technology is proving slow to be adopted, largely due to performance issues which are an important consideration for Maintel's business customers. Recognising the potential risk, however, the Group is ensuring that it expands its product portfolio with, for example, line rental continuing to grow significantly during 2007. The development of VoIP is constantly monitored so that the Group may take advantage of profitable business models as and when they appear.

The Group is potentially subject to new pricing strategies by both competitors and suppliers, whether due to their own internal policies, in response to technological change or, in the case of call minutes and line rentals, potential regulatory change. The directors monitor margins closely and take action where appropriate. During 2007, pricing pressure was particularly felt with larger customers and public sector tenders often resulted in lower margins than traditional SME business.

The Group's maintenance contracts have a natural finite life, and are subject to competitive attack, so that there is an inevitable customer churn. The directors monitor this and implement strategies with the objective of minimising attrition and growing the customer base organically and by way of acquisition.

Financial instruments

Details of the use of financial instruments by the Group are contained in note 16 of the financial statements.

Directors

The directors of the Company and their interests in the ordinary shares of the Company at the period end were as follows:

	Number of 1p ordinary shares			
	2007		2006	
	Beneficial	**Non-beneficial**	Beneficial	Non-beneficial
J D S Booth	**2,750,781**	**-**	2,750,000	-
T T Mason	**2,045,862**	**13,373**	2,045,862	3,047
A J McCaffery	**2,162,688**	**-**	2,162,688	-
N J Taylor	**7,716**	**12,657**	7,000	3,047
W D Todd	**-**	**13,373**	-	3,047

J D S Booth is a shareholder in Herald Investment Trust plc which holds 510,000 1p ordinary shares in the Company.

The non-beneficial holdings above relate to holdings of the Share Incentive Plan, of which the respective directors are trustees.

Since the year end, J D S Booth has acquired 893 ordinary shares in the Company under the Company's Share Incentive Plan, and the Share Incentive Plan has acquired 4,748 shares in total. There were no other changes in the directors' shareholdings between 31 December 2007 and 13 March 2008.

The Company has purchased insurance to cover its directors and officers against any costs they may incur in defending themselves in any legal proceedings instigated against them as a direct result of duties carried out on behalf of the Company.

Details of the changes in the Company's share capital during the year are given in note 18.

Substantial shareholders

In addition to the directors' shareholdings, at 13 March 2008 the Company had been notified of the following shareholdings of 3% or more in the ordinary share capital of the Company:

	Number of 1p ordinary shares	% of issued ordinary shares
J A Spens	1,557,330	12.82%
Octopus Investments Limited	811,810	6.68%
Herald Investment Trust plc	510,000	4.20%
Marlborough Special Situations Fund	465,000	3.83%

The Company's mid-market share price at 31 December 2007 was 167p per share, and the high and low prices during the year were 221.5p and 166p respectively.

Employees

Maintel's success is dependent on the knowledge, experience and motivation of its employees, and so on the attraction and retention of those staff. The Group's management monitors the compliance with both statutory regulation and best practice with regard to gender, race, age and disability.

A Group intranet is core to open communication amongst employees, and this continues to be developed.

The Company established a Share Incentive Plan in 2006, allowing employees to invest tax effectively in its shares, and so aligning employee interests with shareholders. Under the plan, shares are acquired by employees out of pre-tax salary, with ownership vesting at that time, and are held by trustees on behalf of the employees. The plan is therefore separate from the assets of the Group.

Environment

The Group acknowledges its responsibilities to environmental matters and where practicable adopts environmentally sound policies in its working practices, such as recycling paper waste and using specialist recyclers of scrap telecommunications and IT equipment. Maintel Europe Limited was accredited during the year with ISO 14001:2004 for its environmental management systems.

Purchase of own shares

Pursuant to the authority granted at the last AGM, the Company repurchased and cancelled 70,000 of its own 1p ordinary shares during 2007, at 166p each at a total cost of £117,000, and 240,000 shares in 2008 at 161.5p at a total cost of £391,000, the directors considering that such purchases were in the best interests of the shareholders. The purchases represent 2.5% of the Company's issued share capital as at 31 December 2007. The existing authority is for the purchase of up to 1,867,274 shares, therefore the unutilised authority is in respect of 1,557,274 shares. A fresh authority, in the amount of 1,820,805 shares, will be sought at the forthcoming annual general meeting.

Donations

The Group made charitable contributions of £Nil (2006 – £250) during the year. No contributions were made to political organisations (2006 - £nil).

Creditor payment policy

The Group policy for suppliers is to fix terms of payment when agreeing the terms of transactions, and to comply with those contractual arrangements. The Group's average creditor payment period at 31 December 2007 was 53 days (2006 – 40 days). The Company's average creditor payment period at 31 December 2007 was 6 days (2006 – 101 days), these figures being due to the irregular nature of the Company's creditor payments.

Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to ensure that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

A resolution proposing the re-appointment of BDO Stoy Hayward LLP as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

T T Mason
Director

14 March 2008

Statement of directors' responsibilities

Directors' responsibilities

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group, for safeguarding the assets of the Company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report which complies with the requirements of the Companies Act 1985.

The directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 1985. The directors are also required to prepare financial statements for the Group in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market. The directors have chosen to prepare financial statements for the Company in accordance with UK Generally Accepted Accounting Practice.

Consolidated financial statements

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires the directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Parent company financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

Financial statements are published on the Group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Independent auditor's report

to the shareholders of Maintel Holdings Plc

We have audited the consolidated and parent company financial statements (the ''financial statements'') of Maintel Holdings Plc for the year ended 31 December 2007 which comprise the consolidated income statement, the consolidated and company balance sheets, consolidated statement of changes in equity, the consolidated cash flow statement, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the consolidated financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and for preparing the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the directors' report is consistent with those financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if 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 only the directors' report, the chairman's statement, the business review, the report of the remuneration committee and the report on corporate governance. 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.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and 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 consolidated financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2007 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2007;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

BDO STOY HAYWARD LLP
Chartered Accountants
and Registered Auditors
London

14 March 2008

Consolidated income statement

for the year ended 31 December 2007

	Note	**2007 £000**	2006 £000
Revenue	2	**19,329**	16,166
Cost of sales		**12,762**	10,167
Gross profit		**6,567**	5,999
Administrative expenses			
Goodwill impairment	10	**76**	91
Intangibles amortisation	10	**222**	97
Other administrative expenses		**4,405**	3,933
		4,703	4,121
Operating profit	5	**1,864**	1,878
Financial income	6	**115**	135
Financial charges	6	**-**	(1)
Profit before taxation		**1,979**	2,012
Taxation	7	**595**	592
Profit after taxation attributable to equity holders of the parent	20	**1,384**	1,420
Earnings per share			
Basic and diluted	9	**11.1p**	11.1p

The notes on pages 24 to 48 form part of these financial statements.

