




LIONTRUST UK SMALLER COMPANIES FUND

**Manager's Long Final Report and Financial Statements
for the year ended 30th April 2011**



Managed by Anthony Cross &
Julian Fosh in accordance with
The Liontrust Economic Advantage

LIONTRUST FUND PARTNERS LLP

LIONTRUST UK SMALLER COMPANIES FUND

MANAGER

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Authorised and regulated by the Financial Services Authority.

INVESTMENT ADVISER

Liontrust Investment Partners, 2 Savoy Court, London WC2R 0EZ
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TRUSTEE

State Street Trustees Limited, 20 Churchill Place, London E14 5HJ
Authorised and regulated by the Financial Services Authority.

REGISTRARS

The Bank of New York Mellon (International) Ltd, 12 Blenheim Place, Edinburgh EH7 5JH
Authorised and regulated by the Financial Services Authority.

AUDITORS

PricewaterhouseCoopers LLP, PO Box 90, Erskine House, 68-73 Queen Street, Edinburgh EH2 4NH

LIONTRUST UK SMALLER COMPANIES FUND

INVESTMENT PROFILE

This unit trust aims to produce long term capital growth. With over 2,000 smaller companies quoted on the London Stock Exchange, investing in smaller companies requires a disciplined investment approach to identify companies with good long-term potential and avoid the remainder. The Fund's investment approach is to invest exclusively in companies demonstrating two criteria which we believe are the key to what makes some companies successful and others less so. These are: the strength, sustainability and exploitation of a company's Economic Advantage (its intangible strengths), and how key employees (who create this Economic Advantage) are motivated and retained, preferably through direct ownership of the company's equity. The Fund will only invest in those smaller companies that can demonstrate that they have met these two criteria.

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THE UK SMALLER COMPANIES FUND

MANAGER'S INVESTMENT REPORT

Investment Objective

The investment objective of Liontrust UK Smaller Companies Fund is to provide long-term capital growth by investing primarily in smaller UK companies displaying a high degree of Intellectual Capital and employee motivation through equity ownership in their business model.

To achieve this aim, the Fund will invest in a portfolio of UK smaller companies' shares, the majority of which are contained within the FTSE Small Cap., the FTSE Fledgling and the AIM indices. Companies within the Fund that graduate into the FTSE 250 Index will be held until a suitable replacement company is found. The Fund may also invest in transferable securities, money market instruments, warrants, cash and near cash and deposits. The Fund may also invest up to 10% of its property in units or shares in collective investment schemes. The Fund is permitted to use derivatives for the purposes of efficient portfolio management and for investment purposes.

Liontrust Asset Management PLC

Liontrust provides portfolio management services in UK and European equities and in fixed income securities. These are managed on a long-only, long/short and absolute return basis through unit trusts, individual savings accounts (ISAs), offshore funds, pooled pension funds and segregated institutional accounts. The Group currently manages £1.3 billion (as at 31st March 2011).

We market our investment products to professional investors, predominantly in the UK and Continental Europe. These include pension funds and other institutional investors, family offices, private banks, private client managers, multi-managers, stockbrokers and financial advisers. Some private clients, to whom no advice has been given, have chosen independently to invest with us.

Performance of the Fund

In the year to 30th April 2011 an investment in the Fund rose by 26.4%. This compares with a rise of 13.7% in the FTSE Small Cap. (excluding investment trusts) Total Return Index, the benchmark index.

Since 8th January 1998, the launch date of the Fund, an investment in the Fund has risen by 300.8% compared to a rise of 67.7% in the FTSE Small Cap. (excluding investment trusts) Total Return Index.

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

The Market

The FTSE Small Cap. Index rose 13.7% over the year under review and matched the FTSE All-Share Index. The performance of the whole market picked up from mid-July, coinciding with talk that there would be a fresh bout of Quantitative Easing (QE) in the US. When the next phase of QE was confirmed, the Federal Reserve gave a clear signal that the policy was partly aimed at supporting share prices and thereby increasing consumer confidence and spending.

