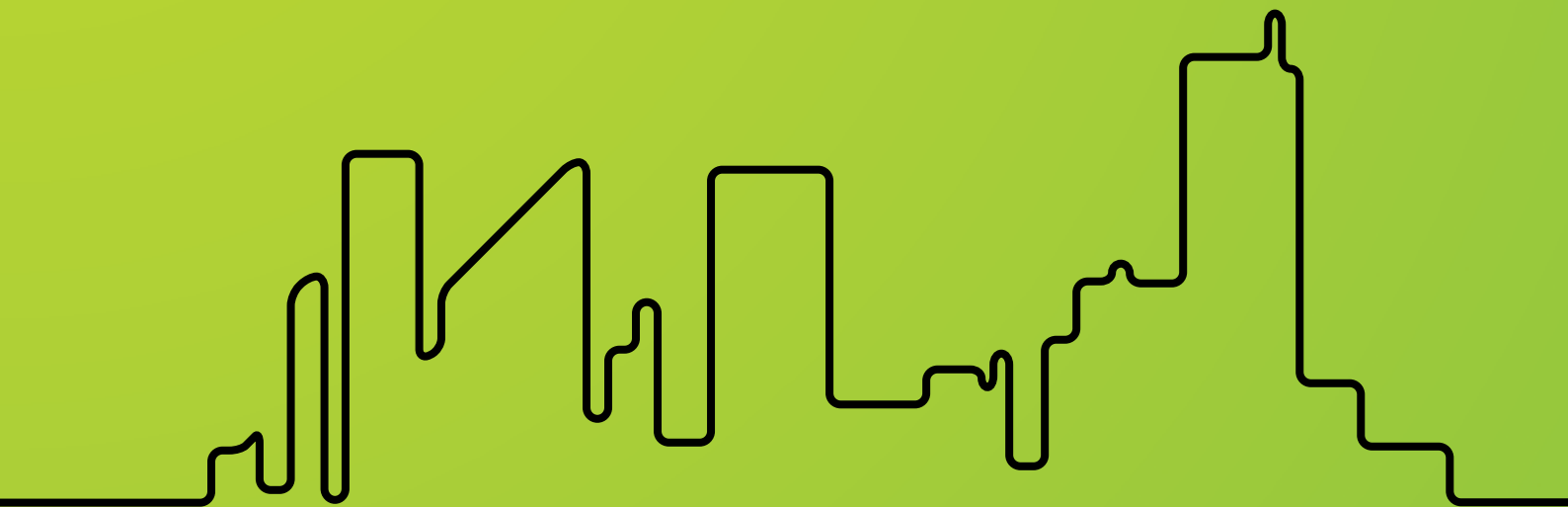


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Annual Report
& Accounts
Maintel Holdings Plc
2011



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Directors, Company details and advisers

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
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Chairman's statement

I am pleased to report that Maintel enjoyed a strong 2011 financial year. The Group grew its adjusted profit before tax by 30% to £3.946m and its adjusted earnings per share by 35% to 27.5p.

In a year of considerable economic uncertainty it is also satisfying to demonstrate organic revenue growth of 5% at the Group level. Both of our major divisions demonstrated similar levels of organic growth and our level of recurring revenues was over three quarters of the Group total. The year also showed the benefits of prior acquisitions, which added a further 13% to our revenue growth, for overall Group revenue growth of 18% during the period.

The Maintenance and Equipment division performed well with a particularly strong year for equipment sales, showing annual growth of 38%, including a number of new large Avaya Enterprise orders won on the back of the 2010 Redstone acquisition. Maintenance revenues saw a year of steady progress and our partnerships with major telecoms suppliers continued to broaden and bear fruit. Whilst the latter part of 2011 saw the division affected by the winding down of two short term contracts, I am pleased to report that the early signs of growth this year from the division are encouraging.

The Network services division also delivered steady organic growth in 2011, with particularly strong growth from data connectivity, which showed an annual increase in revenue of 11%. This continues to be an area of focus for future growth and possible acquisition.

Towards the end of the year we purchased Totility Limited, a mobile telecoms provider operating across the UK, holding agreements with Vodafone and O2. This adds further breadth to the range of products and services we can offer our customers

and increases our cross selling opportunities. It is always good to add new capability where we are able to respond to customer demand and it is a pleasure to welcome Totility's staff and existing customers to our Group.

Cash generation continues to be strong and we ended the year with net cash of £2.953m and no debt, having generated net cash flows from operating activities of £2.488m in 2011.

The Board proposes a final dividend for the year of 6.0p (2010 - 4.6p), an increase of 30%, taking the total for the year to 10.6p (2010 - 8.5p). This will be payable on 26 April 2012 to shareholders on the register at 23 March 2012.

I would like to thank my colleagues on behalf of all shareholders for the hard work and energy that has delivered this outstanding performance and to wish them well for the year ahead.

J D S Booth

Chairman

9 March 2012

Business review

Results

This has been a strong trading year with the Group achieving the highest recorded revenue and adjusted profits in its history. Adjusted profits before tax (as described below) increased by 30% to £3.946m, with unadjusted profit before tax increasing by 15% to £3.084m, derived from an 18% increase in revenues, to £25.9m.

Adjusted earnings per share (EPS) have consequently increased by 35% from 20.3p in 2010 to 27.5p in 2011, with basic EPS increased by 12%, from 17.8p in 2010 to 20.0p in 2011.

The Group's cash flows remain strong, with net cash flows from operating activities of £2.488m in the year, leaving the Group with net cash at the year end of £2.953m.

	H1 2011 £000	H2 2011 £000	2011 £000	2010 £000	Increase
Revenue	12,673	13,241	25,914	22,008	18%
Profit before tax	1,591	1,493	3,084	2,673	15%
Add back customer relationship intangibles amortisation	253	238	491	303	
(Deduct)/add back non-trading accounting adjustments re Redstone acquisition (note 11)	(132)	(9)	(141)	70	
Adjustment to Redstone contingent consideration (note 11)	-	67	67	-	
Contingent consideration re Totility treated as remuneration (note 11)	-	366	366	-	
Costs relating to the acquisition of Totility	-	79	79	-	
Adjusted profit before tax	1,712	2,234	3,946	3,046	30%
Basic earnings per share	10.9p	9.1p	20.0p	17.8p	12%
Diluted	10.8p	9.1p	19.9p	17.8p	12%
Adjusted earnings per share*	11.9p	15.6p	27.5p	20.3p	35%
Diluted	11.8p	15.6p	27.4p	20.3p	35%

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

The Group's two established divisions – maintenance and equipment, and network services – each recorded solid organic revenue growth in the year, reporting organic growth of 5% and 4% respectively and a combined 5%. This was against a difficult economic backdrop and also a challenging time for the industry as a whole. In the latter part of 2011, the Group added a third division – mobile – contributing revenues of £601,000 and profit before tax of £175,000 since its acquisition.

