Foreign & Colonial Eurotrust PLC

Report and Accounts

2006

Objective

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

As an investment trust we enjoy a number of advantages over other forms of savings – for example:

- The freedom to borrow money to invest to improve returns to shareholders.
- The ability to buy back our shares to enhance net asset value.

We aim to use these advantages to the full to make more money for our shareholders. We also have strengths of our own which contribute to our performance:

- Experience: Founded in 1972.
- Size: With total assets of over £437 million, Foreign & Colonial Eurotrust is one of the larger investment trusts in its peer group.
- Spread: We own shares in 101 companies throughout Europe.
- Number of shareholders: Over 76% of the Company's share capital is owned by individuals.

aic
The Association of Investment Companies

Registered in England with Company Registration Number: 1055384

Financial Highlights

Summary of Results

Attributable to ordinary shareholders	30 September 2006	30 September 2005	% Change
Net assets	**£406.69m**	£391.35m*	+3.9
Net asset value per share	**731.20p**	624.89p*	+17.0
Earnings per share	**8.73p**	6.97p	+25.3
Dividends per share	**9.00p**	7.50p	+20.0
Share price	**664.50p**	560.00p	+18.7

* Restated to reflect changes in accounting policies (see note 2 on the accounts).

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Financial Calendar

Annual General Meeting	**14 December 2006**
Final and special dividends payable†	**21 December 2006**
Interim results for 2006/7 announced	**May 2007**
Final results for 2006/7 announced	**November 2007**

† to shareholders on the register at the close of business on 17 November 2006.

Chairman's Statement

Capital Performance

Over the year to 30 September 2006, Continental European markets made good progress despite a background of moderating global growth, rising interest rates and all time high commodities prices. Your Company's net asset value per share rose by 17.0% from 624.9p to 731.2p compared with a rise of 16.0% in the FTSE World Europe Index ex UK (sterling adjusted). The Company's share price rose by 18.7% from 560.0p to 664.5p. The discount narrowed during the year with the strong performance of markets and further repurchases of shares. The results incorporate the impact of new accounting standards, as described in the notes on the accounts. You will find an account of developments in the portfolio in the Manager's Review on pages 4 to 6.

Revenue

Our gross income for the year increased, reflecting the higher income generated from the portfolio of stocks, in turn reflecting the significant increase in corporate earnings over the year. Expenses have also increased as the management fee has risen in line with the increased value of the portfolio. The net revenue return attributable to shareholders has increased by 7.8% from £4.7m to £5.0m.

Dividend

As in previous years, the Board is declaring a special dividend and is proposing a final dividend. The Board is recommending an unchanged final dividend of 1.7p per share and will pay a special dividend of 7.3p, to give a combined dividend of 9.0p. This compares with last year's combined dividend of 7.5p and reflects the increased net revenue available for distribution. The combined dividend appears higher than earnings per share as it is based on the number of shares in issue today rather than the average outstanding during the year, which is the case for earnings per share. The total amount distributed is slightly less than the Company's net earnings for the year.

Gearing

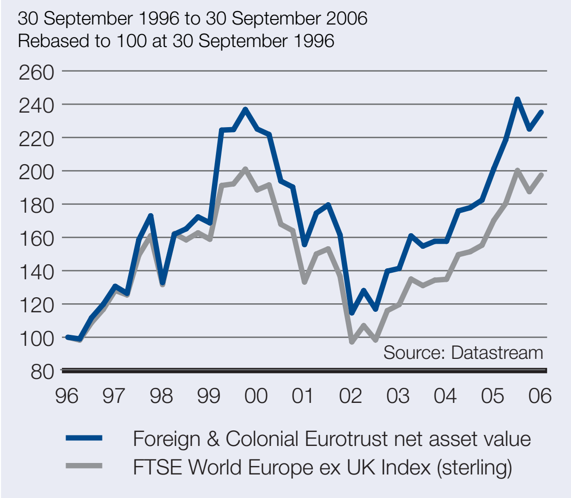
The effective gearing of the Company was 6.5% at 30 September 2006, reflecting our positive stance on the market taken during 2006. It is the policy of the Board that the level of gearing should not exceed 20%.

Share Buy-Backs and Demand for Shares

The Company bought back and cancelled 7,007,702 shares during the financial year, and a further 235,587 shares have been bought back and cancelled since the year end. The Board will again propose to the Annual General Meeting that the Company be granted powers to make further repurchases as appropriate. We continue to monitor the level of discount to net asset value at which your shares trade and believe that share buy-backs are an important factor in addressing supply/demand imbalances while at the same time increasing the net asset value per share.

At the end of September, there were over 1,800 individuals participating in the private investor plan on a regular monthly basis. It is a very attractive way for the private investor to buy shares. We have more than 19,000 shareholders and the percentage of the Company's share capital directly owned by private individuals is over 76%. This is amongst the higher

Net asset value performance over 10 years



levels of individual ownership in the investment trust sector, and is a feature of the Company we are keen to see continue.

Business Review

The Report of the Directors contains a detailed Business Review on pages 16 to 19. It sets out the operating background against which your Company works, highlighting the responsibilities of the Board and the Manager, the various risks that we have identified and the controls in place to mitigate these. I hope shareholders find the Review informative.

AGM

We hope that as many shareholders as possible will attend the Annual General Meeting which will be held on Thursday 14 December at 10:30 am at the offices of F&C Management at Exchange House, Primrose Street, London EC2A 2NY. If you wish to attend please return the enclosed card. We look forward to meeting all of you who can come.

Douglas McDougall
November 2006

Managers' Review

Europe's equity markets enjoyed strong returns in the year under review as investors focused on an improving economic picture and robust performance from the region's corporate sector. Considerable impetus was also added by what remains a buoyant merger & acquisition scene.

AGI Therapeutics Ltd is a speciality pharmaceutical company focused on the global gastrointestinal market.

Economic data suggested further improvement, particularly in the core economies of Germany and France. Germany's recovery has proved particularly robust, a fact evidenced by a raft of increasingly positive sentiment indicators – the Ifo-index for example rose to its highest level in 15 years. Corporate Germany also looks in significantly better shape with headway made in addressing its domestic cost base. Corporate performance more widely also proved positive with earnings releases coming in by and large ahead of expectations. Investors were keen to focus on these fundamental improvements rather than headwinds such as higher commodity prices and rising interest rates.

KCI Konecranes is an engineering group that specialises in overhead lifting equipment and maintenance services.

The higher costs of oil and other raw materials were instrumental in the build up of inflationary pressures in world economies, including Europe. These in turn were a key trigger behind May's downward correction as they ensured central banks remained in "tightening mode". The Federal Reserve raised US rates to 5.25% and the ECB increased the cost of borrowing a number of times with the Eurozone base rate standing at 3.25% by the close of the year.

Corporate activity continued apace with bids, tie ups and pure speculation a feature of the market. The private equity sector was particularly active reflecting an environment of relatively cheap borrowing costs and the perceived attractiveness of current valuations. Notable deals during the year included Mittal's acquisition of Arcelor and the purchase of BAA by Ferrovial. There has been an increase in cross-border bids and countries such as France and Spain have adopted a protectionist stance seeking to prevent the foreign purchase of domestic assets – this is likely to provide a challenge for the EU.

Overall strategy remained broadly unchanged

The composition of the portfolio remains a function of bottom up stock selection overlaid by the identification of strong themes with investments drawn from across the capitalisation scale. Investment activity focused on those companies that either offer undervalued organic growth or that are set to benefit from restructuring, cost cutting and other profitability improvements. We also identify small companies which have market leading or innovative positions within their market place. AGI Therapeutics typifies the latter, being a relatively small speciality pharmaceutical company focused on the global gastrointestinal market which is large and with unmet medical needs.

Emphasis on offshore oil & gas services

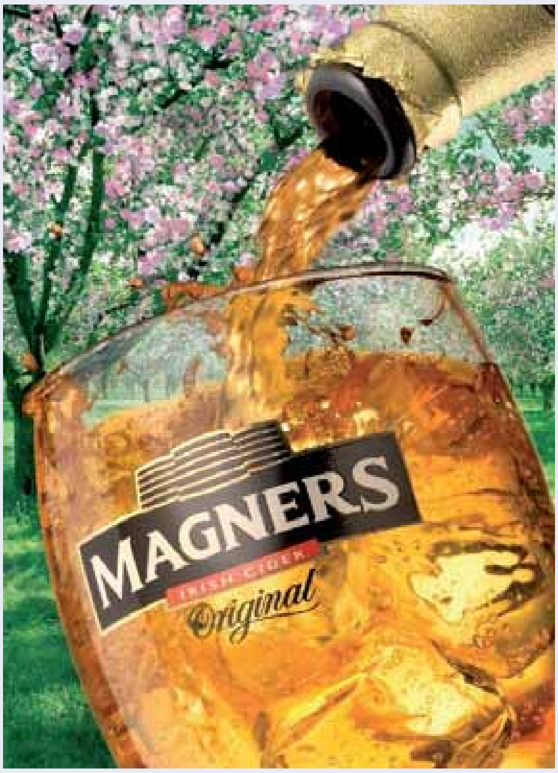
With high oil prices characterising much of the year we sought to tap into an area where underlying fundamentals look likely to remain supportive. Indeed with strong demand continuing to place supply under pressure we maintained our preference for those sectors/companies likely to benefit from increased capital expenditure by both oil majors and national governments. For example, we maintained a position in Norwegian firm Prosafe, an owner/operator of semisubmersible service rigs and storage vessels. Other oil service related holdings include CAT Oil, Bergesen Offshore and later in the year Fred Olsen Energy.

Greece remains an attractive destination for investors

The portfolio's exposure to Greece was substantially increased during the year under review. This preference reflects not only Greece's geography, which places it in a good position to access an increasingly affluent consumer in Europe, particularly in the Accession states, but also the deregulation which is taking place in many areas of the Greek economy. Greek alternate telecoms provider Forthnet entered the portfolio as we believe the company should increase its market position significantly as the pace of deregulation and internet based services development intensifies. Deregulation should also prove positive for the strongest incumbents in the Greek ferry industry. Following this theme we initiated a holding in the Attica Group which has significant stakes in both Blue Star and Minoan.

Tapping into Chinese growth

The influence of Asia's growing economies is being keenly felt worldwide and we continued to seek investments allowing us to tap into this boom. The shipping sector is one which has benefited from the huge pick-up in outsourcing to Asia and this in turn should benefit our positions in companies like KCI Konecranes Oyi, an engineering group that specialises in overhead lifting equipment and maintenance services. The firm's product line includes workstation cranes and cranes for shipyards and ports.



C&C Group manufactures, markets, and distributes branded beverages and snacks. The Group's key success has been the roll-out of Magners cider.

European companies which are able to access an increasingly affluent Far East consumer also look attractive and particularly those in the luxury goods sector. With this in mind we maintained holdings such Switzerland's Richemont, which counts Cartier and Montblanc among its brands.

More generally, the consumer is one area in which we have been particularly selective and the challenges firms in this area face was evidenced by a notable decline in positive earnings surprises in the sector. Our decision to switch Pernod into C&C Group within the drinks sector has proved positive, with the latter performing strongly since its inclusion in the portfolio. C&C manufactures, markets and distributes branded beverages and snacks. Key to its success has been the promotion of Magners cider.

M&A activity continues apace

A high level of merger and acquisition activity has been one of the key drivers behind the market's upward momentum, a trend reflecting not only what remain historically low interest rates but also confidence in the value offered by corporate Europe. The Company has benefited from this wider trend in a number of instances, including Danish telecom operator TDC (bought by Nordic Telephone Company) and Greek telecoms firm Germanos, which became subject to a bid approach at a significant premium to our original investment price (in late 2005). Reflecting our view that corporate activity looks likely to remain a feature we have selectively built holdings in areas and firms which believe are likely to be targets.

The European banking sector remains one in which successful stock selection is crucial and we continued to supplement core holdings in the region's largest financial names with smaller regional players such as the National Bank of Greece and Den Norske Bank. We believe that they are set to continue to benefit from the immaturity of the

Managers' Review (continued)

markets in which they operate and are, for the same reason, attractive take-over targets. Later on in the year we established holdings in Italy's Capitalia SPA and the attractively valued Spanish bank BBVA.

Corporate strength highlights that opportunities remain

Whilst economic growth is expected to slow towards trend levels as a result of higher interest rates we remain fundamentally positive on the outlook for European shares. Europe's corporate environment remains encouraging with recent earnings results generally meeting or bettering expectations. Healthy balance sheets, solid merger & acquisition activity and higher dividends are characteristic of the market and should continue to generate support. Against this background the long-term secular growth themes remain intact.

Davina Curling

Peter Jarvis

November 2006

Twenty Largest Equity Holdings

This Year	*Last Year**	**Company** Sector (Country) Description	Value £'000s	% of total investments
1	*(5)*	**Roche** Pharmaceuticals & biotech (Switzerland) Roche is the sixth largest pharmaceutical company in the world and has a focus on secondary care. Consequently Roche does not have the large cost base that results from a Primary care sales force. In partnership with Genentech, in which it owns a 55.2% stake, it sells the oncology products Avastin and Herceptin, both of which have blockbuster potential. The combination of the low cost base and rapidly growing sales gives a degree of operating leverage unusual for pharmaceutical companies, resulting in very strong EPS growth.	16,197	3.7
2	*(1)*	**Total** Oil & gas producers (France) Total is one of the world's largest integrated oil companies. It continues to trade at a discount to its peers, despite having delivered consistently on its targets. It offers above-average production growth, is less exposed to the problem of mature field decline and has a much respected management team. Furthermore, it will use part of its excess cash flow going forward, as well as proceeds from planned disposals, to buy back shares.	14,824	3.4
3	*(9)*	**BNP Paribas** Banks (France) BNP Paribas is the largest French bank in terms of market capitalisation. It has been expanding internationally with the acquisition of several retail banks, particularly in the western states of the US. Earnings have continued to grow well, thanks to strong consumer lending at home, reduced loan losses, and buoyant fixed-interest business in its investment banking division. Fears that the group's surplus capital would be used to make value-destroying acquisitions have proven groundless.	13,003	3.0
4	*(2)*	**Novartis** Pharmaceuticals & biotech (Switzerland) Novartis is the fourth largest pharmaceutical company in the world in terms of market capitalisation and the fifth largest in terms of pharmaceutical sales. The company has strong franchises in cardiovascular, oncology, CNS and transplantation. It also generates significant revenues from its consumer health, generics, animal health and opthalmics businesses. Its leading products include Diovan for hypertension, Gleevec for chronic myeloid leukaemia, Neoral for transplantation and Zometa for bone metastasis.	11,449	2.6
5	*(63)*	**Unicredito Italiano** Banks (Italy) Unicredito: The stock offers three attractive earnings streams. First, Italy is seeing an increased demand in lending products while the market remains under-penetrated. The on-going consolidation should ultimately improve the competitive landscape and margins in Italy. Second, Germany offers restructuring, as UNIC cuts costs and sells more derivative products to HVB's client base. The improving macro environment presents an additive that could boost volume demand. Lastly, the group's presence in CEE also offers restructuring, as UNIC consolidates the recent Banc Austria acquisition with its own operations. The bank should also benefit from the strong volume demand coupled with above average margins – all in an under-penetrated banking market.	11,388	2.6
6	*(4)*	**Nestlé** Food producers (Switzerland) Nestlé is the world's largest food and beverage company in terms of sales; its existing products grow through innovation and renovation while maintaining a balance in geographic activities and product lines. Nestlé's emerging market operations, which account for 33% of group profits, present the company with good medium-term growth prospects. Nestlé has a strong balance sheet which enables the company to grow through strategic acquisitions and offers the potential for further capital return to shareholders.	11,008	2.5
7	*(3)*	**UBS** Banks (Switzerland) UBS is one of the world's leading financial firms. Not only is it the largest retail and commercial bank in Switzerland, a major institutional asset manager and a global investment bank, but it is also one of the world's leading wealth management businesses. Profits have continued to grow thanks to the steady net inflow of new money, sound cost control and falling loan provisions. Its high cash generation has enabled management both to make small bolt-on acquisitions and to buy back shares.	10,826	2.5

