

LIONTRUST CONTINENTAL EUROPE FUND

**Manager's Long Interim Report and Financial Statements
for the period ended 31st October 2008**

LIONTRUST INVESTMENT FUNDS LIMITED

LIONTRUST CONTINENTAL EUROPE FUND

MANAGER

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J. D. Lang (<i>Joint Investment Director</i>)	A. C. Morrison
W. T. Pattison (<i>Joint Investment Director</i>)	M. P. Morrissey
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INVESTMENT PROFILE

This unit trust aims to provide long-term capital growth through investment in a concentrated portfolio of 30-50 mainly European companies (excluding the UK), broadly equally weighted. It invests in companies with strong cash flows which we believe are likely to beat investors' low profit expectations. Cash flows provide an accurate guide to future profits growth. They reveal valuable information about a company's investment decisions and its managers' prudence in recognising reported profits. The concentration of the portfolio could mean that the Fund will be volatile when compared with its benchmark. There are no limits on geographical or industrial sector exposures, which will not closely mirror that of the benchmark.

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MANAGER'S INVESTMENT REPORT

Investment objective and policy

The investment objective of the Fund is to provide long-term capital growth through a portfolio of investments primarily in European companies excluding the UK.

Although the Fund may invest in all economic sectors in all parts of the world, it is intended that it will currently invest primarily in equities in companies incorporated in any European Economic Area ("EEA") Member State, together with Switzerland, but other than the UK, which are listed on a recognised stock exchange of an EEA Member State or Switzerland.

Liontrust Asset Management PLC

Liontrust Asset Management PLC is the holding company of a specialist equities fund management group providing process driven portfolio management services to a range of funds which are targeted primarily at professional investors and advisers. The Group currently manages approximately £3.5 billion in segregated institutional accounts, pooled pension funds, unit trusts, offshore funds, an absolute return fund, personal equity plans and individual savings accounts on behalf of 14,000 investors.

Performance of the Fund

Between 1st May 2008 and 31st October 2008 an investment in the Fund fell by 35.4%. This compares with a fall of 31.2% in the FTSE All World Developed Europe (Ex UK) Index, the benchmark index.

From the Fund's launch on 15th November 2006 to 30 November 2008, an investment in the Fund fell by 16.6%, compared to a fall of 23.8% by the FTSE All World Developed Europe (ex UK) Index.

Source: Financial Express, bid to bid basis, total return. Past performance is not a guide to future performance.

Fund review

The success of the Fund is entirely dependent on our investment process, *The Cashflow Solution*. The process identifies three essential qualities in a company that should generate attractive, above average returns:

- 1. strong cash flow returns from its operating assets;**
- 2. high cash flows relative to the company's valuation in the market; and,**
- 3. better than expected earnings growth.**

Portfolio review

This interim review covers the period from the end of April 2008 to the end of October 2008.

The Fund returned -35.4% compared to -31.2% for our benchmark Index, the FTSE All-World Developed Europe ex UK Index. The peer group we compete against returned -33%. Since inception in November 2006 to the end of November 2008, the Fund has returned -16.6%, the benchmark -23.8% and our peer group -26.0%.

During this period the European stock markets experienced significant weakness and considerable volatility. Global economic conditions have deteriorated alarmingly as all four engines of global growth have seized; credit, consumption, investment and employment. European governments are trying to maintain growth in varying degrees, reducing interest rates, bringing forward infrastructure expenditures, considering tax incentives and credit restoration. However, none of these actions are likely to offset a painful recession in 2009 and a significant decline in short-term corporate profitability.

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MANAGER'S INVESTMENT REPORT

Against this backdrop our investment process has performed broadly in line relative to our available universe. Over the course of the last six months the equally weighted universe from which we select our investments returned -35.4%. Over the year to end of October our universe is down 38.1%, whilst the Fund returned -36.2%. We prefer to judge the Fund's performance relative to an equally weighted universe for two reasons. First, the universe of stocks represents the list of stocks we select our investments from and second, we have a policy of equally weighting our investments. The performance of an Index, on the other hand, is quite a poor arbiter of process performance over short time periods. This is due to the fact that the Index is constructed with reference to the size of each constituent so that very large companies assume much more importance. We do not size weight the investments we select for the portfolio as we know this leads to lower returns over the medium to long term.

Although our performance looks poor relative to the benchmark Index short-term, we have always made it clear that our approach is an equally weighted one and our portfolio bears little similarity to the capitalisation-weighted Index in Europe. In periods when equity markets go into significant decline equally weighted approaches tend to suffer as investors become increasingly risk averse and sell down their holdings in medium sized and smaller companies that are only lowly weighted in the Index, but form the majority of investment opportunities in the European universe. Over time we expect these swings in sentiment between large and smaller companies to even out. Over the last ten years, *The Cashflow Solution* has added significant value relative to both the capitalisation weighted Index and the equally-weighted universe. In the long term we remain confident in our ability to add significant value relative to both indices.

