interim results for the six months to 30 June 2010

Maintel Holdings Plc

Page

Highlights

Financial highlights

Revenue up by £1.179m on H109 to £10.580m, an increase of 13%

Adjusted profit before tax of £1,482,000 (H109 – £1,128,000); adjusted profit before tax is basic profit before tax of £1,350,000 (H109 – £967,000), adjusted for goodwill impairment and intangibles amortisation

Adjusted earnings per share of 9.8p (H109 – 7.5p); adjusted earnings per share is basic and diluted earnings per share of 9.0p (H109 – 6.3p), adjusted for goodwill impairment and intangibles amortisation

Maintenance base increased to over £11m at 30 June 2010

Cash of £3.0m at 30 June 2010 (31 December 2009 – £2.5m) after paying a dividend of £753,000 – including a special dividend of £312,000 – and taxation of £380,000

Interim dividend proposed of 3.9p per share (2009 – 3.1p)

Operational highlights

Significant maintenance contract from a major customer commenced in February 2010, with similar contract commenced in July

Outsourcing and agency agreement signed in June 2010 with Westcon enhancing the Group's Avaya offering

Chairman's statement

The Group has enjoyed a good first half of the current year in spite of generally subdued economic conditions and Maintel's overall revenue has grown by 13% compared with the first half of 2009, delivering an increase of 31% in adjusted profits and taking adjusted earnings per share up 31% to 9.8p.

The maintenance business continued its strong growth with our core client base standing at over £11m in value at period end and our relationships with integrators developing more broadly. There has been some evidence of the recession taking its toll on some smaller customers but attrition levels have been generally good. Equipment sales have rebounded with one or two large orders in particular and provide good visibility for H210. As usual this pick up on the equipment side has had a moderating effect on overall group margins because of pricing but it has not so far required any increase in engineering capacity and we remain careful about taking on a higher cost base driven by equipment sales alone while business conditions otherwise remain relatively slow.

We were pleased to achieve a major strategic goal by signing in June a minimum three year agreement with Westcon which gives us for the first time front line Avaya expertise, adds a further 1,400 clients to our base and brings with it experienced technical and engineering staff. There will be a short term impact on margins in H210 as we transition these clients to Maintel and further build our Avaya base but we see good organic growth potential and acquisition opportunities in this area. This agreement further enables us to bring a quantity of outsourced contracts back in house as well as to tender for a whole new area of business and also places us as the preferred maintainer of any new business Westcon signs.

Network services also experienced modest year on year growth but with an improved business mix as line rentals grew, but call traffic and pricing contracted in line with economic conditions. Margins improved with buy-in rates remaining soft and economies of scale helped us to streamline this part of our business. We have invested in sales capacity in this division and are optimistic that top line growth will return to previous levels as the business environment improves.

Looking forward, we enter the second half of 2010 with a good quality pipeline, a strong balance sheet – over £3m in cash and no debt – and cash flow remaining strong. Government contracts are overall a comparatively modest part of our business with the bulk of this being in healthcare, court services and policing. A range of integrator relationships is maturing well and the newly added Avaya capability gives us confidence that H210 will remain at least in line with budgets. We are therefore proposing an interim dividend of 3.9p payable on 1 October 2010.

As always, I would like to conclude with thanks to our hardworking and loyal staff whose commitment has achieved these results.

J D S Booth
Chairman

3 September 2010

Results

The first half of 2010 has seen revenue increase by 13% over the equivalent period last year with adjusted profit before tax (described below) increasing by £354,000, or 31%. The adjusted earnings per share was up 2.3p, or 31%. The increase in revenue was attributable to strong performances in both divisions with maintenance and equipment increasing by 16% and network services division by 6% year on year.

Group gross margin percentages remained constant year on year, however they were lower than the second half of 2009 in the maintenance and equipment division due to the key factors described in further detail below.

	H1 2010 £000	H1 2009 £000	H2 2009 £000	2009 £000
Revenue	10,580	9,401	9,993	19,394
Profit before tax	1,350	967	1,415	2,382
Add back goodwill impairment and intangibles amortisation	132	161	132	293
Adjusted profit before tax	1,482	1,128	1,547	2,675
Basic and diluted earnings per share	9.0p	6.3p	9.4p	15.7p
Adjusted earnings per share*	9.8p	7.5p	10.2p	17.7p

* Adjusted profit after tax divided by weighted average number of shares (note 3)

The Group continues to be strongly cash generative, with cash balances increasing by £512,000 in the first half to stand at just over £3.0m at 30 June, after corporation tax payments of £380,000 and dividend payments of £753,000, including a special dividend of £312,000. The Group has no debt.