Twenty Largest Equity Holdings

This Year	*Last Year**	**Company** Sector (Country) Description	Value £'000s	% of total investments
8	*(10)*	**ENI** Oil & gas producers (Italy) ENI is an Italian integrated oil and gas company. Its key business areas are in exploration and production (upstream), refining and marketing (downstream), power generation and chemicals. ENI has strong positions in exploration and production. Upstream performance in ENI is strong and underpinned by robust projects. The group should deliver top quartile growth of about 5% p.a. through to 2008. The shares offer a dividend yield at 5%, which is attractive relative to its peers. The group also has a strong position in the Italian gas market. Despite opening up to competition, the gas business has performed better than analysts expected.	9,428	2.2
9	*(15)*	**BBVA** Banks (Spain) In addition to operating one of the largest retail banking networks in Spain, BBVA also has a strong presence in Latin America. It is particularly well placed in Mexico where it acquired one of the best placed domestic banks. Mexico is experiencing very strong demand as consumers begin to use borrowing, particularly mortgages for house purchases. BBVA's domestic market is also very attractive as Spain is experiencing strong GDP growth and demand for credit.	8,488	1.9
10	*(14)*	**Allianz** Non-life insurance (Germany) Allianz Group is one of the world's leading insurers and financial services providers. Allianz continues to drive shareholder value through group wide operational restructuring culminating in meaningful revenue and cost synergies. Additionally, management review the generation of surplus capital which will likely be repatriated to shareholders on a medium term outlook.	8,310	1.9
11	*(28)*	**Suez** Gas, water & multi-utilities (France) Suez specialises in the production and distribution of electricity, natural gas and related services. The Company also provides environmental services such as water treatment, distribution and waste management. Suez offers custom solutions through the design, construction and maintenance of installations. French state-controlled utility Gaz de France has made a bid to acquire Suez, with potential other players interested in the company.	7,982	1.8
12	*(78)*	**ING** Life insurance (Netherlands) A successful bancassurer with a dominant position in its domestic market which also benefits from a geographically diversified platform and leverage to the fast growing internet banking operation, ING Direct. Management delivered on the business plan objectives to improve profitability and risk adjusted return on capital resulting in a significantly improved share price rating.	7,942	1.8
13	*(22)*	**BSCH** Banks (Spain) BSCH has a strong diverse earnings stream that is skewed toward higher growth markets and product areas. The Latin American business includes top market positions in Brazil, Mexico, and Chile. Economic growth and under-penetrated banking products in this region should fuel above average earnings. The Abbey franchise is now beginning to change from cost cutting to revenue centric focus. Santander intends to leverage its commercial strength (already present in Spain) to expand the revenue stream. The Consumer Finance business is a third engine of growth, where higher margin products and above average growth rates support group revenue growth.	7,450	1.7
14	*(16)*	**Siemens** Electronic & electrical equipment (Germany) Siemens is Europe's largest industrial engineering company, involved in a wide range of activities. The latter include communications, power generation and transmission, medical equipment, automation and control, transportation and lighting. The group has undergone a major restructuring over the past few years and is now benefiting from the global upswing in many of its industries. Following a change in management the group is tackling underperforming business units.	6,882	1.6

This Year	*Last Year**	**Company** Sector (Country) Description	Value £'000s	% of total investments
15	*(–)*	**France Telecom** Fixed line telecom (France) France Telecom is France's incumbent fixed and mobile telecoms operator, with substantial international assets in the UK, Spain, Poland and the rest of the world. It is highly cash-generative, and has undertaken a deleveraging process. This allows it to pay one of the highest and rising dividend yields in the sector, with a reasonable level of gearing. Valuations are inexpensive versus other major telecoms incumbents.	6,781	1.6
16	*(–)*	**Assa Abloy** Construction & materials (Sweden) Assa Abloy Group is the world's leading manufacturer and supplier of locking solutions, with more than 100 companies operating in 40 countries, and a world market share of over 10%. The company markets mechanical, industrial, electromechanical and electronic locks, door and window fittings and other accessories. Assa Abloy's new management is focused on improving the company and is implementing a restructuring plan in order to increase margins.	6,708	1.5
17	*(34)*	**Zurich Financial Services** Non-life insurance (Switzerland) ZFS is a multi-line global insurance provider focusing mainly on the US and Europe. The company writes both commercial and personal non-life business, holding the number two position in US Commercial lines and fourth spot in non-life insurance in Europe. UK and continental Europe represent the company's main Life markets. Having transformed the company in the last three years to a disciplined underwriter and following significant disposal activity of underperforming business units, management has returned the business to a state of healthy profit and are now considering a return of excess capital to shareholders.	6,692	1.5
18	*(18)*	**National Bank of Greece** Banks (Greece) National Bank of Greece is the largest bank in Greece and also has extensive operations in the Balkans, especially in Bulgaria. NBG offers a full range of banking products to its customers but is particularly well placed in consumer banking where it has the largest market share in deposits and mortgages. The Greek market is very attractive due to a combination of faster than EU average growth, under-penetration of banking products compared to EU average levels and a relatively concentrated market. As a result NBG is delivering strong revenue and profit growth.	6,289	1.4
19	*(21)*	**Philips Electronics** Leisure goods (Netherlands) Koninklijke (Royal) Philips Electronics N.V. is a leading global electronics company, with strong positions in lighting, consumer electronics, domestic appliances and medical equipment. Philips has been exiting non-core businesses, such as its semiconductors business, and acquiring and forming joint ventures in its core sectors, including medical equipment financing and lighting. Philips has a strong balance sheet with good potential to continue growing.	6,264	1.4
20	*(–)*	**Unilever** Food producers (Netherlands) Unilever is a global Food and HPC company with 2005 turnover of €39.7bn, present in 150 countries. It is represented across a broad range of products from spreads to personal care and has 12 €1bn brands, albeit no. 2 and 3 brands. While Unilever has been through a few turbulent years, it does have a historic record of strong growth in the D&E markets with organic growth of circa 8% pa since 1990 with its exposure increasing from 20% to 38% over the year. Unilever is a company in transition with a focus on cost savings and a renewed focus on innovation and investing behind their brands. Unilever has a strong balance sheet which should enable the company to increase returns to shareholders.	5,716	1.3

The value of the twenty largest equity holdings represents 41.9% (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.

Directors

Douglas C P McDougall OBE Chairman

Appointed Chairman in May 1999 having joined the Board in February 1999. He is chairman of The Law Debenture Corporation PLC, The Independent Investment Trust PLC and The Scottish Investment Trust plc. He is a former senior partner of Baillie Gifford and Co and a former chairman of IMRO and The Association of Investment Companies. *Age 62.*

Detlef F E Bierbaum

Partner of Sal. Oppenheim Jr & Cie., bankers in Cologne, and is in charge of the bank's asset management and investment research departments. He was appointed to the Board in February 1993. *Age 64*.

Clemens A H Börsig

Chairman of the supervisory board of Deutsche Bank AG and member of the supervisory boards of Linde AG, Lufthansa AG and Heildelberger Druckmanschinen AG. He was previously a member of the board of managing directors, chief financial officer ("CFO") and chief risk officer ("CRO") of Deutsche Bank AG, a member of the board of managing directors and CFO of RWE AG and a member of the board of managing directors of Robert Bosch GmbH. He was appointed to the Board in September 1998. *Age 58*.

Ralph Kanza

He is senior adviser to Egerton Capital, and former vice chairman of Schroder & Co Ltd, based in London. Previously he was chairman of the French stockbroking firm Cheuvreux de Virieu, and responsible for European equity markets at Banque Indosuez. He was appointed to the Board in September 1997. *Age 60.*

Michael B Moule Senior Independent Director

Has considerable experience of investment trust management. He managed two investment trusts for Henderson Global Investors for 10 years until his retirement in the summer of 2003. He is a director of Old Mutual South Africa Trust PLC, Lowland Investment Company PLC and Montanaro UK Smaller Companies Trust PLC and was previously a director of The Bankers Investment Trust PLC. He was appointed to the Board in January 2004. *Age 60.*

Members of the Audit & Management Engagement Committee

D C P McDougall (Chairman)

R Kanza

M B Moule

Members of the London Committee

D C P McDougall (Chairman)

R Kanza

M B Moule

Management and Advisers

The Management Company

The Company is managed by F&C Management Limited (the "Manager"), a wholly owned subsidiary of F&C Asset Management plc ("F&C") which is authorised and regulated in the UK by the Financial Services Authority and listed on the London Stock Exchange. The Manager is appointed under a management agreement with the Company setting out its responsibilities for investment management, administration and marketing.

Davina Curling, Fund Manager

Head of European High Alpha Equities at F&C, responsible for the overall portfolio management and investment performance of the Company.

Peter Jarvis, Deputy Fund Manager

Director of European Equities at F&C, has managed European equity portfolios with Davina for 12 of the past 14 years.

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Investment Manager, Secretary and Registered Office

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Authorised and regulated in the UK by the Financial Services Authority

Registered in England

Independent Auditors

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32 London Bridge Street, London SE1 9SY

Bankers and Custodian

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Authorised and regulated in the UK by the Financial Services Authority

Registrars

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

Telephone:	0870 889 4086
Facsimile:	0870 703 6143

Authorised and regulated in the UK by the Financial Services Authority

List of Investments by Sector

Listed investments	Holding	30 September 2006 Value £'000s
BANKS 29.3%		
Aareal Bank	225,079	5,296
ABN-AMRO	204,618	3,189
Alpha Bank	191,796	2,737
Bank of Ireland	393,572	4,110
BBVA	685,810	8,488
BNP Paribas	226,112	13,003
BSCH	881,658	7,450
Capitalia	1,190,077	5,274
Commerzbank	99,041	1,793
Credit Suisse	173,045	5,345
Deutsche Bank	86,359	5,584
Deutsche Postbank	87,908	3,564
DNB Nor	335,400	2,198
EFG Eurobank Ergasias	324,760	5,321
EFG International	183,040	3,212
KBC Groupe	89,252	5,027
Mediobanca	178,776	2,084
National Bank of Greece	273,233	6,289
Nordea Bank	547,100	3,837
Postal Savings Bank	168,753	1,815
Skandinaviska Enskilda Banken	139,600	2,009
Société Générale	58,733	4,999
UBS	339,688	10,826
Unicredito Italiano	2,567,634	11,388
Vontobel Holdings	160,000	3,497
Total Banks		**128,335**
BEVERAGES 0.8%		
C&C Group	502,740	3,648
Total Beverages		**3,648**
CHEMICALS 0.6%		
Koninklijke	114,996	2,697
Total Chemicals		**2,697**
CONSTRUCTION & MATERIALS 2.6%		
Assa Abloy	674,000	6,708
Holcim	105,498	4,598
Total Construction & Materials		**11,306**
ELECTRICITY 0.5%		
BKW FMB Energie	37,860	1,969
Fortum	130	2
Total Electricity		**1,971**

Listed investments	Holding	30 September 2006 Value £'000s
ELECTRONIC & ELECTRICAL EQUIPMENT 2.4%		
Schneider Electronics	61,038	3,640
Siemens	147,591	6,882
Total Electronic & Electrical Equipment		**10,522**
FIXED LINE TELECOM 2.8%		
Elisa Communications	194,081	2,289
France Telecom	552,451	6,781
Telecom Italia	2,544,161	3,271
Total Fixed Line Telecom		**12,341**
FOOD & DRUG RETAILERS 1.7%		
Carrefour	151,671	5,125
Delhaize Group	48,100	2,156
Total Food & Drug Retailers		**7,281**
FOOD PRODUCERS 5.3%		
Aarhuskarlshamn	80,000	1,163
Danone	71,089	5,337
Nestlé	59,139	11,008
Unilever	434,471	5,716
Total Food Producers		**23,224**
GAS, WATER & MULTI-UTILITIES 2.5%		
Aguas de Barcelona	159,951	2,778
Suez	339,411	7,982
Total Gas, Water & Multi-utilities		**10,760**
GENERAL FINANCIAL 2.1%		
Investor	507,070	5,649
Metro	118,601	3,695
Total General Financial		**9,344**
INDUSTRIAL ENGINEERING 3.9%		
KCI Konecranes	445,432	4,504
Kone Corporation	91,960	2,385
MAN	113,213	5,109
Sandvik	358,400	2,193
Wartsila	130,470	2,827
Total Industrial Engineering		**17,018**
INDUSTRIAL METALS 0.5%		
Vallourec	17,280	2,153
Total Industrial Metals		**2,153**
INDUSTRIAL TRANSPORTATION 0.5%		
Attica Holdings	831,340	2,300
Total Industrial Transportation		**2,300**

Listed investments	Holding	30 September 2006 Value £'000s
LEISURE GOODS 1.4%		
Philips Electronics	334,191	6,264
Total Leisure Goods		**6,264**
LIFE INSURANCE 2.6%		
Ethniki General Insurance	306,307	1,171
ING	337,695	7,942
Storebrand	436,090	2,460
Total Life Insurance		**11,573**
MOBILE TELECOM 0.8%		
Mobistar	77,019	3,408
Total Mobile Telecom		**3,408**
NON-LIFE INSURANCE 7.6%		
Allianz	89,856	8,310
Axa	222,698	4,392
Corporation Mapfre	379,939	4,228
Munchener Rueckver	34,306	2,898
Trygvesta	87,929	2,795
Weiner Staedtische Versicher	123,255	4,138
Zurich Financial Services	51,061	6,692
Total Non-life Insurance		**33,453**
OIL & GAS PRODUCERS 8.2%		
ENI	595,664	9,428
Neste Oil	161,221	2,506
Repsol	276,961	4,408
Revus Energy	739,790	2,843
Statoil	139,150	1,760
Total	422,408	14,824
Total Oil & Gas Producers		**35,769**
OIL EQUIPMENT, SERVICES & DISTRIBUTION 3.2%		
Bergesen Worldwide Offshore	1,123,189	2,122
Cat Oil	221,940	2,589
Fred Olsen Energy	23,300	513
Petroleum Geoservice	137,990	3,587
Prosafe	68,850	2,262
Saipem	248,757	2,885
Seadrill	85	1
Total Oil Equipment, Services & Distribution		**13,959**