Debates have raged about both the effectiveness of QE in stimulating economies and its potential damaging after-effects. Meanwhile, economic growth has remained positive in western economies whilst emerging market growth has continued apace. Companies, particularly those with strong export markets, have delivered robust earnings. There have, however, been pockets of weakness, most notably in companies exposed to cuts in UK public expenditure. Sovereign debt fears drifted in and out of the market's consciousness. Overall, a confusing picture persisted but generally improved company profits kept investor spirits up.

THE UK SMALLER COMPANIES FUND

MANAGER'S INVESTMENT REPORT

The Fund

The Fund performed strongly over the year. It returned over 26% and significantly outperformed the FTSE Small Cap. Index.

The Liontrust Economic Advantage investment process, which has been applied since the Fund launched in 1998, continues to reward unit holders. We aim to find businesses which are either international and have built a 'world-beating' position or that have a strong domestic position which is frequently backed by high recurring income. All of our companies have motivated management who own equity in their businesses, the required threshold being Board ownership of 3% but the average in the portfolio actually being around 20%. We believe that equity ownership is important for motivation as well as the attention it brings to financial discipline and long-term shareholder returns. A common feature of our companies is their financial strength; this has obviously been critical since the beginning of the credit crunch.

A strong market position requires barriers to competition. Our process is built upon the premise that today's barriers are built through intangible assets. Three in particular are very powerful, and companies can only enter the Fund if they have at least of one these.

The first is Intellectual Property (patents, copyrights, trade secrets and know-how). Intellectual Property (IP) is usually legally protected and is built from accumulated spending on research and development.

The second is distribution networks. These can be either physical, such as the international distribution network built up by an engineer, or electronically embedded, which is typical of many software companies. Physical distribution networks have often been built over a number of years and cannot be replicated overnight. Embedded distribution networks form a very powerful barrier to competition because it is difficult for competitors to force out the embedded incumbent.

The third asset is repeat business. We look for companies with 70% contracted recurring income. Such an income stream is not threatened by persistent price changes and it provides management with a certainty of income and therefore the ability to plan for the long term. Fee-based fund management companies enjoy high recurring income, as do software companies and some outsourcing businesses.

If a company has passed our test of having one, or a combination, of IP, distribution strength and repeat business, we will then evaluate other important intangible assets such as customer relationships, databases, licenses and franchises, procedures and formats, culture and brand.

We expect our businesses to demonstrate strong financial returns either through high margins or returns on capital employed (ROCE). Strong financial returns show that our required barriers to competition are working. In immature businesses the focus tends to be on gross margin, whereas with more mature businesses the focus switches to operating margins and ROCE. With cyclical businesses, operating returns will obviously move around but during a downturn we would hope that our businesses will be gaining market share before seeing returns rise again into a recovery.

Risk plays an important part in our decision of how much of a company to buy. We grade our companies accordingly, taking into account such factors as customer spread, product spread, financial gearing and market maturity. New holdings have to be profitable companies, headquartered in the UK and with directors that are subject to UK law.

THE UK SMALLER COMPANIES FUND

MANAGER'S INVESTMENT REPORT

Over the last year, there have been some very strong performers. Notable have been *iomart* (data centres and hosting), which continues to win new business and drive up earnings growth, and *Dialight* (LED technology) and *Renishaw* (measurement probes), which are experiencing strong industrial demand. *Brooks Macdonald* (private client fund management) continues to successfully recruit new managers and funds. The IT companies *NCC* (software escrow), *Tikit* (legal IT services) and *Workplace Systems* (manning software) all saw significant share price increases. It was particularly pleasing to see the market, albeit belatedly, ascribe a much higher valuation to *NCC's* recurring revenues.

The Fund enjoyed a number of takeovers at attractive premiums. *System C Healthcare* (healthcare IT software) was acquired by a large US competitor. *Focus Solutions* (software) and *Chrysalis* (music publishing) were also bought by industry players whilst *Independent Media Distribution* (advertising distribution) was subject to a management buyout.