Portfolio changes

As we mentioned in the Fund's final report in June, the purpose of the process is to identify inexpensive companies that are likely to surpass investors' expectations. Last year the process was successful in identifying companies that beat analysts' earnings expectations. In this period the evidence is more mixed. Although we will undertake a formal review of earnings surprises at the end of our financial year, our impression so far is that the majority of our investments are still providing positive earnings surprises. However, the hit rate, or percentage of our holdings delivering unexpectedly good earnings, is lower and a small number of our holdings have delivered extremely disappointing earnings growth this year. *Deutsche Bank, JM Group, Norsk Hydro, Uponor* and *Wavocom* have all shown a significant deterioration in their cash flow and earnings development and have been sold. We have also sold two companies, *Sweco* and *SBM Offshore*, as they have fallen out of the top quintile of the process post their annual review, and two companies, *Prima Industrie* and *ING*, that have engaged in significant acquisition activity. We have replaced these holdings with eight new ones; *Adecco, Alstom, CFE, Man AG, Mobistar, Austrian Post, Saras* and *Technip*. All of these companies score very highly on our two cash flow ratios and show strong capital discipline and prudent balance sheets.

Stock performance

We would have expected the conservative qualities of our portfolio (strong free cash flows, modest valuations and lowly leveraged balance sheets) to have helped performance during this credit-oriented crisis. Although investor sentiment has been dominated by credit concerns and many, highly leveraged companies have collapsed, low valuations and prudent balance sheets have not protected the portfolio overall. The primary concern in markets and the dominant factor in stock performance has been exposure to economic growth or cyclicity and the impact of deleveraging by financial institutions on the various asset bubbles they created. Strong balance sheets and impressive current free cash flow has not helped companies' share price performance, unless they have defensive, relatively stable earnings. In our portfolio the worst performers over the last six months are cyclical companies with meaningful exposure to the collapse in commodity prices and the availability of credit. *Outotec, Technip, Vallourec* and *Konecranes* all enjoy strong balance sheets and free cash flow, but increasing concerns about the severity of the credit crisis on emerging market growth and demand for commodities has had a dramatic impact on their share prices. Four of the best five performers, on the other hand, have relatively stable earnings. *AstraZeneca, Mobistar, Colruyt* and *RWE* are typical of the type of companies from defensive areas of the market such as healthcare, telecoms, food retail and utilities that have done well since April.

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MANAGER'S INVESTMENT REPORT

Outlook

Some of our more recent purchases like *MAN* are already discounting a significant correction in their profitability over the next few years. These types of businesses are becoming increasingly concentrated in the top quintile of our cash flow screen as valuations have collapsed. Although we expect the outlook for a number of these companies to deteriorate rapidly over the next eighteen months their valuations are starting to look extremely attractive for the first time in a number of years. The Fund has increased its exposure to value year-on-year as these opportunities emerge. Historically, when cyclical businesses collapse in value and stock markets overall show significant declines, it has ultimately been rewarding to look beyond the near-term fear dictating share prices and invest, with a strong margin of safety or value. Typically our process identifies an increasing number of companies with low investor expectations as recession arrives. At inception the portfolio had a clear bias to growth companies and is now shifting towards value. We would expect the annual review next year to reinforce this trend. We believe this transition will be rewarding and add significant value to unitholders in the long term.

Gary West and James Inglis-Jones

December 2008

Manager's Report

The manager's investment report, together with information on the authorised status of the Fund, the objectives and policy of the Fund and the information on page 1, comprise the Manager's Report.

LIONTRUST CONTINENTAL EUROPE FUND

NET ASSET VALUE PER UNIT AND COMPARATIVE TABLE

Net Asset Values and Total Expense Ratios

The table below shows the number of income units in issue, the total net asset value of the property of the Fund, the net asset value per unit and the total expense ratio:

Date	Units in issue	Net asset value of Fund	Net asset value per unit	Total expense ratio *
30th April 2008	43,292,000	£48,302,239	111.57 pence	1.59%
31st October 2008	46,104,211	£33,806,206	73.33 pence	1.59%

The calculation of the net asset value for the current year uses bid prices in line with the requirements of the Statement of Recommended Practice (SORP) for Authorised Funds issued by the IMA in December 2005.

* The Total Expense Ratio ("TER") is the total expenses paid by the Fund in the period (adjusted to illustrate the Fund's expenses over one financial year) against its average net asset value.

Capital (unit prices) and income (net distribution per unit)

The table below shows the highest buying price, the lowest selling price of units and the net income distributions made by the Fund since launch.

Year	Highest offer (buying) price	Lowest bid (selling) price	Net income per unit	Net income per £1,000 invested at 15th November 2006
2006 (from 15.11)	105.80 pence	92.68 pence	-	-
2007	128.95 pence	99.50 pence	-	-
2008 (to 31.10)	123.29 pence	66.86 pence	3.19 pence	£31.90

The Fund distributes income once per annum, on 30th June. The ex-dividend date is 1st May each year. Income can be reinvested to purchase units at no initial charge.

