maintel

Annual Report
& Accounts
Maintel Holdings Plc

2012

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Directors, Company details and advisers

Directors

J D S Booth	Chairman, Non-Executive Director
E Buxton	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 LLP, 55 Baker Street, London W1U 7EU

Nominated broker and nominated adviser

finnCap Limited, 60 New Broad Street, London EC2M 1JJ

Registrars

Computershare Investor Services PLC, The Pavilions,
Bridgwater Road, Bristol BS99 6ZY

Tel: 0870 707 1182

Chairman's statement

I am happy to report that Maintel grew its revenues by 9% in 2012 to £28.2m (2011- £25.9m) resulting in a 26% increase in adjusted profits to £4.97m (2011 - £3.95m) which equates to adjusted earnings per share of 35.1p, a 28% increase on the previous year's figure of 27.5p. Our recurring revenue grew by 12% to £21.7m and now represents 77% of overall revenues up from 76% at the end of 2011.

Revenues from maintenance and equipment sales had a slow year overall but improved significantly in the second half; the network services division performed very satisfactorily, growing by 11% for the year with gross profits up 14% and margins improving from 28.4% to 28.9%. Our new mobile business, acquired in October 2011, produced in its first full year revenues of £2.94m and has integrated well into the broader business.

As reported in our interim results, the anticipated winding down of two substantial fixed term maintenance contracts caused attrition levels to run at a higher than usual level, especially in the first half. The second half saw this trend improve and a large new business win midway through the year meant that our maintenance base grew slightly at year-end compared with its 8% decline in 2011. We anticipate attrition to return to more modest levels in 2013 and are well positioned to facilitate customers' upgrading their equipment to newer technologies which require less engineering support. This shift has already helped our cost base in the maintenance division and should produce further benefits in 2013. Equipment sales also enjoyed a stronger second half with £3.66m of revenues, up from £2.78m in the first half leaving the year more or less flat with 2011. We entered the new year with good order visibility for equipment sales.

Maintel Mobile has performed satisfactorily and seen a pleasing rate of post-acquisition customer renewals. We were gratified to be awarded Platinum Dealer status by Vodafone in July. The cross selling opportunities that we expected in adding a mobile offering have made a promising start and we have actively managed the client base to replace smaller customers using fewer connections with larger, higher revenue customers. For the year the total number of connections managed by the company increased by 4% to 13,859.

Cash generation remained strong, with adjusted net cash flow from operating activities (as described in the Business review) up 48% to £3.678m. We ended the year with £1.9m in cash and no debt, having paid a further £3.3m in consideration for last year's mobile acquisition, Totility Ltd, leaving a final payment of £900,000 which was made at the beginning of 2013. The board proposes a final dividend of 7.3p, bringing the total payable for the year to 13.6p (2011: 6.0p and 10.6p), which will be paid on 25 April to shareholders on the register on 22 March.

We enter the new year optimistic that the economic environment will allow modest organic growth and vigilant for sensibly priced acquisitions that would add to our business.

I am grateful to all my colleagues for their hard work and enthusiasm that has contributed to Maintel's success in the past year and thank our shareholders for their continuing support.

J D S Booth
Chairman
8 March 2013

Business review

Results

Against a challenging market backdrop, 2012 has been another successful year for Maintel, with adjusted profits (as described below) of £4.970m (2011 – £3.946m), an increase of 26%, with a consequent increase in adjusted EPS of 28% to 35.1p (2011 – 27.5p).

Unadjusted profits were £1.405m in the year (2011 – £3.084m) and unadjusted EPS 3.4p (2011 – 20.0p), the main difference between the two figures being the expensing under accounting standards of contingent consideration payments relating to the acquisition of the mobile division in October 2011, together with the regular amortisation of intangible assets.

Revenue increased by 9% over the previous year to £28.2m (2011 – £25.9m) with a strong showing from the mobile and network services divisions more than compensating for the slower year experienced by the maintenance and equipment division. With the inclusion of a full year's revenue from the mobile division, total recurring revenue (maintenance, network services and mobile) increased by 12% in the year to £21.7m (77% of total revenues; 2011 – 76%). Excluding the impact of the acquisition of the mobile division, the Group returned to healthy levels of year-on-year organic revenue growth in H2.

The Group's cash flows remained strong, with significant growth in adjusted (as described on page 9) net cash flows from operating activities of £3.678m (2011 - £2.488m) in the period, aided by the growth in profits and strong working capital control. The Group ended the year with net cash of £1.941m despite a payment of £2.3m during the year to the vendors of the mobile division by way of contingent consideration.

	H1 2012 £000	H2 2012 £000	2012 £000	2011 £000	Increase/ (decrease)
Revenue	13,490	14,681	**28,171**	25,914	9%
Profit before tax	195	1,210	**1,405**	3,084	(54)%
Add back customer relationship intangibles amortisation	370	361	**731**	491	
Contingent consideration re Maintel Mobile treated as remuneration (note 11)	1,789	1,045	**2,834**	366	
Non-trading accounting adjustments re Redstone acquisition	-	-	**-**	(141)	
Adjustment to Redstone contingent consideration	-	-	**-**	67	
Costs relating to the acquisition of Maintel Mobile	-	-	**-**	79	
Adjusted profit before tax	2,354	2,616	**4,970**	3,946	26%
Basic earnings per share	(2.8)p	6.2p	**3.4p**	20.0p	(83)%
Diluted	(2.8)p	6.2p	**3.4p**	19.9p	(83)%
Adjusted earnings per share*	16.6p	18.5p	**35.1p**	27.5p	28%
Diluted	16.4p	18.3p	**34.7p**	27.4p	27%

* Adjusted profit after tax divided by weighted average number of shares (note 10).

Results (continued)

Revenue analysis (£000)	2012	2011	Increase/ (decrease)
Maintenance related	12,246	12,948	(5)%
Equipment, installations and other	6,435	6,492	(1)%
Total maintenance and equipment division	**18,681**	19,440	(4)%
Network services division	**6,730**	6,036	11%
Mobile division	**2,941**	601	n/a*
Intercompany	(181)	(163)	
Total Maintel Group	**28,171**	25,914	9%

* 2011 is for approximately 10 weeks only

Divisional performance is described further below.

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, both to our direct clients and into our partner customers.

The division's revenues recovered strongly in H2 to record only a 4% reduction in the year with a reduction in maintenance related revenue of 5% and in equipment sales by 1%. In the second half, equipment revenues in particular saw a strong rebound on H1 levels.

Maintenance
As highlighted previously, we saw two large short-term contracts wind down during the year so that the revenue associated with those customers was negligible by the end of 2012. In addition, and as noted at the half year, we saw higher than usual customer attrition in H1, which was largely compensated by the winning of a major long-term contract that commenced 1 June and saw the year end maintenance base increase to £12.3m compared with £12.2m at the start of the year. This temporary dip in the base in H1 and the reduction in the base in 2011 (from £13.2m at the start of the year to £12.2m at the end) resulted in the lower maintenance revenue in the year. Although we expect to lose a further two larger maintenance contracts in 2013 as the customers transition to alternative technology, we expect customer attrition levels to be materially improved versus the levels we experienced in 2012.

During 2012 we have seen a planned and significant shift by some larger customers from legacy PBX maintenance to the newer IP based technology maintenance with the awarding of four enterprise customer network contracts which include multi-media contact centre contracts and data. This is a trend we expect to continue into 2013.

Equipment sales
Equipment revenues decreased by 1% to £6.435m (2011 - £6.492m). After a weaker H1 sales performance, H2 saw a significant rebound with revenue of £3.657m (H1 2012 - £2.778m) during the period.

In line with general sector trends, we have seen some lengthening of sales cycles in the enterprise and public sectors. Despite this, with a strong pipeline of orders signed but not completed, we are entering 2013 with good levels of visibility for this division.

We have been awarded projects to consolidate and transform the communications infrastructure of two major public sector organisations and a hosted IP PBX contract utilising the latest virtualised server technology for a large multi-site commercial enterprise. Our consultancy and professional services work remains strong as our partner business continues to prosper.

The marginal increase in the sales and customer service headcount across the division shown below has arisen from an enhancement of the sales resource and an increase in customer service personnel to ensure adequate service is provided on some new contracts with higher service level agreements than normal. The reduction in average engineer headcount is partly due to (i) a review undertaken in July 2011 resulting in H2 2011 redundancies, (ii) redundancies of resident engineers associated with the previously mentioned large short-term contracts that were lost during the year (iii) the increase in remote fault fix levels (where no engineer is required on site) as new technology is rolled out to our customer base improving engineer utilisation.

Headcount	Average 2012	Average 2011*	At 31 December 2012
Sales and customer service	53	52	**55**
Engineers	90	97	**87**

* excluding redundant Redstone employees

	2012	2011	Decrease
Division gross profit (£000)	**7,017 (38%)**	7,063 (36%)	(1)%

Margin for the maintenance and equipment division as a whole increased from 36.3% to 37.6%, with the headcount reductions and the business mix both playing their parts in this improvement.

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 management figures are used to monitor constituent elements internally.

Network services division

The network services division sells a portfolio of services which includes telephone line rental, inbound and outbound telephone calls, data connectivity, internet access and hosted IP telephony solutions. These services complement those offered by the maintenance and equipment division.

