

Foreign & Colonial Eurotrust PLC

Report and accounts for the half-year to 31 March 2006



Registered Office:

Exchange House, Primrose Street
London EC2A 2NY

Tel: 020 7628 8000 **Fax:** 020 7628 8188
www.fandc.com info@fandc.com

Registrars:

Computershare Investor Services PLC
PO Box 82, The Pavilions
Bridgwater Road, Bristol BS99 7NH

Tel: 0870 702 0130 **Fax:** 0870 703 6143
www.computershare.com
web.queries@computershare.co.uk



The objective of
 Foreign & Colonial Eurotrust PLC is to achieve long-term
 capital growth through a diversified portfolio of
 Continental European securities.

Company Registration Number: 1055384

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Summary of Unaudited Results

Attributable to equity shareholders

	31 Mar 2006	30 Sep 2005	% Change
Net assets	£433.55m	*£391.35m	+10.8
Net asset value per share	745.71p	*624.89p	+19.3
Share price	672.00p	560.00p	+20.0
	6 months ended 31 Mar 2006	6 months ended 31 Mar 2005	% Change
Revenue return per share	1.05p	0.45p	+133.3

* Restated to reflect changes in accounting policies (see note 1 on the accounts).

Chairman's Statement

Dear Shareholder | Between the year end at 30 September 2005 and 31 March 2006, the net asset value per share rose from 624.89p to 745.71p, an increase of 19.3%. This compares with a gain of 17.6% over the same period in the FTSE W Europe ex UK Index which is adjusted for the movement in sterling against the European currencies.

Review of Markets | Europe's equity markets maintained their strong upward momentum during the period under review. In addition to positive economic data, both global and European, investors were also encouraged by the ongoing improvement in corporate earnings and buoyant merger and acquisition activity. On the economic front industrial production and consumer confidence have been on an upward trend whilst on the corporate side, business confidence rose across the Eurozone. The improving business climate in Germany was reflected in the rise of the Ifo-index to a 15-year high in March. This was mainly due to strong export growth and the surge in merger and acquisition activity. The major economic concern for investors from here is over any resurgence of inflation and higher than anticipated interest rates.

Most companies have consistently reported better than expected earning results over the six months under review with the final quarter of 2005 seeing positive to negative surprises at a ratio of three to one. In actual performance terms financials, basic industries, general industrials, technology and some utilities did best whilst telecoms, media and the traditionally defensive food producers disappointed. The oil majors also

failed to have any positive impact over the six months.

Portfolio Strategy | The composition of the Trust remains a function of bottom up stock selection overlaid by the identification of strong themes with investments drawn from across the capitalisation scale.

EU accession countries continue to present some good investment opportunities, particularly in areas of under penetration such as banking and financial services and those companies which benefit from increased investment or are geared into higher levels of discretionary spending.

High oil prices have continued throughout the period. This has been positive in performance terms not for the sector as a whole but for the mid and small cap specialist equipment and service stocks. With the supply/demand dynamic suggesting higher oil prices are here to stay for the foreseeable future exposure to the sector remains targeted on areas well placed to benefit from increased investment. Oil majors and governments are rapidly increasing capital expenditure as they look to maintain and increase their output. Norwegian firm Seadrill for example, provides drilling equipment to the offshore oil and gas industry. The Trust has further exposure through PGS, Prosafe and Saipem.

The overall exposure to Norway increased, not only through the exposure to oil services but also through gearing into the broad-based strength of its domestic economy. Den Norsk Bank was added as was house builder Block Watne. Elsewhere, Tandberg TV remains an excellent play in the triple play, digital technology arena.