Maintenance and equipment division

Revenue analysis (£000)	Six months to 30 June 2010	Six months to 30 June 2009	Year ended 31 Dec 2009
Maintenance related	5,588	4,924	10,289
Equipment, installations and other	2,171	1,785	3,572
Total maintenance and equipment	7,759	6,709	13,861
Division gross profit (£000)	3,157 (41%)	2,784 (41%)	5,828 (42%)
Average headcount during the period			
Sales, marketing and customer service	46	42	44
Engineers	79	81	79

The division achieved a notable increase in both maintenance and equipment revenue in the first half, compared with both H109 and H209.

Maintenance

Maintenance revenues increased by £223,000 over H209, with a significant order from the Group's largest customer going live in February.

Apart from the loss of one large customer in March, all other major contracts have renewed in the period, a continuing trend which is testament to the quality of service delivered by the Group. Overall we have experienced slightly higher attrition during the period, as smaller customers have been affected disproportionately by the economic environment.

As noted in the annual report, partnerships with other integrators continue to be developed and we are increasing our business from these; this is anticipated to build in the second half and beyond.

Equipment Sales

Equipment and related revenues increased by £384,000 over H209, as we signed and installed several more large projects compared with 2009. As noted in previous reports, these larger contracts are typically lower margin, and this contributed to the reduction in percentage gross margin over H209. An example is a significant equipment order that has been received for the supply and installation of a large number of systems nationwide over the course of the next few months, which will at least maintain the equipment sale run rate of the first half. Despite the margin on the equipment being below the normal criterion, the effective utilisation of engineer time in the installation of the systems makes the project sufficiently profitable to undertake.

Overall, the division's margins have been further impacted by a full six month support charge from a manufacturer which it has been only partially possible to pass on to customers and by the effects of renegotiated customer contracts in particular the framework agreement with the Group's largest customer, although this is also expected to result in improved contract security and greater exposure to new business opportunities.

With the acquisition of Nortel by Avaya referred to in previous reports, it has been strategically important for the Group to develop its Avaya expertise. To that end, an outsourcing and agency agreement was signed in June with Westcon, a significant Avaya dealer, to service its 1,400 customers for a minimum 3 year term, and to be the preferred maintainer to any new customers they sign. As part of this agreement, eight of Westcon's technical staff have joined Maintel, and two further Avaya-centric engineers have been recruited. Cross training of existing Maintel engineers is also being undertaken. This enhanced Avaya capability has already resulted in the Group being able to tender for work it couldn't previously, and various contracts previously backed off to other maintainers will now be brought in house.

The percentage margin in the second half will also be affected by the agreements signed with Westcon, where low margins are initially expected on an estimated £350,000 six months' revenue as we continue to build our capability in the Avaya marketplace.

Network services division

Revenue analysis (£000)	Six months to 30 June 2010	Six months to 30 June 2009	Year ended 31 Dec 2009
Call traffic	1,373	1,431	2,826
Line rental	1,148	936	2,048
Other	410	403	829
Total Network services	2,931	2,770	5,703
Division gross profit (£000)	750 (26%)	667 (24%)	1,400 (25%)

Revenues in the network services division increased over H109 and were virtually identical to H209, with gross margin improved on both periods.

The division lost two medium-sized customers in the period – one to administration and the other to a group outsourcing arrangement – however attrition was otherwise at a relatively low level, with losses being more than compensated by new signings, and a marginal swing from call traffic revenues to the more solid recurring line and data circuit rental revenues. The recession continues to impact on call volumes and pence per minute call charges.

Margins, however, have improved in the period, due to reduced buy-in rates and the continuing focus on streamlining systems, providers and procedures.

Administrative expenses, excluding goodwill impairment and intangibles amortisation

Administrative expenses (£000)	Six months to 30 June 2010	Six months to 30 June 2009	Year ended 31 Dec 2009
Sales expenses	1,133	1,011	2,080
Other administrative expenses (excluding goodwill impairment and intangibles amortisation)	1,236	1,260	2,372
Total other administrative expenses	2,369	2,271	4,452

Sales expenses remain tightly under control, but have increased in line with sales. Other administrative expenses are virtually identical to the first half of 2009, and also with the second half when the effects of holiday pay accrual are taken into account. Impairment and amortisation charges are detailed below.