Revenue analysis (£000)	2012	2011	Increase/ (decrease)
Call traffic	**2,656**	2,613	2%
Line rental	**2,979**	2,457	21%
Data services	**799**	660	21%
Other	**296**	306	(3)%
Total network services	**6,730**	6,036	11%

	2012	2011	Increase
Division gross profit (£000)	**1,945 (29%)**	1,713 (28%)	14%

Bucking the overall market trend, the Group has continued to see strong growth in its network services division. With further growth in H2, the division's revenue increased by £694,000, or 11%, in the year. The second half benefited from the signing of a large contract for both call traffic and leased line rental revenue and this should continue to benefit revenues in 2013.

Call minutes billed increased year on year, and despite continued pressure on rates including the reduction in mobile termination rates, overall call revenue also increased slightly. Within this call revenue figure, new business growth was strong and there were very low levels of attrition during the period, with no major customers terminating in the year. The trends of previous years continued, with a healthy increase in line rental revenues and the growth in data connectivity revenues, which delivered a 21% increase year on year and now constitute 12% of the division's total revenue.

With call rates continuing to fall, the strategic shift towards providing customers with data connectivity, VoIP services and inbound call services continues to be a focus for the division and 2012 showed significant progress being made in these areas. The focus here has been on IP based telephony, particularly SIP (Session Initiation Protocol) and our growing base of line rental customers which enables the transition from older PBX technology to hosted and other SIP technologies.

Network services division (continued)

We have seen an increase in the number of new customers taking multiple products and existing customers being cross sold network services, particularly in the new SIP technology including a large charity and two established customers in the education sector.

Overall divisional gross margin increased from 28.4% to 28.9% during the year, through tight cost control and margin management particularly on the call traffic side of the business.

Mobile division

Maintel Mobile (the rebranded Totility acquisition) derives its revenues primarily from commissions received under its dealer agreements with Vodafone and O2, supplemented by revenue derived from ongoing customer monthly spend, with approximately 83% of connections at the end of 2012 under the Vodafone agreement and 17% under the O2 agreement.

Since it was acquired in October 2011, the mobile division has performed well. The focus in the period since acquisition has been on renewing existing customer contracts for the medium-term, whilst signing new customers where these have presented themselves, including a range of cross-sells to existing Maintel customers. One major cross sell during the year added over 600 connections to the base on its own. Further success during the period came with Maintel Mobile being awarded the highest dealer status – Platinum – by Vodafone, and the division's largest O2 customer renewing its contract.

At 31 December 2012, the mobile division managed 13,859 (2011 - est13,387) connections, an increase of 472 (4%) in the period. Whilst the number of customers has decreased year on year, this merely reflects the loss of some smaller customers with fewer connections on the managed base being replaced by larger, higher revenue customers with a greater number of total connections.

The results of the mobile division since acquisition have been as follows:

£000	2012	21 October to 31 December 2011
Revenue	**2,941**	601
Gross profit	**1,602 (54%)**	316 (53%)

	At 31 December 2012	At 31 December 2011	Increase/ (decrease)
Number of customers	**1,042**	1,164	(10)%
Number of connections	**13,859**	13,387	4%

In common with changes to terms with some of its other principal partners, one of the division's suppliers has announced that it plans to change its commercial arrangements such that commissions on new and re-signed connections are no longer to be received up front, to be replaced by anticipated higher commission levels spread over the lifetime of the customer contract. No firm date has been set for the new terms to take effect. Whilst in the near term such a change would impact short term revenues, profits and cash flow, over the course of the customer's lifetime it is anticipated that these changes would be more profitable to the Group.

As reported previously, the Group acquired 100% of the share capital of Totility Limited (since renamed Maintel Mobile Limited), a specialist UK mobile telecoms provider, on 21 October 2011, for an initial consideration of £2.8m and a further consideration of £1.0m representing the net asset value of the company at the date of acquisition, with further consideration of up to £4.0m payable dependent on its performance in the 12 months post-acquisition. In order to allow greater flexibility in Maintel Mobile's commercial and operational dealings outside of the parameters set by the sale and purchase agreement, the Board concluded that an advance agreement of the amount due in respect of the additional consideration would be in the best interests of the Group and consequently agreed with the vendors a total additional consideration payment of £3.1m, of which £2.2m was paid on 31 October 2012 and £0.9m on 3 January 2013. Separately, a further payment of £0.1m was made on 10 July 2012 to the vendors under the terms of the sale and purchase agreement. As a result, the total consideration payable for the company was £7.0m including the net assets. Further details of the acquisition are shown in note 11 to the accounts.

The additional payment of £3.2m referred to above was conditional on the continued employment of one of the vendors of Maintel Mobile until 20 October 2012. Under IFRS3 (Revised) this amount is charged to the income statement over the earnout period as employee costs, rather than being treated as deferred consideration on acquisition, with a consequent charge to the income statement of £2.834m in the period and £366,000 in 2011.

Administrative expenses, excluding intangibles amortisation and non-trading adjustments

Administrative expenses (£000)	2012	2011	Increase
Sales expenses	**2,606**	2,354	11%
Other administrative expenses (excluding intangibles amortisation, adjustment to acquisition consideration and accrued acquisition consideration)	**2,837**	2,612	9%
Total other administrative expenses	**5,443**	4,966	10%

Total other administrative expenses increased by £477,000 in the year, with a full year of Maintel Mobile costs being incurred, against approximately 10 weeks in 2011. Other than this, administrative costs remained under tight control, with the main movement from 2011 relating to the legal fees incurred in that year in respect of the acquisition of Maintel Mobile.

Impairment and amortisation charges are discussed below.

The table below shows relevant headcount in relation to revenue.

	2012	2011*	Increase
Average Group headcount during the period	**182**	181	1%
Average sales and service headcount	**69**	61	13%
Average corporate and admin headcount	**23**	23	-%
Group revenue (£000)	**28,171**	25,914	9%

* headcount figures exclude redundant Redstone employees in Q1 2011

Sales and service headcount has increased primarily due to the inclusion of Maintel Mobile employees for a full year and the enhancement of the sales resource and customer service personnel referred to earlier.

Interest

Net interest receivable reduced from £23,000 to £9,000 in 2012, with average cash balances being lower in 2012 due to the initial payment in respect of the Maintel Mobile acquisition in October 2011 and the subsequent earnout payment in October 2012, combined with the continuing low rates of interest achievable from acceptable financial institutions.

Taxation

The consolidated statement of comprehensive income shows a tax rate of 74% (2011 – 32%). Each of the Group companies is taxed at 24.5% (2011 – 26.5%, with the exception of Maintel Mobile which was taxed at 26%). Certain recurring expenses that are disallowable for tax raise the effective rate above this. The rate is also inflated in the year by the adjustment for the £2.834m contingent consideration relating to the Maintel Mobile acquisition; excluding this the tax rate would be 24.6%. In 2011 the rate was inflated by (a) the £67,000 adjustment to the Redstone consideration, (b) the £366,000 contingent consideration relating to the Maintel Mobile acquisition, and (c) the £79,000 costs of the Maintel Mobile acquisition not being tax-relievable, together with a proportion of the amortisation of the intangible relating to the District customer relationships.

Dividends

A final dividend for 2011 of 6.0p per share (£640,000 in total) was paid on 26 April 2012, and an interim dividend for 2012 of 6.3p (£672,000) was paid on 5 October 2012.

It is proposed to pay a final dividend of 7.3p in respect of 2012 on 25 April to shareholders on the register at the close of business on 22 March, representing a 22% increase on the 2011 final dividend. The corresponding ex-dividend date will be 20 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 as at 31 December 2012.

Consolidated statement of financial position

The consolidated statement of financial position remains sound, with £1.941m of cash (£900,000 of this payable to the Maintel Mobile vendors on 3 January 2013 as described above) and no debt at 31 December 2012.

Adjusted net cash flows from operating activities grew significantly year on year, to £3.678m in 2012 (2011 - £2.488m) and cash at the year end amounted to £1.941m (2011 - £2.953m). Cash flow movements are described later in the business review.

Trade receivables have increased by £1.500m over the year, the main reason being the increased volume of business being conducted with a partner typically on 60 day credit terms. Prepayments have increased by £288,000 due largely to an increase in prepaid third party support contracts and accrued income relating to equipment installations spanning the year end of which there were more than in previous years.

The value of maintenance stock has reduced by £14,000 in the year, to £578,000, the net result of purchases, disposals and provisioning. The value of stock held for resale has fallen from £130,000 to £114,000 reflecting different stages of invoicing and completion of the increased level of cross-period installations year to year.

Trade payables have increased by £1.332m since 31 December 2011, aided by delayed payments to three suppliers and higher payables due to the increased Q4 equipment sales levels. Other tax and social security liability has increased by £98,000 largely due to the VAT liability on the higher Q4 invoicing than in 2011.

Accruals have fallen £506,000 year on year, with two prior year accruals associated with the Maintel Mobile acquisition – the £986,000 payment for net assets and the £366,000 accrual for contingent consideration – having been paid during the year. This more than exceeds the new accruals for the final £900,000 contingent consideration paid on 3 January 2013 having been established at 31 December 2012.

Deferred maintenance income has increased by £286,000, due mainly to the invoicing in mid-December of two larger new contracts.

