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Financial Calendar

Half year results	Announced May
Full year results	Announced October
Interim ordinary dividend	Paid June
Final ordinary dividend	Paid December
Subscription date for warrants	31st January
Annual General Meeting	December

The Company is a member of the Association of Investment Trust Companies

MORGAN GRENFELL EQUITY INCOME TRUST

Company objective

The objective of the Company is to provide shareholders with an above average income from their equity investment. The directors intend that the majority of the Company's investments will be in a diversified portfolio of mainly high yielding, quoted UK equities with the aim of ensuring that the income of the Company grows at least in line with the Retail Prices Index, while also achieving capital growth. Convertible preference shares and convertible loan stocks will make up the balance of the portfolio.

Company information

Directors

J. Leigh Pemberton, CBE, Chairman, is an independent non-executive director of the Company. He is also chairman of Mid Kent Holdings plc and a director of the London and Manchester Group PLC, Fleming Fledgeling Investment Trust plc, The Savoy Hotel plc and other companies.

J.G. Fox, a non-executive director of the Company, is managing director of Morgan Grenfell Trust Managers Limited and a director of Morgan Grenfell Asset Management Limited, Anglo & Overseas Trust PLC, The Overseas Investment Trust PLC and Morgan Grenfell Latin American Companies Trust PLC. He has overall responsibility for co-ordinating the activities of Morgan Grenfell Trust Managers and has been involved in investment management, principally international equities, for the last 29 years.

S. McClean, an independent non-executive director of the Company, is chairman of the Scottish Value Trust plc. He was formerly managing director of Sun Life Asset Management Limited and a director of the London and Manchester Group PLC.

A.K. Mitchard, an independent non-executive director of the Company, is chairman of UK Safety plc, and a director of Automotive Precision Holdings plc and Wellington Holdings plc. He was formerly Chief Executive of Avon Rubber plc.

K.E. Percy, a non-executive director of the Company, was formerly chief executive of Morgan Grenfell Asset Management Limited and is a director of The Overseas Investment Trust PLC and Smiths Industries Medical Systems.

Investment Manager
Morgan Grenfell Trust Managers Limited
(regulated by IMRO)

Portfolio Manager
A.C. Frost

Company Secretary
P.A. Hogwood, FCA

Registered Office
20 Finsbury Circus
London EC2M 1NB
Telephone 0171 545 6000
Freephone 0800 317773
Registered in England and Wales
No. 2648152

Auditors
KPMG Audit Plc
8 Salisbury Square
London EC4Y 8BB
Chartered Accountants
Registered Auditor

Registrars
The Royal Bank of Scotland plc
P.O. Box 435 Owen House
8 Bankhead Crossway North
Edinburgh EH11 4BR
Telephone 0131 523 6103

Notifications of changes of address and all enquiries regarding certificates or dividend cheques should be sent in writing to the Registrars.

Stockbrokers
HSBC James Capel

Solicitors
Norton Rose

Morgan Grenfell Equity Income Trust is one of four investment trusts managed by Morgan Grenfell Trust Managers Limited, a subsidiary of the Morgan Grenfell Asset Management group which manages more than £85 billion of assets worldwide. Morgan Grenfell Asset Management, which in turn is part of the Deutsche Bank group, has subsidiary or associate companies in most of the major business centres of the world and your Company has access, through its managers, to the considerable specialist knowledge and skills available throughout this network.

Share Information

The Company's shares and warrants are listed on the London Stock Exchange. Prices are quoted daily in the Financial Times, The Times, The Daily Telegraph, the Daily Mail, The Independent, The Scotsman, The Herald and the Evening Standard.

Details of the Company can also be found on the Interactive Investor Investment Trust Service, Website address: www.iii.co.uk/natwest/ and TrustNet, Website address: www.trustnet.co.uk

Ordinary shares and warrants can be purchased or sold directly through a stockbroker or through your bank, solicitor, accountant, or other professional adviser.