Interest

Whilst the Group's cash resources have improved during the period, interest rates remain low, so that interest earned amounted to £13,000, although this compares favourably with £12,000 for the whole of 2009.

Taxation

The income statement shows an effective tax rate of 28.3% (2009 – 28.8%). The two main trading companies are taxed at 28.0% in 2010 (2009 – 28.0%), so that with disallowables the effective rate is above this, increased further in 2009 by a goodwill impairment charge which does not attract tax relief.

Consolidated statement of financial position

The consolidated statement of financial position remains strong, with £3.0m of cash (31 December 2009 – £2.5m) as noted above, after corporation tax payments of £380,000, dividend payments of £753,000 – including a special dividend of £312,000 – and share buy backs at a cost of £22,000. The Group has no debt.

No significant expenditure has been required on plant and equipment during the period, the main expenditure having been on improving IT security and resiliency.

Inventory values have increased to £780,000 at 30 June 2010, £62,000 up from the year end, with maintenance stocks having reduced by £20,000 due to regular provisioning, and stock held for resale – work in progress – having increased by £82,000.

As part of the agreement signed with Westcon, the Group took ownership of Avaya maintenance stock from Westcon, which has been incorporated in the Group's maintenance stock at nil value.

Creditors have increased due largely to a higher VAT liability arising from billing timing variances and the VAT rate change at the start of 2010, and the increase in holiday pay accrual.

Intangible assets

The Group has four intangible assets – (i) goodwill arising on the acquisition of Maintel Network Services Limited, (ii) an intangible asset represented by customer contracts and relationships acquired from District Holdings Limited and Callmaster Limited, (iii) goodwill relating to the District acquisition, and (iv) a licence of billing software.

Goodwill has been subject to an impairment test at each reporting date, and has not been subject to an impairment charge in 2010 (full year 2009 – £30,000), leaving a carrying value of £347,000.

The intangible asset relating to customer contracts and relationships has been subject to an amortisation charge of £132,000 (full year 2009 – £263,000), leaving a carrying value of £436,000 (end-2009 – £568,000).

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 £16,000, leaving a carrying value of £59,000 (end-2009 – £75,000). The amortisation on this intangible asset is not disclosed separately on the face of the income statement as it is more akin to depreciation than amortisation/impairment on the Group's other intangible assets.

Purchase of own shares

Further to the authority granted at the last AGM, the Company repurchased and cancelled 15,000 of its own shares in March 2010 at a price of 140–145p and a total cost of £22,000.

Market conditions and outlook

A further maintenance contract has been won from the Group's main customer, worth £550,000 pa, which commenced at the start of July, and the nationwide hardware order noted above has begun to be installed providing a good base for the second half, although the percentage margin in the maintenance and equipment division is expected to be lower as described earlier.

The sales pipeline remains strong, however, so that overall we anticipate further progress being made in the second half of 2010.

Dividend

In light of the satisfactory progress made in the first half, the board proposes an increased interim dividend of 3.9p per share (H109 – 3.1p).

Eddie Buxton
Chief Executive

3 September 2010

Consolidated statement of comprehensive income
for the six months to 30 June 2010

	Six months to 30 June 2010 £000 (unaudited)	Six months to 30 June 2009 £000 (unaudited)	Year ended 31 Dec 2009 £000 (audited)
Revenue	10,580	9,401	19,394
Cost of sales	6,742	6,005	12,279
Gross profit	3,838	3,396	7,115
Administrative expenses			
Goodwill impairment	-	30	30
Intangibles amortisation	132	131	263
Other administrative expenses	2,369	2,271	4,452
	2,501	2,432	4,745
Operating profit	1,337	964	2,370
Financial income	13	3	12
Profit before taxation	1,350	967	2,382
Taxation	382	285	685
Profit and total comprehensive income for the period	968	682	1,697
Earnings per share			
Basic and diluted (note 3)	9.0p	6.3p	15.7p