The Group corporation tax liability reduced by £343,000 year on year, to £665,000, with the payment during the year of the accrued Maintel Mobile liability, that company previously not having to make payments on account.

No significant expenditure has been required on plant and equipment during the period, with additions again broadly matching depreciation, the main expenditure having been on IT and routine office refurbishment.

Intangible assets

The Group has three intangible assets – (i) goodwill relating to the acquisition of Maintel Network Services Limited, (ii) an intangible asset represented by customer contracts and relationships acquired from District Holdings Limited, Callmaster Limited, Redstone and Maintel Mobile, (iii) goodwill relating to the District, Redstone and Maintel Mobile acquisitions. At 31 December 2011, a fourth intangible asset was recognised, being a licence for billing software which is now fully amortised; the software is now rented and is consequently treated as an operating lease.

Goodwill of £1.026m (2011 - £1.026m) is carried in the consolidated statement of financial position, which is subject to an impairment test at each reporting date. No impairment has been charged to the consolidated statement of comprehensive income in 2012 (2011 - £Nil).

The intangible assets represented by purchased customer contracts and relationships were valued at £3.489m at 31 December 2012 (2011 - £4.220m). These are subject to an amortisation charge of 17-20% of cost per annum in respect of maintenance contract relationships, and 14.2% per annum in respect of network services contracts and Maintel Mobile customer relationships, with £731,000 being amortised in 2012 (2011 - £491,000), the increase attributable to the Maintel Mobile customer relationships acquired in October 2011.

The billing software licence was amortised over a three year period. The amortisation charge in the period was £11,000 (2011 - £32,000), leaving a carrying value of £Nil (2011 - £11,000) at year end.

Cash flow

At 31 December 2012 the Group had cash and bank balances of £1.941m (2011 - £2.953m), unrestricted other than £900,000 of this, representing the final payment due, on 3 January 2013, in respect of the acquisition of Maintel Mobile.

Adjusted cash generated from operating activities before tax grew significantly in the year to £5.180m (2012 – £3.314m), with £1.312m paid in dividends, £1.502m in corporation tax, and £3.286m on the Maintel Mobile acquisition and a net overall outflow of £1.012m in the year.

£2.3m was paid during the year in respect of contingent consideration relating to the acquisition of Maintel Mobile and under accounting rules this has been expensed in the income statement. To arrive at a more meaningful measure of cash generated from operating activities, in the Chairman's statement and Business review this has been added back to the cash flows shown in the statement of cash flows as follows:

	Unadjusted	Adjusted
Cash generated from operating activities	£2.880m	£5.180m
Net cash flows from operating activities	£1.378m	£3.678m

The Group has no debt and invests its surplus cash with mainstream banking organisations.

The Group established a revolving credit facility of £1.5m in October 2011 with J D S Booth, the Group's chairman, however no monies have been drawn against this. Any amounts drawn would be unsecured, carry an interest rate of 6.5 per cent and be repayable by 30 June 2013.

Outlook

Whilst we do not expect the challenging market conditions to abate in the short term, we have made good progress during the year with the integration of mobile into our service offering and moving our business to newer technologies. Alongside the recovery in H2 revenues and our return to organic growth during this period, we are cautiously optimistic about the year ahead.

Through the strengthening of our sales resource we are well placed to continue to take advantage of our strategy to realise the cross selling opportunity into our existing customer base. In addition, our partner business continues to expand and is now well balanced across a number of major partners and technologies.

We remain alert and well positioned to consider further acquisitions in a market that we anticipate will see further consolidation in 2013.

E Buxton
Chief Executive
8 March 2013

Board of directors

John Booth, 52
Non-executive chairman

John was appointed chairman of Maintel in 1996. He is also chairman of Integrated Asset Management plc and Jazz FM. He acts as a non-executive director of several other private companies and as a consultant to Herald Venture Partners. John's career has been spent in equity investment and broking where he has held various senior positions including Head of Equities at Bankers Trust and co-founder and executive chairman until 2011 of the Link Group which was acquired by ICAP plc in 2008.

Eddie Buxton, 52
Chief Executive

Eddie was appointed chief executive in February 2009, having previously been managing director of the telecoms division of Redstone plc. Eddie has worked in telecoms since 1995 including senior roles with Cable and Wireless, NTL and Centrica Telecommunications.

Angus McCaffery, 46
Sales and marketing director

Angus has over 20 years experience in the telecommunications market, and co-founded Maintel Europe in 1991, being appointed sales director of Maintel Holdings in 1996. His role with the Group has been to develop its sales, marketing and product strategy.

Dale Todd, 54
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, 46
Non-executive director

Nicholas has extensive experience of working with growing organisations, in both an executive and non-executive capacity, principally in the media and communications industries. He has held senior positions in both private and public businesses and in the not for profit sector. He is currently Managing Director of The Imaginarium, an independent film studio, and non-executive Chairman of Linstock Communications, a public relations consultancy.

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 UK Corporate Governance 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 seek a further non-executive director at this stage.

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 Eddie Buxton is Chief Executive, Angus McCaffery is Sales and Marketing Director and Dale Todd is Finance Director.

The directors' biographies on page 10 demonstrate the range and depth of experience they bring to the Group.

The board meets regularly, normally monthly, and both reviews operations and assesses future strategy for the three 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 Dale Todd retires by rotation at the forthcoming annual general meeting and he offers himself for re-election at the 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. Eddie Buxton, Angus McCaffery 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.

BDO LLP is retained to perform audit and audit-related work for the Group. The committee monitors the nature and extent of non-audit work undertaken by the auditors, including reviewing the letter of independence provided by the auditors annually which includes details of audit and non-audit work undertaken. The committee is satisfied that there are adequate controls in place to ensure auditor independence and objectivity. Details of audit and non-audit fees for the period under review are shown in note 6 of the financial statements.

Remuneration committee

The remuneration committee is chaired by Nicholas Taylor, its other member being John Booth. The committee meets at least once in respect of each financial year. The committee's report to shareholders on directors' remuneration is set out on page 14.

Nomination committee

The nomination committee had two members during 2012, both non-executive, being John Booth, chairman, and Nicholas Taylor. The committee meets as required under the terms of its remit, which includes:

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

Board attendances

The following table shows attendance of the directors at meetings of the Board and the Remuneration and Audit Committees during the year.

	Number of meetings in the year	J Booth	E Buxton	A McCaffery	N Taylor	D Todd
Board	15	14	15	15	14	14
Audit committee	2	1	2	1	2	2
Remuneration committee	2	2	-	-	2	-

Relationship with shareholders

The chairman's statement and the Business review on pages 2 to 9 include a detailed review of the business and future developments.

In addition to regular financial reporting, significant matters relating to trading or development of the business are released to the market by way of Stock Exchange announcements as required.

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 on page 48.

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 is 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. The Group's approach to financial risk management is further explained in note 17 to the financial statements.

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

The Group's business activities, together with factors likely to affect its future development, performance and position, the financial position of the Group and its cash flows are set out in the Business review on pages 3 to 9.

The Group has sound financial resources, including a revolving credit facility to 30 June 2013 with a director, Mr Booth, for up to £1.5m, and a substantial level of recurring revenue across a range of sectors and as a consequence and after making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Report of the Remuneration committee

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, and has access to professional and other advice external to the Group. Taking these factors into account, it 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 up to four 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 2013 with increases of 1.5% being awarded.

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.

(c) Bonus

The executive directors are eligible to receive bonuses, dependant on Group profitability and other performance criteria.

(d) Share options

Eddie Buxton and Dale Todd have been granted share options, details of which are shown below.

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 agreed 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

The remuneration of the directors in office at 31 December 2012 was as follows:

	Salaries/ fees £000	**Benefits £000**	**Bonus £000**	**Pension contributions £000**	**Total 2012 [1] £000**	**Total 2011 [1,2] £000**
J D S Booth	34	-	-	-	34	33
N J Taylor	20	-	-	-	20	20
E Buxton	138	12	35	4	189	188
A J McCaffery	158	19	12	4	193	187
W D Todd	140	12	18	-	170	178
	490	**43**	**65**	**8**	**606**	**606**

(1) Excluding social security costs in respect of the above amounting to £78,000 (2011 - £74,000).
(2) Including bonuses of £82,000, employer pension contributions of £8,000 and benefits of £42,000, so that salaries amounted to £474,000.

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 16.

Share options

On 18 May 2009 the directors of the Company approved the adoption of the Maintel Holdings Plc 2009 Option Plan.

On the same date, the directors granted to Eddie Buxton, the Company's Chief Executive Officer:

(a) an option over 53,909 shares, which has vested, with an exercise price of £1.00 per share.

(b) an option over the number of shares (if any, and to a maximum 107,818) that Mr Buxton acquired in the market during the first year of his employment with the Company. Mr Buxton acquired no shares during the requisite period and so this option lapsed during 2010.

(c) an option over 107,818 shares, which has vested, with an exercise price of £2.00 per share.

(d) an option over 107,818 shares, which vested on 3 January 2012, with an exercise price of £3.00 per share.

In each case, the option expires on 18 May 2019.

On 10 September 2009 the directors granted to Dale Todd, the Company's Finance Director, an option over 10,000 shares, with an exercise price of 150.5p per share. The option vested and may be exercised from the date of grant, and expires on 10 September 2019.