Listed investments	Holding	30 September 2006 Value £'000s
PERSONAL GOODS 2.6%		
LVMH	100,211	5,522
Oriflame Cosmetics	118,650	2,093
Richemont	144,150	3,702
Total Personal Goods		**11,317**
PHARMACEUTICALS & BIOTECH 9.1%		
Actelion	64,089	4,908
AGI Therapeutics	2,217,534	2,782
Novartis	367,604	11,449
Roche	175,568	16,197
Sanofi-Aventis	93,901	4,470
Total Pharmaceutical & Biotech		**39,806**
REAL ESTATE 0.9%		
Beni Stabili	3,874,872	2,318
Icade	55,249	1,477
Total Real Estate		**3,795**
SOFTWARE & COMPUTER SERVICES 3.5%		
Eurotech	273,224	1,732
F Secure	1,539,540	2,224
Forthnet	840,107	4,318
Protect Data	143,260	1,303
SAP	39,812	4,225
Tradedoubler	165,000	1,717
Total Software & Computer Services		**15,519**
SUPPORT SERVICES 1.5%		
Adecco	146,938	4,730
Stepstone	2,530,477	2,016
Total Support Services		**6,746**
TECHNOLOGY HARDWARE & EQUIPMENT 2.0%		
Affectogenimap	307,842	618
Net Insight	13,344,754	2,495
Nokia	400,520	4,251
Tandberg Television	271,170	1,180
Total Technology Hardware & Equipment		**8,544**
TOBACCO 1.1%		
Altadis	188,269	4,774
Total Tobacco		**4,774**
TOTAL INVESTMENTS		**437,827**

List of Investments by Country

Listed investments	Holding	30 September 2006 Value £'000s
AUSTRIA 0.9%		
Weiner Staedtische Versicher	123,255	4,138
Total Austria		**4,138**
BELGIUM 2.4%		
Delhaize Group	48,100	2,156
KBC Groupe	89,252	5,027
Mobistar	77,019	3,408
Total Belgium		**10,591**
DENMARK 0.6%		
Trygvesta	87,929	2,795
Total Denmark		**2,795**
FINLAND 4.9%		
Affectogenimap	307,842	618
Elisa Communications	194,081	2,289
F Secure	1,539,540	2,224
Fortum	130	2
KCI Konecranes	445,432	4,504
Kone Corporation	91,960	2,385
Neste Oil	161,221	2,506
Nokia	400,520	4,251
Wartsila	130,470	2,827
Total Finland		**21,606**
FRANCE 18.3%		
Axa	222,698	4,392
BNP Paribas	226,112	13,003
Carrefour	151,671	5,125
Danone	71,089	5,337
France Telecom	552,451	6,781
Icade	55,249	1,477
LVMH	100,211	5,522
Sanofi-Aventis	93,901	4,470
Schneider Electronics	61,038	3,640
Société Générale	58,733	4,999
Suez	339,411	7,982
Total	422,408	14,824
Vallourec	17,280	2,153
Total France		**79,705**

Listed investments	Holding	30 September 2006 Value £'000s
GERMANY 11.4%		
Aareal Bank	225,079	5,296
Allianz	89,856	8,310
Cat Oil	221,940	2,589
Commerzbank	99,041	1,793
Deutsche Bank	86,359	5,584
Deutsche Postbank	87,908	3,564
MAN	113,213	5,109
Metro	118,601	3,695
Munchener Rueckver	34,306	2,898
SAP	39,812	4,225
Siemens	147,591	6,882
Total Germany		**49,945**
GREECE 5.5%		
Alpha Bank	191,796	2,737
Attica Holdings	831,340	2,300
EFG Eurobank Ergasias	324,760	5,321
Ethniki General Insurance	306,307	1,171
Forthnet	840,107	4,318
National Bank of Greece	273,233	6,289
Postal Savings Bank	168,753	1,815
Total Greece		**23,951**
IRELAND 2.4%		
AGI Therapeutics	2,217,534	2,782
Bank of Ireland	393,572	4,110
C&C Group	502,740	3,648
Total Ireland		**10,540**
ITALY 8.8%		
Beni Stabili	3,874,872	2,318
Capitalia	1,190,077	5,274
ENI	595,664	9,428
Eurotech	273,224	1,732
Mediobanca	178,776	2,084
Saipem	248,757	2,885
Telecom Italia	2,544,161	3,271
Unicredito Italiano	2,567,634	11,388
Total Italy		**38,380**

Listed investments	30 September 2006 Holding	Value £'000s
NETHERLANDS 5.9%		
ABN-AMRO	204,618	3,189
ING	337,695	7,942
Koninklijke	114,996	2,697
Philips Electronics	334,191	6,264
Unilever	434,471	5,716
Total Netherlands		**25,808**
NORWAY 4.8%		
Bergesen Worldwide Offshore	1,123,189	2,122
DNB Nor	335,400	2,198
Fred Olsen Energy	23,300	513
Petroleum Geoservice	137,990	3,587
Prosafe	68,850	2,262
Revus Energy	739,790	2,843
Seadrill	85	1
Statoil	139,150	1,760
Stepstone	2,530,477	2,016
Storebrand	436,090	2,460
Tandberg Television	271,170	1,180
Total Norway		**20,942**
SPAIN 7.3%		
Aguas de Barcelona	159,951	2,778
Altadis	188,269	4,774
BBVA	685,810	8,488
BSCH	881,658	7,450
Corporation Mapfre	379,939	4,228
Repsol	276,961	4,408
Total Spain		**32,126**
SWEDEN 6.7%		
Aarhuskarlshamn	80,000	1,163
Assa Abloy	674,000	6,708
Investor	507,070	5,649
Net Insight	13,344,754	2,495
Nordea Bank	547,100	3,837
Oriflame Cosmetics	118,650	2,093
Protect Data	143,260	1,303
Sandvik	358,400	2,193
Skandinaviska Enskilda Banken	139,600	2,009
Tradedoubler	165,000	1,717
Total Sweden		**29,167**

Listed investments	30 September 2006 Holding	Value £'000s
SWITZERLAND 20.1%		
Actelion	64,089	4,908
Adecco	146,938	4,730
BKW FMB Energie	37,860	1,969
Credit Suisse	173,045	5,345
EFG International	183,040	3,212
Holcim	105,498	4,598
Nestlé	59,139	11,008
Novartis	367,604	11,449
Richemont	144,150	3,702
Roche	175,568	16,197
UBS	339,688	10,826
Vontobel Holdings	160,000	3,497
Zurich Financial Services	51,061	6,692
Total Switzerland		**88,133**
TOTAL INVESTMENTS		**437,827**

The number of companies in the portfolio is 101 (2005: 83).

There are no convertible securities in the portfolio (2005: none).

Report of the Directors

BUSINESS REVIEW

Investment objective and style

The Company's investment objective is to achieve long-term capital growth through a diversified portfolio of Continental European securities. The Board believes that investment in the diverse and increasingly accessible markets of this region continues to provide opportunities for capital growth over the long-term. At the same time it considers the structure of the Company as a UK listed investment trust, with a fixed capital and an independent board of directors, to be well suited to investors seeking longer-term returns. There will be no material change to the Company's investment objective without prior shareholder approval.

Corporate structure, governance and regulation

The Company is an investment company which manages its affairs to qualify as an investment trust. It has a fixed share capital although, subject to and on the terms of the approvals granted annually by its shareholders, it may purchase its own shares and issue new shares. The Company is listed and its shares are traded on the London Stock Exchange, the New Zealand Stock Exchange and the Deutsche Börse. It is subject to the laws and regulations relating to UK quoted companies and its Articles of Association. At least one shareholders' meeting is held in each year to allow shareholders to vote on the appointment of the Directors and auditors, dividend payments, share issues and buybacks and any other special business. The business of the next such Annual General Meeting, scheduled for 14 December 2006, is set out in the Notice of Meeting included in this annual report.

The Company's Board of Directors is responsible for overall stewardship of the Company, including corporate strategy, investment policy, corporate governance, risk and controls assessment, and oversight of the management of the Company. In common with most investment trusts, all the Directors of the Company are non-executive and the Company does not have any employees. The Board has appointed F&C Management Limited to manage the investment portfolio on a day-to-day basis, as well as to carry out the administrative, accounting, secretarial and marketing activities on behalf of the Company. The Manager's performance is monitored by the Board and the remuneration and re-appointment of the Manager is assessed annually. The Corporate Governance section of this annual report contains a thorough review of the Company's corporate governance practices.

The Company analyses its income between profits available for distribution by way of dividends (revenue profits) and other profits available for distribution by way of capital reductions (capital profits). The financial statements, starting on page 30, are drawn up in compliance with current UK Financial Reporting Standards, supplemented by the Revised Statement of Recommended Practice for Investment Trust Companies ("SORP"). The auditors' opinion on the financial statements, which is unqualified, appears on page 29.

The Company is subject to UK corporation tax on its net revenue profits but is exempt from corporation tax on capital profits, provided it complies at all times with Section 842 of the Income and Corporation Taxes Act 1988. Section 842 requires, broadly, that:

- the Company's revenue (including dividend and interest receipts but excluding profits on sale of shares and securities) should be derived wholly or mainly from shares and securities;
- the Company must not retain more than 15% of its income from shares and securities in respect of any accounting period;
- no holding in a company other than a qualifying investment trust should represent more than 15% by value of the Company's investments in shares and securities;
- realised profits on sale of shares and securities may not be distributed by way of dividend; and
- the Company must not be a close company.

Compliance with these rules is demonstrated annually in retrospect to HM Revenue and Customs (HMRC). HMRC approval of the Company as an investment trust is granted "subject to there being no subsequent enquiry under corporation tax self-assessment". Such approval has been received in respect of all relevant years up to and including the year ended 30 September 2005, and the Company continues to manage its affairs so as to comply with these rules.

Management

The Company has a Management Agreement with the Manager under which the Manager provides services to the Company for a quarterly management fee, payable in arrears, equal to 0.125% of the funds under management at each quarter end. In addition, the Manager is eligible for a performance-related management fee payable at the rate of 0.05% per 1% of annual outperformance by the net asset value per share of "target performance", defined as a margin of 1.5% over the FTSE World Europe ex UK Index (total return, sterling adjusted). Further details including provisions relating to any underperformance and limits on fees are set out in note 4 on the accounts. No performance related fee provision has been made in the year ended 30 September 2006.

The Company's investments are managed by F&C in accordance with the investment objectives and style described above. Investment selection and monitoring is undertaken by fund managers Davina Curling and Peter Jarvis, both of whom specialise in Continental European companies, with support from F&C analysts and research teams. Assessing the quality of management through meetings with potential and existing investee companies is a key input into the investment process. Extensive work is carried out in analysing potential investments for their market positioning and competitive advantage, financial strength and cashflow characteristics. Various valuation benchmarks are used to assess the potential attractiveness of investment opportunities and to set price targets for the individual stocks. Investment risks are spread through holding a wide range of securities in different industrial sectors. At the end of September 2006, the portfolio was made up of some 101 stocks with market capitalisations ranging from €100m to €130bn. The Board reviews the composition and performance of the portfolio at each Board meeting.

The Manager provides a dedicated company secretarial and accounting function for the Company including administration, legal and audit, risk and compliance services. The Manager also undertakes investor relations and marketing for the Company and offers a range of private investor savings schemes through which individuals may invest in the Company.

The Board has conducted a separate review of the Manager in 2006 in accordance with the Listing Rules published by the Financial Services Authority. This took into consideration the Company's investment record over short and long-term periods and the performance, competence and resources of the Manager, both as a management company and with regard to the fund management team led by Ms Curling. On the basis of this review, and that carried out by the Audit Committee in respect of other services provided by F&C, it is the Board's opinion that the continuing appointment of the Manager on the terms agreed is in the best interests of shareholders as a whole.

Capital structure, share repurchases, gearing and currency exposure

The Company has a fixed share capital although, subject to and on the terms of the approvals granted annually by its shareholders, it may purchase its own shares and issue new shares. The Board is seeking to renew these authorities at the AGM in December 2006 and details are set out in the following section of this report headed Annual General Meeting.

The Company's shares have traded at a discount to net asset value throughout the year. The level of the discount will vary from time to time according to a number of factors including market sentiment and supply and demand for the Company's shares. The Board approves the repurchase of shares when it is considered appropriate and will only do so when it increases net asset value per share. The Board regularly monitors the management of share repurchases which are conducted by the Manager within the limits of the authority granted by shareholders. At the last AGM shareholders renewed the Company's authority to buy back up to 8,835,070 ordinary shares for cancellation. During the year under review 7,007,702 shares were purchased under this authority representing 11.2% of the issued share capital at 30 September 2005. The purchases were made at prices ranging from 539p to 690p per share. Since the year end, the Company has purchased a further 235,587 shares for cancellation at prices ranging from 675p to 689p.

The Board's policy is that the level of gearing of the Company should not exceed 20%. Within that overall

Report of the Directors (continued)

policy the Board agrees with the Manager an operational limit on gearing from time to time and reviews this on a monthly basis. Gearing was at around 10% for much of the year but was reduced to 6.5% at the year end. The Company maintains a multi-currency credit facility with The Royal Bank of Scotland which enables it to borrow in Euros or other European currencies. In practice the Company borrows, and holds any short-term cash deposits, in Euros.

The Board has the authority to hedge its exposure to movements in the rate of exchange of the currencies, principally the Euro, in which the Company's investments are denominated, against sterling, its reporting currency, but it is not generally the Board's practice to do so and the portfolio is not currently hedged.

Performance, results and dividends

The Board uses the following Key Performance Indicators (KPIs) to help assess progress against the Company's objectives:

- Net asset value per share total return compared to the FTSE World Europe ex UK Index (total return, sterling adjusted)
- Net asset value per share compared to other investment trusts specialising in Continental Europe
- Share price discount to net asset value
- Total expense ratio

Investment performance is measured primarily against the FTSE World Europe ex UK Index (sterling adjusted). As reported in the Chairman's Statement, the Company's net asset value per share increased by 17.0% in the year to 30 September 2006, compared to an increase of 16.0% in the Index. A full discussion of the background to this performance is found within the Manager's Review.

In the accounts for the year ended 30 September 2006, the results for the prior year have been restated to reflect changes in accounting policies set out in note 2 on the accounts. The quantum of these changes is set out in note 24 on the accounts.

Discount	
At 30 September	
2006	9.1%
2005	10.4%
2004	13.9%
2003	19.4%
2002	21.3%

Source: F&C Management Limited

Total expense ratio	
Year ended 30 September	
2006	0.7%
2005	0.8%
2004	0.7%
2003	0.8%
2002	0.8%

Source: F&C Management Limited

The net assets of the Company as at 30 September 2006 were £406,690,000 (2005: £391,354,000) and dividends paid in respect of the year are set out below.

Attributable to equity shareholders	£'000s	£'000s
Net revenue available for distribution		5,043
Final dividend of 1.7p per share	(1,001)	
Special dividend of 5.8p per share	(3,416)	
(both paid on 22 December 2005 to shareholders on the register at 18 November 2005)		(4,417)
Amount transferred to revenue reserve		626

Principal risks and risk management

In accordance with "Internal Control: Guidance for Directors on the Combined Code" published by the Working Party for the Institute of Chartered Accountants in England and Wales, the Board has established a process for identifying, evaluating and managing significant risks faced by the Company and regularly reviews the effectiveness of the internal control systems. This process has been in place throughout the year under review and to date and will continue to be regularly reviewed by the Board. A summary of the Company's system of internal control and management of risk is set out in the Corporate Governance section of this annual report.