	Note	2007 £000	2007 £000	2006 £000	2006 £000
Non current assets					
Intangible assets	10		**1,591**		1,441
Property, plant and equipment	12		**208**		238
			1,799		1,679
Current assets					
Inventories	13	**829**		705	
Trade and other receivables	14	**3,928**		2,861	
Cash and cash equivalents		**2,109**		2,234	
Total current assets			**6,866**		5,800
Total assets			**8,665**		7,479
Current liabilities					
Trade and other payables	15		**6,025**		5,271
Current tax liabilities			**295**		380
Total current liabilities			**6,320**		5,651
Non current liabilities					
Deferred tax liability	17		**139**		217
Total net assets			**2,206**		1,611
Equity					
Issued share capital	18		**124**		124
Share premium	19		**628**		628
Capital redemption reserve	19		**12**		12
Retained earnings	19		**1,442**		847
Total equity			**2,206**		1,611

The financial statements were approved and authorised for issue by the Board on 14 March 2008 and were signed on its behalf by:

T T Mason
Director

The notes on pages 24 to 48 form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 31 December 2007

	Share Capital £000	Share premium £000	Capital redemption reserve £000	Retained earnings £000	Total £000
At 1 January 2006	129	628	7	850	1,614
Profit for year*	-	-	-	1,420	1,420
Dividend	-	-	-	(591)	(591)
Movements in respect of purchase of own shares	(5)	-	5	(832)	(832)
At 31 December 2006	124	628	12	847	1,611
Profit for year*	-	-	-	1,384	1,384
Dividend	-	-	-	(672)	(672)
Movements in respect of purchase of own shares	-	-	-	(117)	(117)
At 31 December 2007	124	628	12	1,442	2,206

* Total recognised income and expenses for the period are the same as the profit for the period shown above.

The notes on pages 24 to 48 form part of these financial statements.

Consolidated cash flow statement

for the year ended 31 December 2007

	2007 £000	2006 £000
Operating activities		
Profit before taxation	**1,979**	2,012
Adjustments for:		
Goodwill impairment	**76**	91
Intangibles amortisation	**222**	97
Depreciation charge	**136**	136
Interest received	**(115)**	(135)
Other interest paid	**-**	1
Loss on disposal of fixed assets	**-**	5
Operating cash flows before changes in working capital	**2,298**	2,207
(Increase)/decrease in inventories	**(124)**	12
Increase in trade and other receivables	**(1,067)**	(671)
Increase in trade and other payables	**755**	87
Cash generated from operating activities	**1,862**	1,635
Tax paid	**(759)**	(603)
Net cash flows from operating activities	**1,103**	1,032
Investing activities		
Purchase of plant and equipment	**(106)**	(110)
Purchase of subsidiary undertaking net of cash acquired	**-**	(1,024)
Purchase of base of customer relationships	**(448)**	-
Interest received	**115**	135
Net cash flows from investing activities	**(439)**	(999)
Financing activities		
Other interest paid	**-**	(1)
Repurchase of own shares for cancellation	**(117)**	(832)
Equity dividends paid	**(672)**	(591)
Net cash flows from financing activities	**(789)**	(1,424)
Net decrease in cash and cash equivalents	**(125)**	(1,391)
Cash and cash equivalents at start of period	**2,234**	3,625
Cash and cash equivalents at end of period	**2,109**	2,234

The notes on pages 24 to 48 form part of these financial statements

1 Accounting policies

The consolidated financial statements have been prepared under the historical cost convention, and the principal policies adopted in their preparation are as follows:

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, International Accounting Standards and Interpretations (collectively IFRS) issued by the International Accounting Standards Board (IASB) as adopted by the European Union ("adopted IFRSs") and are in accordance with IFRS as issued by the IASB, and with those parts of the Companies Act 1985 applicable to companies preparing their accounts in accordance with adopted IFRSs. This is the first time the Group has prepared its annual financial statements in accordance with adopted IFRSs, having previously prepared them in accordance with UK accounting standards. Details of how the transition from UK accounting standards to adopted IFRSs has affected the Group's reported financial position, financial performance and cash flows are given in note 27. The Company has elected to prepare its parent company financial statements in accordance with UK GAAP and these are presented on page 49.

(b) Transition to International Financial Reporting Standards

IFRS 1 "First-time Adoption of International Financial Reporting Standards" sets out the rules for first time adoption of IFRS and the optional exemptions which may be used in applying the standards retrospectively to comparative periods. The Group has used the following exemption in adopting IFRS.

IFRS 3 "Business Combinations" has only been applied to acquisitions completed after the date of transition, 1 January 2006. As a result, the carrying value of goodwill in the UK GAAP balance sheet at 31 December 2005, which relates to the acquisition of Maintel Network Solutions Limited (previously Pinnacle Voice and Data Limited) in December 2005, is brought forward to the IFRS opening balance sheet without adjustment.

(c) Basis of consolidation

The financial statements consolidate the results of Maintel Holdings Plc and each of its subsidiaries (the "Group"). The results of subsidiaries acquired are included within the consolidated income statement and balance sheet from the effective date of acquisition, applying uniform accounting policies pursuant to IAS 27 "Consolidated and separate financial statements". The results of disposed subsidiaries are included in the consolidated income statement up to the effective date of disposal. All intra-group transactions and balances are eliminated on consolidation. Acquisitions are accounted for using the acquisition method of accounting.

Subsidiaries are all entities over which the Group has the power to govern their financial and operating policies.

(d) Revenue

Revenue represents sales to customers at invoiced amounts less value added tax. Revenue from sales of equipment, chargeable works carried out and network services, is recognised when the goods or services are provided. Amounts invoiced in advance in respect of maintenance contracts are deferred and released to the income statement over the period covered by the invoice. Revenue and profit on long term supply and/or installation contracts is recognised dependent on the stage of and costs to completion of each contract.

(e) Intangible assets

Goodwill

Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets, liabilities and contingent liabilities. Cost comprises the fair value of assets given, liabilities assumed and equity instruments issued, plus any direct costs of acquisition. Goodwill is capitalised as an intangible asset, with any impairment in carrying value being charged to the income statement.

1 Accounting policies (continued)

Other intangible assets

Intangible assets are stated at cost less accumulated amortisation and consist of customer relationships. Where these assets have been acquired through a business combination, the cost will be the fair value allocated in the acquisition accounting; where they have been acquired other than through a business combination, the initial cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Customer relationships are amortised over their estimated useful lives of (i) five years in respect of maintenance contracts, and (ii) seven years in respect of network services contracts.

Impairment of goodwill and other intangible assets

Impairment tests on goodwill with an indefinite useful economic life are undertaken annually on 31 December. Customer relationships and other assets are subject to impairment tests whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (being the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (being the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows). Goodwill is allocated on initial recognition to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination giving rise to goodwill.

Impairment charges are included in the administrative expenses line item in the income statement.

(f) Property, plant and equipment

Property, plant and equipment is stated at historic cost, less accumulated depreciation. Depreciation is provided to write off the cost, less estimated residual values, of all tangible fixed assets over their expected useful lives, at the following rates:

Property, plant and machinery	-	over the life of the lease to third parties
Office and computer equipment	-	25% straight line
Motor vehicles	-	25% straight line
Leasehold improvements	-	over the remaining period of the lease

(g) Inventories

Inventories comprise (i) maintenance stock, being replacement parts held to service customers' telecommunications systems, and (ii) work in progress, being stock purchased for customer orders which has not been installed at the end of the financial period. Inventories are valued at the lower of cost and net realisable value.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short term deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management procedures are also included as a component of cash and cash equivalents for the purposes of the cash flow statement.