Exposure to Greece has grown substantially. This has been prompted both by geography which places Greek firms in a strong position to tap into the increasingly affluent consumer in Europe as well as ongoing deregulation within its own economy as it shifts into line with practices prevalent elsewhere in Europe. Banking firm EFG Eurobank was added to the Trust as it looks to build on its strong position both at home and abroad, particularly in the Balkans. A key new stock added to the portfolio has been Greek alternate telecoms provider Forthnet. The company should increase its market position significantly as the pace of deregulation and internet based services development intensifies. At the end of the period, telecoms firm Germanos became subject to a bid approach at a significant premium to our original investment price late in 2005. We have added the domestic insurance company Ethniki which has a supportive valuation and strong growth prospects.

The high level of M&A activity has continued apace and undoubtedly spurred the market onwards and upwards. This has been driven to some extent by ongoing low interest rates but also shows that corporate Europe has confidence in the value of corporate Europe. Although very underweight in telecoms generally, the Trust did hold Danish telecom operator TDC at the start of the Trust's year. Its impressive cash flow characteristics and healthy pension surplus were among the factors which raised its attractiveness to potential bidders. Nordic Telephone Company's bid was eventually accepted by the board and resulted in a positive outcome for TDC's share price.

Elsewhere we chose to exit our position in

Adidas on concerns over the potential implications surrounding the integration of its newly acquired Reebok business.

Outlook | In our view, European equities remain reasonably valued even following their strong performance over the past year. The strength of corporate profits has left the valuation arguments still intact. Furthermore, the premium investors have to pay for growth versus value is now historically small and we believe that there is significant potential within this area. Across the spectrum, we continue to see significant secular growth opportunities in Eastern European and Asian exposure as well as areas such as technological innovation. Additionally, the positive corporate environment and strength in both European and global economies remains supportive. Also, contrary to consensus, as investors search for growth we believe that opportunities still exist in the mid and small cap arena.

High commodity prices and their inflationary impact remain a key area of concern for investors, together with any disappointment that might come through in corporate earnings. In addition, we are very alert to the recent renewed weakness of the US Dollar and the impact of this on the European exporters.

The Company is maintaining its strategy of seeking out undervalued organic top-line growth as well as restructuring, cost cutting and other profitability improvements.

The gearing of the Trust was increased to 10% over the period. It currently stands at 8%. It is the policy of the Board that the level of gearing should not exceed 20%.

Chairman's Statement (continued)

Unaudited Figures | The revenue account for the period shows a healthy increase in dividend income, versus the comparable prior period, of £1 million. The revenue return after taxation is £620,000. These figures are not indicative of the full year results, given that European companies tend to pay their dividends between April and September, whereas expenses are incurred throughout the year.

The Financial Statements included within this Report reflect a number of changes from prior years, all arising from new Accounting Standards. The Statement of Total Return has been re-named the Income Statement and a new statement with the self-explanatory title of "Reconciliation of Movements in Shareholders' Funds" is presented. We have restated prior year figures in compliance with the new Accounting Standards and have described the changes in the notes on the accounts. The effect of these changes on net assets and returns is small, reflecting an increase equivalent to the value of the final and special dividends accrued at the year end, offset partially by a reduction for valuing investments at bid, rather than mid, value.