The Group acquired 100% of the share capital of Totility Limited, a specialist UK mobile telecoms provider, on 21 October 2011, for an initial consideration of £2.822m, with a further consideration of up to £4.0m dependent on Totility's performance in the 12 (in certain limited circumstances 13) months post-acquisition. The initial consideration consisted of £2.435m in cash, and the issue of 177,778 shares which had a mid-market price of 217.5p on 28 September 2011. Under the terms of the acquisition, further consideration of £986,000 was paid to the Totility shareholders after the year end, representing the net asset value of Totility at the date of acquisition. Further details of the acquisition are shown in note 11 to the accounts.

The 2010 partnership agreement with Westcon and the acquisition of certain business and assets from Redstone Converged Solutions Limited and Marcom Communications Limited (a Redstone subsidiary) (together the "Redstone acquisition") have proven successful both in terms of their financial impact and in allowing the Group to develop its Avaya and wider data offerings to existing and new customers and we were

Results (continued)

awarded Avaya's Service Expert status in the first half of 2011. Further maintenance contracts have been won as a result of the acquisition - some in conjunction with Redstone - and cross selling has also been successful, including a £150,000 network services contract into the acquired Redstone base. As expected, due to the acquired customers' billing cycles, the Redstone acquisition did not achieve its full cash generation potential until Q3 2011, and so 2012 will be the first year to experience its full effect. As described last year, 2010 saw the recognition, as prescribed by accounting standards, of £105,000 of deferred income net of deferred costs for which no cash flows were received by the Group, with a further (and final) £141,000 being recognised in 2011. The £141,000 has been deducted in calculating adjusted profit, as this represents a more accurate picture of underlying trading.

Total recurring revenue (maintenance, network services and mobile) increased by 12% in the year to £19.6m (76% of total revenues), providing good visibility of revenues across the Group.

Revenue analysis (£000)	2011	2010	Increase
Maintenance related	12,948	11,678	11%
Equipment, installations and other	6,492	4,713	38%
Total maintenance and equipment division	19,440	16,391	19%
Network services division	6,036	5,816	4%
Mobile division	601	-	
Intercompany	(163)	(199)	
Total Maintel Group	25,914	22,008	18%

Net cash flows from operating activities continued to be strong, at £2.488m, in 2011 (2010 - £3.295m) and cash at the year end amounted to £2.953m (2010 - £2.459m). Cash flow movements are described later in the business review. The Group has no debt.

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 increased by 19% in the year as shown in the table above, maintenance related revenue growing by 11% and equipment sales by 38%, despite the economic downturn. The Redstone acquisition in October 2010 contributed £219,000 revenues in that year, and £2.390m in 2011, so that even excluding this, the organic revenue growth in the division was 5% year on year.

Maintenance

Maintenance revenues grew strongly during the year by 11% (1% organic, excluding the Redstone effect). This represented a robust performance in a stagnant overall market.

During the year, two large short term contracts began to wind down, resulting in a maintenance base of £12.2m at the year-end compared to £13.2m at the end of 2010. Moving into 2012 we expect the maintenance base to grow back in line with previous levels, with one of our significant partnerships already having delivered two new large maintenance contracts early in Q112.

Equipment sales

Equipment sales increased by £1.779m (38%) in the year of which £1.065m was attributed to the Redstone acquisition. Excluding this, organic equipment sales growth in the division was 16%.

A number of new large Avaya Enterprise orders were won on the back of the recent Redstone acquisition and our decision to invest in the vendor and its technology has proved successful.

The increase in the sales and customer service headcount across the division shown below has primarily arisen from the transfer to the Group of Redstone employees, though this increase in resource was far lower than the increase in revenues derived. The increase in average engineer headcount is in the main the result of the acquisition of Avaya skills through the Redstone acquisition and the recruitment of further data-led engineering resource, with a secondary post-acquisition review of resource having commenced in July 2011, resulting in some redundancies and the consequent reduction in headcount by 31 December 2011.

Headcount	Average 2011*	Average 2010*	At 31st December 2011
Sales and customer service	52	49	51
Engineers	97	86	91

* excluding redundant Redstone employees

	2011	2010	Increase
Division gross profit (£000)	7,063 (36%)	6,496 (40%)	9%

The division's gross profit margin dropped by 4 percentage points in the year as explained in the half year statement; while sales of high margin professional services remain buoyant, the change in the sales mix towards lower margin hardware sales has led to a reduction in the division's percentage gross margin over 2010. A number of new large Avaya Enterprise orders were won on the back of the Redstone acquisition and our decision to invest in the vendor and its technology, including new data services, has also affected margin as has the temporary excess of resource noted above. In addition, a £650,000 "pass-through" contract was signed during the year, whereby Maintel backs off supply and implementation of the project at low margin; part of this contract was delivered in H211 with the balance expected to be delivered in H112.

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 the services offered by the maintenance and equipment division.

Revenue analysis (£000)	2011	2010	Increase/ (decrease)
Call traffic	2,613	2,690	(3%)
Line rental	2,457	2,282	8%
Data services	660	594	11%
Other	306	250	22%
Total network services	6,036	5,816	4%

	2011	2010	Increase
Division gross profit (£000)	1,713 (28%)	1,545 (27%)	11%

Network services division (continued)

The division's revenue increased by £220,000 or 4%, all organic. The trends of previous years continued with growth in line rental, data and other services outstripping the decline in call traffic revenues. This divisional revenue growth was achieved against a challenging backdrop for the sector as a whole. Data connectivity grew strongly during the period and now represents over 10% of this division's total revenue.

Although call minutes increased year on year, pressure on rates continued, exacerbated by the reduction in mobile termination rates, so that the net effect was a reduction in call traffic revenues of £77,000, or 3%. The increase in call volumes however was encouraging, especially against the continuing challenging economic environment and reflected the new orders signed in the year and the division's traditional underlying low levels of attrition and no major customers terminating.