The principal risks faced by the Company, together with the Board's approach to mitigation, include the following:

Market | the Company's assets consist of quoted equity securities and it is therefore exposed to movements in the price of individual securities and the market generally. The large number of investments held, together with the geographic and sector diversity of the portfolio, enables the Company to spread its risks with regard to individual companies and sectors, but a significant fall in European equity markets would have an adverse impact on the value of the Company's investment portfolio.

Investment strategy | inappropriate investment strategy or ineffective implementation of this strategy could result in poor returns for shareholders and a widening of the discount of the share price to the net asset value per share. The Board periodically reviews the investment strategy and regularly monitors the Company's investment portfolio and the investment selection, performance and operations of the Manager.

Currency and gearing | the Company's assets are denominated in European currencies, principally the Euro, but are valued in sterling in accordance with the Company's accounting policies. Any weakening of the Euro against sterling will adversely affect performance of those assets when measured in sterling. Although the Board has the authority to hedge this currency risk it does not routinely do so. Borrowing money for investment ("gearing") increases the negative impact on the Company's asset value if the value of those investments subsequently falls. The Board's policy is that the level of gearing of the Company should not exceed 20%. Within that overall policy the Board agrees with the Manager an operational limit on gearing from time to time and reviews this on a monthly basis.

Investment management resources | the quality of the management team employed by F&C is a crucial factor in delivering good performance and loss of key staff could adversely affect investment returns. The Manager has training and development programs in place for its employees and develops its recruitment and remuneration packages in order to retain key staff.

Regulatory | failure to comply with regulations could result in the Company losing its listing and/or being subjected to corporation tax on its capital gains. The Board receives and reviews regular reports from the Manager on the controls in place to ensure compliance by the Company with rules and regulations. The Board also receives regular investment listings and income forecasts as part of its monitoring of compliance with the provisions of Section 842.

Internal controls | inadequate financial controls could result in misappropriation of assets, loss of income and debtor receipts and mis-reporting of net asset values. The Board regularly reviews the Manager's statements on its internal controls and procedures and subjects the books and records of the Company to an annual audit.

The financial risks are set out in more detail in note 25 on the accounts on page 47.

Report of the Directors (continued)

ANNUAL GENERAL MEETING

Special business

Shareholders will find the Notice of the Annual General Meeting of the Company, to be held at Exchange House, Primrose Street, London EC2A 4NY on Thursday 14 December at 10:30 am, on pages 50 and 51. In addition to the ordinary business of the meeting, resolutions numbered 9, 10 and 11 will be proposed as special business. The Directors consider that these resolutions are in the best interests of shareholders taken as a whole and recommend shareholders to vote in favour as the Directors intend to do in respect of their own beneficial shareholdings.

Authority to allot shares (Resolution 9) | Resolution 9 is similar to the authority and power given to the Directors at previous annual general meetings. By law, directors are not permitted to allot new shares (or to grant rights over shares) unless authorised to do so by shareholders. In addition, Directors require specific authority from shareholders before allotting new shares (or granting rights over shares) for cash without first offering them to existing shareholders in proportion to their holdings. Resolution 9 gives the Directors, for the period until the conclusion of the Annual General Meeting in 2007, the necessary authority to allot securities up to an aggregate nominal amount of £692,302 which is equivalent to approximately 5% of the issued share capital and empowers the Directors to allot securities for cash, otherwise than to existing shareholders on a pro-rata basis. This authority provides the Directors with a degree of flexibility to increase the assets of the Company by the issue of new shares, should any favourable opportunities arise to the advantage of shareholders.

The Directors can, if necessary, use this authority to satisfy demand from participants in F&C Savings Schemes when they believe it is advantageous to such participants and the Company's shareholders to do so.

In no circumstances would the Directors use the authority to issue shares at a price which would result in a dilution of the net asset value per ordinary share.

Authority for the Company to purchase its own shares (Resolution 10) | Resolution 10 authorises the Company to purchase in the market up to a maximum of 8,302,088 ordinary shares (equivalent to approximately 14.99% of the issued share capital) for cancellation at a minimum price of 25 pence per share and a maximum price per share of not more than 5% above the average of the middle market quotations for an ordinary share (as derived from the London Stock Exchange Daily Official List) for the five business days immediately before the date of purchase.

Under this authority purchases would only be made within guidelines established from time to time by the Board. They would be made through the market for cash at prices below the prevailing net asset value per ordinary share, which would have the effect of increasing net asset value per ordinary share for the remaining shareholders. Any ordinary shares which were purchased would be cancelled.

The Directors consider that it would be advantageous to shareholders for the Company to have the authority to make such purchases as and when it considers the timing to be favourable. However, use of this authority, if given, will depend upon market conditions and the Board's judgement of its likely effectiveness in increasing net asset value per share and/or reducing the discount.

It is proposed that any purchase of ordinary shares would be financed out of realised revenue and/or capital reserves and funded from the Company's own cash resources or, if appropriate, from short-term borrowings.

The authority to purchase ordinary shares will continue until 13 June 2008 unless it is renewed at the Annual General Meeting in 2007. The Board intends to seek a renewal of such authority at subsequent annual general meetings.

Directors' indemnities (Resolution 11) | The Directors propose that the Company's Articles of Association be amended to reflect the new statutory provisions concerning directors' indemnities. The proposed resolution is a special resolution to amend Article 164 of the Articles of Association of the Company to allow the Company to indemnify its Directors on the terms permitted by these new statutory provisions.

The Companies (Audit, Investigations and Community Enterprise) Act 2004 ("CAICE") came into force on 6 April 2005. CAICE inserts sections 309A and 309B into the Companies Act 1985. These provisions broadly allow a company or an associated company to indemnify the directors of a company against liability to third parties arising in connection with any negligence, default, breach of duty or breach of trust by the directors in relation to the company. Such an indemnity may not, however, protect a director against liability incurred by the director to the company or any associated company. The Company may not provide an indemnity against either liability incurred by a Director in defending criminal proceedings in which he is convicted or a liability to pay a fine imposed in criminal proceedings or by a regulatory authority. Indemnities permitted by these new provisions must be disclosed in the Directors' Report in the annual accounts and made available for inspection at the Company's registered office.

CAICE also inserts a new section 337A into the Companies Act 1985. This allows a company to fund its directors' defence costs as they are incurred in both criminal and civil cases, through the granting of a loan to a Director. The loan must be repaid by any Director who is not exonerated (though the costs incurred in civil cases involving third parties could be paid by the company under the indemnity discussed above). Previously, companies have only been able to fund a director's defence costs once final judgment in the director's favour has been reached.

Directors are increasingly being added as defendants in legal actions against companies and litigation is often very lengthy and expensive. The Directors believe that the provision of appropriate indemnities and the funding of Directors' defence costs as they are incurred, as permitted by the new legislation, are reasonable protection for the Company's Directors, and are important to ensure that the Company continues to attract and retain the highest calibre of Directors.

OTHER MATTERS

Going concern

The Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the accounts as the assets of the Company consist mainly of securities which are readily realisable.

ISA and PEP investment

The Company's shares are eligible for inclusion in an Individual Savings Account and are also eligible as an investment for Personal Equity Plan transfers.

Substantial share interests

As at 2 November 2006 the Company had received notification of the following holdings of more than three per cent of its ordinary share capital:

	Ordinary shares of 25p each	%
F&C Asset Management plc*	15,408,844	27.8
Barclays PLC	3,886,070	7.0
Tattersall Advisory Group	2,887,560	5.2
Legal & General Investment Management	2,421,346	4.4

* This holding includes 0.2% held on behalf of discretionary clients of F&C Asset Management plc ("F&C") and 27.6% held on behalf of non-discretionary clients through the savings schemes managed by F&C. F&C is a subsidiary of the Friends Provident Group by virtue of which it is deemed to be interested in shares held by F&C.

Directors

The Directors listed on page 10 held office throughout the year under review. The Director retiring by rotation this year is Mr M B Moule and, being eligible, he will offer himself for re-election at this year's Annual General Meeting. Having served for more than nine years, Messrs D F E Bierbaum and R Kanza will also retire and seek re-election at the Annual General Meeting. Mr P Schwartz retired as a Director on 15 December 2005.

The Board has appraised the performance, effectiveness and commitment of each of the Directors seeking re-election as well as the balance of skills and experience collectively brought to the Board. The Board believes that each Director continues to make a positive contribution and therefore recommends their respective re-elections to shareholders.

Each Director has signed a letter of appointment setting out the terms of his engagement as a non-executive Director. No Director has a service contract with the Company. Copies of these letters are available for inspection at the Company's registered office during normal business hours and at the Annual General Meeting. Details of the Directors' shareholdings in the Company and their interests in

Report of the Directors (continued)

contracts and agreements to which the Company is a party are contained in note 6 on the accounts.

Directors' remuneration

The Directors' Remuneration Report on page 27 and note 6 on the accounts provide detailed information on the remuneration arrangements for the Directors. Shareholders will be asked to approve the Directors' Remuneration Report at the Annual General Meeting. The Directors' remuneration is not conditional on the relevant resolution being passed.

Policy on payments to suppliers

The Company's principal supplier, the Manager, is paid in the month following the end of each calendar quarter, in accordance with the terms and conditions of the Management Agreement. Other suppliers are paid in accordance with the individual payment terms agreed with each supplier. At 30 September 2006, the Company's outstanding trade creditors were equivalent to two day's payment to suppliers (2005: one day).

Independent Auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution to re-appoint them and to authorise the Directors to determine their remuneration will be proposed at the Annual General Meeting. The auditors provide some non-audit services to the Company, the details of which are set out in note 5 on the accounts and on page 25. So far as each of the Directors is aware there is no relevant audit information of which the Company's auditors are unaware. The Directors believe that they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of this information.

Charitable donations

The Company did not make any charitable donations during the year (2005: nil).

By order of the Board

F&C Management Limited
Secretary

3 November 2006

Corporate Governance

Introduction

The Company is committed to high standards of corporate governance. The Board has considered the principles set out in the Combined Code on Corporate Governance issued by the Financial Reporting Council (the "Code") and the AITC Code of Corporate Governance (the "AITC Code").* The Board believes that during the year under review the Company has complied with the provisions of the Code in so far as they relate to the Company's business and the special circumstances of an investment trust company, and has adhered to the principles and recommendations of the AITC Code. The Company does not have in place its own internal audit function (for reasons explained on page 25), nor does it have a separate remuneration committee (for reasons set out on page 27).

The Board

The biographical details of the Directors, all of whom are non-executive, can be found on page 10.

It is the responsibility of the Board to ensure that there is effective stewardship of the Company's affairs. Strategic issues and all operational matters of a material nature are determined by the Board. A formal schedule of matters reserved for the decision of the Board has been adopted. In order to enable them to discharge their responsibilities, all Directors have full and timely access to all relevant information. The Board meets at least quarterly. The Board also operates through a committee comprised of those Directors resident in the UK which generally meets each month that the Board does not, except August. This committee, the London Committee, at which all Directors are entitled to attend, is charged with dealing with administrative matters, overseeing the management of the portfolio and implementing decisions of the Board. At each meeting of the Board and the London Committee the Directors review investment performance and asset allocation, sector allocation and stock selection, and consider financial and other reports of a strategic nature. The Directors also monitor compliance with the Company's objectives and consider the policies on gearing and share buy backs and the investment limits within which the Manager is given discretion to act. Key representatives of the Manager attend Board Meetings. Board meetings are also held on an ad hoc basis to consider particular issues reserved to the Board as and when they arise.

The table below sets out the number of Board and committee meetings held during the year under review and the number of meetings attended by each Director.

	Full Board	Ad hoc Board	Audit & Management Engagement Committee	London Committee
	5	1	2	5
D C P McDougall	5	1	2	5
D F E Bierbaum	5	–	n/a	5
C A H Börsig	5	–	n/a	5
R Kanza	5	1	2	5
M Moule	5	1	2	5

The Board believes that it presently has a reasonable balance of skills, experience and length of service. The Board recognises the value of succession planning and periodically reviews the composition of the Board. The Board has considered the independence of each of the Directors and is satisfied that they are independent of the Manager and that there are no other relationships or circumstances relating to the Company that are likely to affect their judgement. The Board accepts the principles of the Code under which any term beyond six years for a non-executive director should be subject to particularly rigorous review, and for annual re-election after nine years. Nevertheless, the Board is of the view that length of service does not compromise the independence or contribution of Directors of an investment trust company, where continuity and experience can add significantly to the strength of the Board. No limit on the overall length of service of any of the Directors has therefore been imposed. Whilst Mr Bierbaum and Mr Kanza have served as Directors of the Company for more than nine years, the Board has assessed them as continuing to be independent in character and judgement. In accordance with the Code, all Directors who have served for more than nine years are required to retire and stand for re-election annually. Other Directors are required, in accordance with the Company's Articles of Association, to submit themselves for re-election at least every three years. Each Director has signed a letter of appointment to

* Copies of these documents may be found on the respective organisations' web sites: www.frc.org.uk and www.theaic.co.uk. Investors in New Zealand should note that the corporate governance rules and principles applicable to the Company in the UK may differ materially from those of the New Zealand Stock Exchange's Corporate Governance Best Practice Code.

Corporate Governance (continued)

formalise the terms of his engagement as a non-executive Director.

The London Committee of the Board, chaired by Mr McDougall, operates as the Nomination Committee. Appointments of new Directors are made on a formal basis with the final decision in any particular case resting with the full Board. The primary role of the Nomination Committee is to review and make recommendations to the Board with regard to the Board structure, size and composition, the balance of knowledge, skills and experience, age profile, and to consider succession planning. It also assesses the criteria for future Board appointments and the methods of recruitment, selection, appointment and induction. An induction process has been designed for new appointees to the Board. This comprises a briefing on the workings and processes of the Company by the Chairman, the Fund Manager, the Company Secretary and other appropriate employees of the Manager, and provision of a Company Handbook and other key documentation. All appointments are subject to confirmation by shareholders and institutional shareholders will be given the opportunity to meet any newly appointed Director if they wish. Copies of the terms of reference of this Committee are available on the F&C website at www.fandc.com.

In order to review the effectiveness of the Board, its committees and the individual Directors, the Board carried out a thorough appraisal process in September 2006 in respect of the year under review. This encompassed both the operation and performance of the Board, the Audit Committee and the London Committee, and qualitative appraisals of the Directors, implemented by way of interviews with the Chairman, and in the case of the Chairman, an appraisal by the Senior Independent Director. The appraisal process is considered by the Board to be constructive in terms of identifying areas for improving the functioning and performance of the Board and its committees and the contribution of individual Directors, as well as building on and improving collective strengths. The Board does not consider that the use of external consultants to conduct this evaluation is likely to provide any meaningful advantage over the process that has been adopted, but the option of doing so will be kept under review.

It is not compulsory for Directors to hold shares in the Company. Details of Directors' holdings are set out in note 6 on the accounts.