Consolidated statement of financial position
as at 30 June 2010

	30 June 2010 £000 (unaudited)	30 June 2009 £000 (unaudited)	31 Dec 2009 £000 (audited)
Non current assets			
Intangible assets	842	1,046	990
Property, plant and equipment	212	223	192
	1,054	1,269	1,182
Current assets			
Inventories	780	832	718
Trade and other receivables	3,020	4,073	2,956
Cash and cash equivalents	3,018	1,380	2,506
Total current assets	6,818	6,285	6,180
Total assets	7,872	7,554	7,362
Current liabilities			
Trade and other payables	5,384	5,989	5,069
Current tax liabilities	390	310	380
Total current liabilities	5,774	6,299	5,449
Non current liabilities			
Deferred tax liability	39	73	47
Total net assets	2,059	1,182	1,866
Equity			
Issued share capital	108	108	108
Share premium	628	628	628
Capital redemption reserve	28	28	28
Retained earnings	1,295	418	1,102
Total equity	2,059	1,182	1,866

Consolidated statement of changes in equity
for the period to 30 June 2010 (unaudited)

	Share capital £000	Share premium £000	Capital redemption reserve £000	Retained earnings £000	Total £000
At 1 January 2009	108	628	28	90	854
Profit and total comprehensive income	-	-	-	682	682
Dividend	-	-	-	(334)	(334)
Share based payment credit	-	-	-	10	10
Movements in respect of purchase of own shares	-	-	-	(30)	(30)
At 30 June 2009	108	628	28	418	1,182
Profit and total comprehensive income	-	-	-	1,015	1,015
Dividend	-	-	-	(334)	(334)
Share based payment credit	-	-	-	3	3
At 31 December 2009	108	628	28	1,102	1,866
Profit and total comprehensive income	-	-	-	968	968
Dividend	-	-	-	(753)	(753)
Movements in respect of purchase of own shares	-	-	-	(22)	(22)
At 30 June 2010	108	628	28	1,295	2,059

Consolidated cash flow statement
for the six months to 30 June 2010

	Six months to 30 June 2010 £000 (unaudited)	Six months to 30 June 2009 £000 (unaudited)	Year ended 31 Dec 2009 £000 (audited)
Operating activities			
Profit before taxation	1,350	967	2,382
Adjustments for:			
Goodwill impairment	-	30	30
Intangibles amortisation	148	131	279
Share based payments	-	10	13
Depreciation charge	51	50	103
Interest received	(13)	(3)	(12)
Operating cash flows before changes in working capital	1,536	1,185	2,795
(Increase)/decrease in inventories	(62)	(96)	18
(Increase)/decrease in trade and other receivables	(64)	(909)	208
Increase/(decrease) in trade and other payables	315	816	(104)
Cash generated from operating activities	1,725	996	2,917
Tax paid	(380)	(192)	(549)
Net cash flows from operating activities	**1,345**	**804**	**2,368**
Investing activities			
Purchase of plant and equipment	(71)	(73)	(95)
Purchase of software licence	-	-	(91)
Interest received	13	3	12
Net cash flows from investing activities	**(58)**	**(70)**	**(174)**

	Six months to 30 June 2010 £000 (unaudited)	Six months to 30 June 2009 £000 (unaudited)	Year ended 31 Dec 2009 £000 (audited)
Financing activities			
Repurchase of own shares for cancellation	(22)	(30)	(30)
Equity dividends paid	(753)	(334)	(668)
Net cash flows from financing activities	**(775)**	**(364)**	**(698)**
Net increase in cash and cash equivalents	**512**	**370**	**1,496**
Cash and cash equivalents at start of period	2,506	1,010	1,010
Cash and cash equivalents at end of period	**3,018**	**1,380**	**2,506**

1. Basis of preparation

The financial information in these interim results is that of the holding company and all of its subsidiaries (the Group). It has been prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards as adopted for use in the EU (IFRSs). The accounting policies applied by the Group in this financial information are the same as those applied by the Group in its financial statements for the year ended 31 December 2009 and which will form the basis of the 2010 financial statements.

A number of new and amended standards have become effective for periods beginning on or after 1 January 2010, however none of these is expected to materially affect the Group.

The Group's results are not materially affected by seasonal variations.

The comparative financial information presented herein for the year ended 31 December 2009 does not constitute full statutory accounts for that period. The Group's annual report and accounts for the year ended 31 December 2009 have been delivered to the Registrar of Companies. The Group's independent auditor's report on those statutory accounts was unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

The financial information for the half-years ended 30 June 2010 and 30 June 2009 is unaudited.