As call rates continue to fall, the strategic shift towards providing customers with data connectivity, VoIP services and inbound call services will continue to be a focus for the division and 2012 is already showing significant progress being made in these areas.

Overall divisional gross margin increased from 26.6% to 28.4% during the year, through tight cost control and margin management particularly on the call traffic side of the business.

Mobile division

The Company acquired Totility Limited, a specialist UK mobile telecoms provider, on 21 October 2011, since when it has performed as follows:

	£000
Revenue	601
Gross profit	316 (53%)
Profit before tax	175

	At 31 December 2011	Approx at acquisition	Increase
Number of customers	1,164	1,100	6%
Number of connections	13,387	12,000	12%

Totility's revenues arise primarily from commissions received under its dealer agreements with Vodafone and O2, supplemented by revenue derived from ongoing customer monthly spend, with approximately 84% of such commissions being earned under the Vodafone agreement since acquisition, and 16% under the O2 agreement.

Totility fills a gap in our product portfolio where we had identified existing customer demand for mobile services. It is a well run customer service led business that has significantly lower churn than that typically seen across the industry.

At 31 December 2011, Totility managed around 13,400 connections, an increase of approximately 1,400 (c12%) since its acquisition. In addition to its own organic growth and continuing renewal of contracts, cross-selling of mobiles into the established Maintel base has proven successful so far, with several notable customers signed and a strong pipeline of further candidates in place for 2012.

Administrative expenses, excluding intangibles amortisation and non-trading adjustments

Sales expenses increased by £50,000 or 2% in the year and, adjusting for Totility's sales expenses, the underlying costs fell slightly year on year, with sales headcount being realigned to best match the current sales opportunities.

Administrative costs continue to be monitored closely and rose by £156,000 or 6% in the year, and fell by £12,000 after adjusting for Totility's £89,000 administration costs and the £79,000 costs of the Totility acquisition.

Administrative expenses (£000)	2011	2010	Increase
Sales expenses	2,354	2,304	2%
Other administrative expenses (excluding intangibles amortisation, adjustment to acquisition consideration and accrued acquisition consideration in 2011 and £175,000 Redstone redundancy charge in 2010)	2,612	2,456	6%
Redstone redundancy charge	-	175	
Total other administrative expenses	4,966	4,935	1%

Impairment and amortisation charges are discussed below.

The table below shows relevant headcount in relation to revenue.

	2011*	2010*	Increase
Average Group headcount during the period	181	165	10%
Average sales and service headcount	61	58	5%
Average corporate and admin headcount	23	21	10%
Group revenue (£000)	25,914	22,008	18%

* Headcount figures exclude redundant Redstone employees in Q1 2011.

Interest

Net interest receivable reduced from £29,000 to £23,000 in 2011, with average cash balances being lower in 2011 due to the cost of the Redstone and Totility acquisitions in October 2010 and October 2011 and the continuing low rates of interest achievable from acceptable financial institutions.

Taxation

The consolidated statement of comprehensive income shows a tax rate of 31.7% (2010 – 28.6%). Each of the Group companies other than Totility is taxed at 26.5% (2010 – 28.0%), with Totility taxed at 26% in 2011. Certain recurring expenses that are disallowable for tax raise the effective rate above this. The rate is also inflated in the year by the adjustments for (a) the £67,000 adjustment to the Redstone consideration, (b) the £366,000 contingent consideration relating to the Totility acquisition, and (c) the £79,000 costs of the Totility acquisition not being tax-relievable, as is a proportion of the amortisation of the intangible relating to the District customer relationships.

Dividends

A final dividend for 2010 of 4.6p per share (£482,000 in total) was paid on 28 April 2011, and an interim dividend for 2011 of 4.6p (£483,000) was paid on 7 October 2011.

It is proposed to pay a final dividend of 6.0p in respect of 2011 on 26 April to shareholders on the register at the close of business on 23 March, representing a 30% increase on the 2010 final dividend. The corresponding ex-dividend date will be 21 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 2011.

Consolidated statement of financial position

The consolidated statement of financial position remains sound, with £2.953m of cash (£986,000 of this payable to the Totility shareholders as described below) and no debt at 31 December 2011.

Trade receivables have increased by £148,000 over the year, with the inclusion of £296,000 of Totility trade receivables offsetting a net reduction in the existing Group companies. Other receivables have reduced by £159,000 with the £175,000 indemnity from Redstone at the previous year end having been partly settled and partly expensed. Prepayments have increased by £469,000 due to the inclusion of Totility prepayments and accrued income relating to equipment installations spanning the year end.

The value of maintenance stock has reduced by £29,000 in the year, to £592,000, the net result of purchases, disposals and provisioning. The value of stock held for resale has fallen from £380,000 to £130,000 reflecting different stages of invoicing and completion of cross-period installations year to year.

Trade payables have reduced by £175,000 despite the inclusion of Totility trade payables of £87,000, largely due to a different phasing in equipment purchasing and a change in a services provider to one which requires a month end direct debit. Other tax and social security liability has decreased by £173,000 largely due to a change in HMRC regime, whereby monthly VAT payments are now made, with inclusion of an £82,000 Totility VAT liability partly countering this.

Accruals have increased £1.488m year on year, with the accrual of the £986,000 payment due in respect of Totility's net assets together with around two months' worth (£366,000) of the expected Totility earnout, the latter accrual being expensed in the income statement.

Deferred maintenance income has reduced by £209,000, due mainly to the 2010 figure including the £141,000 in respect of the Redstone performance obligation liability adjustment which has been released to the income statement in 2011, together with the effects of the reduced maintenance base. Other deferred income has reduced by £297,000 mirroring the reduction in stock arising from the year end installation profile.

The Group corporation tax liability increased by £642,000 in the year, to £1.008m, reflecting the increased profits of the Group, and including a £510,000 liability relating to Totility, which was not required to pay in instalments and so has a relatively high liability at the year end.

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

Intangible assets

The Group has four 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 Totility, (iii) goodwill relating to the District, Redstone and Totility acquisitions, and (iv) a licence for billing software.

£551,000 was added to Goodwill during the year, in respect of the Totility acquisition. Goodwill is subject to an impairment test at each reporting date. No impairment has been charged to the consolidated statement of comprehensive income in 2011 (2010 - £Nil), and the carrying value is £1.026m at 31 December 2011 (2010 - £475,000).