The Board has established a procedure whereby Directors may take independent professional advice at the Company's expense where they judge it necessary to discharge their responsibilities as Directors. No professional advice in this regard has been taken by the Directors during the year under review. All Directors are entitled to undertake relevant training at the Company's expense. The Board has direct access to company secretarial advice and services of the Manager which, through its nominated representative, is responsible for ensuring that Board and Committee procedures are followed, and that applicable regulations are complied with. The proceedings at all Board and other meetings are fully recorded through a process that allows any concerns of Directors to be recorded in the minutes. The appointment or removal of the Company Secretary is a matter for the whole Board. During the year under review, the Board has maintained appropriate insurance cover in respect of legal action against the Directors.

The Board reviews the investment performance of the Manager and the qualities of its company secretarial, accounting, administrative and support services to the Company, and carries out an annual review of the management contract with the Manager, including the level and structure of fees payable and the length of the notice period.

Audit & Management Engagement Committee

The Audit & Management Engagement Committee (the "Audit Committee"), which is chaired by Mr McDougall, is currently comprised of three Directors, each of whom is considered to be independent. The Audit Committee meets at least twice a year and operates within written terms of reference that clearly set out its authority and duties. These terms of reference were reviewed and updated during the year. Copies are available on request and can also be found on the F&C website at www.fandc.com. The Board is satisfied that, having regard to their background and skills, there is a range of recent and relevant financial experience amongst the members of the Audit Committee.

The primary role of the Audit Committee is to review the Company's accounting policies; to monitor the integrity and contents of the financial statements; to review the Company's internal financial controls and the internal control and risk management systems applicable to the Company; to review annually the need for the Company to have its own internal audit function; to make recommendations to the Board in relation to the re-appointment of the auditors and to approve their remuneration and terms of engagement; to monitor the auditor's independence and objectivity and the effectiveness of the audit process; and to develop and implement policy on the engagement of the auditors to provide non-audit services.

Following the recommendation of the Audit Committee, the Board has concluded that there is no current need for the Company to have its own internal audit function; all of the Company's management functions are delegated to the Manager, which has its own internal Audit, Risk and Compliance Department and whose controls are monitored by the Board. The Audit Committee has received and reviewed the Statement referred to below under "Internal Controls and Management of Risk" and an annual compliance report from the Manager's head of audit, risk and compliance.

The Audit Committee has reviewed, and is satisfied with, the "whistle blowing" policy that has been put in place by the Manager under which its staff, in confidence, may raise concerns about possible improprieties in matters of financial reporting or other matters insofar as they may affect the Company. The necessary arrangements are in place for proportionate and independent investigation of such matters and for appropriate follow-up action.

The Audit Committee has direct access to the auditors, PricewaterhouseCoopers LLP, and to the compliance and internal audit directors of the Manager and to the Manager's group audit committee, and reports its findings to the Board. The Board retains ultimate responsibility for all aspects relating to the annual and interim accounts and other significant published financial information. The auditors attend the Audit Committee meeting to review the annual results and provide a comprehensive review of the audit of the Company. The Audit Committee also meets with the auditors without the Manager being present. The Audit Committee, together with the Manager, has reviewed the work carried out by PricewaterhouseCoopers LLP for the audit of the annual financial statements. On the basis of this and the auditors' experience in auditing the affairs of the Company, the Audit Committee has assessed the effectiveness of the external audit and recommended the continuing appointment of the auditors to the Board. The Audit Committee has taken into account the standing, experience and tenure of the audit partner, the nature and level of service provided and confirmation of the auditors independence within the meaning of UK professional and regulatory requirements. The Audit Committee considers PricewaterhouseCoopers LLP to be independent both of the Company and the Manager in all respects.

The Audit Committee approves all non-audit work to be undertaken by the auditors in advance and reviews the provision of non-audit services by them. During the year under review total fees for these services amounted to £2,000 inclusive of irrecoverable VAT and these services were in relation to taxation matters. The Audit Committee considers that the services provided are cost effective and do not impair the independence of the auditors.

Internal controls and management of risk

The Board has overall responsibility for the Company's systems of internal controls and for reviewing their effectiveness and ensuring that risk management and control processes are embedded in the day to day operations of the Company. These controls aim to ensure that the assets of the Company are safeguarded, proper accounting records are maintained and the financial information used within the business and for publication is reliable. Control of the risks identified covering financial, operational, compliance and overall risk management is exercised by the Board through monthly reports provided by the Manager on investment performance, performance attribution, compliance with agreed investment restrictions, financial analyses and other management issues, and a quarterly control report prepared by the Manager's audit, risk and compliance department that provides details of any material internal control failure. The control report incorporates a key risk table that identifies the risks to which the Company is exposed and the controls in place to mitigate them, including risks that are not directly the responsibility of the Manager. Typical areas of risk material to investment trusts in general, and which have been identified and are monitored as part of the control process include excessive gearing, inappropriate long-term investment strategy, inappropriate asset allocation, loss of management personnel and potential loss of Section

Corporate Governance (continued)

842 status under the provisions of the Income and Corporation Taxes Act 1988. The systems of internal controls are designed to manage rather than eliminate risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement, loss or fraud.

The Board has carried out a risk control assessment, a key element of which was the Statement of Internal Corporate Governance for the year to 31 December 2005 (the "Statement") prepared by the Manager for its investment trust clients to the standards of the Financial Reporting & Auditing Group Technical Release 21/94 (FRAG21) issued by the Institute of Chartered Accountants in England and Wales. Containing a report from independent external accountants, the Statement sets out the Manager's control policies and procedures with respect to the management of its clients' investments. The effectiveness of these controls is monitored by the Manager's group audit committee, which receives regular reports from the Manager's audit, risk and compliance department. The Company's Audit Committee will continue to work with the Manager's audit, risk and compliance department to enhance controls as they affect the Company. As reported above under "Audit & Management Engagement Committee", the Board has concluded that there is no current need for the Company to have its own internal audit function, but will keep this under review annually.

Investment management, administration and custody

The Board has contractually delegated the management of the investment portfolio, the operation of custodial services and the provision of accounting, company secretarial and marketing services to the Manager. Details of the principal terms of the Management Agreement are set out in note 4 on the accounts.

The Manager outsourced certain of its administrative functions to Mellon Bank N.A. (London Branch) in November 2003. The Manager retains full responsibility for these functions.

The Company has appointed JPMorgan Chase to act as custodian of the Company's assets. Operational matters with the custodian are carried out by the Manager in accordance with the provisions of the Management Agreement.

Investor relations

Communication with shareholders is given a high priority. The Company's annual report and accounts, containing a detailed review of performance and the investment portfolio, is sent to all shareholders. At the half year stage, an interim report, containing updated information in a more abbreviated form, is also sent to all shareholders. Updated information is available on the F&C website at www.fandc.com.

All shareholders are encouraged to attend the Annual General Meeting, where a presentation is made by the Manager and where shareholders are given the opportunity to question the Chairman, the Board and the Manager. All beneficial shareholders in the F&C Savings Schemes have the opportunity to vote using a form of direction. Proxy voting figures are announced to shareholders at the Meeting.

The Manager communicates throughout the year with institutional investors and private client brokers and asset managers and regularly reports to the Board on investors' views and attitudes relating to the Company. The Chairman is available to attend meetings with these investors. The Board also receives regular reports from the Manager analysing and commenting on the composition of the Company's shareholder register and monitors significant changes in shareholdings.

Shareholders wishing to communicate with the Chairman or other members of the Board may do so by writing to the Company at its registered office address, which can be found on page 11.

Corporate governance, voting policy and socially responsible investment

The Manager engages with investee companies on corporate governance and socially responsible investment and exercises voting rights on behalf of the Company in accordance with this policy. It is the Company's general policy not to vote where to do so might hinder the Manager's investment decisions because of share blocking procedures often adopted in continental Europe. At all times, the driving investment principle is the maximisation of shareholder returns.

Directors' Remuneration Report

Remuneration Committee

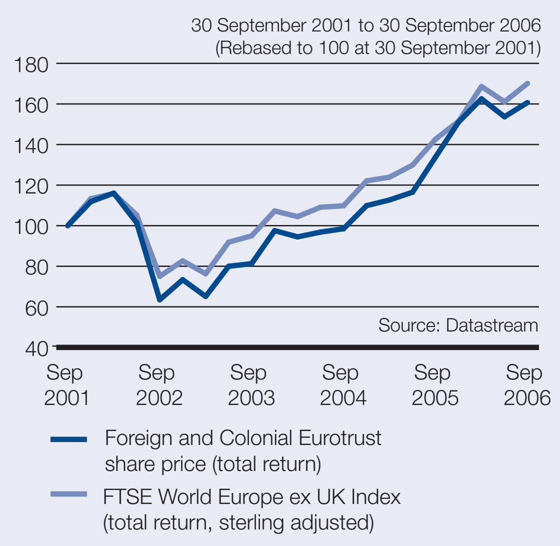
As the Board is comprised solely of non-executive Directors, it is exempt under the Listing Rules from appointing a remuneration committee. The determination of the Directors' fees is a matter dealt with by the whole Board.

The Company's Articles of Association limit the aggregate fees payable to the Board of Directors to a total of £150,000 per annum. Subject to this overall limit, it is the Company's policy to determine the level of Directors' fees having regard to the level of fees payable to non-executive directors in the industry generally, the role that individual Directors fulfil in respect of Board and Committee responsibilities, and the time committed to the Company's affairs.

The Chairman receives a fee of £23,000 per annum (2005: £20,000), whilst the remaining Directors receive a fee of £15,000 per annum (2005: £13,500). The Chairman of the Audit Committee receives £1,500 per annum (2005: £nil).

No element of the Directors' remuneration is performance related.

Total shareholder return over 5 years



No Director has a service contract with the Company.

No Director past or present has any entitlement to pensions, and the Company has not awarded any share options or long-term performance incentives to any of the Directors.

Directors' and Officers' liability insurance cover is maintained by the Company on behalf of the Directors.

Remuneration for Qualifying Services

Director	2006 Fees for services to the Company £'s	2005 Fees for services to the Company £'s
Douglas C P McDougall[1]	**24,500**	21,194
Detlef F E Bierbaum	**15,000**	13,500
Clemens A H Börsig	**15,000**	13,500
Ralph Kanza	**15,000**	13,500
Michael Moule	**15,000**	13,500
Pedro Schwartz[2]	**3,135**	13,500
J Antony Dick[3]	**–**	3,193
Zweder van Hovell[3]	**–**	2,873
	87,635	94,760

[1] Chairman, Chairman of the Audit Committee and highest paid UK Director

[2] Retired 15 December 2005

[3] Retired 16 December 2004

The information in the above table has been audited (see Independent Auditors' Report on page 29).

The amounts paid by the Company to the Directors were for services as non-executive Directors.

By order of the Board
F&C Management Limited
Secretary

3 November 2006

Directors' Statement of Responsibilities

As required by company law, the Directors are responsible for the preparation of financial statements which give a true and fair view of the state of affairs of the Company as at 30 September 2006 and of the results for the year then ended. In preparing the financial statements, suitable accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made. The financial statements are prepared in accordance with applicable accounting standards and on a going concern basis. The Directors are also responsible for ensuring that adequate accounting records are maintained and have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The financial statements are published on the www.fandc.com website, which is a website maintained by the Company's Investment Manager, F&C Management Limited ("F&C"). The maintenance and integrity of the website maintained by F&C or any of its subsidiaries is, so far as it relates to the Company, the responsibility of F&C. The work carried out by the auditors does not involve consideration of the maintenance and integrity of this website and accordingly, the auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in their jurisdiction.

Analysis of Ordinary Shareholders

Analysis of ordinary shareholders at 30 September 2006

Category	Number of shares	% Holding
F&C savings plans	15,509,057	27.9
Nominee holdings	19,169,064	34.5
Direct individual holdings	7,857,317	14.1
Institutions	13,084,327	23.5
	55,619,765	**100.0**

Source: F&C Management Limited

Independent Auditors' Report

Independent auditors' report to the members of Foreign & Colonial Eurotrust PLC

We have audited the accounts of Foreign & Colonial Eurotrust PLC for the year ended 30 September 2006 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes. These accounts have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the accounts in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities. The Directors are also responsible for preparing the Directors' Remuneration Report.

Our responsibility is to audit the accounts and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the accounts give a true and fair view and whether the accounts and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the Directors' Report is consistent with the accounts. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the company's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited accounts. The other information comprises only the Chairman's Statement, Manager's Review, Report of the Directors, the unaudited part of the Directors' Remuneration Report and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 September 2006 and of its net return and cash flows for the year then ended;
- the accounts and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Report of the Directors is consistent with the accounts.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London 3 November 2006

Income Statement

Revenue Notes	Capital Notes	for the year ended 30 September	2006 Revenue £'000s	2006 Capital £'000s	2006 Total* £'000s	2005 Revenue £'000s	2005 Capital Restated+ £'000s	2005 Total* Restated+ £'000s
	11	Gains on investments	–	56,792	56,792	–	87,270	87,270
	20	Exchange gains/(losses)	(9)	55	46	(1)	(484)	(485)
3		Income	11,621	–	11,621	10,011	–	10,011
4		Management fee	(2,498)	–	(2,498)	(2,330)	–	(2,330)
5	20	Other expenses	(655)	(45)	(700)	(739)	(27)	(766)
		Net return before finance costs and taxation	8,459	56,802	65,261	6,941	86,759	93,700
7		Finance costs	(1,216)	–	(1,216)	(347)	–	(347)
		Net return on ordinary activities before taxation	7,243	56,802	64,045	6,594	86,759	93,353
8	8	Taxation on ordinary activities	(2,200)	–	(2,200)	(1,914)	(36)	(1,950)
9	9	**Net return attributable to equity shareholders**	5,043	56,802	61,845	4,680	86,723	91,403
9	9	**Return per share – pence**	8.73	98.28	107.01	6.97	129.10	136.07

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

+ Restated to reflect changes in accounting policies (see note 2 on the accounts).

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.