1 Accounting policies (continued)

(i) Taxation

Current tax is the expected tax payable on the taxable income for the year, together with any adjustments to tax payable in respect of previous years.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for differences arising on:

- the initial recognition of goodwill;
- goodwill for which amortisation is not tax deductible;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- investments in subsidiaries where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

The amount of the deferred tax asset or liability is determined using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the deferred tax assets/liabilities are recovered/settled. Deferred tax balances are not discounted.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable Group company; or
- different Group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

(j) Financial assets and liabilities

The Group's financial assets and liabilities mainly comprise cash, trade and other receivables and trade and other payables. The Group's policy is, and has been throughout the year, not to trade in financial instruments.

Cash comprises cash in hand and deposits held at call with banks.

Trade and other receivables are not interest bearing and are stated at their nominal value as reduced by appropriate allowances for irrecoverable amounts or additional costs required to effect recovery.

Trade and other payables are not interest bearing and are stated at their nominal amount.

(k) Operating leases

Annual rentals payable are charged to the income statement on a straight-line basis over the term of the lease.

Annual rentals receivable from third parties are credited to the income statement on a straight line basis over the term of the lease. This income is included in revenue.

(l) Employee benefits

The Group contributes to a number of defined contribution pension schemes in respect of certain of its employees; the Group does not contribute and has not contributed to any defined benefit pension schemes. The amount charged in the income statement represents the employer contributions payable to the schemes in respect of the financial period. The assets of the schemes are held separately from those of the Group in independently administered funds.

The cost of all short term employee benefits is recognised during the period the employee service is rendered.

Holiday pay is expensed in the period in which it accrues.

1 Accounting policies (continued)

(m) Dividends

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Proposed but unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

(n) Accounting standards issued but not adopted

The following new standards and interpretations, which have been issued by the IASB and IFRIC, are effective for future periods and have not been adopted early in these financial statements. The directors do not anticipate that the adoption of these standards and interpretations will have a material accounting impact on the Group's financial statements in the period of initial application although they may result in certain presentational changes.

Standard or Interpretation	Effective for periods beginning	Endorsed for use in the EU
IFRS 8 Operating Segments	1 January 2009	Yes
Amendment to IAS 23 Borrowing costs	1 January 2009	No
Amendments to IAS 1 Presentation of Financial Statements – revised presentation	1 January 2009	No
Revised IFRS 3 Business Combinations	1 July 2009	No
Amendments to IAS 27 Consolidated and Separate Financial Statements	1 July 2009	No
Amendments to IAS32 Puttable Instruments and obligations arising on liquidation	1 January 2009	No
Amendment to IFRS 2 Share-based Payment: Vesting Conditions and Cancellations	1 January 2009	No
IFRIC 11 - IFRS 2 – Group and Treasury Share Transactions	1 January 2008	Yes
IFRIC 12 Service Concession Arrangements	1 January 2008	No
IFRIC 13 Customer Loyalty Programmes	1 July 2008	No
IFRIC 14 - IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2008	No

2 Segment information

For management reporting purposes, the Group consists of two business segments: (i) telephone maintenance and equipment sales, and (ii) telephone network services.

	Year ended 31 December 2007			
	Maintenance and equipment £000	Network services £000	Central/ intercompany £000	Total £000
Revenue	14,735	4,682	(88)	19,329

Included in telephone system maintenance revenue above is £97,000 of leasing income.

Other than equipment sales of £39,000 to EU countries, revenue is wholly attributable to the principal activities of the Group and arises predominantly within the United Kingdom.

	Maintenance and equipment £000	Network services £000	Central/ intercompany £000	Total £000
Operating profit	1,680	477	(293)	1,864
Interest (net)				115
Profit before taxation				1,979
Taxation				(595)
Profit after taxation				1,384
Balance sheet				
Assets	6,007	1,485	1,173	8,665
Liabilities	(5,276)	(1,342)	159	(6,459)
Total	731	143	1,332	2,206
Other				
Capital expenditure	106	-	-	106
Depreciation	136	-	-	136
Amortisation and impairment	9	20	269	298

2 Segment information (continued)

	Year ended 31 December 2006			
	Maintenance and equipment £000	Network services £000	Central/ intercompany £000	Total £000
Revenue	12,873	3,400	(107)	16,166

Included in telephone system maintenance revenue above is £189,000 of leasing income.

Revenue is wholly attributable to the principal activities of the Group and arises predominantly within the United Kingdom.

	Maintenance and equipment £000	Network services £000	Central/ intercompany £000	Total £000
Operating profit	1,678	400	(200)	1,878
Interest (net)				134
Profit before taxation				2,012
Taxation				(592)
Profit after taxation				1,420
Balance sheet				
Assets	4,768	847	1,864	7,479
Liabilities	(4,441)	(840)	(587)	(5,868)
Total	327	7	1,277	1,611
Other				
Capital expenditure	110	-	-	110
Depreciation	136	-	-	136
Amortisation and impairment	-	-	188	188

3 Employees

	2007 Number	2006 Number
The average number of employees, including directors, during the period was:		
Corporate and administration	**20**	20
Sales and customer service	**65**	64
Technical and engineering	**86**	76
	171	160
Staff costs, including directors, consist of:		
Wages and salaries	**6,728**	5,742
Social security costs	**768**	648
Pension costs	**129**	79
	7,625	6,469

The Group makes contributions to defined contribution personal pension schemes for employees and directors. The assets of the schemes are separate from those of the Group. The pension cost charge represents contributions payable by the Group to the schemes and amounted to £129,000 (2006 - £79,000). Contributions totalling £21,000 (2006 - £17,000) were payable to the schemes at the year end and are included in creditors.

4 Directors' remuneration

	2007 £000	2006 £000
The remuneration of the Company directors is as follows:		
Directors' emoluments	**426**	399
Pension contributions	**7**	7
	433	406
Included in the above is the remuneration of the highest paid director as follows:		
Directors' emoluments	**131**	123
Pension contributions	**4**	4
	135	127

The Group paid contributions into defined contribution personal pension schemes in respect of 2 (2006 – 2) directors during the year.