Private Investors' Plan

Alternatively, shares, but not warrants, can be purchased or sold through Morgan Grenfell Trust Managers' Private Investors' Plan. The Plan enables investment through a lump sum or regular saving. Brokers' commission is currently charged at 0.2% and shares held within the Plan for six months can be sold through the Plan at the same commission rate. Stamp duty and VAT are levied as applicable. The terms of the Plan provide that investors may withdraw from it at any time.

You should be aware that past performance is not necessarily a guide to future returns and you should note that values can fall as well as rise and investors may not get back the amount they invested.

Full details of the Plan, including application forms, are available from Mark Pope at Morgan Grenfell Trust Managers Limited, 20 Finsbury Circus, London EC2M 1NB or by telephoning the Morgan Grenfell Trust Managers Limited Helpline on 0800 317773 (Freephone).

Personal Equity Plan Status

The Company is a qualifying trust for PEP purposes. This means that, under current regulations, the whole of the annual allowance of £6,000 for a general PEP can be invested in its shares. A feature of the Morgan Grenfell Trust Managers Personal Equity Plan is its low charges. There is no initial charge and the annual management charge is 0.5% p.a (plus VAT). No charges are made for buying or selling shares other than Government Stamp Duty on share purchases.

Please note the tax benefits of PEPs are planned to remain until 5th April 1999. It is probable that no new subscriptions to a PEP will be allowed after this date and that the tax benefits of existing PEPs may be reduced or taken away.

Full details of the Morgan Grenfell Trust Managers Personal Equity Plan, including application forms, are available from Mark Pope at the above address.

Capital Gains Tax

To assist those shareholders who invested in the Company at its launch in the calculation of capital gains, the apportionment of cost between ordinary shares and warrants on 6th December 1991, the first day on which dealing in ordinary shares and warrants took place separately, is 95.2% and 4.8% respectively.

The apportionment of cost between the ordinary shares and warrants arising out of the conversion of C shares on 14th February 1994, the first day on which dealings took place, is 93.1% and 6.9% respectively.

Other Information

The Company is a member of the Association of Investment Trust Companies. The Association publishes a Monthly Information Service which contains a wide range of detailed information including statistical and performance data on all its members. A sample copy can be obtained free of charge from the AITC, Durrant House, 8-13 Chiswell Street, London EC1Y 4YY along with full details of other publications available from the Association.

Chairman's statement

Despite the caution of a number of commentators at the time of our last annual report, the UK equity market continued to make strong progress, the FT-SE Actuaries All-Share Index rising by 26.2% in capital terms during our financial year. Throughout the year investors remained positive about the continued suppression of UK inflation and this view was given a further boost by the decision of the new government to grant greater independence to the Bank of England. At no stage did the market become anxious about the prospect of a change of government and since the election the market has continued to make progress despite rising interest rates and the removal of tax credits for pension funds. The robust interest rate policy in the face of a strongly growing economy led to a rally in sterling where, against the Deutschmark, it appreciated 19.6%. As you can read in the manager's report this had a marked impact on smaller and medium sized companies which substantially underperformed the wider market. Finally, the UK market was helped by the strength of other world equity markets, most notably Wall Street.

The net asset value per share of your Company rose by 19.8.% during the year. Whilst this may look satisfactory in absolute terms it is disappointing relative to the FT-SE Actuaries All-Share Index. The share price rose by 17.9% as the discount to net asset value widened. Although longer term investors may take comfort from the Company's historic record and its dividend progression, the Board are aware that latterly performance has lagged the Index. Whilst acknowledging that it has been a more difficult period for active managers, we expect the portfolio to produce an above average yield and income stream together with returns that over time will better those of the Index. The Board is looking to the manager to resume the performance of earlier years and to improve returns without increasing the risk profile of the portfolio.