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AUTHORISED STATUS

The Fund is an authorised unit trust scheme under Section 243 of the Financial Services and Markets Act 2000 (authorisation orders) and the Financial Services Authority's Collective Investment Schemes sourcebook and is categorised as a UCITS scheme.

CERTIFICATION OF THE ACCOUNTS BY THE MANAGER

We certify that this Manager's Report has been prepared in accordance with the Financial Services Authority's Collective Investment Schemes sourcebook.



Nigel Richard Legge
Managing Director



Vinay Abrol
Director

Liontrust Investment Funds Limited.

22nd December 2008

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STATEMENT OF TOTAL RETURN

for the period ended 31st October 2008 (unaudited):

	Notes	2008 £'000	2008 £'000	2007 £'000	2007 £'000
Net (losses)/gains on investments during the period	4		(16,722)		3,175
Other currency gains/(losses)			95		(22)
Total income	5	669		716	
Expenses	6	(352)		(433)	
Finance costs: Interest	8	(1)		(2)	
Net income before taxation		<u>316</u>		<u>281</u>	
Taxation	7	<u>(60)</u>		<u>(71)</u>	
Net income after taxation			<u>256</u>		<u>210</u>
Total return before distribution			<u>(16,371)</u>		<u>3,362</u>
Finance costs: Distributions	8		<u>33</u>		<u>495</u>
Change in net assets attributable to unitholders			<u><u>(16,338)</u></u>		<u><u>3,858</u></u>

STATEMENT OF CHANGE IN UNITHOLDERS' NET ASSETS

for the period ended 31st October 2008 (unaudited):

	2008 £'000	2008 £'000	2007 £'000	2007 £'000
Net assets at the start of the period		48,302		-
Movement due to sales and repurchases of units:				
Amounts received on creation of units	13,107		52,291	
Amounts paid on cancellation of units	<u>(11,265)</u>		<u>(4,459)</u>	
		1,842		47,832
Change in net assets attributable to unitholders (see above)		<u>(16,338)</u>		<u>3,858</u>
Net assets at the end of the period		<u><u>33,806</u></u>		<u><u>51,690</u></u>

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PORTFOLIO STATEMENT

as at 31st October 2008 (Ordinary shares except where otherwise stated)

	Holding	Market Value £'000	Percentage of total net assets %
Listed Securites			
AUSTRIA			
(30.04.08: 0.00%)			
Oesterreichische Post	53,802	944	2.79
		<u>944</u>	<u>2.79</u>
BELGIUM			
(30.04.08: 3.02%)			
Colruyt	10,081	1,392	4.12
CFE	24,150	717	2.12
Mobistar	29,262	1,192	3.53
		<u>3,301</u>	<u>9.77</u>
DENMARK			
(30.04.08: 3.11%)			
Topdanmark	14,702	975	2.88
		<u>975</u>	<u>2.88</u>
FINLAND			
(30.04.08: 8.92%)			
Konecranes	70,194	730	2.16
Nokia	89,333	854	2.53
Outotec	39,274	321	0.95
Tekla	175,933	547	1.62
		<u>2,452</u>	<u>7.26</u>
FRANCE			
(30.04.08: 11.17%)			
Alstom	20,118	605	1.79
Publicis Groupe	63,144	872	2.58
Sodexo	38,399	1,124	3.33
Technip	28,023	510	1.51
Total	29,281	983	2.91
Vallourec	7,270	495	1.46
		<u>4,589</u>	<u>13.58</u>

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as at 31st October 2008 (Ordinary shares except where otherwise stated)

	Holding	Market Value £'000	Percentage of total net assets %
GERMANY			
(30.04.08: 12.56%)			
Deutsche Lufthansa	98,491	852	2.52
MAN	27,775	848	2.51
Muenchener Rueckversicherungs	13,298	1,091	3.23
RWE	17,702	918	2.71
Wincor Nixdorf	31,772	853	2.52
		<u>4,562</u>	<u>13.49</u>
ITALY			
(30.04.08: 4.93%)			
Prima Industrie	1,066	8	0.02
SAES Getters	39,571	250	0.74
Saras	408,855	875	2.59
		<u>1,133</u>	<u>3.35</u>
NETHERLANDS			
(30.04.08: 14.01%)			
ASML Holding	93,251	992	2.93
EADS	114,214	1,159	3.43
KAS Bank	56,573	544	1.61
		<u>2,695</u>	<u>7.97</u>
NORWAY			
(30.04.08: 10.04%)			
Aker Kvaerner	98,159	329	0.97
Ekornes	131,415	822	2.43
Tandberg	140,286	1,061	3.14
		<u>2,212</u>	<u>6.54</u>
SPAIN			
(30.04.08: 1.63%)			
Bolsas Y Mercados	55,923	836	2.47
		<u>836</u>	<u>2.47</u>
SWEDEN			
(30.04.08: 10.50%)			
Nordea Bank	178,531	863	2.55
AstraZeneca	57,924	1,472	4.35
		<u>2,335</u>	<u>6.90</u>

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PORTFOLIO STATEMENT

as at 31st October 2008 (Ordinary shares except where otherwise stated)