2. Segmental analysis

Six months to 30 June 2010 (unaudited)	**Maintenance and equipment £000**	**Network services £000**	**Central/ intercompany £000**	**Total £000**
Revenue	7,759	2,931	(110)	10,580

Revenue is wholly attributable to the principal activities of the Group and, other than insignificant sales to EU countries, arises predominantly within the United Kingdom.

Operating profit	1,208	227	(98)	1,337
Interest income				13
Profit before taxation				1,350
Taxation				(382)
Profit after taxation				968
Balance sheet				
Assets	6,283	1,266	323	7,872
Liabilities	(5,187)	(895)	269	(5,813)
Total	1,096	371	592	2,059
Other				
Capital expenditure	71	-	-	71
Depreciation	51	-	-	51
Amortisation and impairment	11	40	97	148

2. Segmental analysis (continued)

Six months to 30 June 2009 (unaudited)	**Maintenance and equipment £000**	**Network services £000**	**Central/ intercompany £000**	**Total £000**
Revenue	6,709	2,770	(78)	9,401

Revenue is wholly attributable to the principal activities of the Group and, other than insignificant sales to EU countries, arises predominantly within the United Kingdom.

Operating profit	927	195	(158)	964
Interest income				3
Profit before taxation				967
Taxation				(285)
Profit after taxation				682

Balance sheet				
Assets	6,192	1,408	(46)	7,554
Liabilities	(5,397)	(1,117)	142	(6,372)
Total	795	291	96	1,182

Other				
Capital expenditure	73	-	-	73
Depreciation	50	-	-	50
Amortisation and impairment	11	24	126	161

2. Segmental analysis (continued)

Year to 31 December 2009	Maintenance and equipment £000	Network services £000	Central/ intercompany £000	Total £000
Revenue	13,861	5,703	(170)	19,394

Included in telephone system maintenance revenue above is £8,000 of leasing income. Other than equipment sales of £34,000 to EU countries, revenue is wholly attributable to the principal activities of the Group and arises predominantly within the United Kingdom.

	Maintenance and equipment £000	Network services £000	Central/ intercompany £000	Total £000
Operating profit	2,211	426	(267)	2,370
Interest income				12
Profit before taxation				2,382
Taxation				(685)
Profit after taxation				1,697
Balance sheet				
Assets	4,955	1,156	1,251	7,362
Liabilities	(4,732)	(948)	184	(5,496)
Total	223	208	1,435	1,866
Other				
Capital expenditure	95	91	-	186
Depreciation	103	-	-	103
Amortisation and impairment	22	64	223	309

3. Earnings per share

Earnings per share have been calculated using the weighted average number of shares in issue during the period. This and earnings, being profit after tax, are as follows. An adjusted earnings per share figure – excluding the impairment of goodwill and amortisation of intangibles – is also shown in order to provide a clearer picture of the trading performance of the Group.

	Six months to 30 June 2010 £000 (unaudited)	Six months to 30 June 2009 £000 (unaudited)	Year ended 31 Dec 2009 £000 (audited)
Earnings used in basic and diluted EPS, being profit after tax	968	682	1,697
Goodwill impairment and intangibles amortisation, less tax thereon	93	123	215
Adjusted earnings, being profit after tax, before goodwill impairment and intangibles amortisation	1,061	805	1,912
Weighted average number of shares	10,772	10,798	10,790
Potentially dilutive shares	18	-	8
	10,790	10,798	10,798
Basic EPS	9.0p	6.3p	15.7p
Basic and diluted EPS	9.0p	6.3p	15.7p
Adjusted basic EPS	9.8p	7.5p	17.7p
Adjusted basic and diluted EPS	9.8p	7.5p	17.7p

4. Dividends

	Six months to 30 June 2010 £000 (unaudited)	Six months to 30 June 2009 £000 (unaudited)	Year ended 31 Dec 2009 £000 (audited)
Dividends paid			
Final 2008, paid 29 April 2009			
- 3.1p per share	-	334	334
Interim 2009, paid 2 October 2009			
- 3.1p per share	-	-	334
Second interim 2009, paid 25 March 2010			
- 4.1p per share	441	-	-
Special interim 2009, paid 25 March 2010			
- 2.9p per share	312	-	-
	753	334	668

The directors propose to pay an interim dividend of 3.9p per share on 1 October 2010 to shareholders on the register at 17 September 2010.