On 23 December 2009 the directors granted to Dale Todd an option over a further 10,000 shares, with an exercise price of 145p per share. Mr Todd exercised this option on 25 May 2012.

On 11 March 2011 the directors granted to Dale Todd an option over a further 10,000 shares, with an exercise price of 200p per share. The option vested and may be exercised from the date of grant, and expires on 11 March 2021.

On 21 December 2011 the directors granted to Dale Todd an option over a further 20,000 shares, with an exercise price of 265p per share. The option vested and may be exercised from the date of grant, and expires on 21 December 2021.

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year:

	2012 Number of options	**2012 WAEP**	**2011 Number of options**	**2011 WAEP**
Outstanding at the beginning of the year	**319,545**	**218p**	289,545	215p
Granted during the year	-	-	30,000	243p
Exercised during the year	**(10,000)**	**145p**	-	-
Outstanding at the end of the year	**309,545**	**220p**	319,545	218p

The Company's mid-market share price at 31 December 2012 was 342.5p per share, and the high and low prices during the year were 431p and 302.5p respectively.

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 8 March 2013.

N J Taylor
Chairman of the Remuneration committee

Report of the directors for the year ended 31 December 2012

The directors present their annual report together with the audited financial statements for the year ended 31 December 2012.

Principal activities

The principal activities of the Group are the provision of contracted maintenance services, the sale and installation of telecommunications systems and the provision of fixed line, mobile and data telecommunications services, predominantly to the enterprise business sector.

Results and dividends

The consolidated statement of comprehensive income is set out on page 21 and shows the profit of the Group for the year.

During the year the Company paid a final dividend of 6.0p per ordinary share in respect of the 2011 financial year, amounting to £640,000 (2011 – 4.6p, amounting to £482,000), and an interim dividend in respect of 2012 of 6.3p per share, amounting to £672,000 (2011 – 4.6p and £483,000 respectively). The directors propose the payment of a final dividend in respect of 2012 of 7.3p per share. The cost of the proposed dividend, based on the number of shares in issue as at 8 March 2013, is £779,000.

Business review

A review of the business and future developments of the Group is set out in the Business review on pages 3 to 9.

Directors

The directors of the Company as at 31 December 2012 and their interests in the ordinary shares of the Company at that date were as follows:

Number of 1p ordinary shares

	2012 Beneficial	2012 Non-beneficial	2011 Beneficial	2011 Non-beneficial
J D S Booth	2,758,272	-	2,757,672	-
E Buxton	3,204	76,202	2,759	71,363
A J McCaffery	2,053,845	-	2,168,310	-
N J Taylor	14,062	72,344	13,499	67,623
W D Todd	16,157	73,249	5,622	68,500

J D S Booth is a shareholder in Herald Investment Trust plc which holds 760,000 1p ordinary shares in the Company; this is in addition to Mr Booth's beneficial holding above.

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

Since the year end, the Share Incentive Plan has purchased a net 1,821 shares in total. There were no other changes in the directors' shareholdings between 31 December 2012 and 8 March 2013.

Details of the changes in the Company's share capital during the year are given in note 19.

Substantial shareholders

In addition to the directors' shareholdings, at 8 March 2013 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	1,573,100	14.7%
Herald Investment Trust plc	760,000	7.1%
Octopus Investments Limited	631,920	5.9%
Marlborough Special Situations Fund	532,500	5.0%
T Wat	340,203	3.2%
Alliance Trust Plc	325,575	3.1%

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 the 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 and packaging waste and using specialist recyclers of scrap telecommunications and IT equipment. Maintel Europe Limited has ISO 14001:2004 accreditation for its environmental management systems.

Share capital

10,000 shares were issued during the year on the exercise of an option by Mr Todd.

No shares were repurchased during the year. The existing authority for the repurchase of the Company's shares is for the purchase of up to 1,598,620 shares. A fresh authority, for the purchase of up to 1,600,119 shares, will be sought at the forthcoming annual general meeting.

Financial instruments

Details of the use of financial instruments by the Group are contained in note 17 of the financial statements.

Donations

The Group made charitable contributions of £1,000 (2011 – £1,000) during the year. No contributions were made to political organisations (2011 - £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 2012 was 57 days (2011 – 26 days). The Company's average creditor payment period at 31 December 2012 was 3 days (2011 – 13 days), these figures being due to the irregular nature of the Company's creditor payments.

Principal risks and uncertainties

The directors consider that the principal risks to the Group relate to technological advance, marketplace relationships and pricing strategies, and the ongoing implications of the current economic environment.

Principal risks and uncertainties (continued)

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 sells and maintains the replacement breed of telephone system (IPPBX), and has had notable success with the transition to date. Maintenance income from the new technology can be reduced when compared to traditional telephony although every effort is made to counter this effect through reduced costs in delivering our service, retaining the resultant enhanced calls and lines revenue and up-selling high value new products such as network monitoring, software assurance and mobile services.

VoIP technology is a potential threat to the reselling of call minutes with a particular type of customer. Recognising this potential risk, the Group has expanded its product portfolio to include SIP trunking and hosted IP technology. In addition line rental and data revenues have continued to grow significantly during 2012. 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 these changes and the resultant effect on margins closely and take action where appropriate.

The Group has a close partner relationship with O2/Telefonica (and to a diminishing extent Cable & Wireless Worldwide), such that these companies constitutes a significant share of its maintenance base. Should the relationships be terminated, the maintenance base would reduce to that extent over time, necessitating a commensurate reduction in costs. Partnerships with other integrators have been developed which have begun to reduce the percentage weighting.

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 the rate and causes of churn and implement strategies with the objective of minimising attrition and growing the customer base organically and by way of acquisition if cost effective.

Maintel Mobile is a dealer for its suppliers, primarily Vodafone and O2, and is reliant on its contracts with those companies. The Vodafone contract is for a term expiring, in normal circumstances, in August 2013 and the O2 contract currently has no committed term. The company maintains strong relationships with its suppliers at various levels of the business, as well as paying close attention to ensuring their expectations are met and, where possible, exceeded.

Although a significant element of Maintel Mobile's revenues is recurring, the company's growth has been reliant on certain key individuals for their supplier and customer relationships and for their knowledge of the business. The company has sought to mitigate this risk by improving its employees' remuneration packages and extending the knowledge of the business across employees of other companies in the Maintel group.

The pricing of Maintel Mobile's products and services can be affected by regulatory bodies in the UK and the EU. The company is also potentially subject to new pricing strategies by both competitors and suppliers, whether due to their own internal policies or in response to technological change. The company mitigates these risks by assessing anticipated regulations and pricing strategies and amending its own pricing policies accordingly.

Annual General Meeting

The Annual General Meeting of the company will be held at its offices on 22 April 2013 at 2.30pm.

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 LLP as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

E Buxton
Director
8 March 2013

Statement of directors' responsibilities

Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company'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 Company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Independent auditors' report to the shareholders of Maintel Holdings Plc

We have audited the financial statements of Maintel Holdings Plc for the year ended 31 December 2012 which comprise the consolidated statement of financial position and company balance sheet, the consolidated statement of comprehensive income, the consolidated statement of cash flows, the consolidated statement of changes in equity and the related notes. The financial reporting framework that has been applied in the preparation of the consolidated financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2012 and of the group's profit for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company's financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Anthony Perkins (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London
8 March 2013

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated statement of comprehensive income
for the year ended 31 December 2012

	Note	2012 £000	2011 £000
Revenue	3	**28,171**	25,914
Cost of sales		**17,756**	16,931
Gross profit		**10,415**	8,983
Administrative expenses			
Adjustment to contingent consideration		-	67
Contingent consideration treated as remuneration	11	**2,834**	366
Intangibles amortisation	11	**742**	523
Other administrative expenses		**5,443**	4,966
		9,019	5,922
Operating profit	6	**1,396**	3,061
Financial income	7	**9**	23
Profit before taxation		**1,405**	3,084
Taxation	8	**1,043**	977
Profit and total comprehensive income attributable to owners of the parent		**362**	2,107
Earnings per share			
Basic	10	**3.4p**	20.0p
Diluted	10	**3.4p**	19.9p

The notes on pages 25 to 42 form part of these financial statements.

Consolidated statement of financial position
at 31 December 2012

	Note	2012 £000	2012 £000	2011 £000	2011 £000
Non current assets					
Intangible assets	11		4,515		5,257
Property, plant and equipment	13		216		224
			4,731		**5,481**
Current assets					
Inventories	14	692		722	
Trade and other receivables	15	5,793		4,019	
Cash and cash equivalents		1,941		2,953	
Total current assets			**8,426**		**7,694**
Total assets			**13,157**		**13,175**
Current liabilities					
Trade and other payables	16		9,203		7,827
Current tax liabilities			665		1,008
Total current liabilities			**9,868**		**8,835**
Non current liabilities					
Deferred tax liability	18		581		697
Total net assets			**2,708**		**3,643**
Equity					
Issued share capital	19		107		107
Share premium	20		1,028		1,013
Capital redemption reserve	20		31		31
Retained earnings	20		1,542		2,492
Total equity			**2,708**		**3,643**

The financial statements were approved and authorised for issue by the Board on 8 March 2013 and were signed on its behalf by:

W D Todd
Director

The notes on pages 25 to 42 form part of these financial statements.