5 Operating profit

	2007 £000	2006 £000
This has been arrived at after charging/(crediting):		
Depreciation of property, plant and equipment	136	136
Amortisation of intangible fixed assets	222	97
Goodwill impairment charge	76	91
Loss on disposal of fixed assets	-	5
Operating lease rentals		
- property	161	173
- plant and machinery	135	147
Auditors' remuneration		
- audit services – Company	7	9
- other services relating to taxation – Group	18	12
- other services relating to audit of subsidiary undertakings - Group	47	52
- audit services – Group	15	7
Leasing income	(97)	(189)

6 Financial income and expense

	2007 £000	2006 £000
Finance income		
Bank interest received	115	135
Finance expense		
Other interest payable	-	1

7 Taxation

	2007 £000	2006 £000
UK corporation tax		
Corporation tax on profits of the period	673	619
Adjustment for underprovision in prior years	-	1
	673	620
Deferred tax	(78)	(28)
Taxation on profit on ordinary activities	595	592

7 Taxation (continued)

The differences between the total tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax are as follows:

	2007 £000	2006 £000
Profit on ordinary activities before tax	**1,979**	2,012
Profit on ordinary activities at the standard rate of corporation tax in the UK of 30% (2006 – 30%)	**594**	604
Effect of:		
Expenses not deductible for tax purposes	**11**	14
Depreciation in excess of capital allowances	**2**	6
Goodwill impairment	**23**	(2)
Intangible amortisation	**-**	29
Adjustment for prior year	**-**	1
Use of trading losses brought forward	**(15)**	(52)
Marginal tax rates	**-**	(15)
Change in tax rate affecting deferred tax liability	**(20)**	-
Other timing differences	**-**	7
	595	592

8 Dividends paid on ordinary shares

	2007 £000	2006 £000
Final 2005, paid 24 April 2006 – 2.5p per share	**-**	323
Interim 2006, paid 29 September 2006 – 2.1p per share	**-**	268
Final 2006, paid 25 April 2007 – 2.9p per share	**361**	-
Interim 2007, paid 5 October 2007 – 2.5p per share	**311**	-
	672	591

The directors recommend the payment of a final dividend for 2007 of 3.0p (2006 – 2.9p) per ordinary share, payable on 30 April 2008 to shareholders on the register at 28 March 2008, subject to approval by shareholders at the Annual General Meeting.

9 Earnings per share

Earnings per share is calculated by dividing the profit after tax for the period by the weighted average number of shares in issue for the period, these figures being as follows:

	2007 Number (000s)	2006 Number (000s)
Weighted average number of ordinary shares of 1p each	**12,452**	12,783

	£000	£000
Earnings used in basic and diluted EPS, being profit after tax	**1,384**	1,420
Goodwill impairment and intangibles amortisation, less tax thereon	**231**	159
One-off professional costs, less tax thereon	**18**	-
Adjusted earnings	**1,633**	1,579
Earnings per share		
Basic and diluted	**11.1p**	11.1p
Adjusted – as above but excluding goodwill impairment and intangibles amortisation and one-off professional costs, less tax thereon	**13.1p**	12.4p

The adjustment above in respect of goodwill impairment, intangibles amortisation, one-off professional costs and tax thereon has been made in order to provide a clearer picture of the trading performance of the Group.

The one-off professional costs relate to the £25,000 cost of strategic advice incurred in 2007.

On 16 January 2008, the Company repurchased and cancelled 240,000 of its 1p ordinary shares at 161.5p per share. The purchase represents 1.9% of the Company's issued share capital as at 31 December 2007.

10 Intangible assets

	Goodwill £000	Customer relationships £000	Total £000
Cost			
At 1 January 2006	227	-	227
Acquisition through business combinations	437	965	1,402
At 31 December 2006	664	965	1,629
Acquisition of customer relationships	-	448	448
At 31 December 2007	664	1,413	2,077
Amortisation and impairment			
At 1 January 2006	-	-	-
Amortisation in the year	-	97	97
Impairment in the year	91	-	91
At 31 December 2006	91	97	188
Amortisation in the year	-	222	222
Impairment in the year	76	-	76
At 31 December 2007	167	319	486
Net book value			
At 31 December 2007	497	1,094	1,591
At 31 December 2006	573	868	1,441

Amortisation and impairment charges for the year have been charged through administrative expenses in the consolidated income statement.

10 Intangible assets (continued)

The carrying value of goodwill, calculated on a value in use basis, is allocated to cash generating units as follows:

	2007 £000	2006 £000
Pinnacle Voice and Data Limited (now incorporated in Maintel Voice and Data Limited)	**294**	312
District Holdings Limited (now incorporated in Maintel Europe Limited and Maintel Voice and Data Limited)	**203**	261
	497	573

Goodwill of £227,000 arising on the acquisition of Pinnacle Voice and Data Limited (since renamed Maintel Network Solutions Limited) in December 2005 was capitalised at 31 December 2005, as was the related deferred payment of £147,000 in 2006, the aggregate being subject to an annual impairment review which has resulted in an impairment charge of £62,000 in 2006 and £18,000 in 2007, due to the termination of certain contracts acquired.

Goodwill of £290,000 arising on the acquisition of District Holdings Limited in June 2006 is impaired in parallel with the release of the deferred tax liability arising on the acquisition of District, that being amortised over 5 years with effect from 1 July 2006, the impairment of the goodwill being £29,000 in 2006 and £58,000 in 2007.

The acquisition of District customer relationships was valued at £965,000. These relationships are estimated to have a useful life of 5 years and are therefore amortised over that period and subject to annual impairment review. The 2006 amortisation charge is therefore £97,000 and the 2007 charge is £193,000.

In February 2007, the Group acquired a maintenance contract base of c£60,000 per annum from WGTS Limited at nil cost, the vendor being paid a subsequent commission to re-sign the contracts on a longer term basis. Given the nil cost, this contract base has not been incorporated as an intangible asset.

The Group acquired a base of customer relationships from Callmaster Limited on 1 August 2007, for a consideration, including costs, of £448,000. These relationships are estimated to have a useful life of five (maintenance contracts) or seven (network services contracts) years and are therefore amortised over those periods and subject to annual impairment review. The 2007 amortisation charge is £29,000 and the estimated contribution to Group profits in the year resulting from the acquisition is £90,000.

For the purposes of impairment review, the estimated life of a relationship is five or seven years as noted above and the net present value of the projected future cash flows from the relationships is compared with the carrying value. Projected operating margins are based on current trends, and a discount rate of 17.6% is applied to the resultant projected cash flows; the discount rate is based on conventional capital asset pricing model inputs.

10 Intangible assets (continued)

Analysis of the acquisition of District Holdings Limited in June 2006 is as follows:

Net assets at the date of acquisition:	Book value £000	Fair value £000
Tangible fixed assets	50	29
Stock	52	132
Debtors	255	272
Cash	183	183
Creditors	(191)	(192)
Deferred income	(329)	(329)
Net assets acquired	20	95
Value attributed to customer relationships		965
		1,060
Discharged by:		
Cash consideration paid		1,025
Costs associated with the acquisition		35
		1,060

11 Subsidiaries

The Group consists of Maintel Holdings Plc and its subsidiary undertakings, including several which did not trade during the year. The following were the principal subsidiary undertakings at the end of the year and each has been included in the consolidated financial statements:

Maintel Europe Limited

Maintel Voice and Data Limited

Each is wholly owned and incorporated in England and Wales.