	Holding	Market Value £'000	Percentage of total net assets %
SWITZERLAND			
(30.04.08: 14.05%)			
Adecco	43,197	907	2.68
Interroll	5,275	668	1.98
Kuoni Reisen	4,501	810	2.40
Logitech International	77,808	704	2.09
Swiss Reinsurance	30,598	774	2.29
Zurich Financial Services	9,085	1,102	3.26
		4,965	14.70
IRELAND			
(30.04.08: 5.11%)			
Paddy Power	70,440	734	2.17
Cash Deposits			
SSgA Cash Management Fund (£)*	1,342,027	1,342	3.97
SSgA Cash Management Fund (€)*	187,269	187	0.55
		2,263	6.69
Portfolio of investments		33,262	98.39
Net other assets		544	1.61
Total net assets		33,806	100.00

All securities are approved securities traded on eligible securities markets, as defined by the Collective Investment Scheme sourcebook, unless otherwise stated.

* In order to maintain appropriate levels of interest received on any large cash balances held by the Fund, cash balances are reviewed on a daily basis and any excess cash is transferred into the SSgA Cash Management Fund. The units in the SSgA Cash Management Fund are readily transferable back into cash at any time as required for the operation of the Fund. This investment is a related party, as disclosed in note 14.

LIONTRUST CONTINENTAL EUROPE FUND

BALANCE SHEET

as at 31st October 2008 (unaudited):

	Note	2008	2008*
		£'000	£'000
Assets			
Portfolio of investments		33,262	47,841
Debtors	9	1,555	528
Cash and bank balances		454	1,422
Total other assets		2,009	1,950
Total assets		35,271	49,791
Liabilities			
Creditors	10	1,465	108
Distribution payable on income units		-	1,381
Total liabilities		1,465	1,489
Net assets attributable to unitholders		33,806	48,302

*Comparative figures are as at 30th April 2008.

LIONTRUST CONTINENTAL EUROPE FUND

SUMMARY OF MATERIAL PORTFOLIO CHANGES

for the period ended 31st October 2008:

Major purchases	Note	Cost £'000	Major sales	Note	Proceeds £'000
Saras		1,421	SBM		1,752
Compagnie		1,410	ING		1,177
Mobistar		1,388	Sweco		1,146
Technip		1,385	Deutsche Bank		1,069
Adecco		1,379	JM AB		873
Oesterreich Post		1,351	Logitech International		827
Alstom		1,270	Wavecom		750
MAN		981	Vallourec		682
Konecranes		823	Prima Industrie		577
Swiss Reinsurance		746	RWE		493
Bolsas Y Mercados		685	Tandberg		482
Deutsche Lufthansa		673	Aker Kvaerner		470
Publicis Groupe		599	Astrazeneca		464
Norsk Hydro		491	Total		445
ASML Holding		475	Norsk Hydro		444
Outotec		465	EADS		389
Sodexo		396	Colruyt		383
Tandberg		292	SAES Getters		359
Aker Kvaerner		262	KAS Bank		353
Nordea		243	Paddy Power		351
		Cost			Proceeds
		£'000			£'000
Total for the period	16	19,394	Total for the period	16	17,690

The Summary of Material Portfolio Changes identifies the value of purchases and sales of a security exceeding 2% of the net assets of the Fund at the start of the period. In any event, as a minimum, the largest 20 purchases and sales are disclosed.

The Fund invests in the SSgA Cash Management Funds, as disclosed in note 14, which are the equivalent of an overnight deposit arrangement. Monies invested in, and redeemed from, the cash fund have not been disclosed above.

LIONTRUST CONTINENTAL EUROPE FUND

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

A Basis of accounting

The financial statements have been prepared under the historical cost basis, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice (SORP) for Financial Statements of Authorised Funds issued by the IMA in December 2005.

B Recognition of income

- (i) UK dividends classified as franked investment income are shown net of attributable tax credits when the securities are quoted ex-dividend.
- (ii) Special dividends are treated as income or capital according to the nature of the event giving rise to the payment.
- (iii) Bank interest and stock lending income are recognised on an accruals basis.
- (iv) Overseas income that is received after the deduction of withholding tax is shown gross of taxation.

C Expenses

Dealing charges and stamp duty reserve tax are deducted from capital. All other expenses are charged against income. All expenses are accounted for on an accruals basis.

D Distribution

Income produced by the Fund's investments accumulates during each accounting period. If at the end of the accounting period income exceeds expenses, the net income of the Fund is available to be distributed to unitholders. The Manager will seek to distribute this income in a manner that will maximise the total returns to holders of the majority of units.

E Basis of valuation of investments

All investments have been valued at close of business, 1700 hours, on 31st October 2008. Listed investments have been valued at bid-market value net of any accrued income.

F Taxation

Provision is made for taxation at current rates on the excess of investment income over expenses, with relief taken for overseas taxation where appropriate.

Deferred tax is provided for in respect of all timing differences that have originated but not reversed by the balance sheet date. Deferred tax is not recognised on permanent differences.