Consolidated statement of changes in equity
for the year ended 31 December 2012

	Share capital £000	Share premium £000	Capital redemption reserve £000	Retained earnings £000	Total £000
At 1 January 2011	105	628	31	1,350	2,114
Profit and total comprehensive income for year	-	-	-	2,107	2,107
Dividend	-	-	-	(965)	(965)
Issue of new ordinary shares	2	385	-	-	387
At 31 December 2011	107	1,013	31	2,492	3,643
Profit and total comprehensive income for year	-	-	-	362	362
Dividend	-	-	-	(1,312)	(1,312)
Issue of new ordinary shares	-	15	-	-	15
At 31 December 2012	107	1,028	31	1,542	2,708

The notes on pages 25 to 42 form part of these financial statements.

Consolidated statement of cash flows
for the year ended 31 December 2012

	2012 £000	2011 £000
Operating activities		
Profit before taxation	**1,405**	3,084
Adjustments for:		
Intangibles amortisation	**742**	523
Depreciation charge	**124**	107
Loss on disposal of tangible fixed assets	-	15
Interest received	**(9)**	(23)
Operating cash flows before changes in working capital	**2,262**	3,706
Decrease in inventories	**30**	284
Increase in trade and other receivables	**(1,774)**	(109)
Increase/(decrease) in trade and other payables	**2,362**	(567)
Cash generated from operating activities	**2,880**	3,314
Tax paid	**(1,502)**	(826)
Net cash flows from operating activities	**1,378**	2,488
Investing activities		
Purchase of plant and equipment	**(116)**	(125)
Purchase price in respect of business combination	**(986)**	(2,435)
Net cash acquired with subsidiary undertaking	**-**	1,508
	(986)	(927)
Interest received	**9**	23
Net cash flows from investing activities	**(1,093)**	(1,029)
Financing activities		
Issue of new ordinary shares	**15**	-
Equity dividends paid	**(1,312)**	(965)
Net cash flows from financing activities	**(1,297)**	(965)
Net (decrease)/increase in cash and cash equivalents	**(1,012)**	494
Cash and cash equivalents at start of period	**2,953**	2,459
Cash and cash equivalents at end of period	**1,941**	2,953

The notes on pages 25 to 42 form part of these financial statements

Notes forming part of the financial statements
for the year ended 31 December 2012

1 General information

Maintel Holdings Plc is a public limited company incorporated and domiciled in the UK, whose shares are publicly traded on the Alternative Investment Market (AIM). Its registered office and principal place of business is 61 Webber Street, London SE1 0RF.

2 Accounting policies

The principal policies adopted in the preparation of the consolidated financial statements 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 with those parts of the Companies Act 2006 applicable to companies preparing their accounts in accordance with adopted IFRSs. The Company has elected to prepare its parent company financial statements in accordance with UK GAAP and these are presented on page 43.

(b) 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 statement of comprehensive income and consolidated statement of financial position from the effective date of acquisition. Uniform accounting policies are adopted in each subsidiary for the purposes of consolidation. The results of disposed subsidiaries are included in the statement of comprehensive income 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.

As permitted by IFRS 1, business combinations prior to 1 January 2006 have not been restated under an IFRS basis.

(c) Revenue
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and can be reliably measured.

Revenue represents sales to customers at invoiced amounts and commissions receivable from suppliers, 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 statement of comprehensive income on a straight line basis over the period covered by the invoice. Connection commissions received from mobile network operators are recognised (a) where commission is payable in advance, when the customer contract has been accepted by the network operator and is therefore legally binding, less an allowance for expected future clawbacks, and (b) where commission is payable on a monthly basis, in the month to which commission relates. Interest income is recognised on an accruals basis.

(d) Intangible assets

Goodwill
Goodwill represents the excess of the fair value of the consideration of a business combination over the acquisition date fair value of the identifiable assets, liabilities and contingent liabilities acquired.

For business combinations completed prior to 1 January 2010, the fair value of the consideration comprises the fair value of assets given, plus any direct costs of acquisition.

For business combinations completed on or after 1 January 2010, the fair value of the consideration comprises the fair value of assets given. Contingent consideration is included in cost at its acquisition date fair value and, in the case of contingent consideration classified as a financial liability, remeasured subsequently through profit or loss. For business combinations completed on or after 1 January 2010, direct costs of acquisition are recognised immediately as an expense.

Goodwill is capitalised as an intangible asset and carried at cost with any impairment in carrying value being charged to the consolidated statement of comprehensive income.

Other intangible assets
Intangible assets are stated at cost, or fair value where acquired through a business combination, less accumulated amortisation and consist of customer relationships and software licences, the latter having expired during the year. 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 or six years in respect of maintenance contracts, (ii) seven years in respect of network services and mobile contracts. Software licences are amortised over the three year period of the licence, and were fully amortised and expired during the year.

2 Accounting policies (continued)

(e) Impairment of non-current assets

Impairment tests on goodwill 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 through the consolidated statement of comprehensive income.

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 consolidated statement of comprehensive income and, in respect of goodwill impairments, are never reversed.

(f) Property, plant and equipment

Property, plant and equipment is stated at cost, less accumulated depreciation and any impairment in value. 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:

Office and computer equipment	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) stock held for resale, 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.

(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;
- 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 nor 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 date of the consolidated statement of financial position and are expected to apply when the deferred tax assets/liabilities are recovered/settled.

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.

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 consolidated statement of comprehensive income on a straight-line basis over the term of the lease.

(l) Employee benefits
The Group contributes to a number of defined contribution pension schemes in respect of certain of its employees. The amount charged in the statement of comprehensive income 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.

(m) Dividends
Dividends unpaid at the reporting 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
There are no impending IFRSs that are expected to have a material effect on the Group's financial statements.

(o) Contingent consideration
Where payment of contingent consideration in respect of a business combination or acquisition of business and assets is dependent on the continued employment by the Group of the seller(s), the estimated contingent consideration is pro rated in accordance with the period of employment required of the seller and this amount is expensed in the income statement.

3 Segment information

For management reporting purposes and operationally, the Group consists of three business segments: (i) telephone maintenance and equipment sales, (ii) telephone network services, and (iii) mobile services (this division having been acquired 21 October 2011). Each segment applies its respective resources across inter-related revenue streams which are reviewed by management collectively under these headings. The businesses of each segment and a further analysis of revenue are described under their respective headings in the Business review.

Year ended 31 December 2012	Maintenance and equipment £000	Network services £000	Mobile £000	Central/ inter-company £000	Total £000
Revenue	**18,681**	**6,730**	**2,941**	**(181)**	**28,171**
Operating profit before customer relationship and software intangibles amortisation and adjustments	3,272	983	813	(96)	**4,972**
Customer relationship and software intangibles amortisation	(264)	(59)	-	(419)	**(742)**
Operating profit before adjustments	3,008	924	813	(515)	**4,230**
Contingent consideration treated as remuneration (note 11)	-	-	-	(2,834)	**(2,834)**
Operating profit	**3,008**	**924**	**813**	**(3,349)**	**1,396**
Interest (net)					**9**
Profit before taxation					**1,405**
Taxation					**(1,043)**
Profit and total comprehensive income for the period					**362**

Revenue is wholly attributable to the principal activities of the Group and other than sales of £23,000 (2011 - £20,000) to other EU countries arises predominantly within the United Kingdom.

Maintenance and equipment revenue consists of maintenance related revenue of £12.246m and equipment, installation and other revenue of £6.435m (2011 - £12.948m and £6.492m). Network services revenue consists of call traffic revenue of £2.656m, line rental revenue of £2.979m, data services revenue of £0.799m and other revenue of £0.296m (2011 - £2.613m, £2.457m, £0.660m and £0.306m). Mobile revenue consists principally of commissions receivable from network operators.

Intercompany trading consists of telecommunications services, and recharges of sales, engineering and rent costs, £90,000 (2011 - £48,000) attributable to the Maintenance and equipment segment, £85,000 (2011 - £115,000) to the Network services segment and £6,000 (2011 - £Nil) to the Mobile division.

In 2012 the Group had one customer (2011 - One) which accounted for more than 10% of its revenue, totalling £3.184m (2011 - £5.021m).

The Board does not regularly review the aggregate assets and liabilities of the Company and its subsidiaries and accordingly an analysis of these is not provided.