12 Property, plant and equipment

	Leasehold improvements £000	Plant and machinery £000	Office and computer equipment £000	Motor vehicles £000	Total £000
Cost or valuation					
At 1 January 2006	64	89	617	-	770
Acquisition	-	-	125	-	125
Additions	-	-	110	-	110
Disposals	-	-	(44)	-	(44)
At 31 December 2006	64	89	808	-	961
Additions	-	-	99	7	106
Disposals	-	(45)	(73)	-	(118)
At 31 December 2007	64	44	834	7	949
Depreciation					
At 1 January 2006	64	78	388	-	530
Acquisition	-	-	96	-	96
Provided in year	-	8	128	-	136
Disposals	-	-	(39)	-	(39)
At 31 December 2006	64	86	573	-	723
Provided in year	-	3	132	1	136
Disposals	-	(45)	(73)	-	(118)
At 31 December 2007	64	44	632	1	741
Net book value					
At 31 December 2007	-	-	202	6	208
At 31 December 2006	-	3	235	-	238

13 Inventories

	2007 £000	2006 £000
Maintenance stock	**599**	592
Stock held for resale	**230**	113
	829	705

14 Trade and other receivables

	2007 £000	2006 £000
Trade receivables	**2,965**	2,194
Other receivables	**14**	12
Prepayments and accrued income	**949**	655
	3,928	2,861

All amounts shown above fall due for payment within one year.

15 Trade and other payables

	2007 £000	2006 £000
Trade payables	**1,686**	1,034
Other tax and social security	**671**	634
Accruals	**565**	436
Other payables	**27**	18
Deferred maintenance income	**3,020**	2,984
Other deferred income	**56**	165
	6,025	5,271

Deferred maintenance income relates to the unearned element of maintenance revenue that has been invoiced but not yet recognised in the profit and loss account. Other deferred income relates to other amounts invoiced but not yet recognised in the profit and loss account.

16 Financial instruments

The Group's financial assets and liabilities mainly comprise cash, trade and other receivables and trade and other payables, with smaller balances being recorded as other debtors and other creditors. The Group's policy is, and has been throughout the year, not to trade in financial instruments.

	Loans and receivables	
	2007 £000	2006 £000
Current financial assets		
Trade receivables	**2,965**	2,194
Cash and cash equivalents	**2,109**	2,234
Other receivables	**14**	12
	5,088	4,440

	Financial liabilities measured at amortised cost	
	2007 £000	2006 £000
Current financial liabilities		
Trade payables	**1,686**	1,034
Other payables	**27**	18
	1,713	1,052

The maximum credit risk for each of the above is the carrying value stated above. The main risks arising from the Group's operations are credit risk, currency risk and interest rate risk, however other risks are also considered below.

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on customers as deemed necessary based on, inter alia, the nature of the prospect and size of order. The Group does not require collateral in respect of financial assets.

At the balance sheet date there were no significant concentrations of credit risk, the largest exposure represented by the carrying value of each financial asset in the balance sheet, principally trade and other receivables, against which £112,000 is provided at 31 December 2007 (2006 - £100,000). The provision represents an estimate of potential bad debt, goodwill credits and additional costs to be incurred in respect of the year end trade receivables, a review having been undertaken of each such year end receivable. The largest individual debtor included in trade and other receivables at 31 December 2007 owed the Group £234,000 including VAT (2006 - £160,000).

16 Financial instruments (continued)

The movement on the provision is as follows:

	2007 £000	2006 £000
Provision at start of year	**100**	85
Provision used	**(7)**	(29)
Additional provision made	**19**	44
Provision at end of year	**112**	100

A debt is considered to be bad when it is deemed irrecoverable, for example when the debtor goes into liquidation, or when a credit or partial credit is issued to the customer for goodwill or commercial reasons.

The Group had past due trade receivables as follows:

	2007 £000	2006 £000
Up to 30 days overdue	**1,004**	687
31-60 days overdue	**334**	158
More than 60 days overdue	**93**	33
	1,431	878

Cash and cash equivalents at 2007 and 2006 year ends represented short term deposits with LloydsTSB and Abbey.

Foreign currency risk

The principal functional currency of the Group is Sterling. The Group engages in minimal foreign currency transactions, and maintains a Euro bank account to facilitate these. The balance of the account at 31 December 2007 was £33,000 (2006 – £3,000). The Group's exposure to currency risk is therefore not significant.

Interest rate risk

The Group has no borrowings, and invests its surplus cash in short term bank deposits at prevailing rates of interest. The Group's interest income (£115,000 in 2007, and £135,000 in 2006) is therefore dependent on those prevailing rates.

Liquidity risk

The Group's main financial liabilities are trade payables, which fall due and are typically paid in accordance with their contractual terms which are typically 30 days; payment of these is dependent on the Group's liquidity, which in turn is dependent on management of the Group's working capital.

Market risk

As noted above, the interest earned on short term deposits is dependent on the prevailing rates of interest from time to time.

Fair value

All of the Group's financial instruments are due to mature within one year and are subject to normal commercial credit and interest rate risk.

There is no significant difference between the carrying amounts shown in the balance sheet and the fair values of the Group's financial instruments.

17 Deferred tax liability

	Property, plant and equipment £000	Intangible assets £000	Other £000	Total £000
At 1 January 2006	(30)	-	(15)	(45)
Arising on District acquisition	-	290	-	290
Credit/(charge) to income statement	1	(29)	-	(28)
At 31 December 2006	(29)	261	(15)	217
Adjustment on change in tax rates	-	(20)	-	(20)
Charge to income statement	(1)	(58)	1	(58)
At 31 December 2007	(30)	183	(14)	139

The deferred tax liability represents (a) a liability established under IFRS on the recognition of an intangible asset in relation to the District acquisition net of (b) an asset represented by the tax value of depreciation provided in the accounts in excess of capital allowances claimed, and (c) an asset in respect of holiday pay accrual, and is calculated using a tax rate of 28% (2006 - 30%).

18 Share capital

	2007 £000	2006 £000
Authorised		
17,571,840 ordinary shares of 1p each	**176**	176
Alloted, called up and fully paid		
12,386,800 (2006 - 12,456,800) ordinary shares of 1p each	**124**	124

Pursuant to the authority granted at the last annual general meeting, the Company repurchased and cancelled 70,000 of its own 1p ordinary shares during 2007 at 166p per share and a total cost of £117,000. The purchase represents 0.6% of the Company's issued share capital as at 31 December 2006.

19 Reserves

The capital redemption reserve represents the nominal value of ordinary shares repurchased and cancelled by the Company and is undistributable in normal circumstances.

Share capital, share premium and retained earnings represent balances conventionally attributed to those descriptions.

The Group having no borrowings or regulatory capital requirements, its primary capital management focus is on maximising earnings per share and therefore shareholder return.

Subject to shareholder approval at the forthcoming AGM, it is proposed to pay a final dividend for 2007 of 3.0p per share; this dividend is not provided for in these financial statements.

20 Reconciliation of movements in total equity

	2007 £000	2006 £000
Profit for the period	**1,384**	1,420
Repurchase of own shares	**(117)**	(832)
Dividends	**(672)**	(591)
Net increase/(decrease) in shareholders' funds	**595**	(3)
Opening shareholders' funds	**1,611**	1,614
Shareholders' funds at 31 December 2007	**2,206**	1,611

21 Share Incentive Plan

The Company established the Maintel Holdings Plc Share Incentive Plan ("SIP") in 2006. The SIP is open to all employees with at least 6 months' continuous service with a Group company, and allows employees to subscribe for existing shares in the Company out of their gross salary. The shares are bought by the SIP on the open market. The employees own the shares from the date of purchase, but must continue to be employed by a Group company and hold their shares within the SIP for 5 years to benefit from the full tax benefits of the plan.