Over the year our earnings per share showed strong growth rising 13.5%. This increase was helped by a greater number of foreign income dividends received and also by a special dividend paid by British Telecom. The Board are proposing a final dividend of 4.70p per share of which 0.85p is being paid as a foreign income dividend, making together with the interim dividend of 2.30p per share already paid, a total dividend for the year of 7.00p per share, 13.8% higher than last year. We have repurchased for cancellation 220,000 of our warrants and we will make further such purchases should the opportunity arise to do so on terms which will increase the diluted net asset value for shareholders.

Turning to the future it is clearly tempting to paint a negative picture for the UK stockmarket after its recent strength and we are not surprised by the current setback. In the longer term we remain confident that the environment of economic growth and low inflation will continue. This together with the high level of liquidity, the absence of equity issues and an increasing number of share buybacks should ensure that the market achieves positive returns, albeit more modest in scale than has recently been the case.

In spite of the recent volatility in the world's markets the asset value of your Company has held up well and I have every confidence in the investment manager's ability to provide a satisfactory return to shareholders.

The Annual General Meeting of the Company will be held at 23 Great Winchester Street, London EC2 on 18th December 1997 at 11.00 a.m. As in previous years, there will be a presentation by the investment manager and an opportunity to meet the directors over coffee from 10.30 a.m.

J. Leigh Pemberton
6th November 1997

Results for the year

Year ended 30th September

	1997 £'000	1996 £'000
Revenue		
Gross revenue	3,941	3,402
Available for ordinary shareholders	2,609	2,209
Earnings per ordinary share	7.14p	6.29p
Ordinary dividends per share	7.00p	6.15p
Assets		
Total assets less current liabilities	76,836	61,337
Net asset value per ordinary share	207.3p	173.1p
Mid-market quotation of ordinary shares	182p	154p
Mid-market quotation of warrants	76p	54p

Analysis of shareholders

at 30th September 1997

Number of shares	%	Number of shareholders	Class of shareholder
1,388	Bank or Nominee	28,187,227	76.0
2,220	Named Individuals	7,895,333	21.3
90	Other Institutions	817,506	2.2
4	Insurance Companies	57,064	0.2
18	Investment Trusts	102,571	0.2
3	Pension Funds	13,357	0.1
3,723		**37,073,058**	**100.0**