Poor performers included *Ten Alps* (media) and *Penna* (recruitment and outplacement), which have both suffered from government spending cuts. In the case of *Penna*, we remain attracted to the company's leading position in outplacement and have recently bought more shares in anticipation of contracts to help with public sector redundancies. *Panmure Gordon* (broking) continued to suffer from a lack of corporate finance work and *Bond International* (recruitment software) experienced difficult markets but has seen an improvement more recently and has completed an attractive acquisition. *AssetCo* (support services) was a disappointment. Despite its recurring revenues its cash flows failed to support its debt exposure. We sold the shares and did not take part in a subsequent refinancing. *Caretech* (care homes) was also a company with high recurring revenue. The shares started to perform poorly and we sold them when it became apparent that renewed contracts were suffering from pricing pressure.

Outlook

We continue to experience good results from our international businesses and our UK businesses with high contracted recurring income. We are underweight in struggling consumer facing companies. We do, though, have some exposure to falling public sector spend and we have seen profit pressure in a few instances. The economic picture remains uncertain because the recovery in demand has been distorted by QE. The affects of reduced QE and its inflationary impact are far from certain.

Our process takes a long-term view and this is reflected in low levels of stock turnover within the Fund. We do not take macroeconomic bets but instead focus on the underlying strengths of each business. The companies have defensible barriers against competition and are frequently exposed to fast-growing markets. Our companies continue to have management who, via their own equity ownership, are committed to delivering shareholder returns.

Over the last thirteen years the investment process has delivered very strong absolute performance which has translated into highly attractive annualised returns. We look forward to maintaining this record.

Anthony Cross & Julian Fosh

Partners, Liontrust Investment Partners LLP
June 2011

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 UK SMALLER COMPANIES 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 2009	20,033,426	£48,837,504	243.78 pence	1.60%
30th April 2010	18,985,175	£64,321,196	338.80 pence	1.62%
30th April 2011	18,926,825	£81,219,264	429.12 pence	1.65%

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 October 2010.

* The Total Expense Ratio ('TER') is the total expenses paid by the Fund in the 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 for the last five years.

Year	Highest offer (buying) price	Lowest bid (selling) price	Net income per unit	Net income per £1,000 invested at 3rd January 2006
2006	371.02 pence	293.02 pence	0.50 pence	£1.48
2007	416.77 pence	312.58 pence	0.74 pence	£2.19
2008	349.47 pence	216.52 pence	1.92 pence	£5.69
2009	361.38 pence	219.81 pence	2.92 pence	£8.66
2010	444.89 pence	320.87 pence	3.16 pence	£9.37
2011 (to 30.04)	475.34 pence	402.78 pence	1.40 pence	£4.15

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.

LIONTRUST UK SMALLER COMPANIES FUND

AUTHORISED STATUS

The Fund is an authorised unit trust scheme ("the 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.

STATEMENT OF THE MANAGER'S RESPONSIBILITIES

in respect of the Report and Accounts of the Scheme:

The Financial Services Authority's Collective Investment Scheme Sourcebook ('the Regulations') require the Manager to prepare financial statements for each annual accounting period which give a true and fair view of the financial position of the Scheme and of its net income/expenses and the net gains/losses on the property of the Scheme for the period. In preparing the financial statements the Manager is required to:

- select suitable accounting policies and then apply them consistently;
- comply with the disclosure requirements of the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association (IMA) in October 2010;
- follow generally accepted accounting principles and applicable accounting standards;
- keep proper accounting records which enable it to demonstrate that the financial statements, as prepared, comply with the above requirements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Scheme will continue in operation.

The Manager is responsible for the management of the Scheme in accordance with its Trust Deed, Prospectus and the Regulations, and has taken all reasonable steps for the prevention and detection of fraud and other irregularities.

STATEMENT OF THE TRUSTEE'S RESPONSIBILITIES

The Trustee is under a duty of care to take into its custody or under its control all of the property of the Scheme and to hold it in trust for the holders of units. Under the rules in the Financial Services Authority's Collective Investment Schemes Sourcebook relating to Reports, it is also the duty of the Trustee to enquire into the conduct of the Manager in the management of the Scheme in each annual accounting period and report thereon to unitholders in a report which shall contain the matters prescribed by the rules.

The Trustee's report is included below.