22 Operating leases

As at 31 December 2007, the Group had future minimum rentals payable under non-cancellable operating leases as set out below:

	2007 Land and buildings £000	2007 Other £000	2006 Land and buildings £000	2006 Other £000
The total future minimum lease payments are due as follow:				
Not later than one year	**173**	**90**	143	99
Later than one year and not later than five years	**217**	**50**	36	118
	390	**140**	179	217

The commitment relating to land and buildings is in respect of the Group's London offices, the lease on which expires in normal circumstances in March 2010, and the remaining commitment relates to contract hired motor vehicles, which are typically replaced on a 3 year rolling cycle.

23 Contingent liabilities

The Group has received notification of two separate potential legal claims against it. The estimated amount of each claim is £30,000. The directors consider the Group to be practically and contractually protected from any liability and therefore no provision has been made in the accounts for either.

24 Related party transactions

Transactions with key management personnel

The Group has a related party relationship with its directors and executive officers. The remuneration of the individual directors is disclosed in the remuneration report. The remuneration of the directors and other key members of management during the year was as follows:

	2007 £000	2006 £000
Short term employment benefits	**714**	638
Contributions to defined contribution pension scheme	**13**	12
	727	650

Transactions between the Company and its subsidiary undertakings

Transactions between Group companies are not disclosed as they have been eliminated on consolidation.

Other transactions

The Group traded during the year with Maybank Marketing, a company indirectly associated with A J McCaffery. Purchases during the year amounted to £9,675 (2006 - £7,809) net of VAT, of which £1,590 (2006 - £329) was owed at the year end and is included within trade creditors. Sales during the year amounted to £109 (2006 - £230), of which £Nil (2006 - £26) was owed at the year end.

The Group provided services to A J McCaffery during the year amounting to £1,005 (2006 - £869) net of VAT, of which £Nil (2006 - £179) was owed at the year end.

The Group paid commissions in the year to J A Spens, a shareholder in the Company, amounting to £46,258 net of VAT (2006 - £Nil), of which £4,709 was owed at the year end and is included in trade creditors.

25 Accounting estimates and judgements

In the process of applying the Group's accounting policies, management has made various estimates, assumptions and judgements, with those likely to contain the greatest degree of uncertainty being summarised below.

Impairment

The Group assesses at each reporting date whether there is an indication that its intangible assets may be impaired. In undertaking such an impairment review, estimates are required in determining an asset's recoverable amount; those used are shown in note 10. These estimates include the asset's future cash flows and the appropriate discount to reflect the time value of money. The effect on the impairment charge in the income statement of assuming a year's longer and a year's shorter customer contract length compared with the assumed five (maintenance contracts) and seven (network services contracts) years is as follows:

	Increase/(decrease) in impairment charge £000
Maintenance contracts	
One year longer contract length	Nil
One year shorter contract length	Nil
Network services contracts	
One year longer contract length	(18)
One year shorter contract length	31

Long term contracts

At each reporting date the Group has customer projects which are partially complete. Estimates are made of the stage of completion of these projects and a proportion of the project's revenue and cost is recognised in the period's financial statements. The time scales and costs to completion may differ from those estimates.

25 Accounting estimates and judgements (continued)

Business combinations

The acquisition of customer relationships from Callmaster Limited and WGTS Limited have been adjudged not to be business combinations. The accounting treatment had they been adjudged business combinations would not have been materially different, and there would be no resultant effect on profit after tax reported in the income statement.

Contingent liabilities

An assessment has been made of the outcome and potential cost of the two claims referred to in note 23. It is considered that any divergence from those estimates is unlikely to be significant.

26 Post balance sheet event

On 16 January 2008, the Company repurchased and cancelled 240,000 of its 1p ordinary shares at 161.5p per share.

27 Transition to International Financial Reporting Standards

The Group's previously reported financial performance and position is altered as a result of the adoption of IFRS and the accounting policies detailed in note 1 above.

The following table summarises the impact of the adoption of IFRS on the Group's profit after tax for the year ended 31 December 2006.

	2006 £000
Profit after tax – under UK GAAP	1,459
Reversal of goodwill amortisation	122
Amortisation of intangible assets and goodwill impairment	(188)
Staff costs – holiday pay	(2)
Deferred tax on amortisation of intangible assets	29
Profit after tax – under IFRS	1,420

The following table summarises the impact of the adoption of IFRS on the Group's total equity as at 1 January 2006 and 31 December 2006.

	1 January 2006 £000	31 December 2006 £000
Total equity – under UK GAAP	1,648	1,684
Reversal of goodwill amortisation	-	122
Amortisation of intangible assets and goodwill impairment	-	(159)
Staff costs – holiday pay net of deferred tax	(34)	(36)
Total equity – under IFRS	1,614	1,611

More detailed disclosure of the effects of IFRS on the UK GAAP financial statements is shown in the following tables.

27 Transition to International Financial Reporting Standards (continued)

Reconciliation of the Group's consolidated income statement for the year to 31 December 2006

	UK GAAP £000	Goodwill £000 (notes a,b)	Holiday pay £000 (note c)	IFRS £000
Revenue	16,166	-	-	16,166
Cost of sales	10,167	-	-	10,167
Gross profit	5,999	-	-	5,999
Administrative expenses				
Goodwill amortisation	122	(122)	-	-
Goodwill impairment	-	91	-	91
Intangibles amortisation	-	97	-	97
Other administrative expenses	3,931	-	2	3,933
	4,053	66	2	4,121
Operating profit	1,946	(66)	(2)	1,878
Financial income	135	-	-	135
Financial charges	(1)	-	-	(1)
Profit before taxation	2,080	(66)	(2)	2,012
Taxation	621	(29)	-	592
Profit after taxation attributable to equity holders of the parent	1,459	(37)	(2)	1,420
Earnings per share				
Basic and diluted	11.4p			11.1p

27 Transition to International Financial Reporting Standards (continued)

Reconciliation of the Group's consolidated balance sheet as at 1 January 2006 (the opening IFRS balance sheet)

	UK GAAP £000	Holiday pay £000 (note c)	IFRS £000
Non current assets			
Intangible assets	227	-	227
Property, plant and equipment	240	-	240
Deferred tax asset	30	15	45
	497	15	512
Current assets			
Inventories	585	-	585
Trade and other receivables	1,917	-	1,917
Cash and cash equivalents	3,625	-	3,625
	6,127	-	6,127
Total assets	6,624	15	6,639
Current liabilities			
Trade and other payables	4,613	49	4,662
Current tax liabilities	363	-	363
Total liabilities	4,976	49	5,025
Total net assets	1,648	(34)	1,614
Equity			
Issued share capital	129	-	129
Share premium	628	-	628
Capital redemption reserve	7	-	7
Retained earnings	884	(34)	850
Total shareholders' equity	1,648	(34)	1,614

