

3224780

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

ENGAGE MUTUAL FUNDS LIMITED

YEAR ENDED 31 DECEMBER 2008

SATURDAY



AYLLC9BA

A29

25/04/2009

222

COMPANIES HOUSE

Contents	Page
Company information	1
Directors' report	2 – 3
Statement of directors' responsibilities	4
Independent auditor's report to the members of engage Mutual Funds Limited	5 - 6
Profit and loss account	7
Balance sheet	8
Notes to the financial statements	9 – 15

engage Mutual Funds Limited

Registered No. 3224780

DIRECTORS

R F Pierce (Chairman)
D G Hargrave
A S Haigh
Rt. Hon. Lord Clark of Windermere
K J D Elliot (Appointed 27 March 2008)
W G Henderson
P W Mason
C M McComb

SECRETARY

A J Horsley

AUDITOR

Deloitte LLP
Chartered Accountants & Registered Auditors
Leeds

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 2008.

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 2008 amounted to £1,387,409 (2007: loss of £2,325,366).

The current year's loss of £1,387,409 reflects a 40% improvement on 2007 reflecting the improving financial position of the underlying business with turnover up 5.6% to £1,127,696 and administration costs down 4.9% at £1,505,813. The losses mainly reflect the slow growth in funds under management for Child Trust Funds exacerbated by market falls in 2008 and the cost of writing new business which is written through a number of distribution channels. This cost fell in the year by 46% to £1,055,656 as a result of the termination of our distribution contract with ASDA. We expect to recoup the up front costs of acquiring new business over the course of the expected life of Child Trust Fund policies which mature when each child reaches 18.

We expect an improvement in profitability, in future years, given the lower costs of new business, and the underlying income for the company is expected to grow in line with the value of Child Trust Funds supported by the value of associated OEIC investment funds.

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 2008 were £78.3m compared to £88.9m at the end of 2007. The number of policies in force at 31 December 2008 was 178,110 against 157,006 at the end of 2007. The main contributory factor to the fall in value was the 32% decline in the FTSE 100 index which supports the majority of the Child Trust Fund policy investments in the Investment Growth Fund which is managed as standalone OEIC fund to provide the vehicle in which we invest government and customer contributions.

Legal and General Investment Managers provide investment management services for the Investment Growth and High Income OEIC funds for which eMFL acts as authorised corporate director.

Following the successful launch of CTF in 2005 we have continued to develop our systems and operations. Homeowners Friendly Society has injected a further £2.5m of new capital in 2008 to allow eMFL to fund its new business development and operational activities.

Outlook for 2009

Turnover from management fees is expected to increase but has been adversely affected by the turmoil in the financial markets which reduced the value of CTF accounts. Based on the current plans we anticipate that the company will require further capital to finance the continuing growth of the company. The Directors will continue to monitor the level of expected return on this capital and future prospects of the company and are seeking to reduce administration costs with the aim of delivering positive returns on the investments made. The Directors have presented the accounts on a going concern basis as business plans and projected statutory capital resources have provided for continuing investment.

DIRECTORS' REPORT

REVIEW OF THE BUSINESS cont'd

DIVIDENDS

The Directors do not recommend the payment of a dividend for the year (£nil in 2007).

DIRECTORS

The directors who served throughout the period are:

R F Pierce (Chairman)
D G Hargrave
A S Haigh
Rt. Hon. Lord Clark of Windermere
K J D Elliot (Appointed 27 March 2008)
W G Henderson
P W Mason
C M McComb

DISCLOSURE OF INFORMATION TO AUDITORS

Each of the persons who is a director at the date of approval of this report confirms that:

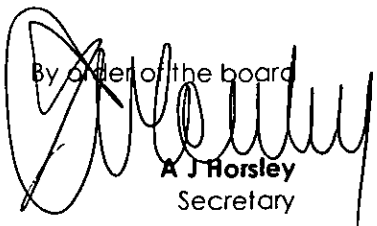
- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

AUDITOR

On 1 December 2008 the Company's auditors changed their name from Deloitte & Touche LLP to Deloitte LLP.

The Directors will place a resolution before a General Meeting to reappoint Deloitte LLP as auditor for the coming year, at a remuneration to be agreed by the Directors.

By order of the board

A J Horsley
Secretary

26 March 2009

STATEMENT OF 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 financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, 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 proper accounting records that 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 Companies Act 1985. 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 2008 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 14. 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 auditors' 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 United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and 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 United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 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.

Deloitte LLP

Deloitte LLP

Chartered Accountants and Registered Auditors
Leeds, United Kingdom
26 March 2009

PROFIT AND LOSS ACCOUNT**for the year ended 31 December 2008**

	Note	2008 £	2007 £
CONTINUING OPERATIONS			
Turnover	2	1,127,696	1,067,110
Cost of sales		(1,055,656)	(1,957,005)
GROSS PROFIT / (LOSS)		72,040	(889,895)
Administrative expenses		(1,505,813)	(1,583,193)
OPERATING LOSS		(1,433,773)	(2,473,088)
Other interest receivable and similar income	6	46,364	147,722
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	3	(1,387,409)	(2,325,366)
Tax on loss on ordinary activities	7	-	-
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		(1,387,409)	(2,325,366)

There are no recognised gains or losses for 2008 (£nil in 2007) other than the loss on ordinary activities shown above. Accordingly, no statement of total recognised gains and losses has been shown.