Deferred tax assets are recognised only to the extent that it is more likely than not that there will be taxable profits from which the future reversal of the underlying timing differences can be deducted.

2 Units in issue

There were 46,104,211 income units in issue at 31st October 2008 (43,292,000 at 30th April 2008).

3 Equalisation

Equalisation is the accrued income included in the price of units purchased during the distribution period (Group 2 Units) which is refunded as a part of a unitholder's first distribution, so as to provide the same distribution for all units of the same type. As a repayment of capital it is not liable to Income Tax and should be deducted from the cost of units for Capital Gains Tax purposes.

LIONTRUST CONTINENTAL EUROPE FUND

NOTES TO THE FINANCIAL STATEMENTS

4 Net (losses)/gains on investments

The net (losses)/gains on investments during the period comprise:

	2008 £'000	2007 £'000
Non-derivative securities	(16,722)	3,175
Net (losses)/gains on investments during the period	(16,722)	3,175

5 Income

	2008 £'000	2007 £'000
Overseas dividends	602	674
UK dividends	15	-
Bank interest	7	6
Offshore investment income*	26	36
Stocklending income	19	-
	669	716

*This is income received from investment in the SSgA Cash Management Fund.

6 Expenses

	2008 £'000	2007 £'000
Payable to the Manager, associates of the Manager and agents of either of them:		
Manager's periodic charge	320	381
Registration fees	6	7
	326	388
Payable to the Trustee, associates of the Trustee and agents of either of them:		
Trustee's fees	7	9
Transaction charges	9	22
Wire charges	1	-
Safe custody fees	5	5
	22	36
Other expenses		
Printing fee	2	3
Audit fee	2	6
	4	9
Total expenses	352	433

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NOTES TO THE FINANCIAL STATEMENTS

7 Taxation

	2008 £'000	2007 £'000
(i) Analysis of charge in the period :		
Corporation tax	125	61
Double tax relief	(116)	(61)
Eligible unrelieved foreign taxation	(8)	-
Irrecoverable overseas tax	77	71
Current tax charge for the period (see note 7(ii))	<u>78</u>	<u>71</u>
Deferred taxation (see note 7(iii))	<u>(18)</u>	<u>-</u>
Total taxation	<u><u>60</u></u>	<u><u>71</u></u>

(ii) Factors affecting current tax charge for the period :

The tax assessed for the period is lower than the standard rate of corporation tax in the UK for authorised unit trusts of 20% (2007: 20%).

The differences are explained below:

Net income before taxation	<u>324</u>	<u>282</u>
Corporation tax at 20%	<u>65</u>	<u>56</u>
Effects of:		
UK dividends*	(3)	-
Double tax relief	(116)	(61)
Eligible unrelieved foreign taxation	(8)	-
Income taxable in different periods	65	-
Irrecoverable overseas tax	77	71
Expenses not deductible for tax purposes	(2)	-
Adjustments in respect of prior years	<u>-</u>	<u>5</u>
Current tax charge for the period (see note 7(i))	<u><u>78</u></u>	<u><u>71</u></u>

* As an authorised Unit Trust, these items are not subject to corporation tax.

Authorised Unit Trusts are exempt from tax on capital gains. Therefore, any capital return is not included in the above reconciliation.

(iii) Deferred tax

Provision at the start of the period	18	
Deferred tax charge in profit and loss account for the period	<u>(18)</u>	<u>-</u>
Provision at the period end	<u><u>-</u></u>	<u><u>-</u></u>

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NOTES TO THE FINANCIAL STATEMENTS

8 Finance costs

Equalisation and interest

The distributions take account of income received on the creation of units and income deducted on the cancellation of units, and comprise:

	2008 £'000	2007 £'000
Add: Income deducted on cancellation of units	78	65
Deduct: Income received on creation of units	(111)	(560)
Net distribution for the period	<u>(33)</u>	<u>(495)</u>
Interest	1	2
Total finance costs	<u>(32)</u>	<u>(493)</u>

Reconciliation of net income after taxation to distributions:

Net income after taxation	256	210
Fees paid from capital	9	23
Less: Income carried forward	(298)	(728)
Net distribution for the period	<u>(33)</u>	<u>(495)</u>

9 Debtors

	2008 £'000	2008* £'000
Accrued dividend income	-	294
Sales awaiting settlement	154	145
Amounts receivable on creation of units	1,347	38
Overseas tax recoverable	50	51
Accrued SSgA interest	3	-
Accrued stock lending income	1	-
	<u>1,555</u>	<u>528</u>

10 Creditors

	2008 £'000	2008* £'000
Accrued expenses	57	81
Deferred tax payable	-	18
Purchases awaiting settlement	1,357	-
Amounts payable on cancellation of units	50	9
Corporation tax payable	1	-
	<u>1,465</u>	<u>108</u>

*Comparative figures are as at 30th April 2008.

LIONTRUST CONTINENTAL EUROPE FUND

NOTES TO THE FINANCIAL STATEMENTS

11 Contingent liabilities and commitments

On 31st October 2008, the Fund had no capital commitments (30th April 2008: £nil) and no contingent liabilities (30th April 2008: £107,533).