27 Transition to International Financial Reporting Standards (continued)

Reconciliation of the Group's consolidated balance sheet as at 31 December 2006

	UK GAAP	Goodwill	Holiday pay	IFRS
	£000	£000	£000	£000
		(notes a,b)	(note c)	
Non current assets				
Intangible assets	1,217	224	-	1,441
Property, plant and equipment	238	-	-	238
	1,455	224	-	1,679
Current assets				
Inventories	705	-	-	705
Trade and other receivables	2,861	-	-	2,861
Cash and cash equivalents	2,234	-	-	2,234
	5,800	-	-	5,800
Total assets	7,255	224	-	7,479
Current liabilities				
Trade and other payables	5,220	-	51	5,271
Current tax liabilities	380	-	-	380
	5,600	-	51	5,651
Non current liabilities				
Deferred tax liability	(29)	261	(15)	217
Total net assets	1,684	(37)	(36)	1,611
Equity				
Issued share capital	124	-	-	124
Share premium	628	-	-	628
Capital redemption reserve	12	-	-	12
Retained earnings	920	(37)	(36)	847
Total shareholders' equity	1,684	(37)	(36)	1,611

27 Transition to International Financial Reporting Standards (continued)

Explanatory notes to the UK GAAP to IFRS reconciliations

(a) Business combinations, goodwill and intangible assets

Under UK GAAP, the cost of an acquisition over and above the fair value of the net assets acquired was deemed to be goodwill. IFRS 3 requires that for each acquisition a fair value is attributed to any identifiable other intangible assets such as customer relationships. The goodwill cost is therefore the difference between the consideration paid for the investment after deducting the fair value of net assets including other intangible assets.

IFRS 1 provides for an exemption from restating the acquisition of Maintel Network Solutions Limited (previously Pinnacle Voice and Data Limited) on this basis as the acquisition took place on 5 December 2005 - before the Group's IFRS transition date of 1 January 2006 - and so the historical goodwill of £374,000 relating to that company has been retained. In such circumstances, IFRS 3 requires that this goodwill, being an asset of indefinite life, is not amortised but is tested for impairment annually, and any such impairment is applied in accordance with IAS 36.

The directors have considered the acquisition of District Holdings Limited - acquired on 12 June 2006 - and attributed a value of £965,000 to the customer contracts and associated relationships of District. This intangible asset will be amortised over its useful life, this being deemed to be 5 years, and subjected to an impairment review at each reporting date.

Under UK GAAP goodwill was capitalised and amortised over its estimated useful life, which under Maintel's accounting policies was 7 years. Goodwill impairment of £122,000 which was charged to the profit and loss account for the year ended 31 December 2006 has been reversed, and the replacement charges under IFRS consist of goodwill impairment of £91,000 and intangibles amortisation of £97,000.

(b) Deferred tax

Under IAS 12 "Income taxes", deferred tax is recognised on the basis of temporary differences between the carrying value of assets and liabilities in the balance sheet, and their tax bases. A deferred tax liability (at 30%) of £290,000 has accordingly been created in respect of the £965,000 intangible asset recognised as at the date of the acquisition of District Holdings Limited, with subsequent releases of the deferred tax liability to the income statement as impairment of the intangible is recognised.

An equal and opposite amount of £290,000 is included as goodwill as required by IFRS, this and the deferred tax of £290,000 being amortised over 5 years, subject to annual impairment review.

The effect of adopting this standard is shown under the goodwill column in the reconciliation tables above.

(c) Holiday pay accrual

IAS 19 requires that a liability for holiday pay is recorded for all accrued entitlement at each balance sheet date. The Group's primary holiday year end is 31 December, in line with its financial year end, and most employees are entitled to carry forward a maximum of 10 days' holiday to the following holiday year. As at 30 June, therefore, there tends to be a larger accrual (and therefore expense in the income statement) required than is the case at 31 December.

(d) Cash flow statements

The only changes to the cash flow statement are presentational, the principal ones being classifying tax cash flows as relating to operating activities and equity dividends as relating to financing activities.

Maintel Holdings Plc Company balance sheet

at 31 December 2007 - prepared under UK GAAP

	Note	2007 £000	2007 £000	2006 £000	2006 £000
Fixed assets					
Investment in subsidiaries	5		2,323		2,403
Current assets					
Debtors	6	7		10	
Cash at bank and in hand		449		401	
		456		411	
Creditors: amounts falling due within one year	7	222		675	
Net current assets/(liabilities)			234		(264)
Total assets less current liabilities			2,557		2,139
Capital and reserves					
Called up share capital	8		124		124
Share premium	9		628		628
Capital redemption reserve	9		12		12
Profit and loss account	9		1,793		1,375
Shareholders' funds			2,557		2,139

The financial statements were approved and authorised for issue by the Board on 14 March 2008 and were signed on its behalf by:

T T Mason
Director

The notes on pages 50 to 52 form part of these financial statements.

1 Accounting policies

The principal accounting policies are summarised below; they have been applied consistently throughout the year and the preceding year.

(a) Basis of preparation

The Company has elected to prepare its parent company accounts in accordance with UK GAAP.

The financial statements of the Company are presented as required by the Companies Act 1985. As permitted by that Act, the financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom and on the historical cost basis.

Under section 230 (4) of the Companies Act the Company is exempt from the requirement to present its own profit and loss account.

The Company has taken advantage of the exemption contained in FRS8 and has not disclosed transactions or balances with entities which form part of the Group.

(b) Investments

Investments in subsidiary undertakings are stated at cost unless, in the opinion of the directors, there has been impairment to their value, in which case they are written down to their recoverable amount.

The Company uses the cost method of accounting, which is a method of accounting for an investment whereby the investment is recognised at cost. The investor recognises income from the investment only to the extent that the investor receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognised as a reduction of the cost of investment.

(c) Cash

Cash comprises cash balances and short term deposits with an original maturity of three months or less.

(d) Taxation

Current tax is the expected tax payable on the taxable income for the year, together with any adjustments to tax payable in respect of previous years.

(e) Dividends

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Proposed but unpaid dividends that do not meet these criteria are disclosed in the notes to the accounts.

2 Employees

The only employees of the Company were the directors. The average number employed during the year was 5 (2006 – 5). The directors’ remuneration is shown in note 4 of the consolidated financial statements.

3 Profit for the financial period

The Company has taken advantage of the exemption under S230 of the Companies Act 1985 and has not presented its own profit and loss account in these financial statements. The profit for the year of the Company, after tax and before dividends paid, was £1,207,000 (2006 – £1,358,000).

4 Dividends paid on ordinary shares

	2007 £000	2006 £000
Final 2005, paid 24 April 2006 – 2.5p per share	**-**	323
Interim 2006, paid 29 September 2006 – 2.1p per share	**-**	268
Final 2006, paid 25 April 2007 – 2.9p per share	**361**	-
Interim 2007, paid 5 October 2007 – 2.5p per share	**311**	-
	672	591

The directors recommend the payment of a final dividend for 2007 of 3.0p (2006 – 2.9p) per ordinary share, payable on 30 April 2008 to shareholders on the register at 28 March 2008, subject to approval by shareholders at the Annual General Meeting.