Independent review report to Maintel Holdings Plc

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2010 which comprises the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated cash flow statement, the consolidated statement of changes in equity, and explanatory notes.

We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the rules of the London Stock Exchange for companies trading securities on AIM which require that the half-yearly report be presented and prepared in a form consistent with that which will be adopted in the company's annual accounts having regard to the accounting standards applicable to such annual accounts.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Our report has been prepared in accordance with the terms of our engagement to assist the company in meeting the requirements of the rules of the London Stock Exchange for companies trading securities on AIM and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

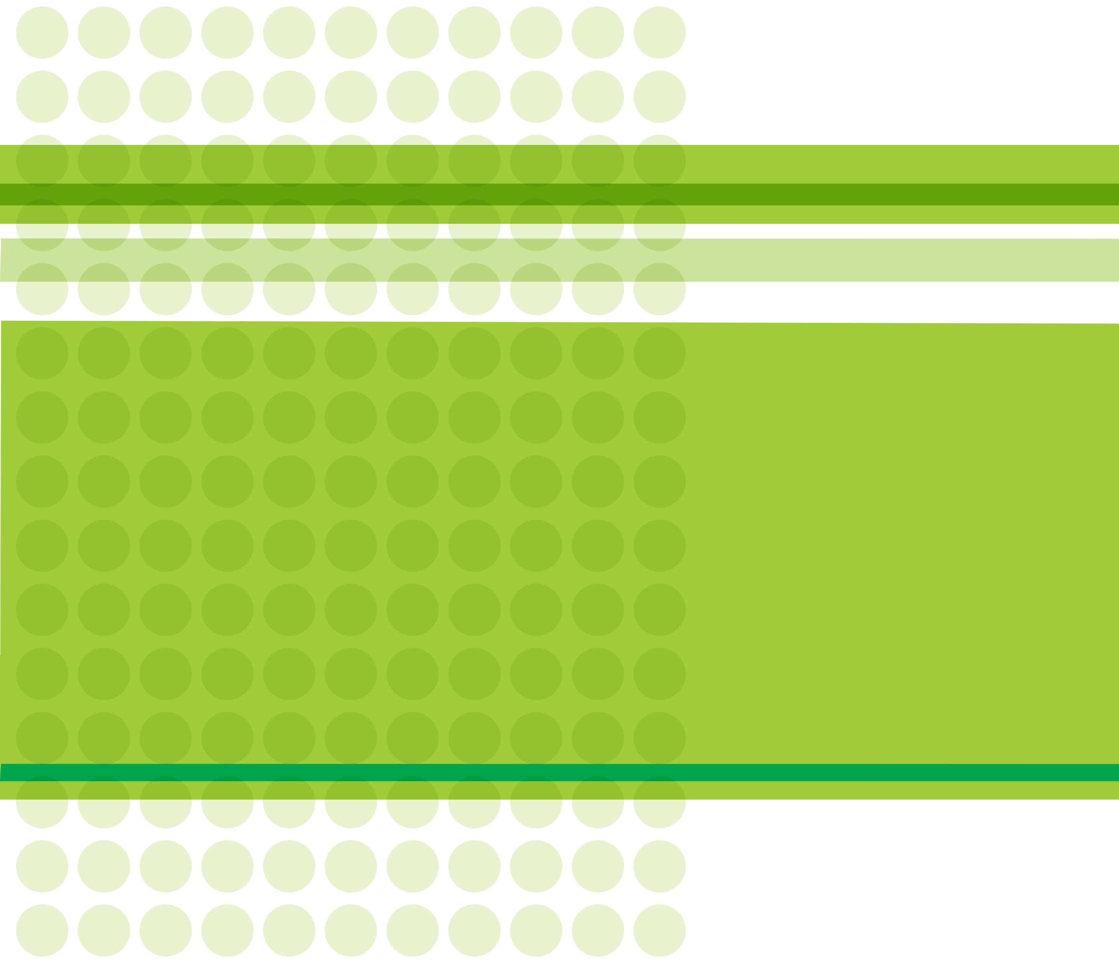
Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2010 is not prepared, in all material respects, in accordance with the rules of the London Stock Exchange for companies trading securities on AIM.

BDO LLP
Chartered Accountants and Registered Auditors
London

3 September 2010

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



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