BALANCE SHEET
at 31 December 2008

	Note	2008 £	2007 £
CURRENT ASSETS			
Debtors	8	1,119,220	473,805
Investments	9	412,372	31,694
Cash at bank		1,408,390	919,472
		<hr/>	<hr/>
TOTAL ASSETS		2,939,982	1,424,971
CREDITORS:			
Amounts falling due within one year	10	(714,991)	(312,571)
		<hr/>	<hr/>
NET CURRENT ASSETS		2,224,991	1,112,400
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		2,224,991	1,112,400
		<hr/>	<hr/>
CAPITAL AND RESERVES			
Called up share capital	11	12,350,000	9,850,000
Profit and loss account	12	(10,125,009)	(8,737,600)
		<hr/>	<hr/>
EQUITY SHAREHOLDERS' FUNDS		2,224,991	1,112,400
		<hr/>	<hr/>

The financial statements were approved by the Board of Directors on 26 March 2009 and signed on its behalf by:



R F Pierce
Chairman

**NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2008**

1. ACCOUNTING POLICIES

Basis of Preparation

The financial statements have been prepared in accordance with United Kingdom Law and applicable accounting standards, and under historic cost accounting rules. The principle accounting policies summarised below have been applied consistently throughout the current and preceding year.

The Directors have reviewed the business and have confirmed the accounts should be prepared on a going concern basis. Details of the uncertainties that the directors have considered are set out in the directors' report.

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.

Revenue Recognition

Annual management charges payable to eMFL, as the Authorised Corporate Director (ACD) of **engage** Mutual Investment Funds Limited, are recognised when deducted from the OEIC fund.

Cost of Sale

Cost of sales includes all the costs incurred in generating new business.

Investments

OEIC units held for resale and units in pooled liquidity funds at the balance sheet date have been valued at the published market price.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax assets and liabilities are recognised in accordance with the provisions of Financial Reporting Standard 19 'Deferred Taxation' ('FRS 19'). The Society has chosen not to apply the option available under FRS 19 of discounting such assets and liabilities to reflect the time value of money. Except as set out in FRS 19, deferred tax is recognised in respect of all timing differences that have originated but not reversed by the balance sheet date. Deferred tax assets are recognised only to the extent that it is regarded as more likely than not that they will be recovered.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2008 (cont'd)

2. TURNOVER

Turnover, which is wholly attributable to United Kingdom operations.

	2008 £	2007 £
Sales of units	16,758,226	17,816,062
Repurchases, creations and liquidations of units	(16,764,359)	(17,815,164)
	<hr/>	<hr/>
Dedding profit	(6,133)	898
Investment management fees receivable	1,133,829	1,066,212
	<hr/>	<hr/>
Total turnover	1,127,696	1,067,110
	<hr/> <hr/>	<hr/> <hr/>

3. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

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

	2008 £	2007 £
Fee payable to the company's auditor for the audit of the company's accounts	5,245	5,000
	<hr/> <hr/>	<hr/> <hr/>

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.

The costs of directors are included in an intercompany service charge and cannot be separately identified.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2008 (cont'd)

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

	2008	2007
	£	£
Bank deposit interest	36,131	147,257
Income from units held as current asset investments	9,936	204
Other investment income	298	261
	<hr/>	<hr/>
	46,364	147,722
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2008 (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	2008	2007
	£	£
UK Corporation Tax		
Current tax on income for the period	-	-
	<hr/>	<hr/>
Tax on loss on ordinary activities	-	-
	<hr/>	<hr/>

The current tax charge is explained below:

Current tax reconciliation	2008	2007
	£	£
Loss on ordinary activities before tax	(1,387,409)	(2,325,366)
	<hr/>	<hr/>
Current tax @ 28% (2007: 30%)	(388,475)	(697,610)
Effects of:		
Increase in tax losses carried forward	388,475	697,610
	<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 £2,835,093 on tax losses of £10,125,334 (2007: £2,446,619 on tax losses of £8,737,925). 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 2008 (cont'd)
8. DEBTORS

Amounts falling due within one year:

	2008 £	2007 £
Other debtors	97,170	106,656
Amounts owed by group undertakings	1,022,050	367,149
	<u>1,119,220</u>	<u>473,805</u>

9. INVESTMENTS

	2008 £	2007 £
Shares held for resale	28,199	31,694
Units in pooled liquidity funds	384,173	-
	<u>412,372</u>	<u>31,694</u>

10. CREDITORS

Amounts falling due within one year:

	2008 £	2007 £
Amounts owed to group undertakings	31,473	171,214
Other creditors and accruals	683,518	141,357
	<u>714,991</u>	<u>312,571</u>

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2008 (cont'd)
11. SHARE CAPITAL

	2008 £	2007 £
Authorised		
25,000,000 ordinary shares of £1 each	25,000,000	25,000,000
	<u> </u>	<u> </u>
Allotted, issued and fully paid		
12,350,000 (2007: 9,850,000) ordinary shares of £1 each	12,350,000	9,850,000
	<u> </u>	<u> </u>

On 27 March 2008 HFS subscribed for 1,000,000 ordinary £1 shares in eMFL for a consideration of £1,000,000. HFS subscribed for a further 1,500,000 ordinary shares in eMFL on 17 July 2008 for a consideration of £1,500,000.

12. RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	Share Capital £	Profit and loss account £	Total £
At 1 January 2008	9,850,000	(8,737,600)	1,112,400
Loss for the year	-	(1,387,409)	(1,387,409)
Issued share capital (note 11)	2,500,000	-	2,500,000
	<u> </u>	<u> </u>	<u> </u>
At 31 December 2008	12,350,000	(10,125,009)	2,224,991
	<u> </u>	<u> </u>	<u> </u>

13. ULTIMATE PARENT COMPANY

The consolidated financial statements of Homeowners Friendly Society Limited, the company's immediate and ultimate parent and the smallest and largest entity 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).