Douglas McDougall | May 2006

Twenty Largest Equity Holdings at 31 March 2006

This period	Last period*	Company Sector/(Country)	% of total investments	Value £'000s
1	(3)	UBS Banks (Switzerland)	4.3	19,833
2	(2)	Novartis Pharmaceuticals & Biotechnology (Switzerland)	3.9	17,918
3	(1)	Total Oil & Gas Producers (France)	3.4	16,032
4	(5)	Roche Pharmaceuticals & Biotechnology (Switzerland)	2.8	13,169
5	(9)	BNP Paribas Banks (France)	2.6	12,054
6	(7)	AXA Non-life Insurance (France)	2.4	11,038
7	(63)	Unicredito Italiano Banks (Italy)	2.3	10,712
8	(8)	Nokia Technology Hardware & Equipment (Finland)	2.3	10,645
9	(4)	Nestlé Food Producers (Switzerland)	2.2	10,097
10	(12)	Ericsson Technology Hardware & Equipment (Sweden)	1.9	8,669
11	(14)	Allianz Non-life Insurance (Germany)	1.9	8,643
12	(11)	Richemont Personal Goods (Switzerland)	1.8	8,523
13	(10)	ENI Oil & Gas Producers (Italy)	1.7	8,113
14	(16)	Siemens Electronic & Electrical Equipment (Germany)	1.7	7,917
15	(28)	Suez Gas, Water & Multi-utilities (France)	1.6	7,701
16	(78)	ING Life Insurance (Netherlands)	1.6	7,678
17	(18)	National Bank of Greece Banks (Greece)	1.6	7,520
18	(22)	BCO Santander Banks (Spain)	1.6	7,499
19	(26)	Man Industrial Engineering (Germany)	1.6	7,296
20	(-)	Assa Abloy Construction & Materials (Sweden)	1.5	7,179

The value of the twenty largest equity holdings represents 44.7% (30 September 2005: 48.7%) of the Company's total investments.

*The figures in brackets denote the position at 30 September 2005.

The country is the country of incorporation.

Unaudited Income Statement

(incorporating the Revenue Account*)

Notes

	6 months to 31 March 2006			6 months to 31 March 2005			Year to 30 September 2005		
	Revenue	Capital	Total	Revenue	Capital	Total	Revenue	Capital	Total
	£'000s	£'000s	£'000s	£'000s	(Restated)† £'000s	(Restated)† £'000s	£'000s	(Restated)† £'000s	(Restated)† £'000s
Gains on investments	-	72,766	72,766	-	41,107	41,107	-	87,270	87,270
Exchange losses	(10)	(901)	(911)	-	(361)	(361)	(1)	(484)	(485)
2 Income	3,082	-	3,082	2,089	-	2,089	10,011	-	10,011
Management fee	(1,297)	-	(1,297)	(1,130)	-	(1,130)	(2,330)	-	(2,330)
Other expenses	(354)	(27)	(381)	(387)	(14)	(401)	(739)	(27)	(766)
Net return before finance costs and taxation	1,421	71,838	73,259	572	40,732	41,304	6,941	86,759	93,700
Interest payable and similar charges	(524)	-	(524)	(231)	-	(231)	(347)	-	(347)
Return on ordinary activities before taxation	897	71,838	72,735	341	40,732	41,073	6,594	86,759	93,353
Taxation on ordinary activities	(277)	-	(277)	(40)	-	(40)	(1,914)	(36)	(1,950)
Return attributable to equity shareholders	620	71,838	72,458	301	40,732	41,033	4,680	86,723	91,403
3 Return per ordinary share – pence	1.05	122.13	123.18	0.45	60.49	60.94	6.97	129.10	136.07

* The total column of this statement is the profit and loss account of the Company.

All revenue and capital items in the above statement derive from continuing operations.

A statement of total recognised gains and losses is not required as all gains and losses of the Company have been reflected in the above statement.

† Restated to reflect changes in accounting policies (see note 1 on the accounts).