TRUSTEE'S REPORT

to the unitholders of the Liontrust UK Smaller Companies Fund ("The Fund")

Having carried out such procedures as we considered necessary to discharge our responsibilities as Trustees of the Scheme it is our opinion, based on the information available to us and the explanations provided, that the Manager has in all material respects managed the Scheme during the period in accordance with the investment and borrowing powers and restrictions applicable to the Scheme, and otherwise in accordance with the provisions of the Trust Deed and the rules in the Financial Services Authority's Collective Investment Schemes Sourcebook.

State Street Trustees Limited

20 Churchill Place
London E14 5HJ

30 June 2011

LIONTRUST UK SMALLER COMPANIES FUND

Change to Registration Fees

The cost of the maintenance of the register and the sub-register fees for ISA unitholders is paid out of the property of each Fund and for all funds is currently levied at 0.0720% per annum of the value of each Fund. This increased during the year on 1 July 2010 from 0.0565% per annum to the current rate, an increase of 0.0155%, which is less than 1% of the Total Expense Ratio.

Change of Legal Status

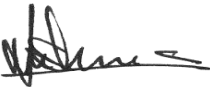
On the 8th July 2010 The Manager Liontrust Investment Funds Limited ('LIF') was converted to a Limited Liability Partnership: Liontrust Fund Partners ('LFP'). On this date LFP was authorised by the Financial Services Authority and LIF ceased to be authorised.

Change of Fund Name

On the 30th September 2010 the Fund changed its name from Liontrust Intellectual Capital Trust to Liontrust UK Smaller Companies Fund.

CERTIFICATION OF ACCOUNTS BY DIRECTORS OF THE MANAGER

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



John Ions
Chief Executive



Antony Morrison
Partner, Head of Finance

Liontrust Fund Partners LLP.

30 June 2011

LIONTRUST UK SMALLER COMPANIES FUND

INDEPENDENT AUDITORS REPORT

to the unitholders of the Liontrust UK Smaller Companies Fund ("The Fund")

We have audited the financial statements of the Liontrust UK Smaller Companies Fund for the year ended 30th April 2011 which comprise the Statement Of Total Return, the Statement Of Change In Net Assets Attributable To Unitholders, the Balance Sheet, the related notes and the Distribution Table. 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) and the Statement of Recommended Practice 'Financial Statements of Authorised Funds' issued by the Investment Management Association (the "Statement of Recommended Practice for Authorised Funds").

Respective responsibilities of the Manager and Auditors

As explained more fully in the Authorised Fund Manager's Responsibilities Statement the Authorised Fund Manager is 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 and express an opinion on 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 Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Trust's unitholders as a body in accordance with paragraph 4.5.12 of the Collective Investment Schemes sourcebook and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit and 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 Trust's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authorised Fund Manager; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Liontrust UK Smaller Companies Fund Long Final Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the Trust at 30th April 2011 and of the net revenue and the net gains of the property of the Trust for the year then ended; and
- have been properly prepared in accordance with the Statement of Recommended Practice for Authorised Funds, the Collective Investment Schemes Sourcebook and the Trust Deed.

LIONTRUST UK SMALLER COMPANIES FUND

INDEPENDENT AUDITORS REPORT

Opinion on other matters prescribed by the Collective Investment Schemes sourcebook

In our opinion

- we have obtained all the information and explanations we consider necessary for the purposes of the audit; and
- the information given in the Authorised Fund Manager's 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 Collective Investment Schemes sourcebook requires us to report to you if, in our opinion:

- proper accounting records for the Trust have not been kept; or
- the financial statements are not in agreement with the accounting records and returns.

PricewaterhouseCoopers LLP
Chartered Accountants & Statutory Auditors
Edinburgh

30 June 2011

- (a) The maintenance and integrity of the Liontrust website is the responsibility of the Manager; the work carried out by the Auditors does not involve consideration of these matters and, accordingly, the Auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

LIONTRUST UK SMALLER COMPANIES FUND

PORTFOLIO STATEMENT

as at 30th April 2011 (Ordinary shares except where otherwise stated)