The intangible assets represented by purchased customer contracts and relationships were supplemented by the addition of contracts valued at £2.998m arising from the Totility acquisition during the year. The intangible assets 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 Totility customer relationships. £491,000 was amortised in 2011 (2010 - £303,000), leaving a carrying value of £4.220m (2010 - £1.713m).

The billing software is amortised over a three year period and is subject to an annual impairment review. The amortisation charge in the period was £32,000, leaving a carrying value of £11,000 (2010 - £43,000) at year end.

Cash flow

At 31 December 2011 the Group had cash and bank balances of £2.953m (2010 - £2.459m), unrestricted other than £986,000 of this – representing the net assets of Totility at the date of acquisition – subsequently paid to the sellers of Totility in accordance with the terms of the acquisition.

Cash generated from operating activities in the year was £3.314m, out of which £965,000 was paid in dividends, £826,000 in corporation tax and a net £927,000 (£2.435m gross less £1.508m cash acquired with the company) on the Totility acquisition (excluding £79,000 of expenses).

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 JDS 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 28 February 2013.

Outlook

All 3 divisions of the Group are currently trading in line with expectations and we have a healthy pipeline of new business opportunities. We are also working on a number of new developments with our system integrator partners that have the potential to generate further new business opportunities in 2012.

We are encouraged by our cross-selling opportunities with many of our existing customers expressing an interest in taking a multi-product offering from Maintel, in particular our new portfolio of mobile and network monitoring services.

With the market consolidating at a renewed pace, we remain alert to acquisition opportunities that can enhance our service offering.

Notwithstanding the broader macro-economic environment, the Board remains confident in the financial outlook for the year ahead.

E Buxton
Chief Executive
9 March 2012

Board of directors

John Booth, 53,

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, 51,

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, 45,

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, 53,

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, 45,

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 12 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 John Booth, Eddie Buxton and Nicholas Taylor all retire by rotation at the forthcoming annual general meeting and they offer themselves 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 a year. The committee's report to shareholders on directors' remuneration is set out on page 16.

Nomination committee

The nomination committee had two members during 2011, 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	14	13	14	14	14	13
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 4 to 11 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.

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 5 to 11.

The Group has sound financial resources, including a revolving credit facility with a director, J D S 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 2012 with increases of between 1.9% and 2.2% 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 2011 was as follows:

	Salaries/fees £000	Benefits £000	Bonus £000	Pension contributions £000	Total 2011 ⁽¹⁾ £000	Total 2010 ^(1,2) £000
J D S Booth	33	-	-	-	33	31
N J Taylor	20	-	-	-	20	19
E Buxton	135	12	37	4	188	173
A J McCaffery	155	18	10	4	187	157
W D Todd	131	12	35	-	178	156
	474	42	82	8	606	536

(1) Excluding social security costs in respect of the above amounting to £74,000 (2010 - £62,000).

(2) Including bonuses of £50,000, employer pension contributions of £8,000 and benefits of £42,000, so that salaries amounted to £436,000.

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 19.

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, with an exercise price of £3.00 per share. This option vested on 3 January 2012, the first date after 18 May 2009 that the mid market price of the Company's ordinary shares was £3.00 or more.

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. The option vested and may be exercised from the date of grant, and expires on 23 December 2019.

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.

Share options (continued)

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

	2011 Number of options	2011 WAEP	2010 Number of options	2010 WAEP
Outstanding at the beginning of the year	289,545	215p	397,363	202p
Granted during the year	30,000	243p	-	-
Lapsed during the year	-	-	(107,818)	169p*
Outstanding at the end of the year	319,545	218p	289,545	215p

* exercise price was variable, this being the average mid-market price during the year.

The Company's mid-market share price at 31 December 2011 was 275p per share, and the high and low prices during the year were 195p and 275p 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 9 March 2012.

N J Taylor
Chairman of the Remuneration committee

Report of the directors for the year ended 31 December 2011

The directors present their annual report together with the audited financial statements for the year ended 31 December 2011.

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 24 and shows the profit of the Group for the year.

During the year the Company paid a final dividend of 4.6p per ordinary share in respect of the 2010 financial year, amounting to £482,000 (2010 – an equivalent second interim dividend of 4.1p and a special interim dividend in respect of 2009 of 2.9p per share, amounting to £441,000 and £312,000 respectively), and an interim dividend in respect of 2011 of 4.6p per share, amounting to £482,000 (2010 – 3.9p and £420,000 respectively). The directors propose the payment of a final dividend in respect of 2011 of 6.0p per share. The cost of the proposed dividend, based on the number of shares in issue as at 9 March 2012, is £640,000.

Business review

A review of the business and future developments of the Group is set out in the Business review on pages 5 to 11.

Directors

The directors of the Company as at 31 December 2011 and their interests in the ordinary shares of the Company at that date are shown in the table below.

Number of 1p ordinary shares

	2011 Beneficial	2011 Non-Beneficial	2010 Beneficial	2010 Non-Beneficial
J D S Booth	2,757,672	-	2,756,717	-
E Buxton	2,759	71,363	1,998	64,921
A J McCaffery	2,168,310	-	2,167,436	-
N J Taylor	13,499	67,623	12,590	61,329
W D Todd	5,622	68,500	4,748	62,171

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 1,486 shares in total. There were no other changes in the directors' shareholdings between 31 December 2011 and 9 March 2012.

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 9 March 2012 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	14.8%
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	380,203	3.6%

Employees

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

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

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

Environment

The Group acknowledges its responsibilities to environmental matters and where practicable adopts environmentally sound policies in its working practices, such as recycling paper 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

177,778 shares were issued during the year, as part of the consideration for the acquisition of Totility Limited.

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 1,571,971 shares. A fresh authority, for the purchase of up to 1,598,620 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 (2010 – £5,000) during the year. No contributions were made to political organisations (2010 – £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 2011 was 26 days (2010 – 38 days). The Company's average creditor payment period at 31 December 2011 was 13 days (2010 – 9 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.

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 revenues have continued to grow significantly during 2011. The development of VoIP is constantly monitored so that the Group may take advantage of profitable business models as and when they appear.

The Group is potentially subject to new pricing strategies by both competitors and suppliers, whether due to their own internal policies, in response to technological change or, in the case of call minutes and line rentals, potential regulatory change. The directors monitor margins closely and take action where appropriate.