ORGAN GRENFELL EQUITY INCOME TRUST

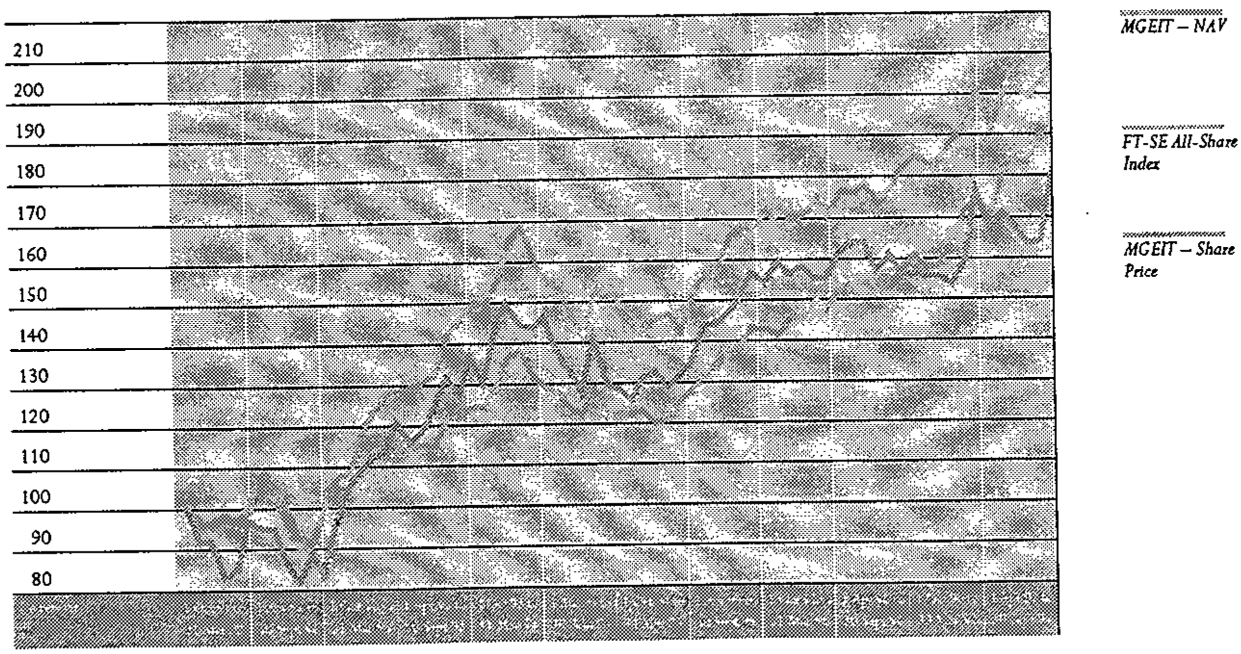
Company performance

Year ended 30th September

	Gross revenue £'000	Available for ordinary shareholders £'000	Earned per share p	Paid per share p	Total assets less current liabilities £'000	Net asset value per share basic p	Net asset value per share fully diluted p	Share price p
(1) 1992	1,522	922	3.78p	3.45p	22,945	94.2p	95.1p	87p
1993	1,973	1,251	5.13p	4.50p	34,088	139.7p	133.1p	128p
1994	2,767	1,829	5.32p	4.80p	48,494	141.1p	133.3p	131p
(2) 1995	3,066	2,015	5.85p	5.77p	56,064	162.7p	152.7p	153p
1996	3,402	2,209	6.29p	6.15p	61,337	173.1p	163.1p	154p
1997	**3,941**	**2,609**	**7.14p**	**7.00p**	**76,836**	**207.3p**	**197.6p**	**182p**

(1) For the period from 24th September 1991 (date of incorporation) to 30th September 1992.

(2) As restated to reflect the change in accounting policy (see note 1, page 24). Figures in earlier years have not been adjusted.