	Market Value £'000	Percentage of total net assets %
UNITED KINGDOM	74,172	91.33
(30.04.10: 91.04%)		
CONSUMER SERVICES		
(30.04.10: 15.21%)		
<i>Animalcare</i>	1,938,955	3.70
<i>BrainJuicer</i>	581,997	1.75
<i>Independent Media Distribution</i>	940,000	1.01
<i>Next Fifteen Communications</i>	3,563,698	3.47
Quarto	927,998	1.66
<i>UBC Media</i>	15,523,756	0.48
Wilmington	1,414,168	2.61
	11,918	14.68
FINANCIALS		
(30.04.10: 15.30%)		
<i>Abbey Protection</i>	2,437,125	2.40
<i>Brooks MacDonald</i>	252,464	3.65
Charles Stanley	810,345	3.09
<i>Panmure Gordon</i>	4,558,676	1.18
Walkers Crips Weddle Beck	1,658,604	0.96
	9,165	11.28
HEALTH CARE		
(30.04.10: 4.62%)		
<i>IS Pharma</i>	553,288	0.59
LiDCO	8,738,639	1.56
	1,748	2.15
INDUSTRIALS		
(30.04.10: 21.81%)		
Dialight	462,666	4.41
<i>Empresaria</i>	3,395,562	2.13
<i>Murgitroyd</i>	683,943	2.53
PayPoint	295,062	1.71
<i>Penna Consulting</i>	1,653,995	2.24
<i>Pressure Technologies</i>	376,025	0.86
Renishaw	169,085	3.65
<i>RWS</i>	793,616	3.91
UK Mail	625,672	2.00
Waterman	2,199,163	1.08
<i>World Careers Network</i>	733,404	0.68
	20,470	25.20

LIONTRUST UK SMALLER COMPANIES FUND

PORTFOLIO STATEMENT

as at 30th April 2011 (Ordinary shares except where otherwise stated)

	Holding	Market Value £'000	Percentage of total net assets %
TECHNOLOGY			
(30.04.10: 34.10%)			
<i>Bango</i>	1,465,269	1,788	2.20
<i>Bond International Software</i>	2,029,763	812	1.00
<i>Concurrent Technologies</i>	6,336,031	2,598	3.20
<i>Craneware</i>	485,158	2,688	3.31
<i>Cupid</i>	1,115,927	1,451	1.79
EMIS	417,967	2,048	2.52
<i>FFastFill</i>	26,812,259	2,882	3.55
<i>Instem Life Science Systems</i>	518,286	1,151	1.42
<i>iomart</i>	3,294,767	2,768	3.41
NCC Group	418,853	2,417	2.98
<i>Statpro</i>	2,246,483	2,583	3.18
<i>System C Healthcare</i>	5,073,697	3,501	4.31
<i>Tikit</i>	800,546	2,185	2.69
Triad	1,455,489	247	0.30
<i>Workplace Systems</i>	14,012,650	1,752	2.16
		30,871	38.02
IRELAND		3,844	4.73
(30.04.10: 4.79%)			
CASH DEPOSITS			
(30.04.10: 4.79%)			
SSgA Cash Management Fund*	3,843,709	3,844	4.73
		3,844	4.73
Portfolio of investments		78,016	96.06
Net other assets		3,203	3.94
Total net assets		81,219	100.00

All securities are approved securities traded on eligible securities markets, as defined by the Collective Investment Scheme sourcebook, except those stocks in italics, which are listed on the Alternative Investment Market.

* 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 13.

LIONTRUST UK SMALLER COMPANIES FUND

STATEMENT OF TOTAL RETURN

for the year ended 30th April 2011

	Note	2011 £'000	2011 £'000	2010 £'000	2010 £'000
Income:					
Net capital gains	4		17,022		18,416
Revenue	5	1,480		1,587	
Expenses	6	(1,205)		(973)	
Finance costs: Interest	8	-		-	
Net revenue before taxation		275		614	
Taxation	7	(8)		-	
Net revenue after taxation			267		614
Total return before distribution			17,289		19,030
Finance costs: Distributions	8		(266)		(615)
Change in net assets attributable to unitholders from investment activities			17,023		18,415

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

for the year ended 30th April 2011

	2011 £'000	2011 £'000	2010 £'000	2010 £'000
Opening net assets attributable to unitholders		64,321		48,838
Amounts receivable on issue of units	6,295		2,876	
Amounts payable on cancellation of units	(6,381)		(5,785)	
		(86)		(2,909)
Stamp duty reserve tax		(39)		(23)
Change in net assets attributable to unitholders from investment activities		17,023		18,415
Closing net assets attributable to unitholders		81,219		64,321