Reconciliation of Movements in Shareholders' Funds

Notes		Called up share capital £'000s	Share premium account £'000s	Capital redemption reserve £'000s	Capital reserves £'000s	Revenue reserve £'000s	Total equity shareholders' funds £'000s
	Balance at 30 September 2004						
	as previously reported	16,998	123,749	1,813	183,271	3,529	329,360
	Add: accrued dividends at 30 September 2004	–	–	–	–	3,672	3,672
	Less: investment valuation restatement	–	–	–	(220)	–	(220)
24	**Balance at 30 September 2004 restated**	16,998	123,749	1,813	183,051	7,201	332,812
	Movements during the year ended 30 September 2005						
10	Dividends paid	–	–	–	–	(3,646)	(3,646)
	Shares purchased by the Company	(1,341)	–	1,341	(29,215)	–	(29,215)
	Return attributable to equity shareholders						
	as previously reported	–	–	–	86,848	4,680	91,528
	Less: investment valuation restatement	–	–	–	(125)	–	(125)
24	**Balance at 30 September 2005 restated**	15,657	123,749	3,154	240,559	8,235	391,354
	Movements during the year ended 30 September 2006						
10	Dividends paid	–	–	–	–	(4,417)	(4,417)
20	Shares purchased by the Company	(1,752)	–	1,752	(42,092)	–	(42,092)
20	Return attributable to equity shareholders	–	–	–	56,802	5,043	61,845
	Balance at 30 September 2006	**13,905**	**123,749**	**4,906**	**255,269**	**8,861**	**406,690**

Balance Sheet

Notes	at 30 September	£'000s	2006 £'000s	Restated* £'000s	2005 Restated* £'000s
	Fixed assets				
11	Listed investments		**437,827**		403,303
	Current assets				
12	Debtors	**306**		24,083	
13	Taxation recoverable	**360**		416	
	Cash at bank and short-term deposits	**3,923**		14,907	
		4,589		39,406	
	Creditors: amounts falling due within one year				
14	Foreign currency loans	**(30,517)**		(23,853)	
15	Other	**(5,209)**		(27,502)	
		(35,726)		(51,355)	
	Net current liabilities		**(31,137)**		(11,949)
	Net assets		**406,690**		391,354
	Capital and reserves				
17	Called-up share capital		**13,905**		15,657
18	Share premium account	**123,749**		123,749	
19	Capital redemption reserve	**4,906**		3,154	
20	Capital reserves	**255,269**		240,559	
20	Revenue reserve	**8,861**		8,235	
			392,785		375,697
21	**Total equity shareholders' funds**		**406,690**		391,354
21	**Net asset value per ordinary share – pence**		**731.20**		624.89

* Restated to reflect changes in accounting policies (see note 2 on the accounts).

Approved by the Board on 3 November 2006

and signed on its behalf by:

Douglas McDougall, Chairman

Cash Flow Statement

Notes	for the year ended 30 September	2006 £'000s	2006 £'000s	2005 £'000s	2005 £'000s
	Operating activities				
	Investment income received	11,217		9,755	
	Interest received	123		139	
	Stock lending fees	148		136	
	Fee paid to management company	(2,498)		(2,199)	
	Directors' fees	(88)		(102)	
	Other payments	(595)		(585)	
22	**Net cash inflow from operating activities**		8,307		7,144
	Servicing of finance				
	Interest paid	(1,225)		(436)	
	Cash outflow from servicing of finance		(1,225)		(436)
	Taxation				
	UK tax paid	(909)		(677)	
	Overseas tax paid	(1,699)		(1,624)	
	Overseas tax recovered	447		397	
	Total tax paid		(2,161)		(1,904)
	Financial investment				
	Purchases of equities and other investments	(218,967)		(368,181)	
	Sales of equities and other investments	266,766		383,350	
	Other capital charges and credits	(45)		(25)	
	Net cash inflow from financial investment		47,754		15,144
	Equity dividends paid		(4,417)		(3,646)
	Net cash inflow before use of liquid resources and financing		48,258		16,302
	Management of liquid resources				
	Decrease/(increase) in short-term deposits		13,884		(13,992)
	Financing				
	Net loans raised	6,782		2,590	
	Purchase of ordinary shares	(65,981)		(5,326)	
	Net cash outflow from financing		(59,199)		(2,736)
23	**Increase/(decrease) in cash**		2,943		(426)

Notes on the Accounts

1 General information

Foreign & Colonial Eurotrust PLC is an investment company incorporated in the United Kingdom with a listing on the London Stock Exchange. The registration number of the Company is 1055384 and the registered office is Exchange House, Primrose Street, London, EC2A 2NY, England.

The Company conducts its affairs so as to qualify as an investment trust under the provisions of Section 842 of the Income and Corporation Taxes Act 1988. Approval of the Company under Section 842 has been received (subject to there being no subsequent enquiry) in respect of the year ended 30 September 2005 and all previous financial years. Such approval exempts the Company from UK corporation tax on gains realised on its portfolio of fixed asset investments.

2 Significant accounting policies

(a) Basis of accounting

The accounts of the Company have been prepared under the historical cost convention, modified to include fixed asset investments at fair value, and in accordance with the Companies Act 1985, Accounting Standards applicable in the United Kingdom and with the Revised Statement of Recommended Practice "Financial Statements of Investment Trust Companies" (SORP) issued in December 2005.

The functional and reporting currency of the Company is pounds sterling because that is the currency of the primary economic environment in which the Company operates.

(b) Changes in presentation

In accordance with the SORP, the Income Statement (formerly called the "Statement of Total Return") has been analysed between a revenue account (dealing with items of a revenue nature) and a capital account (relating to items of a capital nature). Revenue returns include, but are not limited to, dividend income and operating expenses and tax (insofar as the expenses and tax are not allocated to capital, as described below). Net revenue returns are allocated via the revenue account to the revenue reserve, out of which dividend payments are made.

Capital returns include, but are not limited to, realised and unrealised profits and losses on fixed asset investments and derivative instruments and currency profits and losses on cash and borrowings. Net capital returns may not be distributed by way of dividend and are allocated via the capital account to the capital reserves.

Dividends payable to equity shareholders are no longer reflected in the Income Statement, although they continue to be shown in the Reconciliation of Movement in Shareholders' Funds, which is now presented as a primary statement.

(c) Changes in accounting policies

With effect from 1 October 2005, the Company has adopted Financial Reporting Standards (FRS) 21 to 26. The effect of adoption, where it has resulted in a change in a significant accounting policy, is described below.

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 quoted investments is deemed to be the bid value of those investments at the close of business on the relevant date. Previously, all quoted investments were valued at middle market value.

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

The comparatives for the year ended 30 September 2005 have been restated to give effect to the above changes. Notes 9, 11, 20 and 24 on the accounts further explain the restatements.

(d) Principal accounting policies

The policies set out below have been applied consistently throughout the year.

(i) Fixed assets investments

As an investment trust, the Company measures its fixed asset investments at "fair value through profit or loss" and treats all transactions on the realisation and revaluation of investments, as transactions on the capital account. Purchases are recognised on the relevant trade date, inclusive of expenses which are incidental to their acquisition. Sales are also recognised on the trade date, after deducting expenses incidental to the sales.

2 Significant accounting policies (continued)

Quoted investments are valued at bid value at the close of business on the relevant date on the exchange on which the investment is quoted.

Investments which are not quoted or which are not frequently traded are stated at Directors' best estimate of fair value. In arriving at their estimate, the Directors make use of recognised valuation techniques and may take account of recent arm's length transactions in the same or similar investment instruments. Where no reliable fair value can be estimated, investments may be carried at cost less any provision for impairment.

(ii) Borrowings

Loans and overdrafts are recorded at the proceeds received, net of issue costs, irrespective of the duration of the instrument.

(iii) Foreign currency

Foreign currency assets and liabilities are expressed in sterling at rates of exchange ruling at the balance sheet date. Purchases and sales of investment securities, dividend income, interest income and expenses are translated at the rates of exchange prevailing at the respective dates of such transactions. Exchange profits and losses on fixed assets investments are included within the changes in fair value in the capital account. Exchange profits and losses on other currency balances are separately credited or charged to the capital account except where they relate to revenue items.

(iv) Income

Income from equity shares is brought into the revenue account (except where, in the opinion of the Directors, its nature indicates it should be recognised as within the capital account) on the ex-dividend date or, where no ex-dividend date is quoted, when the Company's right to receive payment is established. Fixed returns on non-equity shares and debt securities are recognised on a time apportionment basis so as to reflect the effective yield on the investment.

Dividends are accounted for in accordance with Financial Reporting Standard 16 "Current Taxation" (FRS16) on the basis of income actually receivable, without adjustment for the tax credit attaching to the dividends. Dividends from overseas companies continue to be shown gross of withholding tax.

Where the Company has elected to receive its dividends in the form of additional shares rather than in cash (scrip dividends), the amount of the cash dividend foregone is recognised as income. Any excess in the value of the shares received over the amount of the cash dividend foregone is recognised in capital reserves.

(v) Expenses, including finance charges

Expenses are charged to the revenue account of the Income Statement, except for expenses incidental to the acquisition or disposal of fixed assets investments, which are included within the cost of the investments or deducted from the disposal proceeds of investments and are thus charged to capital reserve realised via the capital account.

All expenses are accounted for on an accruals basis.

(vi) Taxation

Deferred tax is provided in accordance with FRS19 on all timing differences that have originated but not reversed by the Balance Sheet date. Deferred tax assets are only recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of timing differences can be deducted. In line with the recommendations of the SORP, the allocation method used to calculate the tax relief on expenses charged to capital is the "marginal" basis. Under this basis, if taxable income is capable of being offset entirely by expenses charged through the revenue account, then no tax relief is transferred to the capital account.

(vii) Capital redemption reserve

The nominal value of ordinary share capital repurchased for cancellation is transferred out of called-up share capital and into the capital redemption reserve.

(viii) Capital reserves

Capital reserve realised

The following are accounted for in this reserve:

Gains and losses on the realisation of fixed asset investments,

Realised exchange differences of a capital nature,

Notes on the Accounts (continued)

2 Significant accounting policies (continued)

Costs of professional advice, including related irrecoverable VAT, relating to the capital structure of the Company, Other capital charges and credits charged or credited to this account in accordance with the above policies, and the cost of the purchase of ordinary share capital.

Capital reserve unrealised

The following are accounted for in this reserve:

Increases and decreases in the valuation of fixed asset investments held at the year end, and

Unrealised exchange differences of a capital nature.

3 Income

	2006 £'000s	2005 £'000s
Income from investments		
UK dividends	–	173
Overseas dividends	11,310	9,561
	11,310	9,734
Other income		
Interest on cash and short-term deposits	125	140
Stock lending fees	186	137
	311	277
Total income	11,621	10,011
Income from investments		
Listed UK	–	173
Listed Overseas	11,310	9,561
	11,310	9,734

4 Management fee

	2006 £'000s	2005 £'000s
Management fee	2,229	2,006
Irrecoverable VAT thereon	269	324
	2,498	2,330

The Manager provides investment management and general administrative services to the Company for a management fee payable in arrears of 0.125% per quarter on the funds under management at each quarter-end.

In addition a performance-related management fee is payable at the rate of 0.05% per 1% of annual outperformance by the NAV (net asset value, inclusive of revenue return attributable to shareholders) of target performance. Target performance is defined as a margin of 1.5% over the FTSE World Europe ex UK Index (total return, sterling adjusted). Any underperformance against target will be carried forward and no further performance fee will be payable until the NAV has both recovered the accumulated underperformance and exceeded the target performance for the year. The combined management fee and performance-related management fee cannot be greater than 0.1875% per quarter on the first £400m of funds under management and 0.125% per quarter of funds under management in excess of £400m, at each quarter end.

No performance fee is payable for the year ended 30 September 2006 (2005: £nil).

The management agreement may be terminated upon three month's notice given by either party.

5 Other expenses

	2006 £'000s	2005 £'000s
Auditors' remuneration:		
for audit services	27	26
for other services	2	6
Directors' fees:		
fees for services to the Company	88	95
Marketing	73	141
Private Investor Plan expenses	129	152
Sundry expenses	336	319
	655	739

All expenses are stated gross of irrecoverable VAT, where applicable.

6 Directors' remuneration and contracts

(a) Remuneration

The Company had no employees during the year (2005: none). The amounts paid by the Company to the Directors of the Company, which were for services as non-executive Directors and which did not include any payments or rights to pensions, are detailed in the Directors' Remuneration Report on page 27.

(b) Directors' interests in shares

The interests of the Directors in the ordinary shares of the Company were as follows:

	30 September 2006	30 September 2005
D C P McDougall	10,000	10,000
D F E Bierbaum	16,000	16,000
C A H Börsig	5,000	5,000
R Kanza	10,000	10,000
M B Moule	–	–
P Schwartz (retired 15 December 2005)	–	–

There have been no changes in the Directors' shareholdings, detailed above, since the Company's year end.

(c) Directors' interests in contracts

No contract of significance to which the Company is a party and in which a Director is or was materially interested existed during the year.

7 Finance costs

	2006 £'000s	2005 £'000s
Interest payable on bank loans and overdrafts repayable within five years, not by instalments	1,216	347

Notes on the Accounts (continued)

8 Taxation on ordinary activities

(a) Analysis of tax charge for the year

	Revenue £'000s	Capital £'000s	2006 Total £'000s	Revenue £'000s	Capital £'000s	2005 Total £'000s
Corporation tax payable at 30% (2005: 30%)	**2,170**	**–**	**2,170**	1,996	36	2,032
Relief for overseas taxation	**(1,289)**	**–**	**(1,289)**	(1,193)	–	(1,193)
	881	**–**	**881**	803	36	839
Overseas taxation	**1,311**	**–**	**1,311**	1,172	–	1,172
Additional tax credits	**(11)**	**–**	**(11)**	(58)	–	(58)
Current tax charge for the year (note 8b)	**2,181**	**–**	**2,181**	1,917	36	1,953
Deferred taxation (note 8c)						
On accrued income	**19**	**–**	**19**	(3)	–	(3)
Taxation on ordinary activities	**2,200**	**–**	**2,200**	1,914	36	1,950

(b) Factors affecting the current tax charge for the year

	Revenue £'000s	Capital £'000s	2006 Total £'000s	Revenue £'000s	Capital Restated £'000s	2005 Total Restated £'000s
Return on ordinary activities before tax	**7,243**	**56,802**	**64,045**	6,594	86,759	93,353
Return on ordinary activities multiplied by						
the standard rate of Corporation tax of 30% (2005: 30%)	**2,173**	**17,041**	**19,214**	1,978	26,028	28,006
Effects of:						
UK franked dividends	**–**	**–**	**–**	(52)	–	(52)
Movement in taxable income accruals	**(37)**	**–**	**(37)**	8	–	8
Disallowed expenses	**31**	**–**	**31**	44	–	44
Relief for overseas taxation	**(1,289)**	**–**	**(1,289)**	(1,193)	–	(1,193)
Overseas taxation	**1,311**	**–**	**1,311**	1,172	–	1,172
Additional tax credits	**(8)**	**–**	**(8)**	(40)	–	(40)
Reversing capital returns*	**–**	**(17,041)**	**(17,041)**	–	(25,992)	(25,992)
Total current taxation (note 8a)	**2,181**	**–**	**2,181**	1,917	36	1,953

*These capital returns are not subject to corporation tax within an investment trust company.

(c) Provision for deferred taxation

	Revenue £'000s	Capital £'000s	2006 Total £'000s	Revenue £'000s	Capital £'000s	2005 Total £'000s
Balance brought forward	**2**	**–**	**2**	5	–	5
Charge/(credit) for the year (note 8a)	**19**	**–**	**19**	(3)	–	(3)
Balance carried forward	**21**	**–**	**21**	2	–	2

9 Return per ordinary share

Revenue return

The revenue return per share is based on the revenue return attributable to equity shareholders of £5,043,000 profit (2005: £4,680,000 profit).

Capital return

The capital return per share is based on the capital return attributable to equity shareholders of £56,802,000 profit (2005: £86,723,000 profit, restated).

The capital return per share for the year ended 30 September 2005 has been decreased by £125,000 (0.19 pence per share).

9 Return per ordinary share (continued)

This reflects the effect of the reduction in valuation of investments at 30 September 2004 by £220,000 and at 30 September 2005 by £345,000.