The Group has a symbiotic relationship with Cable & Wireless Worldwide, such that Cable & Wireless Worldwide constitutes a significant share of its maintenance base. Should this relationship 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, with the Redstone acquisition having the same effect by increasing the size of the base.

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.

Totility 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 Totility's revenues is recurring, the company's growth is 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 Totility's products and services can be affected by regulatory bodies in the UK and the EU. For example EU roaming mobile voice and data retail prices have been substantially altered and this has had an impact on the results of the business. 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 20th April 2012 at 10.45am.

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

9 March 2012

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 2011 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 2011 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
9 March 2012

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 2011

	Note	2011 £000	2010 £000
Revenue	3	25,914	22,008
Cost of sales		16,931	14,094
Gross profit		8,983	7,914
Administrative expenses			
Adjustment to contingent consideration	11	67	-
Contingent consideration treated as remuneration	11	366	-
Intangibles amortisation	11	523	335
Other administrative expenses		4,966	4,935
		5,922	5,270
Operating profit	6	3,061	2,644
Financial income	7	23	29
Profit before taxation		3,084	2,673
Taxation	8	977	765
Profit and total comprehensive income attributable to owners of the parent		2,107	1,908
Earnings per share			
Basic	10	20.0p	17.8p
Diluted	10	19.9p	17.8p

The notes on pages 28 to 47 form part of these financial statements.

Consolidated statement of financial position at 31 December 2011

	Note	2011 £000	2011 £000	2010 £000	2010 £000
Non current assets					
Intangible assets	11		5,257		2,231
Property, plant and equipment	13		224		202
			5,481		2,433
Current assets					
Inventories	14	722		1,001	
Trade and other receivables	15	4,019		3,561	
Cash and cash equivalents		2,953		2,459	
			7,694		7,021
			13,175		9,454
Current liabilities					
Trade and other payables	16		7,827		6,971
Current tax liabilities			1,008		366
			8,835		7,337
Non current liabilities					
Deferred tax liability	18		697		3
			3,643		2,114
Equity					
Issued share capital	19		107		105
Share premium	20		1,013		628
Capital redemption reserve	20		31		31
Retained earnings	20		2,492		1,350
			3,643		2,114

The financial statements were approved and authorised for issue by the Board on 9 March 2012 and were signed on its behalf by:

W D Todd
Director

The notes on pages 28 to 47 form part of these financial statements.

Consolidated statement of changes in equity for the year ended 31 December 2011

	Share capital £000	Share premium £000	Capital redemption reserve £000	Retained earnings £000	Total £000
At 1 January 2010	108	628	28	1,102	1,866
Profit and total comprehensive income for year	-	-	-	1,908	1,908
Dividend	-	-	-	(1,173)	(1,173)
Movements in respect of purchase of own shares	(3)	-	3	(487)	(487)
At 31 December 2010	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

The notes on pages 28 to 47 form part of these financial statements.

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

	2011 £000	2010 £000
Operating activities		
Profit before taxation	3,084	2,673
Adjustments for:		
Intangibles amortisation	523	335
Depreciation charge	107	101
Loss on disposal of tangible fixed assets	15	-
Interest received	(23)	(29)
Operating cash flows before changes in working capital	3,706	3,080
Decrease/(increase) in inventories	284	(188)
Increase in trade and other receivables	(109)	(431)
(Decrease)/increase in trade and other payables	(567)	1,656
Cash generated from operating activities	3,314	4,117
Tax paid	(826)	(822)
Net cash flows from operating activities	2,488	3,295
Investing activities		
Purchase of plant and equipment	(125)	(111)
Purchase price in respect of business combination	(2,435)	(1,600)
Net cash acquired with subsidiary undertaking	1,508	-
	(927)	(1,600)
Interest received	23	29
Net cash flows from investing activities	(1,029)	(1,682)
Financing activities		
Repurchase of own shares for cancellation	-	(487)
Equity dividends paid	(965)	(1,173)
Net cash flows from financing activities	(965)	(1,660)
Net increase/(decrease) in cash and cash equivalents	494	(47)
Cash and cash equivalents at start of period	2,459	2,506
Cash and cash equivalents at end of period	2,953	2,459

The notes on pages 28 to 47 form part of these financial statements.

Notes forming part of the financial statements

for the year ended 31 December 2011

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 48.

(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 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 when the customer contract has been accepted by the network operator and is therefore legally binding, after providing for expected future clawbacks. 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. 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.

(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 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 or taxable profit; and
- investments in subsidiaries where the Group is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

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

The amount of the deferred tax asset or liability is determined using tax rates that have been enacted or substantively enacted by the 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 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 intangibles amortisation and adjustments	3,008	793	171	(17)	3,955
Customer relationship intangibles amortisation	(273)	(80)	-	(170)	(523)
Operating profit before adjustments	2,735	713	171	(187)	3,432
Adjustment to contingent consideration (note 11)	-	-	-	(67)	(67)
Redstone deferred income less costs (note 11)	141	-	-	-	141
Contingent consideration treated as remuneration (note 11)	-	-	-	(366)	(366)
Costs relating to acquisition of Totility	-	-	-	(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

Revenue is wholly attributable to the principal activities of the Group and other than sales of £20,000 (2010 - £10,000) to other EU countries arises predominantly within the United Kingdom.

Maintenance and equipment revenue consists of maintenance related revenue of £12.948m and equipment, installation and other revenue of £6.492m (2010 - £11.678m and £4.713m). Network services revenue consists of call traffic revenue of £2.613m, line rental revenue of £2.457m, data services revenue of £0.660m and other revenue of £0.306m (2010 - £2.690m, £2.282m, £0.594m and £0.250m). Mobile revenue consists principally of commissions receivable from network operators.

Intercompany trading consists of telecommunications services, and recharges of sales, engineering and rent costs, £48,000 (2010 - £48,000) attributable to the Maintenance and equipment segment and £115,000 (2010 - £151,000) to the Network services segment.

In 2011 the Maintenance and equipment division had one customer (2010 - One) which accounted for more than 10% of its revenue, totalling £5.021m (2010 - £5.201m).