Year ended 31 December 2012	Maintenance and equipment £000	Network services £000	Mobile £000	Central/ inter-company £000	Total £000
Other					
Capital expenditure	113	-	2	-	**115**
Depreciation	121	-	3	-	**124**
Amortisation	264	59	-	419	**742**

Year ended 31 December 2011	Maintenance and equipment £000	Network services £000	Mobile £000	Central/ inter-company £000	Total £000
Segment revenue before adjustment	19,299	6,036	601	(163)	**25,773**
Redstone deferred income less costs	141	-	-	-	**141**
Revenue	**19,440**	**6,036**	**601**	**(163)**	**25,914**
Operating profit before customer relationship and software intangibles amortisation and adjustments	3,008	793	171	(17)	**3,955**
Customer relationship and software intangibles amortisation	(273)	(80)	-	(170)	**(523)**
Operating profit before adjustments	2,735	713	171	(187)	**3,432**
Adjustment to contingent consideration	-	-	-	(67)	**(67)**
Redstone deferred income less costs	141	-	-	-	**141**
Contingent consideration treated as remuneration (note 11)	-	-	-	(366)	**(366)**
Costs relating to acquisition of Maintel Mobile	-	-	-	(79)	**(79)**
Operating profit	**2,876**	**713**	**171**	**(699)**	**3,061**
Interest (net)					**23**
Profit before taxation					**3,084**
Taxation					**(977)**
Profit and total comprehensive income for the period					**2,107**
Other					
Capital expenditure	125	-	-	-	**125**
Depreciation	106	-	1	-	**107**
Amortisation	273	80	-	170	**523**

4 Employees

The average number of employees, including directors, during the year was:	2012 Number	2011 Number
Corporate and administration	23	23
Sales and customer service	69	61
Technical and engineering	90	97
	182	**181**

Staff costs, including directors, consist of:	2012 £000	2011 £000
Wages and salaries	8,698	8,529
Social security costs	1,031	998
Pension costs	150	152
	9,879	**9,679**

In addition to the above, the comprehensive income statement includes £2.834m of contingent consideration in respect of the Maintel Mobile acquisition which is treated as a remuneration expense (2011 - £366,000) (see note 11).

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. Pension contributions totalling £25,000 (2011 - £26,000) were payable to the schemes at the year end and are included in other payables.

5 Directors' remuneration

The remuneration of the Company directors was as follows:	2012 £000	2011 £000
Directors' emoluments	598	598
Pension contributions	8	8
	606	**606**
Included in the above is the remuneration of the highest paid director as follows:		
Directors' emoluments	189	184
Pension contributions	4	4
	193	**188**

The Group paid contributions into defined contribution personal pension schemes in respect of 2 (2011 – 2) directors during the year.

6 Operating profit

	2012 £000	2011 £000
This has been arrived at after charging:		
Depreciation of property, plant and equipment	124	107
Amortisation of intangible fixed assets	742	523
Loss on disposal of tangible fixed assets	-	15
Operating lease rentals		
- property	171	157
- plant and machinery	82	89
Fees payable to the Company's auditor for the audit of the Company's annual accounts	8	8
Fees payable to the Company's auditor and its associates for other services:		
- audit of the Company's subsidiaries pursuant to legislation	63	61
- audit-related assurance services	11	16
- tax compliance services	4	4

7 Financial income

	2012 £000	2011 £000
Bank and other interest received	**9**	**23**

8 Taxation

UK corporation tax	2012 £000	2011 £000
Corporation tax on profits of the period	1,159	1,005
Prior year adjustment	-	5
	1,159	**1,010**
Deferred tax	(116)	(33)
Taxation on profit on ordinary activities	**1,043**	**977**

8 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:

	2012 £000	2011 £000
Profit before tax	1,405	3,084
Profit at the standard rate of corporation tax in the UK		
of 24.5% (2011 – 26.5%)	345	817
Effect of:		
Expenses not deductible for tax purposes	11	38
Intangible amortisation not attracting tax relief	-	16
No tax relief on contingent consideration treated as remuneration (note 11)	694	97
Prior year adjustment	-	5
Other timing differences	(7)	4
	1,043	**977**

9 Dividends paid on ordinary shares

	2012 £000	2011 £000
Final 2010, paid 28 April 2011 – 4.6p per share	-	482
Interim 2011, paid 7 October 2011 – 4.6p per share	-	483
Final 2011, paid 26 April 2012 – 6.0p per share	640	-
Interim 2012, paid 5 October 2012 – 6.3p per share	672	-
	1,312	**965**

The directors propose the payment of a final dividend for 2012 of 7.3p (2011 – 6.0p) per ordinary share, payable on 25 April 2013 to shareholders on the register at 22 March 2013. The cost of the proposed dividend, based on the number of shares in issue as at 8 March 2013, is £779,000 (2011 - £640,000).

10 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:

	2012 £000	2011 £000
Earnings used in basic and diluted EPS, being profit after tax	362	2,107
Adjustments:		
Amortisation of intangibles	731	491
Non-trading accounting adjustments re Redstone acquisition	-	(141)
Adjustment to Redstone contingent consideration	-	67
Contingent consideration treated as remuneration (note 11)	2,834	366
Costs relating to the acquisition of Maintel Mobile	-	79
Tax relating to above adjustments	(185)	(76)
Adjusted earnings used in adjusted EPS	**3,742**	**2,893**

10 Earnings per share (continued)

	2012 Number (000s)	2011 Number (000s)
Weighted average number of ordinary shares of 1p each	10,671	10,521
Potentially dilutive shares	121	41
	10,792	**10,562**
Earnings per share		
Basic	3.4p	20.0p
Basic and diluted	3.4p	19.9p
Adjusted – basic but after the adjustments in the table above	35.1p	27.5p
Adjusted – basic and diluted after the adjustments in the table above	34.7p	27.4p

The adjustments above have been made in order to provide a clearer picture of the trading performance of the Group.

The two adjustments in 2011 relating to Redstone are adjustments to revenue and costs in respect of the acquisition of business and assets during 2010.

On 25 May 2012 the Company issued 10,000 ordinary shares under the 2009 Share Option Plan.

In calculating diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has one category of potentially dilutive ordinary share, being those share options granted to employees where the exercise price is less than the average price of the Company's ordinary shares during the period.

11 Intangible assets

	Goodwill £000	Customer relationships £000	Computer software £000	Total £000
Cost				
At 1 January 2011	792	2,861	91	3,744
Acquired in the year	551	2,998	-	3,549
At 31 December 2011	1,343	5,859	91	7,293
Disposed of in the year	-	-	(91)	(91)
At 31 December 2012	1,343	5,859	-	7,202
Amortisation and impairment				
At 1 January 2011	317	1,148	48	1,513
Amortisation in the year	-	491	32	523
At 31 December 2011	317	1,639	80	2,036
Amortisation in the year	-	731	11	742
In respect of disposals in the year	-	-	(91)	(91)
At 31 December 2012	317	2,370	-	2,687
Net book value				
At 31 December 2012	**1,026**	**3,489**	**-**	**4,515**
At 31 December 2011	**1,026**	**4,220**	**11**	**5,257**

11 Intangible assets (continued)

On 21 October 2011 the Company acquired the entire share capital of Totility Limited (renamed Maintel Mobile Limited) at the following valuations:

	£000
Purchase consideration	
Cash – initial consideration	2,435
Cash – in respect of net assets acquired	986
Ordinary shares (177,778 shares at 1p nominal value and 216.5p share premium per share)	387
Total consideration	3,808
Assets and liabilities acquired	
Tangible fixed assets	19
Stock held for resale	5
Trade receivables	274
Other receivables	23
Prepayments and accrued income	52
Cash	1,508
Trade payables	(90)
Corporation tax liability	(458)
Other taxes and social security	(127)
Other payables	(218)
Accruals and deferred income	(2)
	986
Customer relationships	2,998
Deferred tax on customer relationships	(727)
Total assets and liabilities acquired	3,257
Goodwill	551

Maintel Mobile was acquired to complement the Group's existing offerings of telecommunications and data services and enable further cross-selling to and from other Group operations.

The customer relationships are estimated to have a useful life of seven years based on the directors' experience of comparable contracts and are therefore amortised over that period and are subject to an annual impairment review. A deferred tax liability of £727,000 has been recognised above which is being credited to the income statement pro rata to the amortisation of the customer relationships. The amortisation charge in 2012 is £428,000 (2011 - £83,000).

As described in the Business review, contingent consideration was payable on the acquisition of Maintel Mobile, which was agreed in July 2012, with £2.3m having been paid during the year and a final £0.9m paid in January 2013, £2.834m being expensed in 2012 and £366,000 in 2011.

Software licence

A three year licence of billing software was purchased in 2009, at a cost of £91,000. The licence is amortised over this period and became fully amortised during the year when the licence expired. The software is now rented and so the intangible asset represented by the software has been deemed disposed of.

Amortisation charges for the year have been charged through administrative expenses in the statement of comprehensive income.

11 Intangible assets (continued)

Goodwill

The carrying value of goodwill is allocated to the cash generating units as follows:

	2012 £000	2011 £000
Maintel Voice and Data Limited	202	202
Maintel Europe Limited	273	273
Maintel Mobile Limited (previously Totility Limited)	551	551
	1,026	**1,026**

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 no charge in 2012 (2011 - £Nil) and a carrying value of £202,000.

Goodwill of £290,000 arose on the acquisition of District Holdings Limited in June 2006. This is assessed for impairment at the date of each consolidated statement of financial position. There has been no impairment of the goodwill in 2012 (2011 - £Nil) and the carrying value is £145,000.

Goodwill of £128,000 arose on the Redstone acquisition in October 2010. This is assessed for impairment at the date of each consolidated statement of financial position. There has been no impairment of the goodwill in 2012 (2011 - £Nil) and the carrying value is £128,000.

Goodwill of £551,000 arose on the Maintel Mobile acquisition in October 2011. This is assessed for impairment at the date of each consolidated statement of financial position. There has been no impairment of the goodwill in 2012 (2011 - £Nil) and the carrying value is £551,000.