Weighted average ordinary shares in issue

Both the revenue and capital returns per share are based on a weighted average of 57,792,436 ordinary shares in issue during the year (2005: 67,173,257).

10 Dividends

Dividends paid on ordinary shares	Register date	Payment date	2006 £'000s	2005 £'000s
Final for the year ended 30 September 2004 of 1.7p	19 November 2004	21 December 2004	–	1,148
Special for the year ended 30 September 2004 of 3.7p	19 November 2004	21 December 2004	–	2,498
Final for the year ended 30 September 2005 of 1.7p	18 November 2005	22 December 2005	1,001	–
Special for the year ended 30 September 2005 of 5.8p	18 November 2005	22 December 2005	3,416	–
			4,417	3,646

The Directors recommend a final dividend in respect of the year ended 30 September 2006 of 1.7p and have declared a special dividend of 7.3p, both payable on 21 December 2006 to all shareholders on the register at close of business on 17 November 2006. The recommended final dividend is subject to approval by shareholders at the Annual General Meeting. Neither the recommended final dividend nor the special dividend have been included as a liability in these financial statements. Previously dividends were recognised in respect of the period to which they related.

The dividends paid and payable in respect of the financial year ended 30 September 2006, which form the basis of the "retention test" under Section 842 of the Income and Corporation Tax Act 1988, are set out below:

	2006 £'000s
Revenue attributable to equity shareholders	5,043
Final dividend for the year ended 30 September 2006 of 1.7p*	(942)
Special dividend for the year ended 30 September 2006 of 7.3p*	(4,043)
Estimated undistributed revenue for Section 842 purposes#	58

* Based on 55,384,178 shares in issue at 2 November 2006.
# Undistributed revenue is 0.5% of income from investments of £11,310,000 (see note 3).

11 Listed investments

	2006 £'000s
Cost at 30 September 2005	337,600
Unrealised appreciation at 30 September 2005	
As previously stated	66,048
Adjustment for change in accounting policy	(345)
	65,703
Valuation at 30 September 2005 restated	403,303
Movements in the year:	
Purchases at cost	220,583
Sales proceeds	(242,851)
Sales realised gains	9,456
Increase in unrealised appreciation	47,336
Valuation at 30 September 2006	437,827
Cost at 30 September 2006	350,947
Unrealised appreciation at 30 September 2006	86,880
Valuation at 30 September 2006	437,827

The investment portfolio is set out on pages 12 to 15.

Notes on the Accounts (continued)

11 Listed investments (continued)

Gains on investments	2006 £'000s	2005 *Restated £'000s
Realised gains based on historical cost	35,615	42,519
Amounts recognised as unrealised appreciation in previous years	(26,159)	(12,561)
	9,456	29,958
Movement in unrealised appreciation	47,336	57,312
Gains on investments	56,792	87,270

* Investments at 30 September 2005 have decreased in value by £345,000 and at 30 September 2004 by £220,000 reflecting the change in accounting policy set out in note 2. The net effect of these changes has reduced the movement in unrealised appreciation in 2005 by £125,000.

Stock lending	2006 £'000s	2005 £'000s
Aggregate value of securities on loan at the year end	13,760	8,288
Maximum aggregate value of securities on loan during the year	46,723	52,439
Fee income from stock lending during the year	186	137

In respect of securities on loan at the year end, the Company held £14,410,000 as collateral (2005: £10,735,000), the value of which exceeded the value of the securities on loan by 4.7% (2005: 29.5%).

In respect of the maximum aggregate value of securities on loan during the year, the Company held £49,268,000 as collateral (2005: £55,223,000), the value of which exceeded the value of securities on loan by 5.4% (2005: 5.3%).

F&C Management Limited received remuneration of £62,000 for managing the Company's stock lending activities (2005: £45,000).

12 Debtors

	2006 £'000s	2005 £'000s
Investment debtors	109	24,022
Prepayments and accrued income	197	61
	306	24,083

13 Taxation recoverable

	2006 £'000s	2005 £'000s
Overseas taxation recoverable	360	416

14 Creditors: amounts falling due within one year

Foreign currency loans	2006 £'000s	2005 £'000s
€45,000,000 (2005: €35,000,000)	30,517	23,853

15 Creditors: amounts falling due within one year

Other	2006 £'000s	2005 Restated* £'000s
Investment creditors	3,894	2,256
Corporation tax	468	496
Deferred tax	21	2
Accrued expenses	826	859
Purchase of ordinary shares	–	23,889
	5,209	27,502

*Restated to reflect changes in accounting policies (see note 2 on the accounts).

16 Geographical and industrial classification (total assets less current liabilities)

	Switzerland %	France %	Germany %	Italy %	Finland %	Others %	2006 Total %	2005 Total %
Financials	6.8	5.5	6.3	4.8	–	18.5	**41.9**	30.0
Oil and gas	–	3.4	0.6	2.8	0.6	4.0	**11.4**	13.5
Consumer goods	3.4	2.5	–	–	–	5.4	**11.3**	8.9
Industrials	2.1	0.8	2.7	–	2.2	3.0	**10.8**	9.2
Health care	7.4	1.0	–	–	–	0.7	**9.1**	8.9
Technology	–	–	1.0	0.4	1.6	2.5	**5.5**	6.9
Telecommunications	–	1.6	–	0.7	0.5	0.8	**3.6**	4.9
Utilities	0.5	1.8	–	–	–	0.6	**2.9**	8.4
Consumer services	–	1.2	0.8	–	–	0.5	**2.5**	4.2
Basic materials	–	0.5	–	–	–	0.6	**1.1**	2.4
Total equities	20.2	18.3	11.4	8.7	4.9	36.6	**100.1**	97.3
Net current assets/(liabilities)	(0.2)	–	–	–	–	0.1	**(0.1)**	2.7
Total assets less current liabilities (excluding loans)	**20.0**	**18.3**	**11.4**	**8.7**	**4.9**	**36.7**	**100.0**	
2005 Totals	22.7	23.1	19.0	3.8	6.1	25.3		100.0

17 Called-up share capital

Equity share capital	Authorised Number	Authorised £'000s	Issued and fully paid Number	Issued and fully paid £'000s
Ordinary shares of 25p each				
Balance brought forward	100,000,000	25,000	62,627,467	15,657
Transfer to capital redemption reserve	–	–	(7,007,702)	(1,752)
Balance carried forward	**100,000,000**	**25,000**	**55,619,765**	**13,905**

18 Share premium account

	2006 £'000s	2005 £'000s
Balance brought forward and carried forward	**123,749**	123,749

19 Capital redemption reserve

	2006 £'000s	2005 £'000s
Balance brought forward	**3,154**	1,813
Transfer from equity share capital	**1,752**	1,341
Balance carried forward	**4,906**	3,154

Notes on the Accounts (continued)

20 Other reserves

	Capital reserves – realised £'000s	Capital reserves – unrealised £'000s	Capital reserves – total £'000s	Revenue reserve £'000s
Balance brought forward at 30 September 2005				
as previously stated	174,856	66,048	240,904	3,538
Less: investment valuation restatement				
at 30 September 2005	–	(345)	(345)	–
Add: final dividend accrued at 30 September 2005	–	–	–	4,697
Balance brought forward at 30 September 2005 restated	174,856	65,703	240,559	8,235
Movements in the year ended 30 September 2006				
Realised gains on investments	9,456	–	9,456	–
Transfers on disposal of investments	26,159	(26,159)	–	–
Exchange gains	55	–	55	–
Other expenses	(45)	–	(45)	–
Corporation tax	–	–	–	–
Movement in unrealised appreciation on investments	–	47,336	47,336	–
Revenue return	–	–	–	5,043
Return attributable to equity shareholders	35,625	21,177	56,802	5,043
Cost of purchase of ordinary shares	(42,092)	–	(42,092)	–
Dividends paid in the year	–	–	–	(4,417)
	(6,467)	21,177	14,710	626
Balance carried forward at 30 September 2006	**168,389**	**86,880**	**255,269**	**8,861**

Included within the capital reserve movement for the year are £401,000 (2005: £571,000) of transaction costs on purchases of investments, £416,000 (2005: £669,000) of transaction costs on sales of investments and £194,000 of distributions recognised as capital (2005: £120,000).

21 Net asset value per ordinary share

	2006	2005
Net asset value per share – pence	**731.20**	*624.89
Net assets attributable at the year end – £'000s	**406,690**	*391,354
Ordinary shares of 25p in issue at the year end – number	**55,619,765**	62,627,467

*Restated to reflect changes in accounting policies (see note 2 on the Accounts).

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

	2006 £'000s	2005 £'000s
Total return before finance costs and taxation	**65,261**	93,700
Adjust for returns from non-operating activities		
Gains on investments	**(56,792)**	(87,270)
Exchange (gains)/losses of a capital nature	**(55)**	484
Non-operating expenses of a capital nature	**45**	27
Return from operating activities	**8,459**	6,941
Adjust for non cash flow items		
Exchange losses of a revenue nature	**9**	1
(Increase)/decrease in prepayments and accrued income	**(137)**	20
(Decrease)/increase in accruals and other creditors	**(24)**	182
	8,307	7,144

23 Reconciliation of net cash flow movement to movement in net debt

	2006 £'000s	2005 £'000s
Increase/(decrease) in cash	**2,943**	(426)
(Decrease)/increase in short-term deposits	**(13,884)**	13,992
Increase in short-term loans	**(6,782)**	(2,590)
Movement in net debt resulting from cash flows	**(17,723)**	10,976
Exchange movement	**75**	(475)
Movement in net debt	**(17,648)**	10,501
Net debt brought forward	**(8,946)**	(19,447)
Net debt carried forward	**(26,594)**	(8,946)

	Balance at 30 September 2005 £'000s	Cash flow £'000s	Exchange movement £'000s	Balance at 30 September 2006 £'000s
Cash at bank	936	2,943	44	**3,923**
Short-term deposits	13,971	(13,884)	(87)	**–**
Movement in net debt resulting from cash flows	14,907	(10,941)	(43)	**3,923**
Short-term loans	(23,853)	(6,782)	118	**(30,517)**
Net debt carried forward	(8,946)	(17,723)	75	**(26,594)**

Notes on the Accounts (continued)

24 Restatement of opening balances

Balance Sheet at 30 September 2005

Notes		Previously reported £'000s	Adjustment £'000s	Restated £'000s
	Fixed assets			
a	Listed investments	403,648	(345)	403,303
	Current assets			
	Debtors	24,083	–	24,083
	Taxation recoverable	416	–	416
	Cash at bank and short-term deposits	14,907	–	14,907
		39,406	–	39,406
	Creditors: amounts falling due within one year			
	Foreign currency 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
	Share premium account	123,749	–	123,749
	Capital redemption reserve	3,154	–	3,154
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

a Effect of the revaluation of fixed asset investments from middle market to bid value.

b Effect of not recognising the recommended final dividend and the declared special dividend until after the balance sheet date.

24 Restatement of opening balances (continued)

Balance Sheet at 30 September 2004

Notes		Previously reported £'000s	Adjustment £'000s	Restated £'000s
	Fixed assets			
a	Listed investments	353,186	(220)	352,966
	Current assets			
	Debtors	2,065	–	2,065
	Taxation recoverable	304	–	304
	Cash at bank and short-term deposits	1,281	–	1,281
		3,650	–	3,650
	Creditors: amounts falling due within one year			
	Foreign currency loans	(20,728)	–	(20,728)
b	Other	(6,748)	3,672	(3,076)
		(27,476)	3,672	(23,804)
	Net current liabilities	(23,826)	3,672	(20,154)
	Net assets	329,360	3,452	332,812
	Capital and reserves			
	Called up share capital	16,998	–	16,998
	Share premium account	123,749	–	123,749
	Capital redemption reserve	1,813	–	1,813
a	Capital reserves	183,271	(220)	183,051
b	Revenue reserve	3,529	3,672	7,201
	Total equity shareholders' funds	329,360	3,452	332,812
	Net asset value per ordinary share – pence	484.41	5.08	489.49

Notes to the restatement of opening balances
a Effect of the revaluation of fixed asset investments from middle market to bid value.
b Effect of not recognising the recommended final dividend and the declared special dividend until after the balance sheet date.

25 Risk profile of financial assets and liabilities

The Company is an investment company as defined by Section 266 of the Companies Act 1985 and conducts its affairs so as to qualify as an investment trust under the provisions of Section 842 of the Income and Corporation Taxes Act 1988.

The Company's investment objective is to achieve long-term capital growth through a diversified portfolio of Continental European securities. The portfolio held throughout this year and last year is in line with the Company's investment objective.

The Company has the power to take out both short-term and long-term borrowings. During the year ended 30 September 2006 the Company did not make use of derivatives (2005: none).

In pursuing its investment objective, the Company faces risks to both assets and revenue. These risks, and the Directors' approach to the management of these risks, are set out in the table on page 47.

Details of the interest rate profiles of the Company's financial assets and liabilities, together with the currency exposure of the net monetary assets/(liabilities) are set out below.

Notes on the Accounts (continued)

25 Risk profile of financial assets and liabilities (continued)

Financial assets

The interest rate profile of the Company's financial assets (excluding short-term debtors) at 30 September 2006 was:

Currency	Floating rate financial assets £'000s	Fixed rate financial assets £'000s	Weighted average interest rate %	Weighted average period for which the rate is fixed Days
Euro (undated)	3,851	–	–	–
Sterling (undated)	72	–	–	–

The interest rate profile of the Company's financial assets (excluding short-term debtors) at 30 September 2005 was:

Currency	Floating rate financial assets £'000s	Fixed rate financial assets £'000s	Weighted average interest rate %	Weighted average period for which the rate is fixed Days
Euro (undated)	20	–	–	–
Euro (fixed period)	–	13,971	2.08	58
Sterling (undated)	916	–	–	–

Floating rate financial assets generate interest based on competitive rates set by JPMorganChase.

The Company's investment in equity shares and similar instruments has been excluded from the interest rate profiles, as it neither earns interest nor has a maturity date.

Financial liabilities

The interest rate profile of the Company's financial liabilities (including short-term loans but excluding short-term creditors) at 30 September 2006 was:

Currency	Floating rate financial assets £'000s	Fixed rate financial assets £'000s	Weighted average interest rate %	Weighted average period for which the rate is fixed Days
Euro (fixed period)	–	30,517	3.59	30

The interest rate profile of the Company's financial liabilities (including short-term loans but excluding short-term creditors) at 30 September 2005 was:

Currency	Floating rate financial assets £'000s	Fixed rate financial assets £'000s	Weighted average interest rate %	Weighted average period for which the rate is fixed Days
Euro (fixed period)	–	23,853	2.45	58

Currency exposure

The currency profile of the Company's net monetary assets/(liabilities) at 30 September 2006 was:

Currency	Euro £'000s	Swiss franc £'000s	Swedish krona £'000s	Sterling £'000s	Other £'000s	Total £'000s
Net monetary assets	267,891	86,912	29,288	(1,141)	23,740	406,690

25 Risk profile of financial assets and liabilities (continued)

Currency exposure

The currency profile of the Company's net monetary assets/(liabilities) at 30 September 2005 was:

Currency	Euro £'000s	Swiss franc £'000s	Swedish krona £'000s	Sterling £'000s	Other £'000s	Total £'000s
Net monetary assets	281,883	94,542	16,267	(24,261)	22,923	391,354

Fair value

The Directors are of the opinion that the financial assets and liabilities are stated at fair value in the balance sheet at 30 September 2006 and 30 September 2005.