Segment information (continued)

Year ended 31 December 2011	Maintenance and equipment £000	Network services £000	Mobile £000	Central / inter-company £000	Total £000
Other					
Capital expenditure	125	-	-	-	125
Depreciation	106	-	1	-	107
Amortisation	273	80	-	170	523

Year ended 31 December 2010	Maintenance and equipment £000	Network services £000	Central / inter-company £000	Total £000
Segment revenue before adjustment	16,286	5,816	(199)	21,903
Redstone deferred income less costs	105	-	-	105
Revenue	16,391	5,816	(199)	22,008
Operating profit before customer relationship intangibles amortisation and Redstone adjustments	2,491	540	(14)	3,017
Customer relationship intangibles amortisation	(62)	(48)	(193)	(303)
Operating profit before adjustments	2,429	492	(207)	2,714
Redstone redundancy costs (note 11)	(175)	-	-	(175)
Redstone deferred income less costs (note 11)	105	-	-	105
Operating profit	2,359	492	(207)	2,644
Interest (net)				29
Profit before taxation				2,673
Taxation				(765)
Profit and total comprehensive income for the period				1,908

Year ended 31 December 2010	Maintenance and equipment £000	Network services £000	Central / inter-company £000	Total £000
Other				
Capital expenditure	111	-	-	111
Depreciation	101	-	-	101
Amortisation	62	80	193	335

4 Employees

The average number of employees, including directors, during the year was:

	2011	2010
	Number	Number
Corporate and administration	23	21
Sales and customer service	61	58
Technical and engineering	97	86
	181	165

Staff costs, including directors, consist of:

	2011	2010
	£000	£000
Wages and salaries	8,529	7,665
Social security costs	998	856
Pension costs	152	143
	9,679	8,664

In addition to the above, the comprehensive income statement includes £366,000 of contingent consideration in respect of the Totility acquisition which is treated as a remuneration expense (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 £26,000 (2010 - £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:

	2011	2010
	£000	£000
Directors' emoluments	598	527
Pension contributions	8	8
	606	535

Included in the above is the remuneration of the highest paid director as follows:

	2011	2010
	£000	£000
Directors' emoluments	184	169
Pension contributions	4	4
	188	173

The Group paid contributions into defined contribution personal pension schemes in respect of 2 (2010 - 2) directors during the year.

6 Operating profit

This has been arrived at after charging:

	2011	2010
	£000	£000
Depreciation of property, plant and equipment	107	101
Amortisation of intangible fixed assets	523	335
Loss on disposal of tangible fixed assets	15	-
Operating lease rentals		
- property	157	158
- plant and machinery	89	65
Auditors' remuneration		
- audit services – Company	8	8
- other services relating to taxation – Group	4	9
- audit services relating to subsidiary undertakings – Group	61	53
- other services – Group	16	3

7 Financial income

	2011	2010
	£000	£000
Bank and other interest received	23	29

8 Taxation

	2011	2010
	£000	£000
<i>UK corporation tax</i>		
Corporation tax on profits of the period	1,005	808
Prior year adjustment	5	-
	1,010	808
Deferred tax	(33)	(43)
Taxation on profit on ordinary activities	977	765

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:

	2011	2010
	£000	£000
Profit before tax	3,084	2,673
Profit at the standard rate of corporation tax in the UK of 26.5% (2010 – 28%)	817	749
<i>Effect of:</i>		
Expenses not deductible for tax purposes	38	20
Goodwill impairment	-	(4)
Intangible amortisation not attracting tax relief	16	-
No tax relief on contingent consideration treated as remuneration (note 11)	97	-
Prior year adjustment	5	-
Other timing differences	4	-
	977	765

9 Dividends paid on ordinary shares

	2011	2010
	£000	£000
Second interim 2009, paid 25 March 2010 – 4.1p per share	-	441
Special interim 2009, paid 25 March 2010 – 2.9p per share	-	312
Interim 2010, paid 1 October 2010 – 3.9p per share	-	420
Final 2010, paid 28 April 2011 – 4.6p per share	482	-
Interim 2011, paid 7 October 2011 – 4.6p per share	483	-
	965	1,173

The directors propose the payment of a final dividend for 2011 of 6.0p (2010 – 4.6p) per ordinary share, payable on 26 April 2012 to shareholders on the register at 23 March 2012. The cost of the proposed dividend, based on the number of shares in issue as at 9 March 2012, is £640,000 (2010 – £483,000).

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:

	2011	2010
	£000	£000
Earnings used in basic and diluted EPS, being profit after tax	2,107	1,908
<i>Adjustments:</i>		
Amortisation of intangibles	491	303
Non-trading accounting adjustments re Redstone acquisition (note 11)	(141)	70
Adjustment to contingent consideration (note 11)	67	-
Contingent consideration treated as remuneration (note 11)	366	-
Costs relating to the acquisition of Totility	79	-
Tax relating to above adjustments	(76)	(108)
Adjusted earnings used in adjusted EPS	2,893	2,173
	Number	Number
	000s	000s
Weighted average number of ordinary shares of 1p each	10,521	10,693
Potentially dilutive shares	41	25
	10,562	10,718
<i>Earnings per share</i>		
Basic	20.0p	17.8p
Basic and diluted	19.9p	17.8p
Adjusted – as above but after the adjustments in the table above	27.5p	20.3p
Adjusted and diluted	27.4p	20.3p

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

On 21 October 2011 the Company issued 177,778 ordinary shares as part of the consideration of the acquisition of Totility Limited.

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	Customer	Computer	Total
	£000	relationships	software	£000
	£000	£000	£000	£000
<i>Cost</i>				
At 1 January 2010	664	1,413	91	2,168
Acquired in the year	128	1,448	-	1,576
At 31 December 2010	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
<i>Amortisation and impairment</i>				
At 1 January 2010	317	845	16	1,178
Amortisation in the year	-	303	32	335
At 31 December 2010	317	1,148	48	1,513
Amortisation in the year	-	491	32	523
At 31 December 2011	317	1,639	80	2,036
<i>Net book value</i>				
At 31 December 2011	1,026	4,220	11	5,257
At 31 December 2010	475	1,713	43	2,231

Intangible assets (continued)

On 21 October 2011 the Company acquired the entire share capital of Totility Limited at the following valuations:

	£000 (provisional)
<i>Purchase consideration</i>	
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	<u>3,808</u>
<i>Assets and liabilities acquired</i>	
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)
	<u>986</u>
Customer relationships	2,998
Deferred tax on customer relationships	(727)
Total assets and liabilities acquired	<u>3,257</u>
Goodwill	<u>551</u>

Totility 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 will be credited to the income statement pro rata to the amortisation of the customer relationships. The amortisation charge in 2011 is £83,000. Costs related to the Totility acquisition amounted to £79,000. It is impractical to estimate the results of the acquisition had it been effected on 1 January 2011 due to the lack of management information for that period. Post-acquisition it contributed £175,000 profit before tax to Group results.