LIONTRUST UK SMALLER COMPANIES FUND

BALANCE SHEET

as at 30th April 2011

	Note	2011 £'000	2011 £'000	2010 £'000	2010 £'000
Assets					
Investment assets			78,016		61,638
Debtors	9	153		37	
Cash and bank balances		<u>3,694</u>		<u>3,376</u>	
Total other assets			<u>3,847</u>		<u>3,413</u>
Total assets			81,863		65,051
Liabilities					
Creditors	10	379		130	
Distribution payable on income units		<u>265</u>		<u>600</u>	
Total liabilities			644		730
Net assets attributable to unitholders			<u><u>81,219</u></u>		<u><u>64,321</u></u>

LIONTRUST UK SMALLER COMPANIES FUND

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting and distribution policies

A Basis of preparation

The financial statements have been prepared under the historical cost convention, 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 October 2010.

The presentation of these Financial Statements has been changed from the previous period to comply with the requirements of the IMA SORP (2010).

Noteable change from the SORP for Authorised Funds issued by the IMA in November 2008:

- PTR ratios are no longer required to be disclosed and have now been removed from the performance history.

B Recognition of revenue

- (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 revenue are recognised on an accruals basis.
- (iv) Overseas revenue 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 12 midday, on 28th April 2011, the last working day of the year. 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.

LIONTRUST UK SMALLER COMPANIES FUND

NOTES TO THE FINANCIAL STATEMENTS

G Deferred taxation

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.

H 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.

2 Risk Management Policies

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

- equity shares;
- 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 allowed to invest in derivative securities for the purposes of efficient portfolio management. 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, liquidity risk, and credit and counter-party 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.

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Furthermore, because a significant proportion of the companies in which the Fund invests is traded on the Alternative Investment Market (AIM) their liquidity cannot be guaranteed. The nature of the AIM investments is such that prices can be volatile and realisations may not achieve current book value, especially when such sales represent a significant proportion of the company's market capital. Nevertheless, on the ground that the investments are not intended for immediate realisation, bid market price is regarded as the most objective and appropriate method of valuation.

Interest rate risk

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 that bear interest based on LIBOR.

The floating rate financial assets and liabilities comprise bank balances and overdrafts that bear interest based on LIBOR (sterling denominated).

Interest receivable on bank deposits or payable on bank overdraft positions will be affected by fluctuations in interest rates.

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.

In general, the Investment Adviser manages the Fund's cash to ensure it can meet its liabilities. Where investments cannot be realised in time to meet any potential liability, the fund may borrow up to 10% of its value to ensure settlement.

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.

3 Units in issue

There were 18,926,825 income units in issue at 30th April 2011 (18,985,175 at 30th April 2010).

4 Net capital gains

	2011 £'000	2010 £'000
Non-derivative securities	17,025	18,417
Transaction charges	(3)	(1)
Net capital gains	<u>17,022</u>	<u>18,416</u>

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5 Revenue

	2011 £'000	2010 £'000
Overseas dividends	55	50
UK dividends	1,397	1,515
Bank interest	10	11
Offshore investment revenue*	18	10
Stocklending income	-	1
	<u>1,480</u>	<u>1,587</u>

*This is revenue received from investment in the SSgA Cash Management Fund as disclosed in note 13.

6 Expenses

	2011 £'000	2010 £'000
Payable to the Manager, associates of the Manager and agents of either of them:		
Manager's periodic charge	1,095	901
Registration fees	51	34
	<u>1,146</u>	<u>935</u>
Payable to the Trustee, associates of the Trustee and agents of either of them:		
Trustee's fees	26	21
Wire charges	1	2
Safe custody fees	4	3
	<u>31</u>	<u>26</u>
Other expenses		
Performance measurement fee	3	-
Printing fee	9	3
Audit fee	9	9
Administration fee	7	-
	<u>28</u>	<u>12</u>
Total expenses	<u>1,205</u>	<u>973</u>