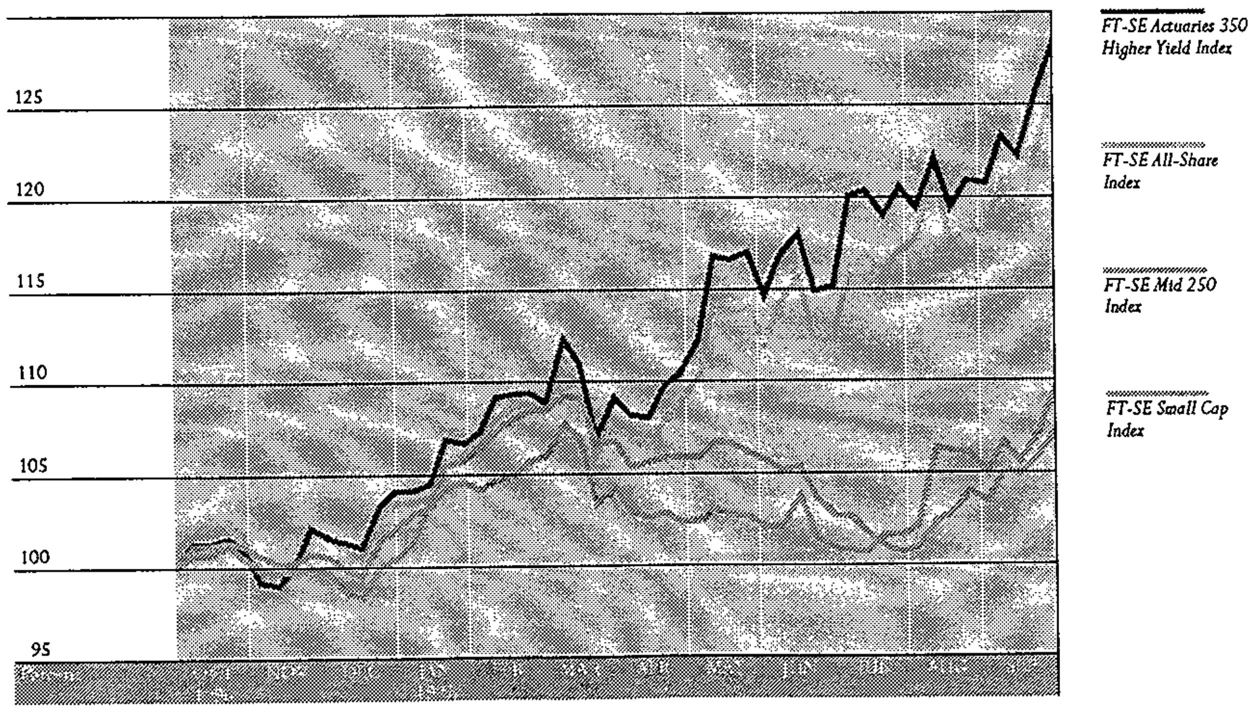
Portfolio review

Portfolio manager

Adrian Frost

Adrian Frost joined Morgan Grenfell as a fund manager in 1983. Since then, he has had responsibility for a wide variety of major investment funds. He is a director of Morgan Grenfell Asset Management and heads the UK equity team.

Market performance



Portfolio review

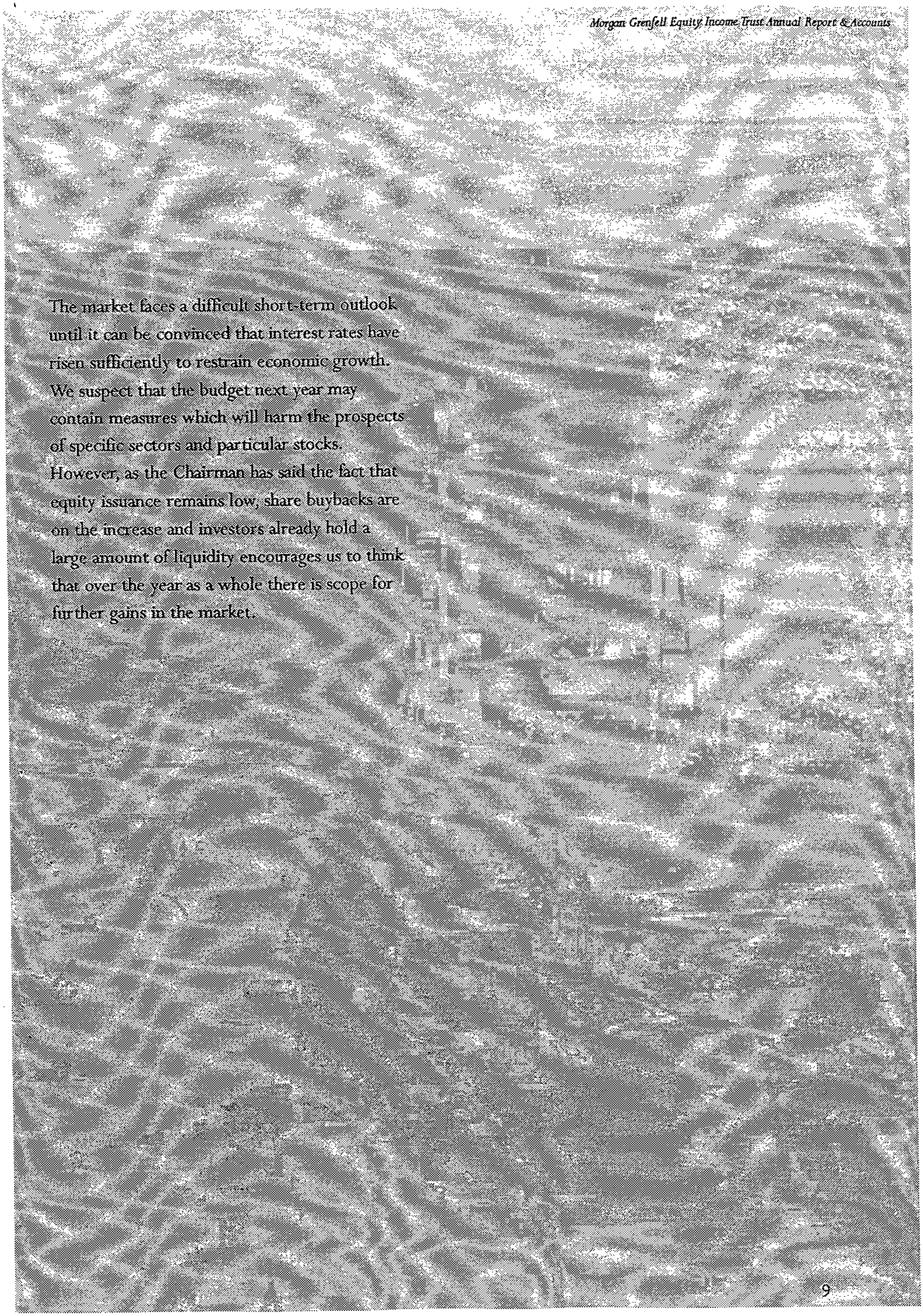
In our last annual report we asserted that the continued strength of the economy would lead investors to find value in small and medium sized companies. However, the economy remained strong but continued to be driven primarily by consumption, whilst the export sector was hit by the sharp appreciation of sterling. These were the key factors in the sharp underperformance of small and medium sized companies during the Company's financial year. The scale of the underperformance was surprising. In capital terms small companies lagged the FT-SE Actuaries All-Share Index by 18.5% and medium sized companies fared only slightly better. Given that your portfolio remained weighted away from the FT-SE 100 companies, it proved to be a difficult environment for the Company.