A contingent consideration is payable to the sellers of Totility dependent on the adjusted gross profit of the company in the 12 (in certain circumstances 13) months following its acquisition. The maximum contingent consideration payable is £4.0m, and based on the company's budgets the estimated consideration will be £2.0m. This payment in normal circumstances is conditional on the continued employment of T McKeever (one of the sellers) by Totility. 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 £366,000 in 2011.

On 29 October 2010 certain business and assets of Redstone Converged Services Limited and Marcom Communications Limited were acquired at the following valuations:

	£000
<i>Purchase consideration</i>	
Net consideration in cash	1,600
Indemnity received for redundancy costs	(175)
Net consideration	<u>1,425</u>
<i>Assets and liabilities acquired</i>	
Customer contracts	1,448
Stock	95
Performance obligation liability	(246)
	<u>1,297</u>
Goodwill	<u>128</u>

The business and assets were acquired in order to further enhance the Group's maintenance base, and in particular its development of its Avaya capabilities. The Group acquired no shares in either company as part of the acquisition.

The Redstone customer relationships are estimated to have a useful life of six years and are therefore amortised over that period and are subject to an annual impairment review. The amortisation charge in 2011 in respect of the Redstone acquisition is £241,000 (2010 - £40,000).

£141,000 of the revenue from the performance obligation liabilities (being the net of the liability to service customers for which the Group has received no payment and equivalent deferred costs) has been included in revenue in 2011 (2010 - £105,000).

Of the £175,000 indemnity for redundancy costs deducted from consideration above, £108,000 was recovered from Redstone, the shortfall of £67,000 being an adjustment to consideration which has been expensed in the income statement.

Intangible assets (continued)**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 is subject to an annual impairment review.

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

Goodwill

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

	2011	2010
	£000	£000
Maintel Voice and Data Limited	202	202
Maintel Europe Limited	273	273
Totility Limited	551	-
	1,026	475

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 2011 (2010 - £Nil).

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 2011 (2010 - £Nil).

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 2011 (2010 - £Nil).

Goodwill of £551,000 arose on the Totility 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 2011.

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 2011, leaving a net balance of £185,000 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

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
<i>Cost or valuation</i>			
At 1 January 2010	69	848	917
Additions	27	84	111
Disposals	-	(76)	(76)
At 31 December 2010	96	856	952
Additions	41	84	125
On acquisition of Totility	32	18	50
Disposals	(32)	(50)	(82)
At 31 December 2011	137	908	1,045
<i>Depreciation</i>			
At 1 January 2010	68	657	725
Provided in year	4	97	101
Disposals	-	(76)	(76)
At 31 December 2010	72	678	750
Provided in year	15	92	107
On acquisition of Totility	17	14	31
Disposals	(17)	(50)	(67)
At 31 December 2011	87	734	821
<i>Net book value</i>			
At 31 December 2011	50	174	224
At 31 December 2010	24	178	202

14 Inventories

	2011	2010
	£000	£000
Maintenance stock	592	621
Stock held for resale	130	380
	722	1,001
Cost of inventories recognised as an expense	3,568	2,479

Provisions of £64,000 were made against the Maintenance stock in 2011 (2010 - £109,000), with no reversal of provisions having been made in either year.

15 Trade and other receivables

	2011	2010
	£000	£000
Trade receivables	2,497	2,349
Other receivables	25	184
Prepayments and accrued income	1,497	1,028
	4,019	3,561

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

16 Trade and other payables

	2011	2010
	£000	£000
Trade payables	1,089	1,264
Other tax and social security	838	1,011
Accruals	2,124	636
Other payables	250	28
Deferred maintenance income	3,491	3,700
Other deferred income	35	332
	7,827	6,971

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	
	2011	2010
	£000	£000
<i>Current financial assets</i>		
Trade receivables	2,497	2,349
Cash and cash equivalents	2,953	2,459
Other receivables	25	184
	5,475	4,992
	Financial liabilities measured at amortised cost	
	2011	2010
	£000	£000
<i>Current financial liabilities</i>		
Trade payables	1,089	1,264
Other payables	250	28
	1,339	1,292

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 £139,000 is provided at 31 December 2011 (2010 - £120,000). 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 2011 owed the Group £163,000 including VAT (2010 - £191,000).

The movement on the provision is as follows:

	2011	2010
	£000	£000
Provision at start of year	120	110
Provision used	(29)	(23)
Additional provision made	48	33
Provision at end of year	139	120

Financial instruments (continued)

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:

	2011	2010
	£000	£000
Up to 30 days overdue	795	525
31-60 days overdue	298	278
More than 60 days overdue	60	30
	1,153	833

Cash and cash equivalents at 2011 and 2010 year ends represented short term deposits with LloydsTSB, Santander and Standard Life.

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 2011 was £1,000 (2010 – £Nil). 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 (£23,000 in 2011, and £29,000 in 2010) is therefore dependent on those prevailing rates, which were at a historically low level during 2011 and 2010.

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 2010	(20)	67	-	47
Charge/(credit) to consolidated statement of comprehensive income	14	(58)	-	(44)
At 31 December 2010	(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

The deferred tax liability represents (a) a liability established under IFRS on the recognition of an intangible asset in relation to the Totility acquisition (and in 2010, the District acquisition), and (b) a liability represented by the tax value of capital allowances claimed in the accounts in excess of depreciation provided, and is calculated using the tax rates at which the liabilities are expected to reverse.

19 Share capital

	2011 £000	2010 £000
<i>Authorised</i>		
17,571,840 ordinary shares of 1p each	176	176
<i>Allotted, called up and fully paid</i>		
10,664,578 (2010 - 10,486,800) ordinary shares of 1p each	107	105

177,778 shares were issued during the year, as part of the consideration for the acquisition of Totility Limited.

20 Reserves

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

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

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

The directors propose the payment of a final dividend in respect of 2011 of 6.0p 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 16 describes the options granted over the Company's ordinary shares.