Unaudited Reconciliation of Movements in Shareholders' Funds

Note

	Share capital £'000s	Capital redemption reserve £'000s	Share premium account £'000s	Capital reserves £'000s	Revenue reserve £'000s	Total shareholders' funds £'000s
Balance at 30 September 2004						
(as previously reported)	16,998	1,813	123,749	183,271	3,529	329,360
Investment valuation restatement*	–	–	–	(220)	–	(220)
Dividends accrued at 30 September 2004*	–	–	–	–	3,672	3,672
Balance at 30 September 2004 (restated)	16,998	1,813	123,749	183,051	7,201	332,812
Shares repurchased during the year ended 30 September 2005	(1,341)	1,341	–	(29,215)	–	(29,215)
Return attributable to equity shareholders for the year ended 30 September 2005 (as previously reported)	–	–	–	86,848	4,680	91,528
Investment valuation restatement*	–	–	–	(125)	–	(125)
Dividends paid during the year ended 30 September 2005*	–	–	–	–	(3,646)	(3,646)
Balance at 30 September 2005 (restated)	15,657	3,154	123,749	240,559	8,235	391,354
⁵ Shares repurchased during the half-year ended 31 March 2006	(1,122)	1,122	–	(25,841)	–	(25,841)
Return attributable to equity shareholders for the half-year ended 31 March 2006	–	–	–	71,838	620	72,458
⁶ Dividends paid during the half-year ended 31 March 2006*	–	–	–	–	(4,417)	(4,417)
Balance carried forward at 31 March 2006	14,535	4,276	123,749	286,556	4,438	433,554

* Restated to reflect changes in accounting policies (see note 1 on the accounts).

Unaudited Balance Sheet

Notes	31 Mar 2006 £'000s	31 Mar 2005 (Restated)* £'000s	30 Sep 2005 (Restated)* £'000s
Fixed assets			
Investments	465,335	365,599	403,303
Current assets			
Debtors	5,264	6,668	24,083
Taxation recoverable	81	201	416
Short-term deposits	-	6,947	13,971
Cash at bank	4,585	409	936
	9,930	14,225	39,406
Creditors: amounts falling due within one year			
4 Foreign currency loans	(40,465)	(8,597)	(23,853)
Other	(1,246)	(5,005)	(27,502)
	(41,711)	(13,602)	(51,355)
Net current (liabilities)/assets	(31,781)	623	(11,949)
Net assets	433,554	366,222	391,354
Capital and Reserves			
5 Called up equity share capital	14,535	16,775	15,657
Capital redemption reserve	4,276	2,036	3,154
Share premium account	123,749	123,749	123,749
Capital reserves	286,556	219,832	240,559
Revenue reserve	4,438	3,830	8,235
Total equity shareholders' funds	433,554	366,222	391,354
7 Net asset value per ordinary share – pence	745.71	545.79	624.89

* Restated to reflect changes in accounting policies (see note 1 on the accounts).

Unaudited Cash Flow Statement

Notes	6 months to 31 Mar 2006 £'000s	6 months to 31 Mar 2005 £'000s	Year ended 30 Sep 2005 £'000s
9 Net cash inflow from operating activities	746	1,155	7,144
Interest paid	(511)	(322)	(436)
Total tax paid	(400)	(276)	(1,904)
Net cash inflow from financial investment	28,309	22,293	15,144
Equity dividends paid	(4,417)	(3,646)	(3,646)
Net cash inflow before use of liquid resources and financing	23,727	19,204	16,302
Decrease/(increase) in short-term deposits	13,897	(6,938)	(13,992)
Net cash outflow from financing	(34,121)	(16,755)	(2,736)
Increase/(decrease) in cash during the period	3,503	(4,489)	(426)
Reconciliation of net cash movement to movement in net debt			
Increase/(decrease) in cash during the period	3,503	(4,489)	(426)
(Decrease)/increase in short-term deposits	(13,897)	6,938	13,992
(Increase)/decrease in short-term loans	(15,609)	12,804	(2,590)
Movement in net debt resulting from cash flows	(26,003)	15,253	10,976
Exchange movement	(931)	(361)	(475)
Movement in net debt during the period	(26,934)	14,892	10,501
Net debt at the beginning of the period	(8,946)	(19,447)	(19,447)
Net debt at the end of the period	(35,880)	(4,555)	(8,946)
Represented by:			
Cash at bank	4,585	409	936
Bank overdraft	-	(3,314)	-
Short-term deposits	-	6,947	13,971
	4,585	4,042	14,907
Foreign currency loans - short-term	(40,465)	(8,597)	(23,853)
	(35,880)	(4,555)	(8,946)

Notes on the Accounts

1 Accounting policies

Changes in accounting policies

With effect from 1 October 2005, the Company has adopted the following Financial Reporting Standards (FRS):

FRS 21 (Events after the Balance Sheet date) – Dividends paid by the Company are accounted for in the period in which the Company is liable to pay them. Previously, the Company accrued dividends in the period in which the net revenue, to which those dividends related, was accounted for.