Many of the general industrial sectors underperformed the market substantially and interestingly, despite the strength of the consumer, sectors such as Stores, Media, Leisure and Breweries also did badly. So what did do well? The largest sector in the market, Banks, rose by 75% and other large sectors such as Oils, Pharmaceuticals and Utilities also registered strong gains.

Meeting the income objective for the portfolio has been less problematic as many medium and small sized companies offer above average yields. However, the fact that five years into an economic recovery many such companies are struggling to achieve any dividend growth has meant that investors have turned to companies with faster and more sustainable dividend growth, albeit with lower yields. The removal of the ACT credit for pension funds in the budget did not lead to a widespread derating of higher yielding shares but nevertheless had a proportionate impact on the yield available, and was an excuse to avoid such shares.

A mixture of FT-SE and non FT-SE 100 companies were added to the portfolio during the year, and these included a number of lower yielding shares, reflecting a more pragmatic stance. Principal purchases were Tarmac, National Power, British Aerospace, E.D.& F Man, Royal & Sun Alliance and Charter and Transport Development Group. In addition, we added to existing positions in Guinness, BP, Rexam and Centrica. We realised losses on a number of situations such as Redland, BTR, Dalgety, Hepworth and Imperial Tobacco.

Latterly the non FT-SE 100 part of the portfolio is performing more encouragingly both in absolute and relative terms and it is not our intention to make wholesale changes in response to last year's events. We do not expect an immediate rebound in the fortunes of the non FT-SE 100 companies as many supply to exporters, where despite the recent weakening of sterling, trading conditions remain tough. However, not all companies in this area are subject to these pressures and we feel that there are plenty of opportunities that are being overlooked.



The market faces a difficult short-term outlook until it can be convinced that interest rates have risen sufficiently to restrain economic growth. We suspect that the budget next year may contain measures which will harm the prospects of specific sectors and particular stocks. However, as the Chairman has said the fact that equity issuance remains low, share buybacks are on the increase and investors already hold a large amount of liquidity encourages us to think that over the year as a whole there is scope for further gains in the market.