12 Securities on loan

The aggregate value of securities on loan at 31 October 2008 is £3,185,239 (30 April 2008: £12,905,420). Securities on loan are included in the Portfolio Statement and no account is taken of any collateral held. The aggregate value of collateral held at 31 October 2008 is £3,357,241 (30 April 2008: £13,603,411). This collateral is in the form of bonds.

The gross earnings and fees paid for the period are £30,933 (30 April 2008: £15,317) and £12,373 (30 April 2008: £6,127).

13 Post balance sheet events

There are no post balance sheet events which have a bearing on the interpretation of the financial statements.

14 Related party transactions

The Fund Manager and Trustee are related to the Fund as defined by Financial Reporting Standard 8, Related Party Disclosures, and are named on page 1.

SSgA (State Street Global Advisors) are the investment management arm of State Street Corporation. The SSgA Cash Management Fund, an investment company with variable capital incorporated with limited liability in Ireland, listed on the Dublin stock exchange, invests in at least A-rated sterling denominated securities. The investment strategy of the fund is primarily capital preservation and liquidity while maximising current income.

The Fund received interest on deposits held with the Trustee during the period as disclosed in note 5 on page 15 of which £286 was outstanding at 31st October 2008 (30th April 2008: £1,187). At 31st October 2008 the Fund held cash balances with the Trustee as disclosed in the Balance Sheet on page 12.

The charges made by the Manager, Trustee and the Registrar during the period are disclosed in note 6. At 31st October 2008 £40,781, £958 and £3,284 were due to the Manager, Trustee and Registrar respectively (30th April 2008: £60,466, £3,787 & £1,076). These amounts are included under 'Accrued expenses' in note 10.

At 31st October 2008 there were creation monies due from the Manager of £1,347,105 (30th April 2008: £37,869). There were cancellation monies due to the Manager of £49,385 at 31st October 2008 (30th April 2008: £9,145).

By virtue of the Regulations governing authorised unit trusts, the Manager is party to every transaction in respect of units of the Fund, which are summarised in the Statement of Change in Unitholders' Net Assets.

LIONTRUST CONTINENTAL EUROPE FUND

NOTES TO THE FINANCIAL STATEMENTS

15 Derivatives and other financial instruments

In accordance with the investment objectives and policies the Fund holds certain financial instruments. These comprise:

- equity shares, preference shares and warrants;
- cash and short-term debtors and creditors that arise directly from its operations;
- units in SSgA Management Fund; and
- unitholders' funds which represent investors' monies which are invested on their behalf.

In accordance with the requirements of the rules in the Financial Services Authority's Collective Investment Schemes sourcebook, the Fund is not permitted to trade in other financial instruments. The Fund's use of financial instruments during the year satisfies these regulatory requirements.

The main risks arising from the Fund's financial instruments are market price risk, interest rate risk, foreign currency risk and liquidity risk. The Manager's policies for managing these risks are summarised below. These policies have remained unchanged since the beginning of the year to which these financial statements relate and during the prior year.

Market price risk

Market price risk arises mainly from uncertainty about future prices of financial instruments held. It represents the potential loss the Fund might suffer through holding market positions in the face of price movements. The Manager reviews the portfolio in order to consider the asset allocation implications and to minimise the risk associated with particular countries or industry sectors whilst continuing to follow the Fund's investment objective. An individual fund manager has responsibility for monitoring the existing portfolio, in accordance with the overall asset allocation parameters described above and seeks to ensure that individual stocks also meet an acceptable risk reward profile.

Interest rate risk profile of financial assets and financial liabilities

Interest receivable on bank deposits and short term deposits or payable on bank overdraft positions will be affected by fluctuations in interest rates. The interest rates earned on sterling deposits are earned at a rate linked to LIBOR.

The majority of the Fund's financial assets are equity shares and other investments which neither pay interest nor have a maturity date. The floating rate financial assets and liabilities comprise sterling denominated bank balances and overdrafts that bear interest based on LIBOR.

LIONTRUST CONTINENTAL EUROPE FUND

NOTES TO THE FINANCIAL STATEMENTS

The interest rate risk profile of the Fund's financial assets and liabilities at 31st October 2008 was:

Currency	Floating rate financial assets	Fixed rate financial assets	Financial assets not carrying interest	Total financial assets
	£'000	£'000	£'000	£'000
31.10.08				
Danish krone	-	-	975	975
Euro	222	-	21,058	21,280
Norwegian Krone	263	-	2,211	2,474
Swedish Krona	15	-	2,335	2,350
Swiss Franc	-	-	4,965	4,965
US dollar	9	-	1	10
UK Sterling	1,474	-	278	1,752
	<u>1,983</u>	<u>-</u>	<u>31,823</u>	<u>33,806</u>

Currency	Floating rate financial assets	Fixed rate financial assets	Financial assets not carrying interest	Total financial assets
	£'000	£'000	£'000	£'000
30.04.08				
Danish krone	129	-	1,501	1,630
Euro	1,062	-	28,602	29,664
Norwegian Krone	68	-	4,849	4,917
Swedish Krona	159	-	5,076	5,235
Swiss Franc	331	-	6,785	7,116
US dollar	6	-	-	6
UK Sterling	695	-	-	695
	<u>2,450</u>	<u>-</u>	<u>46,813</u>	<u>49,263</u>

Foreign currency risk

The income and capital value of the Fund's investments can be significantly affected by currency translation movements as a significant proportion of the Fund's assets and income are denominated in currencies other than sterling, which is the Fund's functional currency.