FRS 25 (Financial Instruments: Disclosure and Presentation) and FRS 26 (Financial Instruments: Measurement) – The Company has designated its assets as being measured at "fair value through profit or loss". The fair value of fixed asset listed investments is deemed to be the bid value of those investments at the close of business on the relevant date. Previously, all listed investments were valued at mid value.

Fixed asset investments which are not listed are stated at Directors' best estimate of fair value.

There have been no other changes to accounting policies during the period.

The accounts for the period ended 31 March 2005 and for the year ended 30 September 2005 have been restated to give effect to the above changes. Notes 3 and 8 on the accounts further explain these restatements.

2 Income

	6 months to 31 Mar 2006 £'000s	6 months to 31 Mar 2005 £'000s	Year ended 30 Sep 2005 £'000s
UK franked dividends	–	105	173
Overseas dividends	2,986	1,924	9,561
Interest on cash and short-term deposits	62	21	140
Stock lending fees and other income	34	39	137
	3,082	2,089	10,011

3 Return per ordinary share

	6 months to 31 Mar 2006 £'000s	6 months to 31 Mar 2005 £'000s	Year ended 30 Sep 2005 £'000s
Revenue return	620	301	4,680
Capital return	71,838	40,732	86,723
Total return	72,458	41,033	91,403
Weighted average ordinary shares in issue	58,823,382	67,331,085	67,173,257

	6 months to 31 Mar 2005 £'000s	Year ended 30 Sep 2005 £'000s
As previously stated:		
Capital return	40,730	86,848
Total return	41,031	86,857

The total and capital returns for the six months to 31 March 2005 and the year to 30 September 2005 have been increased by £2,000 (nil pence per share) and decreased by £125,000 (0.19 pence per share) respectively. This reflects the effect of the reduction in valuation of investments, as a result of the change in accounting policy, at 30 September 2004 by £220,000, 31 March 2005 by £218,000 and 30 September 2005 by £345,000.

4 Loans

	31 Mar 2006 £'000s	31 Mar 2005 £'000s	30 Sep 2005 £'000s
Short-term loans	40,465	8,597	23,853
Comprise:			
Euro denominated	€58.0m	€12.5m	€35.0m

Notes on the Accounts (continued)

5 Share capital

	Authorised		Issued and fully paid	
	Number	£'000s	Number	£'000s
Equity share capital:				
Ordinary shares of 25p each				
Balance at 30 September 2005	100,000,000	25,000	62,627,467	15,657
Transfer to capital redemption reserve*	–	–	(4,487,702)	(1,122)
Balance at 31 March 2006	100,000,000	25,000	58,139,765	14,535

* 4,487,702 ordinary shares were purchased and cancelled during the period at a total cost of £25,841,000.

6 Dividends

The final dividend in respect of 30 September 2005 of 1.7 pence per ordinary share and the special dividend declared on 4 November 2005 of 5.8 pence per ordinary share, giving total dividends of 7.5 pence per share (at a total cost of £4,417,000 based on 58,889,765 ordinary shares in issue) were paid on 22 December 2005 to shareholders on the register at 18 November 2005.

7 Net asset value per ordinary share

	31 Mar 2006	31 Mar 2005 (Restated)	30 Sep 2005 (Restated)
Net asset value per share	745.71p	545.79p	624.89p
Net assets attributable at end of period	433,554	366,222	391,354
Ordinary shares of 25p in issue at end of period	58,139,765	67,099,765	62,627,467

Amounts as previously stated are detailed in note 8.