5 Investment in subsidiaries

	Shares in subsidiary undertakings £000
Cost	
At 1 January 2007 and 31 December 2007	2,403
Provision for impairment	
At 1 January 2007	-
Charge for the year	80
At 31 December 2007	80
Net book value	
At 31 December 2007	2,323
At 31 December 2006	2,403

The following were the principal subsidiary undertakings at the end of the year:

Maintel Europe Limited
Maintel Voice and Data Limited

Each is wholly owned and incorporated in England and Wales.

6 Debtors

	2007 £000	2006 £000
Other debtors	**1**	7
Prepayments and accrued income	**1**	3
Corporation tax recoverable	**5**	-
	7	10

All amounts shown under debtors fall due for payment within one year.

7 Creditors

	2007 £000	2006 £000
Amounts due to subsidiary undertakings	**214**	652
Trade creditors	**1**	16
Accruals and deferred income	**7**	6
Corporation tax	**-**	1
	222	675

8 Share capital

	2007 £000	2006 £000
Authorised		
17,571,840 ordinary shares of 1p each	**176**	176
Allotted, called up and fully paid		
12,386,800 (2006 - 12,456,800) ordinary shares of 1p each	**124**	124

Pursuant to the authority granted at the last annual general meeting, the Company repurchased and cancelled 70,000 of its own 1p ordinary shares during 2007 at 166p per share and a total cost of £117,000. The purchases represent 0.6% of the Company's issued share capital as at 31 December 2006.

9 Capital and reserves

	Share capital £000	Share premium £000	Capital redemption reserve £000	Retained earnings £000	Total £000
At 1 January 2006	129	628	7	1,440	2,204
Profit for year*	-	-	-	1,358	1,358
Dividends paid	-	-	-	(591)	(591)
Movements in respect of purchase of own shares	(5)	-	5	(832)	(832)
At 31 December 2006	124	628	12	1,375	2,139
Profit for year*	-	-	-	1,207	1,207
Dividend in specie received from subsidiary undertakings	-	-	-	285	285
Capital contribution	-	-	-	(285)	(285)
Dividends paid	-	-	-	(672)	(672)
Movements in respect of purchase of own shares	-	-	-	(117)	(117)
At 31 December 2007	124	628	12	1,793	2,557

* Total recognised income and expenses for the period are the same as the profit for the period.

The dividend in specie and capital contribution relate to assets and liabilities transferred from the District group of companies to Maintel Europe Limited, via Maintel Holdings Plc.

Subject to shareholder approval at the forthcoming AGM, it is proposed to pay a final dividend for 2007 of 3.0p per share; this dividend is not provided for in these financial statements.

10 Post balance sheet event

On 16 January 2008, the Company repurchased and cancelled 240,000 of its 1p ordinary shares at 161.5p per share.

Notice is hereby given that the annual general meeting of Maintel Holdings Plc ("the Company") will be held at its offices at 61 Webber Street, London SE1 0RF, on 25 April 2008, at 10.30 am, for the following purposes:

Ordinary business

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

1. To receive and adopt the financial statements of the Company for the year ended 31 December 2007, together with the Report of the directors and the Independent auditors report thereon.
2. To declare and approve the payment of the proposed final dividend of 3.0 pence per ordinary share for the financial year ended 31 December 2007, on 30 April 2008, to shareholders on the register at 28 March 2008.
3. To approve the report of the remuneration committee for the year ended 31 December 2007.
4. To re-elect Mr T T Mason, who retires by rotation, as a director of the Company.
5. To re-elect Mr A J McCaffery, who retires by rotation, as a director of the Company.
6. To re-appoint BDO Stoy Hayward LLP as auditors of the Company to hold office from the conclusion of the meeting to the conclusion of the next meeting at which accounts are laid before the Company, and to authorise the directors to agree their remuneration.

Special business

Ordinary resolution

7. That the directors be and are hereby generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 (as amended) ("the Act") to exercise all powers of the Company to allot and to make offers or agreements to allot relevant securities (as defined in Section 80 (2) of the Act) up to a maximum aggregate nominal amount of £40,489, provided that this authority shall expire at the conclusion of the next annual general meeting of the Company or 15 months after the passing of this resolution (if earlier) unless renewed or extended prior to such time, except that the Company may before such expiry make an offer or agreement which would or might require the relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired. This authority is in substitution for all subsisting authorities to the extent unused.

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

Special resolutions

8. That, subject to the passing of the previous resolution, the directors be and are hereby empowered pursuant to Section 95 of the Act to allot equity securities as defined in Section 94 of the Act for cash as if Section 89 (1) of the Act did not apply to any such allotment, provided that this power shall be limited:

   (a) to the allotment of equity securities in connection with a rights issue or other pre-emptive issue in favour of shareholders; and

   (b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal value of £12,146.

   This power shall expire at the conclusion of the next annual general meeting of the Company or 15 months after the passing of this resolution (if earlier) unless renewed or extended prior to such time except that the Company may before such expiry make an offer or agreement which would or might require the relevant securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

9. That the Company is, pursuant to Section 166 of the Act, hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 163 (3) of the Act) of up to a maximum of 1,820,805 ordinary shares of 1p each in its capital (representing 14.99% of the Company's current issued ordinary share capital), provided that:

   (a) the minimum price, exclusive of any expenses, which may be paid for an ordinary share is 1p;

   (b) the maximum price, exclusive of any expenses, which may be paid for each ordinary share is not more than 5% above the average published market value for an ordinary share as derived from the London Stock Exchange Alternative Investment Market for the five business days immediately preceding the day on which such share is contracted to be purchased; and

   (c) the authority shall expire at the conclusion of the next annual general meeting of the Company or 15 months after the passing of this resolution (if earlier), except in relation to the purchase of any ordinary shares the contract for which was concluded before the date of expiry of the authority and which would or might be completed wholly or partly after such date.

By order of the Board

W D Todd
Company Secretary
31 March 2008

Registered office
61 Webber St
London SE1 0RF

Notes

1. A member entitled to attend and vote at the meeting may appoint one or more proxies to attend, speak and vote at the meeting. A proxy need not be a member of the Company. Appointment of a proxy will not preclude a member from attending and voting at the meeting. A form of proxy is enclosed which you are invited to complete and return. To be effective, it must be completed and be received at the offices of the Company's Registrar not later than 48 hours before the time fixed for the meeting.
2. The Company, pursuant to Regulation 41 of the Uncertified Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the Company as at close of business on 23 April 2008, shall be entitled to attend or vote at the aforesaid general meeting in respect of the number of shares registered in their name at that time (or in the event that the meeting is adjourned, 48 hours before the time of the adjourned meeting). Changes to entries on the relevant register of securities after close of business on 23 April 2008 shall be disregarded in determining the rights of any person to attend and vote at the meeting.
3. During the period from the date of the notice until the date of the meeting, there will be available for inspection at the registered office of the Company during normal business hours on any weekday (Saturdays and bank holidays excepted) and at the place and on the date of the meeting for 15 minutes prior to and until completion of the meeting (a) copies of all directors' service contracts; and (b) particulars of transactions of the directors and their families in the shares of the company up to and including the date of this notice.