Risk Management

Risk	Management of Risk
Credit Failure by counterparties to deliver securities which the Company has paid for, or to pay for securities which the Company has delivered. There is also a credit risk associated with deposit takers.	All transactions are settled on the basis of delivery against payment, except where local market conditions do not permit. Only approved counterparties are used.
Liquidity Difficulty in realising assets or otherwise raising funds to meet commitments associated with financial instruments.	The Company's investments are principally quoted equities and are readily realisable. The Company has the power to take out borrowings, both short and long-term, and in addition has an overdraft facility of £1 million.
Market Price The Company's assets consist principally of quoted equities and fixed interest stocks, the values of which are determined by market forces.	The Board manages the market price risks inherent in the Company's portfolio by ensuring full and timely access to relevant information from the Manager. The Board meets quarterly, with the Committee meeting in the intervening months. At each meeting investment performance and financial results are reviewed. The Board monitors compliance with the Company's objectives and is directly responsible for investment strategy, asset allocation and gearing.
Currency Certain of the Company's assets and liabilities are denominated in currencies other than sterling. As a result movements in exchange rates may affect the sterling value of the portfolio, cash, investment purchases and sales and income. The Company does not make use of hedging.	Income denominated in foreign currencies is converted to sterling on receipt. Borrowings are limited to currencies and amounts commensurate with the net exposure to those currencies. The Company does not normally hedge foreign currency exposure through derivatives.
Taxation Non-compliance with the rules of S842 of the Income and Corporation Taxes Act 1988 could result in the Company being subjected to corporation tax on gains realised on sale of the investment portfolio.	All investment movements are monitored by the Board to ensure that no purchase results in any one investment being worth more than 15% of the total value of the portfolio. The Board also considers the level of forecast income and expenditure to ensure that income is derived mainly from shares and securities and that the proposed dividends payable to shareholders do not result in a breach of the S842 retention rules

Ten Year Record

Assets

at 30 September

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	**2006**
Total assets (£'000s)	213,331	293,101	349,366	438,554	563,974	359,895	271,468	332,448	350,088	*415,207	**437,207**
Loans (£'000s)	21,769	43,316	42,508	48,538	44,370	–	6,913	12,617	20,728	23,853	**30,517**
Net assets (£'000s)	191,562	249,785	306,858	390,016	519,604	359,895	264,555	319,831	329,360	*391,354	**406,690**

Net Asset Value (NAV)

at 30 September

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	**2006**
NAV per share	307.4p	400.8p	407.8p	518.3p	690.5p	478.3p	351.8p	433.7p	484.4p	*624.9p	**731.2p**
NAV total return on 100p – 5 years (per AIC)											**159.5p**
NAV total return on 100p – 10 years (per AIC)											**251.6p**

Share Price

at 30 September

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	**2006**
Mid-market price per share	298.0p	371.0p	379.0p	495.0p	653.5p	438.5p	277.0p	349.5p	417.0p	560.0p	**664.5p**
Discount to NAV	3.1%	7.4%	7.1%	4.5%	5.4%	8.3%	21.3%	19.4%	13.9%	*10.4%	**9.1%**
Share price High	305.5p	371.0p	576.0p	516.0p	763.5p	723.0p	529.5p	388.5p	430.0p	561.5p	**690.0p**
Share price Low	243.5p	290.5p	329.0p	495.0p	491.0p	385.5p	277.0p	258.5p	352.0p	418.0p	**533.5p**
Share price total return on 100p – 5 years (per AIC)											**160.8p**
Share price total return on 100p – 10 years (per AIC)											**240.7p**

Revenue

For the year ended 30 September

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	**2006**
Available for ordinary shares – £'000s	1,467	1,090	2,192	1,558	765	2,737	3,659	4,864	3,623	4,680	**5,043**
Earnings per share	2.4p	1.8p	3.3p	2.1p	1.0p	3.6p	4.9p	6.5p	5.1p	7.0p	**8.7p**
Dividends per share	1.6p	1.6p	2.0p[1]	1.7p	1.7p	2.3p[2]	4.7p[3]	6.5p[4]	5.4p[5]	7.5p[6]	**9.0p**[7]

Performance

(rebased at 30 September 1996)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	**2006**
NAV per share	100.0	130.4	132.7	168.6	224.6	155.6	114.5	141.1	157.6	*203.28	**237.9**
Middle market price per share	100.0	124.5	127.2	166.1	219.3	147.1	93.0	117.3	139.9	187.9	**223.0**
Earnings per share	100.0	74.5	140.4	88.1	43.4	154.9	206.8	278.3	217.4	296.6	**371.5**
Dividends per share	100.0	100.0	125.0	106.3	106.3	143.8	293.8	406.3	337.5	468.8	**562.5**
RPI	100.0	103.6	106.9	108.1	111.6	113.5	115.5	118.7	122.3	125.6	**130.1**

* Restated to reflect changes in accounting policies (see note 2 on the accounts).
1 Includes foreign income dividend of 1.6p and conventional dividend of 0.4p.
2 Includes a special dividend of 0.6p and a final dividend of 1.7p.
3 Includes a special dividend of 3.0p and a final dividend of 1.7p.
4 Includes a special dividend of 4.8p and a final dividend of 1.7p.
5 Includes a special dividend of 3.7p and a final dividend of 1.7p.
6 Includes a special dividend of 5.8p and a final dividend of 1.7p.
7 Includes a special dividend of 7.3p and a final dividend of 1.7p.

Definitions

Total assets	Total assets less current liabilities (excluding loans).
NAV total return	Return on net assets per share with dividends paid to shareholders reinvested.
AIC	Association of Investment Companies.
Discount to NAV	Amount that the middle market share price is less than the NAV.
Share price total return	Return on the middle market share price with dividends paid to shareholders reinvested.
RPI	All-items retail price index.

Cost of running the Company

For the year ended 30 September

%	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	**2006**
Operating costs (£'000s)	2,222	2,738	3,521	4,317	5,439	3,619	2,977	2,577	2,769	3,069	**3,153**
Operating costs as a percentage of:											
Average net assets	1.2%	1.2%	1.1%	1.1%	1.0%	0.8%	0.8%	0.9%	0.8%	*0.8%	**0.8%**
Average total assets	1.1%	1.1%	1.0%	1.0%	0.9%	0.8%	0.8%	0.8%	0.7%	*0.8%	**0.7%**

Gearing

at 30 September

%	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	**2006**
Effective gearing	10.9%	16.7%	9.0%	10.3%	7.9%	(0.6)%	2.5%	1.5%	5.9%	*2.8%	**6.5%**
Fully invested gearing	11.4%	17.3%	14.5%	12.4%	8.5%	0.0%	2.6%	3.9%	6.3%	*6.2%	**7.5%**

* Restated to reflect changes in accounting policies (see note 2 on the accounts).

Definitions

Operating costs	All costs charged to revenue and capital, other than interest costs, taxation, the costs of purchase of share capital and the costs of buying and selling investments.
Average net assets	The average of net assets at the end of each quarter.
Average total assets	The average of total assets at the end of each quarter.
Effective gearing	Loans, less cash (adjusted for settlements), as a percentage of net assets.
Fully invested gearing	Loans as a percentage of net assets.

Notice of Annual General Meeting

Notice is hereby given that the thirty fourth Annual General Meeting of Foreign & Colonial Eurotrust PLC will be held at Exchange House, Primrose Street, London EC2A 2NY on Thursday, 14 December 2006 at 10:30 am for the following purposes:

Ordinary Business:

1 To receive and adopt the Directors' Report and Accounts for the year ended 30 September 2006.
2 To approve the Directors' Remuneration Report.
3 To declare a final dividend on the ordinary shares.
4 To re-elect Mr D F E Bierbaum as a Director.
5 To re-elect Mr R Kanza as a Director.
6 To re-elect Mr M B Moule as a Director.
7 To re-appoint PricewaterhouseCoopers LLP as auditors to the Company.
8 To authorise the Directors to determine the remuneration of the auditors.

Special Business

9 To consider and, if thought fit, pass the following resolution as a special resolution:

THAT:

(a) the Directors be and they are hereby:

(i) generally and unconditionally authorised, in accordance with Section 80 of the Companies Act 1985 (the "Act"), to exercise all the powers of the Company to allot relevant securities up to an aggregate nominal amount of £692,302 during the period commencing on the date of the passing of this resolution and expiring at the conclusion of the annual general meeting of the Company in 2007; and

(ii) empowered, pursuant to Section 95 of the Act, to allot equity securities pursuant to the authority referred to in paragraph (a)(i) of this resolution as if Section 89(1) of the Act did not apply to any such allotment;

but so that this authority and power shall enable the Company to make offers or agreements which would or might require relevant securities or equity securities to be allotted after the expiry of this authority and power;

(b) all authorities and powers previously conferred under Section 80 or Section 95 of the Act be and they are hereby revoked, provided that such revocation shall not have retrospective effect; and

(c) words and expressions defined in or for the purposes of Part IV of the Act shall bear the same meanings in this resolution.

10 To consider and, if thought fit, pass the following resolution as a special resolution:

THAT the Company be and is hereby generally and unconditionally authorised in accordance with Section 166 of the Companies Act 1985 (the "Act") to make market purchases (within the meaning of Section 163 of the Act) of ordinary shares of 25 pence each in the capital of the Company ("ordinary shares") on such terms and in such manner as the Directors may from time to time determine, provided that:

(a) the maximum number of ordinary shares hereby authorised to be purchased is 8,302,088;

(b) the minimum price which may be paid for an ordinary share shall be 25 pence;

(c) the maximum price which may be paid for an ordinary share is an amount equal to 105% of the average of the middle market quotations for an ordinary share (as derived from the London Stock Exchange Daily Official List) for the five business days immediately preceding the date on which the ordinary share is contracted to be purchased;

(d) the minimum and maximum prices per ordinary share referred to in sub-paragraphs (b) and (c) of this resolution are in each case exclusive of any expenses payable by the Company;

(e) the authority hereby conferred shall expire on 13 June 2008 unless it is renewed at the annual general meeting of the Company in 2007, or is varied, revoked or renewed prior to such time by the Company in general meeting by special resolution; and

(f) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be completed wholly or partly after the expiration of such authority.

11 To consider and, if thought fit, pass the following resolution as a special resolution:

THAT the Company's Articles of Association be and they are hereby amended with immediate effect by the deletion of existing Article 164.1 and the substitution therefor of the following new Article 164.1:

"164.1. Subject to the provisions of CA1985, the Company may indemnify any Director, alternate Director, Secretary or other officer of the Company or of any associated Company (except the auditors) out of the assets of the Company against all costs, charges, losses, damages and liabilities incurred by him in the actual or purported execution and/or discharge of his duties or exercise of his powers or otherwise in relation thereto. Any such indemnity may, at the Company's discretion, continue to apply in respect of such costs, charges, losses, damages and liabilities after the relevant person has ceased to be a Director, alternate Director, Secretary or other officer of the Company. The Company may also provide a Director with funds to meet expenditure incurred or to be incurred by him in defending criminal or civil proceedings or in connection with an application, as provided in CA1985."

By Order of the Board
F&C Management Limited
Secretary

3 November 2006

Registered Office:
Exchange House
Primrose Street
London EC2A 2NY

Location of Meeting

Notes:

Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, only shareholders registered on the register of members of the Company at 11.00 pm on 12 December 2006 ("the specified time") shall be entitled to attend and vote or to be represented at the meeting in respect of the shares registered in their name at that time. Changes to entries on the register of members after 11.00 pm on 12 December 2006 shall be disregarded in determining the rights of any person to attend and vote at the meeting. If the meeting is adjourned to a time not more than 48 hours after the time applicable to the original meeting, the specified time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned meeting. If, however, the meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's register of members at 11.00 pm on the day which is two days before the time fixed for the adjourned meeting or, if the Company gives notice of the adjourned meeting, at any time specified in that notice.

A member entitled to attend and vote at the meeting may appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.

To be valid, a form of proxy for use at the meeting and the power of attorney or other authority (if any) under which it is signed, or a notarially certified or office copy of such power or authority, must be deposited with the Company's registrars, Computershare Investor Services PLC, PO Box 1075, Bristol, BS99 3ZZ, not less than 48 hours before the time appointed for holding the meeting. In view of this requirement, investors holding shares in the Company through the F&C Private Investor, Personal Equity or Pension Savings Plans or in a F&C Individual Savings Account should ensure that forms of direction are returned to Computershare Investor Services PLC at the address on the form not later than 96 hours before the time appointed for holding the meeting.

The register of Directors' holdings is available for inspection at the registered office of the Company during normal business hours on any weekday and will be available at the place of the meeting from 15 minutes prior to the commencement of the meeting until the conclusion thereof.

No Director has any contract of service with the Company.

The final dividend in respect of the year ended 30 September 2006 will, if approved, be paid on 21 December 2006 to holders of ordinary shares on the register at the close of business on 17 November 2006. The special dividend declared by the Directors on 3 November 2006 will also be paid on 21 December 2006 to holders of ordinary shares on the register at the close of business on 17 November 2006.

Information for Shareholders

Net Asset Value and Share Price

The Company's Net Asset Value (NAV) is released daily, on the working day following the calculation date, to the London Stock Exchange.

The current share price of Foreign & Colonial Eurotrust PLC is shown in the investment trust or investment companies section of the stockmarket page in most leading newspapers, usually under "For&Col Euro".

Performance Information

Information on the Company's performance is provided in the interim and final reports which are sent to shareholders in May and November respectively.

More up-to-date performance information is available on the Internet at www.fandc.com (select your country, click on "Investor", then "Our funds" followed by "Investment Trusts"). This website also provides a monthly update on the Company's largest holdings, along with comments from the fund manager, under "downloads, factsheets".

Association of Investment Companies ("AIC")

Foreign & Colonial Eurotrust PLC is a member of the AIC, which publishes a monthly statistical information service in respect of member companies. The publication also has details of ISA, PEP and other investment plans available. For further details, please contact the AIC on 020 7282 5555, or visit the website: www.theaic.co.uk.

UK Capital Gains Tax ("CGT")

An approved investment trust does not pay tax on capital gains. UK resident individuals may realise net capital gains of up to £8,800 in the tax year ended 5 April 2007 without incurring any tax liability.

Up to April 1998, the cost of investments for CGT purposes was adjusted to allow for inflation between the month of acquisition and the month of disposal of the investments. For investments held at 6 April 1998 and disposed of after that date, this indexation allowance will be computed for the period from the date of acquisition to April 1998, with taper relief applying after April 1998. For assets acquired on or after 6 April 1998, only taper relief applies. The taper reduces the amount of chargeable gain according to the number of complete years after 5 April 1998 for which the investment has been held.

Income Tax

The proposed final dividend and the special dividend are payable in December 2006. Individual UK resident shareholders who are subject to UK income tax at the lower rate or the basic rate have no further tax liability.

Shareholders not resident in the UK, and any shareholders in doubt as to their tax position, should consult their professional advisers.

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 889 4086 Fax: 0870 703 6143

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