

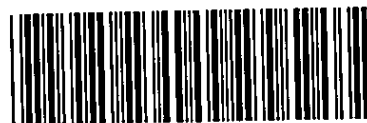
DIRECTORS' REPORT AND FINANCIAL STATEMENTS

ENGAGE MUTUAL FUNDS LIMITED

(FORMERLY HOMEOWNERS INVESTMENT FUND MANAGERS LIMITED)

YEAR ENDED 31 DECEMBER 2006

TUESDAY



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COMPANIES HOUSE

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engage Mutual Funds Limited

Registered No 3224780

DIRECTORS

R F Pierce (Chairman)
D G Hargrave
A S Haigh
Rt Hon Lord Clark of Windermere
P J Hemming
W G Henderson (Appointed 23 February 2006)
C C F Lazenby (Resigned 30 June 2006)
P W Mason (Appointed 23 February 2006)
C M McComb

SECRETARY

A J Horsley

AUDITOR

KPMG Audit Plc
Neville Street
Leeds
LS1 4DW

BANKERS

The Bank of New York
One Canada Square
London
E14 5AL

Barclays Bank Plc
25 James Street
Harrogate
HG1 1TQ

DEPOSITORY

The Bank of New York Trust and Depository Company Limited
One Canada Square
London
E14 5AL

REGISTERED OFFICE

Hornbeam Park Avenue
Harrogate
HG2 8XE

Authorised and regulated by the Financial Services Authority (FSA) A member of the Investment Management Association (IMA)

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31 December 2006

PRINCIPAL ACTIVITY

The company's principal activity during the year was that of OEIC management

REVIEW OF THE BUSINESS

The loss on ordinary activities after taxation for the year ended 31 December 2006 amounted to £3,980,708 (2005 profit of £3,130)

The current year's loss of £3.7m reflects the current shortfall in income associated with growing the business. This growth is demonstrated in the accounts by the level of unit creations in 2005/06 which together with further new business, expected investment performance, parental contributions and expense control will progressively reduce the level of operating losses until the funds under management reach a critical mass which will enable the company to make profits on its activities.

The key performance indicators used by the Directors to manage the company are funds under management and the number of policies in force. The funds under management at 31 December 2006 was £68.8m (2005 £32.8m). The number of policies in force at 31 December 2006 was 125,493 (2005 56,084).

Strategy

The company was set up as a subsidiary of Homeowners Friendly Society Limited to develop and manage the OEIC business for the Society. The key development in this strategy has been the creation of operational systems to enable the successful launch of **engage** Mutual Child Trust Funds. We distribute this business over the internet direct to customers and via a number of strategic distribution partners. This product is supported by the equity based Investment Growth Fund and our High Income Fund which are managed by eMFL as OEIC funds to provide the vehicles in which to invest government and customer contributions. This represents the majority of the business written by eMFL. This important new market for the Society has resulted in 125,000 new customers with OEIC Funds under Management of £68.8m at the end of 2006. eMFL benefits from the management charges on these funds and in order to support further growth has registered as one of the recipients of 'Revenue allocated' accounts which results in the receipt from the government of a proportion of the vouchers for children whose parents have not taken out a CTF.

We currently use Legal and General to provide investment management services for the Investment Growth and High Income OEIC funds.

Child Trust Funds represent a significant new product which is at the centre of government plans for developing savings and will develop into a substantial portfolio of business within eMFL over time.

DIRECTORS' REPORT

REVIEW OF THE BUSINESS cont'd

Principle risks and uncertainties

Following the successful launch of CTF in 2005 we continued to develop our systems and operations in 2006. As part of this development we reviewed our group structure and policy to account for all related OEIC costs and income in eMFL.

As a result of this review Homeowners Friendly Society has injected £7.3m of new capital to allow eMFL to fund its new business development and operational activities. Our Child Trust Fund product is a stakeholder product with a management charge of 1.5% so the key risk for the company is a failure to develop its funds under management to a level where the management fees recover the cost of the initial development and marketing activities to continue the growth of our portfolio of Child Trust Fund business.

A further operational risk of being a regulated company is non-compliance with the regulations set out by the company's regulator, the Financial Services Authority. The company utilises the services of the internal compliance and audit department of **engage Mutual Administration Limited** to mitigate this risk.