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NOTES TO THE FINANCIAL STATEMENTS

7 Taxation

	2011 £'000	2010 £'000
(i) Analysis of charge for the year :		
Irrecoverable overseas tax	8	-
Current tax charge for the period (see note 7(ii))	<u>8</u>	<u>-</u>
(ii) Factors affecting current tax charge for the year :		
The tax assessed for the year is lower than the standard rate of corporation tax in the UK for authorised unit trusts of 20% (2010: 20%). The differences are explained below:		
Net revenue before taxation	<u>275</u>	<u>614</u>
Corporation tax at 20%	<u>55</u>	<u>123</u>
Effects of:		
UK dividends*	(279)	(303)
Other non taxable income	(11)	(4)
Movement in excess management expenses	235	184
Irrecoverable overseas tax	8	-
	<u>(47)</u>	<u>(123)</u>
Current tax charge for the year (see note 7(i))	<u>8</u>	<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

At the year end, there is a potential deferred tax asset of £2,457,622 (30th April 2010: £2,222,100) in relation to excess management expenses. It is unlikely that the Fund will generate sufficient taxable profits in the future to utilise these expenses and therefore no deferred tax asset has been recognised in the year or the prior year.

LIONTRUST UK SMALLER COMPANIES FUND

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8 Finance costs

Distribution and interest

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

	2011 £'000	2010 £'000
Final	265	600
Amounts deducted on cancellation of units	9	26
Amounts received on issue of units	(8)	(11)
Net distribution for the year	<u>266</u>	<u>615</u>
Finance costs: Interest	-	-
Total finance costs	<u><u>266</u></u>	<u><u>615</u></u>

Reconciliation of net revenue after taxation to distribution:

Net revenue after taxation	267	614
Add: Income brought forward from previous year	1	2
Less: Income carried forward	(2)	(1)
Net distribution for the year	<u><u>266</u></u>	<u><u>615</u></u>

Details of the distribution per unit are set out in the table on page 23.

9 Debtors

	2011 £'000	2010 £'000
Accrued revenue	141	6
Sales awaiting settlement	-	21
Amounts receivable on creation of units	12	10
	<u>153</u>	<u>37</u>

10 Creditors

	2011 £'000	2010 £'000
Accrued expenses	125	101
Accrued stamp duty reserve tax	5	2
Purchases awaiting settlement	249	-
Amounts payable on cancellation of units	-	27
	<u>379</u>	<u>130</u>

LIONTRUST UK SMALLER COMPANIES FUND

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11 Commitments, contingent liabilities and contingent assets

On 30th April 2011, the Fund had no capital commitments (30th April 2010: £nil) and no contingent liabilities (30th April 2010: £nil).

12 Post balance sheet events

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

13 Related parties

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 income outstanding at 30th April 2011 on the SSgA Cash Fund Deposit was £1,702 (30th April 2010: £1,044).

The Fund received interest on deposits held with the Trustee during the year as disclosed in note 5 on page 16 of which £951 was outstanding at 30th April 2011 (30th April 2010: £1,213). At 30th April 2011 the Fund held cash balances with the Trustee as disclosed in the Balance Sheet on page 14.

The charges made by the Manager, Trustee and the Registrar during the period are disclosed in note 6. At 30th April 2011 £95,255, £4,506 and £4,552 were due to the Manager, Trustee and Registrar respectively (30th April 2010: £81,261, £2,531 & £3,061). These amounts are included under 'Accrued expenses' in note 10.

At 30th April 2011 there were creation monies due from the Manager of £12,087 (30th April 2010: £10,158). There were cancellation monies due to the Manager of £nil at 30th April 2011 (30th April 2010: £27,332).

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 Net Assets Attributable to Unitholders.

14 Risk disclosures

The policies applied in the management of financial instruments are set out in note 2.

Maturity profile of financial liabilities

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

LIONTRUST UK SMALLER COMPANIES FUND

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Short-term debtors and creditors

Other short-term debtors and creditors have been excluded from disclosures of financial instruments.

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.