For the purposes of the impairment review of goodwill, the net present value of the projected future cash flows of the relevant cash generating unit are compared with the carrying value. Projected operating margins for this purpose are based on a five year horizon and 3% rate of growth, and a discount rate of 10% is applied to the resultant projected cash flows; the discount rate is based on conventional capital asset pricing model inputs.

£195,000 (gross) of the Goodwill in the balance sheet of Maintel Europe Limited is eligible for tax relief, with relief being claimed against £10,000 of amortisation in 2012 (2011 - £10,000), leaving a net balance of £175,000 available for future tax relief.

12 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

Maintel Mobile Limited (previously Totility Limited)

Each is wholly owned and incorporated in England and Wales.

13 Property, plant and equipment

	Leasehold improvements £000	Office and computer equipment £000	Total £000
Cost or valuation			
At 1 January 2011	96	856	952
Additions	41	84	125
On acquisition of Maintel Mobile	32	18	50
Disposals	(32)	(50)	(82)
At 31 December 2011	137	908	1,045
Additions	23	93	116
Disposals	-	(31)	(31)
At 31 December 2012	160	970	1,130
Depreciation			
At 1 January 2011	72	678	750
Provided in year	15	92	107
On acquisition of Maintel Mobile	17	14	31
Disposals	(17)	(50)	(67)
At 31 December 2011	87	734	821
Provided in year	25	99	124
Disposals	-	(31)	(31)
At 31 December 2012	112	802	914
Net book value			
At 31 December 2012	**48**	**168**	**216**
At 31 December 2011	**50**	**174**	**224**

14 Inventories

	2012 £000	2011 £000
Maintenance stock	578	592
Stock held for resale	114	130
	692	**722**
Cost of inventories recognised as an expense	**4,144**	**2,976**

Provisions of £47,000 were made against the Maintenance stock in 2012, (2011 - £64,000), with no reversal of provisions having been made in either year. The directors have noted that the cost of inventories recognised as an expense in 2011 was incorrectly stated at £3.568m, and this has been corrected above. This has no effect on any other part of the financial statements.

15 Trade and other receivables

	2012 £000	2011 £000
Trade receivables	3,997	2,497
Other receivables	11	25
Prepayments and accrued income	1,785	1,497
	5,793	**4,019**

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

16 Trade and other payables

	2012 £000	2011 £000
Trade payables	2,421	1,089
Other tax and social security	936	838
Accruals	1,618	2,124
Other payables	416	250
Deferred maintenance income	3,780	3,491
Other deferred income	32	35
	9,203	**7,827**

Deferred maintenance income relates to the unearned element of maintenance revenue that has been invoiced but not yet recognised in the consolidated statement of comprehensive income. Other deferred income relates to other amounts invoiced but not yet recognised in the consolidated statement of comprehensive income.

17 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.

	Loans and receivables	
	2012 £000	**2011 £000**
Current financial assets		
Trade receivables	3,997	2,497
Cash and cash equivalents	1,941	2,953
Other receivables	11	25
	5,949	**5,475**

	Financial liabilities measured at amortised cost	
	2012 £000	**2011 £000**
Current financial liabilities		
Trade payables	2,421	1,089
Other payables	416	250
	2,837	**1,339**

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 and with increased rigour in light of the current economic climate. 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 reporting date, the largest exposure other than cash was represented by the carrying value of trade and other receivables, against which £136,000 is provided at 31 December 2012 (2011 - £139,000). The provision represents an estimate of potential bad debt, goodwill credits and additional costs to completion 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 receivable included in trade and other receivables at 31 December 2012 owed the Group £1.8m including VAT (2011 - £163,000).

The movement on the provision is as follows:

	2012 £000	**2011 £000**
Provision at start of year	139	120
Provision used	(60)	(29)
Additional provision made	57	48
Provision at end of year	**136**	**139**

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 not requiring impairment as follows:

	2012 £000	2011 £000
Up to 30 days overdue	1,289	795
31-60 days overdue	302	298
More than 60 days overdue	(35)	60
	1,556	**1,153**

Cash and cash equivalents at 2012 and 2011 year ends represented short term deposits with LloydsTSB, Santander and Barclays.

Foreign currency risk
The functional currency of all Group companies 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 2012 was less than £1,000 (2011 – £1,000). The Group therefore has no exposure to currency risk.

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 (£9,000 in 2012, and £23,000 in 2011) is therefore dependent on those prevailing rates, which were at a historically low level during 2012 and 2011.

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. The directors are conscious of the likelihood that pressures may continue to be exerted on working capital as a result of the current economic environment however these have been, and will continue to be minimised wherever possible, including by way of additional credit checking of prospective customers and tighter monitoring of debtors.

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 consolidated statement of financial position and the fair values of the Group's financial instruments.

Capital risk management
The Group's objective when managing capital is to safeguard its ability to continue as a going concern in order to provide returns to shareholders. Capital comprises all components of equity – share capital, capital redemption reserve, share premium and retained earnings. Typically returns to shareholders will be funded from retained profits, however in order to take advantage of the opportunities available to it from time to time, the Group will consider the appropriateness of issuing shares, repurchasing shares, amending its dividend policy and borrowing, as is deemed appropriate in the light of such opportunities and changing economic circumstances.

18 Deferred tax liability

	Property, plant and equipment £000	Intangible assets £000	Other £000	Total £000
At 1 January 2011	(6)	9	-	3
Liability established against intangible assets acquired during the year	-	727	-	727
Charge/(credit) to consolidated statement of comprehensive income	13	(31)	(15)	(33)
At 31 December 2011	7	705	(15)	697
Charge/(credit) to consolidated statement of comprehensive income	(8)	(111)	3	(116)
At 31 December 2012	**(1)**	**594**	**(12)**	**581**

The deferred tax liability represents (a) a liability established under IFRS on the recognition of an intangible asset in relation to the Maintel Mobile acquisition, and (b) an asset represented by depreciation provided in the accounts in excess of the tax value of capital allowances claimed, and is calculated using the tax rates at which the liabilities are expected to reverse.

19 Share capital

	2012 £000	2011 £000
Authorised		
17,571,840 ordinary shares of 1p each	**176**	**176**
Allotted, called up and fully paid		
10,674,578 (2011 - 10,664,578) ordinary shares of 1p each	**107**	**107**

10,000 shares were issued during the year, under the 2009 Share Option Plan.

20 Reserves

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

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

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

The directors propose the payment of a final dividend in respect of 2012 of 7.3p per share; this dividend is not provided for in these financial statements.

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 Share based payments

On 18 May 2009 the directors of the Company approved the adoption of the Maintel Holdings Plc 2009 Option Plan.

The Remuneration Committee's report on page 14 describes the options granted over the Company's ordinary shares.

In aggregate, options are outstanding over 2.9% of the current issued share capital. The number of shares under option and the vesting and exercise prices may be adjusted at the discretion of the Remuneration Committee in the event of a variation in the issued share capital of the Company.

23 Operating leases

As at 31 December 2012, the Group had future minimum rentals payable under non-cancellable operating leases as set out below:

	2012 Land and buildings £000	2012 Other £000	2011 Land and buildings £000	2011 Other £000
The total future minimum lease payments are due as follow:				
Not later than one year	164	93	158	67
Later than one year and not later than five years	118	19	39	53
	282	**112**	**197**	**120**

The commitment relating to land and buildings is primarily in respect of the Group's London offices, the lease on which expires in September 2014 in normal circumstances, at an annual rental of £149,550. The remaining commitment relates to other property, contract hired motor vehicles (which are typically replaced on a 3 year rolling cycle), and licencing of billing software.

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:

	2012 £000	2011 £000
Short term employment benefits	1,164	948
Contributions to defined contribution pension scheme	19	15
	1,183	**963**

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 A J McCaffery and Maybank Marketing, a company indirectly associated with A J McCaffery. Transactions in 2012 and 2011 amounted in aggregate to less than £1,500 in each case.

The Group traded during the year with The Imaginarium Studios Limited, a company in which J D S Booth and N J Taylor are directors and J D S Booth is a shareholder. Imaginarium purchased telecommunication services from the company in the year amounting to £6,181 net of VAT (2011 - £2,222), of which £376 (2011 - £351) was owed at the year end and is included in trade creditors.

The Group paid commissions in the year to J A Spens, a shareholder in the Company, amounting to £14,719 net of VAT (2011 - £11,237), of which £Nil (2011 - £463) was owed at the year end and is included in trade creditors. These commissions relate to revenues earned by the Group following an introduction to a customer by Mr Spens.

The Group established a revolving credit facility of £1.5m in October 2011 with J D S Booth, the Group's chairman, however no monies have been drawn against this. Any amounts drawn would be unsecured, carry an interest rate of 6.5 per cent and be repayable by 30 June 2013.

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 11. These estimates include the asset's future cash flows and an appropriate discount to reflect the time value of money. The directors do not consider that in the normal course of events there is a likelihood that an impairment charge would be required.

Fair value of intangible assets acquired in business combinations

The valuation of intangible and certain other assets and liabilities on their acquisition requires management estimates and judgements similar to those used in assessing their impairment as described above.