Outlook for 2007

Turnover from dealing profits and management fees is expected to show continuing strong growth. On planned levels of business we anticipate that the company will have sufficient capital to finance 2007 activity but that future funding will be required to support further profitable growth. The Directors will continue to monitor the level of expected future profits to determine that the continuing development of this business justifies the investment we have made in this business.

DIVIDENDS

The Directors do not recommend the payment of a dividend for the year.

DIRECTORS

The present membership of the board is set out on page 1.

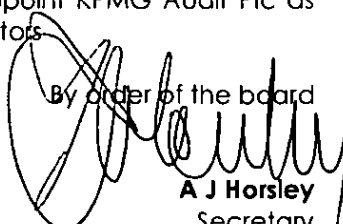
There are no Directors' interests requiring disclosure under the Companies Act 1985.

DISCLOSURE OF INFORMATION TO AUDITORS

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

AUDITOR

The Directors will place a resolution before a General Meeting to re-appoint KPMG Audit Plc as auditor for the coming year, at a remuneration to be agreed by the Directors.

By order of the board

A J Horsley
Secretary

29 March 2007

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the Directors to prepare accounts for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those accounts, the Directors are required to

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the accounts comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT
to the members of engage Mutual Funds Limited

We have audited the financial statements of **engage Mutual Funds Limited** for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of Directors and Auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 4.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

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

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

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

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

INDEPENDENT AUDITORS' REPORT
to the members of engage Mutual Funds Limited (cont'd)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Leeds
29 March 2007

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2006

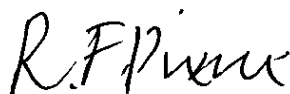
	Note	2006 £	2005 £
CONTINUING OPERATIONS			
Turnover	2	679,443	216,413
Cost of sales		(3,336,051)	-
		<hr/>	<hr/>
GROSS PROFIT / (LOSS)		(2,656,608)	216,413
Administrative expenses		(1,349,582)	(235,644)
		<hr/>	<hr/>
OPERATING LOSS		(4,006,190)	(19,231)
Other interest receivable and similar income	6	25,482	22,361
		<hr/>	<hr/>
PROFIT / (LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION	3	(3,980,708)	3,130
Tax on profit / (loss) on ordinary activities	7	-	-
		<hr/>	<hr/>
PROFIT / (LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION		(3,980,708)	3,130
		<hr/>	<hr/>

There are no recognised gains or losses for 2006 (£nil in 2005) other than the profit / (loss) on ordinary activities shown above

BALANCE SHEET
at 31 December 2006

	Note	2006 £	2005 £
CURRENT ASSETS			
Debtors	8	662,318	47,591
Investments	9	30,921	29,933
Cash at bank		3,694,060	241,846
TOTAL ASSETS		4,387,299	319,370
CREDITORS			
Amounts falling due within one year	10	(949,533)	(200,896)
NET CURRENT ASSETS		3,437,766	118,474
TOTAL ASSETS LESS CURRENT LIABILITIES		3,437,766	118,474
CAPITAL AND RESERVES			
Called up share capital	11	9,850,000	2,550,000
Profit and loss account	12	(6,412,234)	(2,431,526)
EQUITY SHAREHOLDERS' FUNDS		3,437,766	118,474

The financial statements were approved by the Board of Directors on 29 March 2007 and signed on its behalf by



R F Pierce
Chairman

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006

1 ACCOUNTING POLICIES

Basis of Preparation

The financial statements have been prepared in accordance with applicable accounting standards, and under the historic cost accounting rules

Under FRS 1 (revised 1996) 'Cash Flow Statements' the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements

Going Concern

The financial statements have been prepared on a going concern basis. The Directors have reviewed the company's operations in the period 1 January 2006 to approval of the financial statements and have made the forecast of its performance in the subsequent 12 months. They have also received assurances of continued financial support from the parent. In view of this, the Directors consider that the company will continue to be able to meet its liabilities as they fall due and that the financial statements can therefore be prepared on a going concern basis.