The Manager has identified three principle areas where foreign currency risk could impact the Fund:

- Movements in exchange rates affect the value of investments;
- Movements in exchange rates affect short term timing differences; and,
- Movements in exchange rates affect the income received.

The Fund may be subject to short-term exposure to exchange rate movements, for instance where there is a difference between the date an investment purchase or sale is entered into and the date when settlement of the proceeds occurs. When the Fund enters into such a transaction which will involve the buying or selling of foreign currency in order to complete, a foreign exchange contract is entered into as soon as possible after the initial transaction in order to minimise exchange rate risk.

LIONTRUST CONTINENTAL EUROPE FUND

NOTES TO THE FINANCIAL STATEMENTS

The Fund may receive income in currencies other than sterling and the sterling values of this income can be affected by movements in exchange rates. The Fund converts all receipts of income into sterling on or near the date of receipt; it does not, however, hedge or otherwise seek to avoid exchange rate risk on income accrued but not received.

The Portfolio Statement on page 9 shows the countries in which the Fund is invested. The securities in the portfolio are priced in local currency. An analysis of monetary assets and liabilities in foreign currencies at the period end (including cash and outstanding income) is shown below.

Currency	Net foreign currency assets 31st October 2008		
	Monetary exposures £'000	Non-monetary exposures £'000	Total £'000
Danish krone	-	975	975
Euro	222	21,058	21,280
Norwegian Krone	263	2,211	2,474
Swedish Krona	15	2,335	2,350
Swiss Franc	-	4,965	4,965
US dollar	9	1	10
UK Sterling	1,474	278	1,752
	<u>1,983</u>	<u>31,823</u>	<u>33,806</u>

Currency	Net foreign currency assets 30th April 2008		
	Monetary exposures £'000	Non-monetary exposures £'000	Total £'000
Danish krone	130	1,501	1,630
Euro	716	28,603	29,319
Norwegian Krone	220	4,848	5,068
Swedish Krona	159	5,076	5,235
Swiss Franc	356	6,785	7,141
US dollar	5	-	5
UK Sterling	-	-	-
	<u>1,586</u>	<u>46,813</u>	<u>48,398</u>

Liquidity risk

The Fund's assets mainly comprise securities that can be readily sold. The main liability of the Fund is the redemption of any units that investors wish to sell.

Credit and counter-party risk

Certain transactions in securities that the Fund enters into expose it to the risk that the counterparty will not deliver the investment (purchase) or cash (sale) after the Fund has fulfilled its responsibilities.

The Fund only buys and sells investments through brokers which have been approved by the Manager as an acceptable counter-party. This list is reviewed annually.

LIONTRUST CONTINENTAL EUROPE FUND

NOTES TO THE FINANCIAL STATEMENTS

Maturity profile of financial liabilities

All financial liabilities of the Fund at the period end are due to settle in one year or less, or on demand.

Fair value of financial assets and liabilities

Securities held by the Fund are valued at bid-price. The difference between this value and the fair value of the securities is immaterial. There is also no material difference between the value of other financial assets and liabilities of the Fund included in the balance sheet and their fair value.

Securities are valued at bid and offer prices for calculating the cancellation and creation prices at the Fund's daily valuation point.

16 Portfolio transaction costs

	2008	2008	2007	2007
	£'000	£'000	£'000	£'000
Analysis of total purchase costs				
Purchases in period before transaction costs		19,394		61,742
Commissions	25		85	
Taxes	<u>2</u>		<u>23</u>	
Total purchase costs		27		108
Gross purchases total		<u>19,421</u>		<u>61,851</u>
	2008	2008	2007	2007
Analysis of total sale costs	£'000	£'000	£'000	£'000
Gross sales before transaction costs		17,690		14,715
Commissions	<u>22</u>		<u>(19)</u>	
Total sale costs		22		(19)
Total sales net of transaction costs		<u>17,712</u>		<u>14,696</u>

LIONTRUST CONTINENTAL EUROPE FUND

ADDITIONAL INFORMATION

Trust Deed: The Fund was established by a Trust Deed made between the Manager and the Trustee dated 6th September 2006.

Prospectus: Copies of the Fund's Prospectus are available free of charge from the Manager upon request, and from our website, www.liontrust.co.uk.

Unit type: The Fund issues income units only. Investors can elect at any time to have any income either paid out or automatically reinvested to purchase units at no initial charge.