8 Restatement of opening balances

A reconciliation is given between the closing balances per the 31 March 2005 and 30 September 2005 accounts and the restated balances following adoption of revisions to UK GAAP.

Balance Sheet

Notes	Previously reported 31 Mar 2005 £'000s	Adjustment £'000s	Restated 31 Mar 2005 £'000s	
Fixed assets				
a	Investments at fair value	365,817	(218)	365,599
Current assets				
	Debtors	6,668	–	6,668
	Taxation recoverable	201	–	201
	Short-term deposits	6,947	–	6,947
	Cash at bank	409	–	409
		14,225	–	14,225
Creditors: amounts falling due within one year				
	Loans	(8,597)	–	(8,597)
	Other	(5,005)	–	(5,005)
		(13,602)	–	(13,602)
	Net current assets	623	–	623
	Net assets	366,440	(218)	366,222
Capital and reserves				
	Called up share capital	16,775	–	16,775
	Capital redemption reserve	2,036	–	2,036
	Share premium account	123,749	–	123,749
a	Capital reserves	220,050	(218)	219,832
	Revenue reserve	3,830	–	3,830
	Total equity shareholders' funds	366,440	(218)	366,222
	Net asset value per ordinary share - pence	546.11	(0.32)	545.79

Notes to the restatement of opening balances

a) Effect of revaluation of fixed asset investments from mid to bid value.

Notes on the Accounts (continued)

8 Restatement of opening balances (continued)

Balance Sheet

Notes	Previously reported 30 Sep 2005 £'000s	Adjustment £'000s	Restated 30 Sep 2005 £'000s	
Fixed assets				
a	Investments at fair value	403,648	(345)	403,303
Current assets				
	Debtors	24,083	–	24,083
	Taxation recoverable	416	–	416
	Short-term deposits	13,971	–	13,971
	Cash at bank	936	–	936
		39,406	–	39,406
Creditors: amounts falling due within one year				
	Loans	(23,853)	–	(23,853)
b	Other	(32,199)	4,697	(27,502)
		(56,052)	4,697	(51,355)
Net current liabilities				
		(16,646)	4,697	(11,949)
Net assets				
		387,002	4,352	391,354
Capital and reserves				
	Called up share capital	15,657	–	15,657
	Capital redemption reserve	3,154	–	3,154
	Share premium account	123,749	–	123,749
a	Capital reserves	240,904	(345)	240,559
b	Revenue reserve	3,538	4,697	8,235
Total equity shareholders' funds				
		387,002	4,352	391,354
Net asset value per ordinary share - pence				
		617.94	6.95	624.89

Notes to the restatement of opening balances

- Effect of revaluation of fixed asset investments from mid to bid value.
- Effect of not recognising the final and special dividends until after the balance sheet date.

9 Reconciliation of revenue return before finance costs and taxation to net cash inflow from operating activities

	6 months to 31 Mar 2006 £'000s	6 months to 31 Mar 2005 £'000s	Year ended 30 Sep 2005 £'000s
Revenue return before finance costs and taxation	1,421	572	6,941
Exchange losses of a revenue nature	10	–	1
(Increase)/decrease in prepayments and accrued income	(677)	(86)	20
(Decrease)/increase in creditors	(8)	669	182
Net cash inflow from operating activities	746	1,155	7,144

10 Results

The results for the six months to 31 March 2006 and 31 March 2005, which are unaudited, constitute non-statutory accounts within the meaning of Section 240 of the Companies Act 1985. The latest published accounts which have been delivered to the Registrar of Companies are for the year ended 30 September 2005; the report of the auditors thereon was unqualified and did not contain a statement under section 237 of the Companies Act 1985. The abridged financial statements shown above for the year ended 30 September 2005 are an extract from those accounts (except as noted above).

By order of the Board

F&C Management Limited, Secretary

Exchange House, Primrose Street London EC2A 2NY

17 May 2006.