Inventory valuation

Where inventories are valued at net realisable value, parts which are not individually priced to market rates are subject to provisioning. Such provisioning may prove to be over or understated, however any divergence from the estimates used is unlikely to be significant in aggregate.

Receivables

Receivables are recognised to the extent that they are judged recoverable. The directors believe that the current provision for the impairment of receivables is adequate based on their historic experience and current knowledge of customers and amounts due.

Business combination and asset purchase consideration

In certain circumstances, there is a contingency to the consideration paid on the acquisition of a company or business, and in such cases the directors have to use judgement on the likely outcome. The estimated £175,000 recoverable from Redstone as part of the consideration for certain of its business and assets in 2010 was not fully recovered, and £67,000 was consequently expensed in the 2011 income statement. The contingent consideration due in relation to the Maintel Mobile acquisition was also estimated, and the pro rated amount of £366,000 expensed in the income statement in 2011.

Contingent consideration

Contingent consideration payable in respect of business combinations or business and asset purchases will generally be dependent on the trading performance of the entity or business acquired in a defined future period. The directors are therefore required to exercise their judgement in estimating the outcome of that trading and consequently the consideration likely to be payable.

Maintel Holdings Plc Company balance sheet
at 31 December 2012 – prepared under UK GAAP

	Note	2012 £000	2012 £000	2011 £000	2011 £000
Fixed assets					
Investment in subsidiaries	5		9,331		6,497
Current assets					
Debtors	6	193		190	
Cash at bank and in hand		12		44	
		205		234	
Creditors: amounts falling due within one year	7	2,398		1,642	
Net current liabilities			(2,193)		(1,408)
Total assets less current liabilities			**7,138**		**5,089**
Capital and reserves					
Called up share capital	8		107		107
Share premium	9		1,028		1,013
Capital redemption reserve	9		31		31
Profit and loss account	9		5,972		3,938
Shareholders' funds			**7,138**		**5,089**

The financial statements were approved and authorised for issue by the Board on 8 March 2013 and were signed on its behalf by:

W D Todd
Director

The notes on pages 44 to 47 form part of these financial statements.

Notes forming part of the Company financial statements
at 31 December 2012

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 financial statements of the Company are presented as required by the Companies Act 2006. 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.

(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 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) 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.

(d) 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.

(e) Contingent consideration

Where payment of contingent consideration in respect of a business combination or acquisition of business and assets is dependent on the continued employment by the Company of the seller(s), the estimated contingent consideration is pro rated in accordance with the period over which it is calculated.

2 Employees

The directors' remuneration is shown in note 5 of the consolidated financial statements.

3 Profit for the financial period

The Company has taken advantage of the exemption under S408 of the Companies Act 2006 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 £3,346,000 (2011 – £2,282,000).

4 Dividends paid on ordinary shares

	2012 £000	2011 £000
Final 2010, paid 28 April 2011 – 4.6p per share	-	482
Interim 2011, paid 7 October 2011 – 4.6p per share	-	483
Final 2011, paid 26 April 2012 – 6.0p per share	640	-
Interim 2012, paid 5 October 2012 – 6.3p per share	672	-
	1,312	**965**

The directors propose the payment of a final dividend for 2012 of 7.3p (2011 – 6.0p) per ordinary share, payable on 25 April 2013 to shareholders on the register at 22 March 2013.

5 Investment in subsidiaries

	Shares in subsidiary undertakings £000
Cost	
At 31 December 2011	6,577
Contingent consideration paid and accrued in the period	2,834
At 31 December 2012	9,411
Provision for impairment	
At 31 December 2011 and 31 December 2012	80
Net book value	
At 31 December 2012	**9,331**
At 31 December 2011	**6,497**

On 21 October 2011 the Company acquired the entire share capital of Totility Limited (since renamed Maintel Mobile Limited) at the following valuations:

	£000
Purchase consideration	
Cash – initial consideration	2,435
Cash – in respect of net assets acquired	986
Ordinary shares (177,778 shares at 1p nominal value and 216.5p share premium per share)	387
Total initial consideration	3,808
Accrued contingent consideration at 31 December 2011	366
Investment at 31 December 2011	4,174
Contingent consideration paid and accrued in 2012	2,834
Investment at 31 December 2012	7,008

Contingent consideration was payable to the sellers of Maintel Mobile dependent on the adjusted gross profit of the company in the 12 months following its acquisition, subject to a maximum payment of £4.0m. Agreement was reached in July 2012 to accelerate the calculation of this payment in the sum of £3.1m, of which £2.2m was paid on 31 October 2012 and £0.9m on 3 January 2013. Separately, a further payment of £0.1m was made on 10 July 2012 to the vendors under the terms of the sale and purchase agreement. Based on earlier estimates of the contingent consideration amount, a pro rata £366,000 of the contingent consideration was included in the cost of investment in 2011, with the remainder – £3.2m less £366,000, being £2.834m – added to the cost of investment in 2012.

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

Maintel Europe Limited

Maintel Voice and Data Limited

Maintel Mobile Limited (previously Totility Limited)

Each is wholly owned and incorporated in England and Wales.

6 Debtors

	2012 £000	2011 £000
Amounts owed by subsidiary undertakings	170	176
Other debtors	2	11
Prepayments and accrued income	2	1
Corporation tax recoverable	19	2
	193	**190**

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

7 Creditors

	2012 £000	2011 £000
Amounts due to subsidiary undertakings	1,488	290
Trade creditors	2	5
Accruals and deferred income	908	1,347
	2,398	**1,642**

8 Share capital

	2012 £000	2011 £000
Authorised		
17,571,840 ordinary shares of 1p each	**176**	**176**
Allotted, called up and fully paid		
10,674,578 (2011 - 10,664,578) ordinary shares of 1p each	**107**	**107**

10,000 shares were issued during the year, under the 2009 Share Option Plan.

The Remuneration Committee's report on page 14 of the consolidated accounts of Maintel Holdings Plc describes the options granted over the Company's ordinary shares.

9 Reconciliation of movement in shareholders' funds

	Share capital £000	Share premium £000	Capital redemption reserve £000	Retained earnings £000	Total £000
At 1 January 2011	105	628	31	2,621	3,385
Profit for year	-	-	-	2,282	2,282
Dividends paid	-	-	-	(965)	(965)
Issue of new ordinary shares	2	385	-	-	387
At 31 December 2011	107	1,013	31	3,938	5,089
Profit for year	-	-	-	3,346	3,346
Dividends paid	-	-	-	(1,312)	(1,312)
Issue of new ordinary shares	-	15	-	-	15
At 31 December 2012	**107**	**1,028**	**31**	**5,972**	**7,138**

It is proposed to pay a final dividend for 2012, of 7.3p per share, on 25 April 2013; this dividend is not provided for in these financial statements.

10 Related party transactions

The Group established a revolving credit facility of £1.5m in October 2011 with J D S Booth, the Group's chairman, however no monies have been drawn against this. Any amounts drawn would be unsecured, carry an interest rate of 6.5 per cent and be repayable by 30 June 2013.

Transactions with other Group companies have not been disclosed as permitted by FRS8, as the Group companies are wholly owned.

Notice of annual general meeting
(not forming part of the statutory financial statements)

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 22 April 2013, at 2.30 pm, 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 2012, together with the report of the directors and the independent auditors' report thereon.

2. To approve the report of the Remuneration Committee for the year ended 31 December 2012.

3. To re-elect Mr W D Todd who is retiring as a director in accordance with Article 92.1 of the company's Articles of Association and who, being eligible, offers himself for re-election.

4. To re-appoint BDO 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

To consider and, if thought fit, to pass the following resolutions, of which resolution 5 will be proposed as an ordinary resolution and resolutions 6 and 7 as special resolutions:

5. That the directors be and are hereby generally and unconditionally authorised pursuant to Section 551 of the Companies Act 2006 ("the Act") to exercise all powers of the Company to allot and to make offers or agreements to allot relevant securities up to a maximum aggregate nominal amount of £35,581, 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.

6. That, subject to the passing of the previous resolution, the directors be and are hereby empowered pursuant to Section 570 of the Act to allot equity securities as defined in Section 560 of the Act for cash as if Section 561 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 £10,674.

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.

7. That the Company is, pursuant to Section 701 of the Act, hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 693) of up to a maximum of 1,600,119 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
22 March 2013

Registered office
61 Webber St
London SE1 0RF

Notes

1. A member of the Company entitled to attend and vote at the meeting may appoint one or more proxies to attend, speak and vote at the meeting instead of him/her. A proxy need not be a member of the Company. A member of the Company may appoint more than one proxy provided each proxy is appointed to exercise the rights attached to different shares. A member may not appoint more than one proxy to exercise the rights attached to any one share. 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 6pm on 19 April 2013. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the meeting.

2. The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the Company as at 6.00 pm on 19 April 2013, 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 6.00 pm on 19 April 2013 shall be disregarded in determining the rights of any person to attend and vote at the meeting.

3. In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate member has appointed the chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that member at the meeting, then on a poll those corporate representatives will give voting directions to the chairman and the chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate member attends the meeting but the corporate member has not appointed the chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate members are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives – www.icsa.org.uk – for further details of this procedure. The guidance includes a sample form of representation letter if the chairman is being appointed as described in (i) above.

Maintel, 61 Webber Street, London SE1 0RF www.maintel.co.uk