Pricing and dealing: A buying price (the price at which you have bought the units in the Fund and being the higher) and a selling price (the price at which you can sell the units back to the Manager and being the lower) are always quoted for the Fund. The buying price includes the Manager's initial charge.

Dealing in all unit trusts operated by Liontrust Investment Funds Limited may be carried out between 0900 and 1700 hours on any business day. Professional investors and advisers may buy and sell units over the telephone; private investors are required to instruct the Manager in writing at all times. Prices are quoted on a 'forward' basis. This means that all deals are based on a price that is calculated at the next valuation point (which is 1200 hours on each business day) following receipt of instructions. Instructions received before 1200 hours will be priced at 1200 hours that day, whilst those deals taken later in the day will receive the next dealing price which is fixed at 1200 hours on the following business day.

In the case of large deals of £15,000 and over, the Manager has the discretion to quote a special price within limits laid down under the Regulations.

The minimum initial lump sum investment in the Fund is £2,500, the minimum additional investment is £1,000 and the amount you may sell back to the Manager at any one time is £500, providing you maintain a balance of £2,500. At its absolute discretion, the Manager may accept a lower minimum amount for the purchase and sale of units.

A contract note in respect of any purchase will be issued immediately. Unit certificates will not be issued. Instructions to sell your units may be required to be given in writing to Liontrust Customer Services Team, PO Box 23850, Edinburgh EH7 5FY. A contract note confirming the instruction to sell will be issued immediately. Following receipt of a correctly completed Form of Renunciation, a cheque in settlement will be sent directly to you or your bank/building society in four business days. Liontrust does not make or accept payments to or from third parties unauthorised by the Financial Services Authority.

Management charges, spreads and yields: The initial charge of the Fund is 5% and the annual management fee is 1.5%. The Trust Deed permits these to be increased to a maximum of 7% and 2% respectively, with any proposed increases subject to three months' notice to unitholders. The difference between the bid and the offer prices is currently 6% which includes the initial charge.

The net estimated yield is currently 4.1%. This yield is calculated and published daily.

Certain other expenses are met by the Fund, all of which are detailed in the Prospectus.

Commission: Commission is payable to authorised intermediaries on purchases of units in the Fund at a rate of up to 3%. A discount is available when switching between Liontrust's range of unit trusts.

Publication of prices: The price of units in the Fund is quoted daily in *The Financial Times* and *The Daily Telegraph* listed under the heading of Liontrust Investment Funds Limited.

Stamp Duty Reserve Tax: Stamp Duty Reserve Tax ("SDRT") is a 0.5% tax that is payable by the Trustee of a unit trust when unitholders sell their units in that unit trust. This may have an affect on you as the unitholder depending on how the unit trust manager treats this particular charge. Any SDRT liability incurred by the Trustee on the Liontrust Continental Europe Fund is charged to the Fund, which could mean that less of your money will be invested for potential capital and income growth.

LIONTRUST CONTINENTAL EUROPE FUND

ADDITIONAL INFORMATION

Capital Gains Tax: As an authorised unit trust, the Fund is exempt from UK Capital Gains Tax. An individual's first £9,600 of net gains on disposals in the 2008-2009 tax year are exempt from tax.

Income Tax: UK tax resident individuals are entitled to tax credits in respect of dividend distributions received and are subject to income tax on the aggregate of the distribution and the tax credit. In the case of a distribution the current value of the tax credit is equal to one ninth of the net dividend received and the distribution plus tax credits are treated as the top slice of an individual's income.

UK resident individuals who are not liable to tax are not able to reclaim the tax credits from the HM Revenue and Customs. In the case of UK resident individuals who are liable to starting or basic rate tax only, the tax credit will match his or her liability on the distribution and there will be no further tax to pay and no right to claim repayments to the HM Revenue and Customs. In the case of a higher rate tax payer, the tax credit will be set against, but not fully match, his or her tax liability on the distribution. Such people will have an additional tax liability to pay.

Corporate Unitholders: Ordinary dividends distributed by the Fund to corporate unitholders will be treated as part-franked investment income and part unfranked investment income, in the corporate unitholders' hands. The precise split will be calculated by the Manager and will be detailed on the distribution vouchers accompanying the distribution.

For unitholders chargeable to UK corporation tax, income allocations representing the UK dividends received by the Fund will not be subject to corporation tax in the unitholders' hands. Income allocations representing other types of income received by the Fund will be taxable as if they were annual payments received after the deduction of tax at the rate of 20 per cent of the gross distribution.

Important information: It is important to remember that the price of units, and the income from them, can fall as well as rise and is not guaranteed and that investors may not get back the amount originally invested. Past performance is not a guide to future performance. The issue of units may be subject to an initial charge and this is likely to have an impact on the realisable value of your investment, particularly in the short term. You should always regard unit trust investment as long term. The annual management fee of the Fund is deducted from capital. Whilst this results in the dividend paid to investors being higher than would be the case were the annual management fee charged to income, the potential for capital growth may be reduced.



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LIONTRUST

Liontrust Investment Funds Limited is authorised and regulated by the Financial Services Authority.