In aggregate, options are outstanding over 3.0% 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 2011, the Group had future minimum rentals payable under non-cancellable operating leases as set out below.

	2011 Land and buildings £000	2011 Other £000	2010 Land and buildings £000	2010 Other £000
The total future minimum lease payments are due as follows:				
Not later than one year	158	67	155	50
Later than one year and not later than five years	39	53	196	84
	197	120	351	134

The commitment relating to land and buildings is in respect of the Group's London offices, the primary lease on which expires in September 2014 in normal circumstances, with a tenant's break option in March 2013, at an annual rental of £149,550. The remaining commitment relates to contract hired motor vehicles, which are typically replaced on a 3 year rolling cycle.

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:

	2011 £000	2010 £000
Short term employment benefits	948	978
Contributions to defined contribution pension scheme	15	16
	963	994

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 2011 and 2010 amounted in aggregate to less than £1,000 in each case.

The Group traded during the year with Imaginarium Film Holdings Limited, a company in which J D S Booth and N J Taylor are shareholders and of which they are directors. Imaginarium purchased telecommunication services from the company in the year amounting to £2,222 net of VAT (2010 - £Nil), of which £351 (2010 - £Nil) 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 £11,237 net of VAT (2010 - £10,921), of which £463 (2010 - £31) 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 28 February 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 has consequently been expensed in the 2011 income statement. The contingent consideration due in relation to the Totility acquisition has also been estimated, and the appropriate 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 2011 - prepared under UK GAAP

	Note	2011 £000	2011 £000	2010 £000	2010 £000
Fixed assets					
Investment in subsidiaries	5		6,497		2,323
Current assets					
Debtors	6	190		182	
Cash at bank and in hand		44		1,175	
		234		1,357	
Creditors: amounts falling due within one year	7	1,642		295	
Net current (liabilities)/assets			(1,408)		1,062
Total assets less current liabilities			5,089		3,385
Capital and reserves					
Called up share capital	8		107		105
Share premium	9		1,013		628
Capital redemption reserve	9		31		31
Profit and loss account	9		3,938		2,621
Shareholders' funds			5,089		3,385

The financial statements were approved and authorised for issue by the Board on 9 March 2012 and were signed on its behalf by:

W D Todd
Director

The notes on pages 49 to 52 form part of these financial statements.

Notes forming part of the Company financial statements for the year ended 31 December 2011

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 of employment required of the seller.

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 £2,282,000 (2010 – £2,041,000).

4 Dividends paid on ordinary shares

	2011 £000	2010 £000
Second interim 2009, paid 25 March 2010 – 4.1p per share	-	441
Special interim 2009, paid 25 March 2010 – 2.9p per share	-	312
Interim 2010, paid 1 October 2010 – 3.9p per share	-	420
Final 2010, paid 28 April 2011 – 4.6p per share	482	-
Interim 2011, paid 7 October 2011 – 4.6p per share	483	-
	965	1,173

The directors propose the payment of a final dividend for 2011 of 6.0p (2010 – 4.6p) per ordinary share, payable on 26 April 2012 to shareholders on the register at 23 March 2012.

5 Investment in subsidiaries

	Shares in subsidiary undertakings
	£000
<i>Cost</i>	
At 31 December 2010	2,403
Additions in year	3,808
Estimated contingent consideration accrued in the period	366
At 31 December 2011	6,577
<i>Provision for impairment</i>	
At 31 December 2010 and 31 December 2011	80
<i>Net book value</i>	
At 31 December 2011	6,497
At 31 December 2010	2,323

On 21 October 2011 the Company acquired the entire share capital of Totility Limited at the following valuations:

	£000
	(provisional)
<i>Purchase consideration</i>	
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

A contingent consideration is payable to the sellers of Totility dependent on the adjusted gross profit of the company in the 12 (in certain circumstances 13) months following its acquisition. The maximum contingent consideration payable is £4.0m, and based on the company's budgets the estimated consideration will be £2.0m. £366,000 has been included in the cost of acquisition, representing an amount pro rata to the estimated contingent consideration.

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

Maintel Europe Limited

Maintel Voice and Data Limited

Totility Limited

Each is wholly owned and incorporated in England and Wales.

6 Debtors

	2011	2010
	£000	£000
Amounts owed by subsidiary undertakings	176	173
Other debtors	11	2
Prepayments and accrued income	1	4
Corporation tax recoverable	2	3
	190	182

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

7 Creditors

	2011	2010
	£000	£000
Amounts due to subsidiary undertakings	290	284
Trade creditors	5	1
Accruals and deferred income	1,347	10
	1,642	295

8 Share capital

	2011	2010
	£000	£000
<i>Authorised</i>		
17,571,840 ordinary shares of 1p each	176	176
<i>Allotted, called up and fully paid</i>		
10,664,578 (2010 - 10,486,800) ordinary shares of 1p each	107	105

177,778 shares were issued during the year, as part of the consideration for the acquisition of Totility Limited.

The Remuneration Committee's report on page 16 of the consolidated accounts of Maintel Holdings Plc describes the options granted over the Company's ordinary shares during the year.

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 2010	108	628	28	2,240	3,004
Profit for year	-	-	-	2,041	2,041
Dividends paid	-	-	-	(1,173)	(1,173)
Movements in respect of purchase of own shares	(3)	-	3	(487)	(487)
At 31 December 2010	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

It is proposed to pay a final dividend for 2011, of 6.0p per share, on 26 April 2012; this dividend is not provided for in these financial statements.

10 Related party transactions

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 20 April 2012, at 10.45 am, for the following purposes:

Ordinary business

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

1. To receive and adopt the financial statements of the Company for the year ended 31 December 2011, 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 2011.
3. To re-elect Mr J D S Booth 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-elect Mr E Buxton 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.
5. To re-elect Mr N J Taylor 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.
6. 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 7 will be proposed as an ordinary resolution and resolutions 8 and 9 as special resolutions:

7. 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 £35,548, 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.

8. 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 subparagraph (a) above) of equity securities up to an aggregate nominal value of £10,664.

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

9. That the Company is, pursuant to Section 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 1,598,620 ordinary shares of 1p each in its capital (representing 14.99% of the Company's current issued ordinary share capital), provided that:

Special business (continued)

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 2012

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 48 hours before the time fixed for the meeting. 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 Uncertified Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the Company as at 6.00 pm on 18 April 2012, 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 18 April 2012 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
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www.maintel.co.uk