15 Purchases, sales and transaction costs

	2011	2011	2010	2010
	£'000	£'000	£'000	£'000
Purchases excluding transaction costs		16,027		6,870
Commissions	23		8	
Taxes	73		27	
	<u> </u>		<u> </u>	
Total purchase transaction costs		96		35
Purchases including transaction costs		<u><u>15,931</u></u>		<u><u>6,835</u></u>
	2011	2011	2010	2010
	£'000	£'000	£'000	£'000
Sales excluding transaction costs		17,323		14,204
Commissions	(18)		(10)	
	<u> </u>		<u> </u>	
Total sales transaction costs		(18)		(10)
Sales net of transaction costs		<u><u>17,341</u></u>		<u><u>14,214</u></u>

LIONTRUST UK SMALLER COMPANIES FUND

DISTRIBUTION TABLES

for the year ended 30th April 2011:

Group 1: Units purchased prior to 1st May 2010

Group 2: Units purchased on or after 1st May 2010

	Net income	Equalisation	Distribution payable	
	2011	2011	2011	2010
Income units	Pence	Pence	Pence	Pence
	per unit	per unit	per unit	per unit
Group 1	1.40	-	1.40	3.16
Group 2	0.83	0.57	1.40	3.16

Information for Corporate Unitholders

For corporate unitholders, of the distribution payable on 30th June 2011:

100.00% of the total income distribution together with the tax credit is received as franked investment income.

0.00% of the income distribution is received as an annual payment (non-foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. It is unfranked

0.00% of the dividend is received as an annual payment (foreign element) received after the deduction of income tax at the lower rate and is liable to corporation tax. It is treated as foreign income in the hands of the corporate investor and is liable to corporation tax. The associated deemed tax is treated as foreign tax in the hands of the investor, who may be able to claim double tax relief. Investors cannot reclaim any of this deemed tax on the foreign element from HM Revenue and Customs.

The Fund's net liability to corporation tax is £nil.

LIONTRUST UK SMALLER COMPANIES FUND

ADDITIONAL INFORMATION

Trust Deed: The Fund was established by a Trust Deed made between the Manager and the Trustee dated 1st May 1990 and amended by Supplemental Trust Deeds dated 30th November 1995, 1st July 1999, 9th July 1999, 19th July 2002, 14th February 2003 and 19th August 2005.

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 Fund Partners LLP may be carried out between 08.30 and 17.00 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 for initial purchases, but can deal over the telephone thereafter. 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 12.00 hours on each business day) following receipt of instructions. Instructions received before 12.00 hours will be priced at 12.00 hours that day, whilst those deals taken later in the day will receive the next dealing price which is fixed at 12.00 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 £1,000, 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 the day following the dealing date. Unit certificates will not be issued. Instructions to sell your units may be required to be given by telephone and then confirmed in writing to Liontrust Customer Services Team, PO Box 23850, Edinburgh EH7 5FY. A contract note confirming the instruction to sell will be issued the day following the dealing day. Following receipt of a correctly completed Form of Renunciation, a cheque in settlement will be sent directly to you or your bank/building society, if proof of ownership of the account has been received by us, 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 and annual management fees per unit class are detailed below. The difference between the bid and the offer prices is currently 6% which includes the initial charge.

Initial Charge	5%	Annual Management Charge	1.50%
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The net estimated yield is shown below, which is calculated and published daily.

Yield	0.70%
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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.

LIONTRUST UK SMALLER COMPANIES FUND

ADDITIONAL INFORMATION

Publication of prices: The price of units in the Fund is quoted on our website, www.liontrust.co.uk, other industry websites such as www.trustnet.com, and the website of the Investment Management Association (the industry trade body), www.investmentuk.org. Daily and historic Fund prices are available from our Dealing and Administration team on 0844 892 1007.

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 effect on you as the unitholder depending on how the unit trust manager treats this particular charge. Any SDRT liability incurred by the Trustee on (Add in fund name) is charged to the Fund, which could mean that less of your money will be invested for potential capital and income growth.

Capital Gains Tax: As an authorised unit trust, the Fund is exempt from UK Capital Gains Tax. An individual's first £10,600 of net gains on disposals in the 2011-2012 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.



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Liontrust Fund Partners LLP is authorised and regulated by the Financial Services Authority.