Investments

OEIC units held for resale at the balance sheet date have been valued at the published price

2 TURNOVER

Turnover, which is wholly attributable to United Kingdom operations, is derived from the sale of shares in the OEIC within the United Kingdom and is stated net of discounts given

	2006	2005
	£	£
Sales of units	31,996,180	18,636,070
Repurchases, creations and liquidations of units	(31,994,916)	(18,633,301)
	<hr/>	<hr/>
Dealing Profit	1,264	2,769
Investment Management Fees Receivable	678,179	213,644
	<hr/>	<hr/>
Total turnover	679,443	216,413
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006 (cont'd)

3 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging auditors' remuneration

	2006	2005
	£	£
Audit of these financial statements	4,500	4,500
	<u><u>4,500</u></u>	<u><u>4,500</u></u>

Amounts receivable by the Company's auditor and its associates in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the Company's parent Homeowners Friendly Society Limited

4 DIRECTORS' EMOLUMENTS

The directors are also directors of the ultimate holding company, Homeowners Friendly Society Limited (HFS). The Directors have been wholly remunerated by **engage** Mutual Administration Limited (eMAL), another member within the Homeowners Group in respect of their services for the Group, accordingly details of their emoluments are disclosed within the accounts of HFS.

5. STAFF COSTS

The company does not employ any staff, but utilises the services provided by eMAL, another member of the Homeowners Group.

6 OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	2006	2005
	£	£
Bank deposit interest	25,170	22,240
Income from units held as current asset investments	175	121
Other investment income	137	-
	<u><u>25,482</u></u>	<u><u>22,361</u></u>

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006 (cont'd)
7 TAX ON LOSS ON ORDINARY ACTIVITIES

No corporation tax is due in respect of the activities of the company, as illustrated below

Analysis of charge in period	2006	2005
	£	£
UK Corporation Tax		
Current tax on income for the period	-	-
	<hr/>	<hr/>
Tax on profits on ordinary activities	-	-
	<hr/>	<hr/>

The current tax charge is explained below

Current tax reconciliation	2006	2005
	£	£
Profit / (Loss) on ordinary activities before tax	(3,980,708)	3,130
	<hr/>	<hr/>
Current tax @ 30% (2005 30%)	(1,194,212)	939
Effects of		
Increase in tax losses carried forward	1,194,212	-
Utilisation of tax losses brought forward	-	(939)
	<hr/>	<hr/>
Total current tax charge	-	-
	<hr/>	<hr/>

Factors that may affect the future tax charge.

A deferred tax asset has not been recognised in respect of timing differences relating to trading losses carried forward as there is insufficient evidence that the asset will be recovered. The amount of the asset not recognised is £1,847,568 on tax losses of £6,158,559 (2005 £729,514 on tax losses of £2,431,714). The asset would be recovered if the company makes sufficient trading profits in the future.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006 (cont'd)

8 DEBTORS

	2006 £	2005 £
Other debtors	84,208	39,009
Amounts owed by group undertakings	578,110	8,582
	<u>662,318</u>	<u>47,591</u>

9. INVESTMENTS

	2006 £	2005 £
Shares held for resale	30,921	29,933
	<u>30,921</u>	<u>29,933</u>

10 CREDITORS amounts falling due within one year

	2006 £	2005 £
Amounts owed to group undertakings	266,996	161,085
Other creditors and accruals	682,537	39,811
	<u>949,533</u>	<u>200,896</u>

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2006 (cont'd)

11 SHARE CAPITAL

	2006 £	2005 £
Authorised		
Ordinary shares of £1 each	25,000,000	5,000,000
	<u> </u>	<u> </u>
Allotted, issued and fully paid		
Ordinary shares of £1 each	9,850,000	2,550,000
	<u> </u>	<u> </u>

12. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	Share Capital £	Profit and loss account £	Total £
At 1 January 2006	2,550,000	(2,431,526)	118,474
Issued share capital	7,300,000	-	7,300,000
Profit for the year	-	(3,980,708)	(3,980,708)
	<u> </u>	<u> </u>	<u> </u>
At 31 December 2006	9,850,000	(6,412,234)	3,437,766
	<u> </u>	<u> </u>	<u> </u>

13 ULTIMATE PARENT COMPANY

The consolidated financial statements of Homeowners Friendly Society Limited within which this company is included, can be obtained from Homeowners Friendly Society Limited, Hornbeam Park Avenue, Harrogate, HG2 8XE

14 RELATED PARTY TRANSACTIONS

As the company is a wholly owned subsidiary of Homeowners Friendly Society Limited, the company has taken advantage of the exemption contained in FRS 8 'Related Party Disclosures' and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties)