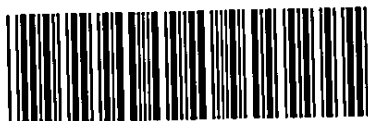


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Engage Mutual Funds Limited

Directors' report and financial statements

Registered number 3224780

Year ended 31 December 2009

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Directors' report

The directors present their report and financial statements for the year ended 31 December 2009

Principal activity

The company's principal activity during the year was that of Open Ended Investment Company (OEIC) management

Business review

The loss on ordinary activities after taxation for the year ended 31 December 2009 amounted to £1,304,735 (2008 loss of £1,387,409)

The current year's loss of £1,304,735 reflects an improvement on 2008 with turnover up 11% to £1,253,506 on increased charges relating to the underlying recovery in UK equity markets. Administration costs at £1,690,234 (2008 £1,505,813) reflect the costs of a project to deliver more efficient operations which will provide benefits in 2010. The loss reflects the slow growth in funds under management for Child Trust Funds (CTF's) and the cost of writing new business which is written through a number of distribution channels. This cost fell in the year by 16% to £882,288 reflecting a fall of 10.5% in our sales and marketing activity. We expect to recoup the up front costs of acquiring new business over the course of the expected life of CTF policies which mature when each child reaches 18.

We expect continuing 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 2009 were £105.3m compared to £78.3m at the end of 2008. The number of policies in force at 31 December 2009 was 198,414 against 178,110 at the end of 2008. The main contributory factor to the increase in value was the 22.1% increase in the FTSE 100 index which supports the majority of the CTF policy investments. In 2009 we decided to change the provision of the investment links from internal OEIC funds to external OEIC funds provided by Legal and General Investment Managers to provide the vehicles in which we invest government and customer CTF contributions.

Legal and General Investment Managers already provided investment management services for the internal OEIC funds for which EMFL acted as authorised corporate director so the change of investment funds is expected to have little impact on expected returns for the CTF policyholders.

Going Concern

Turnover from management fees is expected to increase in subsequent periods but it is dependent on ongoing improvements in the financial markets. Based on the current plans we anticipate that the company will require some further capital from Homeowners Friendly Society Ltd (HFSL) 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 deliver reductions in administration costs with the aim of delivering a positive return at an operating level in the near future.

The parent company of Engage Mutual Funds Limited is HFSL. HFSL has prepared a business plan for itself and its subsidiaries and has projected the future working capital requirements of EMFL. HFSL has confirmed as part of the business plan its commitment to funding the future working capital requirements of EMFL for at least a period of twelve months from the date of the signing of the accounts. Accordingly the directors have presented the accounts on a going concern basis.

Proposed dividend

The directors do not recommend the payment of a dividend for the year (2008 nil)

Directors' report (continued)

Policy and practice on payment of creditors

It is the Group's policy to settle invoices in accordance with our standard terms, unless specifically agreed in advance with suppliers

Directors

The directors who held office during the year and subsequently were as follows

R F Pierce (Chairman) (resigned 31 May 2009)
D G Hargrave (Chairman) (appointed 31 May 2009)
A S Haigh
Rt Hon Lord Clark of Windermere (retired 21 May 2009)
K J D Elliott
W G Henderson
P W Mason
C M McComb

Political and charitable donations

The Company made no political donations or incurred no political expenditure during the year, nor made any charitable donations

Disclosure of information to auditors

The directors who held office at the date of the approval of this directors' report confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware, and each 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 s418 of the Companies Act 2006

Auditor

The directors will place a resolution before a General Meeting to reappoint Deloitte LLP as auditors of the Company, at a remuneration to be agreed by the directors

By order of the board



A J Horsley
Secretary

Hornbeam Park Avenue
Harrogate
HG2 8XE

25 March 2010

Statement of directors' responsibilities in respect of the Directors' report and the financial statements

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). 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 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 accounting 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, and
- 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 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.

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 2009 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 14. The financial reporting framework that has been applied in their preparation 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 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

As explained more fully in the Directors' Responsibilities Statement, 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 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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

This includes an assessment of

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed,
- the reasonableness of significant accounting estimates made by the directors, and
- the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Independent auditors' report to the members of Engage Mutual Funds Limited (continued)

Opinion on other matter 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, or returns adequate for our audit have not been received from branches not visited by us, or
- the 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



Stephen Williams (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Leeds, United Kingdom
25 March 2010

**Profit and Loss Account
 for the year ended 31 December 2009**


	Note	2009 £	2008 £
Continuing operations			
Turnover	2	1,253,506	1,127,696
Cost of sales		(882,288)	(1,055,656)
Gross profit		371,218	72,040
Administrative expenses		(1,690,234)	(1,505,813)
Operating loss		(1,319,016)	(1,433,773)
Other interest receivable and similar income	6	14,281	46,364
Loss on ordinary activities before taxation	3	(1,304,735)	(1,387,409)
Tax on loss on ordinary activities	7	-	-
Loss on ordinary activities after taxation		(1,304,735)	(1,387,409)

There are no recognised gains or losses for 2009 (2008: £nil) 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 2009**

	Note	2009 £	2008 £
Current assets			
Debtors	8	144,386	1,119,220
Investments	9	1,625,866	412,372
Cash at bank		301,635	1,408,390
Total assets		2,071,887	2,939,982
Creditors amounts falling due within 1 year	10	(1,151,631)	(714,991)
Net current assets		920,256	2,224,991
Total assets less current liabilities		920,256	2,224,991
Capital and reserves			
Called up share capital	11	12,350,000	12,350,000
Profit and loss account	12	(11,429,744)	(10,125,009)
Equity shareholders' funds		920,256	2,224,991

The financial statements were approved by the Board of Directors on 25 March 2010 and signed on its behalf by


A S Haigh
Director

Company Number 3224780

Notes to the financial statements

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered in relation to the financial statements

Going concern

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.

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.

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

Management charges payable to EMFL, as the Authorised Corporate Director (ACD) of Engage Mutual Investment Funds Limited, are recognised on an accruals basis and are 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 Company 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

2. Analysis of turnover

Turnover, which is wholly attributable to United Kingdom operations

	2009 £	2008 £
Sales of units	17,648,816	16,758,226
Repurchases, creations and liquidations of units	(17,649,184)	(16,764,359)
Dealing profit	(368)	(6,133)
Investment management fees receivable	1,253,874	1,133,829
Total turnover	1,253,506	1,127,696

3. Notes to the profit and loss account

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

	2009 £	2008 £
Fee payable to the company's auditor for the audit of the company's accounts	5,245	5,245

4. Remuneration of directors

The directors are also directors of the ultimate holding company, Homeowners Friendly Society Limited (HFSL). The directors have been wholly remunerated by Engage Mutual Administration Limited (EMAL). During 2009 the total remuneration paid to the directors was £860k (2008 £795k). For further details the Report of the Directors on Remuneration can be found on pages 34 and 35 of the Homeowners Friendly Society Limited Group Report and Accounts.

Notes to the financial statements

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

	2009 £	2008 £
Bank deposit interest	674	36,131
Income from units held as current asset investments	13,607	9,936
Other investment income	-	298
	<u>14,281</u>	<u>46,364</u>

7 Taxation

Analysis of charge in period

Analysis of charge in period	2009 £	2008 £
UK Corporation Tax		
Current tax on income for the period	-	-
	<u>-</u>	<u>-</u>
Tax on loss on ordinary activities	-	-
	<u>-</u>	<u>-</u>

The current tax charge for the period is lower (2008 lower) than the standard rate of corporation tax in the UK (28% 2008 28%) The differences are included in the current tax reconciliation as follows

Notes to the financial statements

7 Taxation (continued)

Current tax reconciliation

	2009 £	2008 £
Loss on ordinary activities before tax	(1,304,735)	(1,387,409)
Current tax @ 28% (2008 28%)	(365,326)	(388,475)
Effects of		
Increase in tax losses carried forward	169,237	388,475
Group relief surrendered	196,089	-
Total current tax charge	-	-

The tax charge in the future will be lower than the standard rate of corporation tax due to the brought forward losses which are not recognised as a deferred tax asset in the Balance Sheet

The total amount of trading losses carried forward for tax purposes is £10,729,752 (2008 £10,125,334)

8. Debtors

Amounts due within one year

	2009 £	2008 £
Other debtors	141,646	97,170
Amounts owed by group undertakings	-	1,022,050
Other prepayments and accrued income	2,740	-
	144,386	1,119,220

Notes to the financial statements

9. Current asset investments

	2009 £	2008 £
Shares held for resale	32,762	28,199
Units in pooled liquidity funds	1,593,104	384,173
	<u>1,625,866</u>	<u>412,372</u>

10. Creditors

Amounts due within one year

	2009 £	2008 £
Amounts owed to group undertakings	917,838	31,473
Other creditors and accruals	233,793	683,518
	<u>1,151,631</u>	<u>714,991</u>

11 Called up share capital

	2009 £	2008 £
Authorised		
25,000,000 ordinary shares of £1 each	25,000,000	25,000,000
Allotted, issued and fully paid		
12,350,000 ordinary shares of £1 each	12,350,000	12,350,000

Notes to the financial statements

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	2,500,000	-	2,500,000
	<hr/>	<hr/>	<hr/>
At 1 January 2009	12,350,000	(10,125,009)	2,224,991
	<hr/>	<hr/>	<hr/>
Loss for the year	-	(1,304,735)	(1,304,735)
	<hr/>	<hr/>	<hr/>
At 31 December 2009	-	(11,429,744)	(1,304,734)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

13. Related party disclosures

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)

14. 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