Classification of investments

Valuation at 30th September

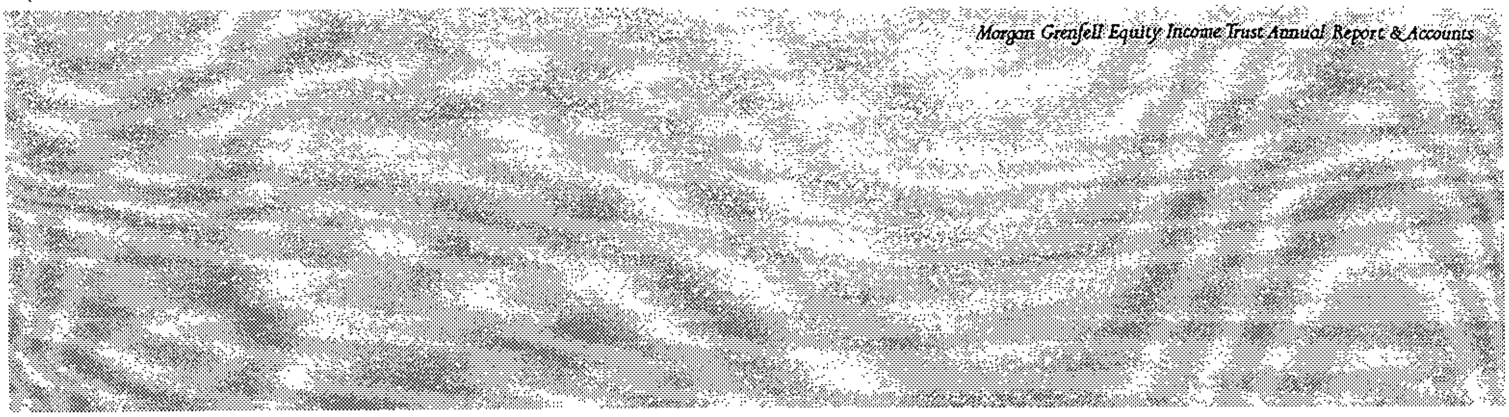
	£'000	Percentage of total portfolio 1997	1996
Preference Stocks		**1.6**	2.7
RPH 5.6% Cum. Pref.	365		
Scottish & Newcastle 4.6% Cum. Pref.	331		
Vickers 5% Cum. Pref.	252		
P&O 5% Cum. Pfd	204		
Mineral Extraction		**12.2**	8.8
Oil, Integrated		11.2	
British Petroleum	4,258		
Shell	4,082		
Oil Exploration & Production		1.0	
Lasmo	664		
Monument Oil & Gas	55		
General Industrials		**17.6**	22.7
Building Materials & Merchants		3.6	
Blue Circle	1,203		
Tarmac	1,183		
Marshalls	326		
Chemicals		1.3	
Albright & Wilson	502		
Brunner Mond	465		
Diversified Industrials		0.4	
Powell Duffryn	328		
Electronic & Electrical Equipment		1.6	
General Electric	828		
BICC	391		
Engineering		5.9	
Charter	1,650		
British Aerospace	832		
Vosper Thornycroft	734		
BWI	656		
M L Holdings	278		
Chemring Group	203		

		Percentage of total portfolio	
	£'000	1997	1996
Engineering, Vehicles		1.1	
Adwest	819		
Paper, Packaging & Printing		2.5	
Rexam	1,048		
Rexam 7.75% Conv. Cum. Pref.	825		
Textiles & Apparel		1.2	
Baird (William)	641		
Sirdar	187		
UK Safety	86		
Consumer Goods		**11.4**	15.8
Alcoholic Beverages		1.2	
Guinness	877		
Food Producers		2.0	
Unigate	1,472		
Household Goods		1.0	
McBride	507		
Jeyes Group	234		
Health Care		0.6	
Bespak	436		
Pharmaceuticals		4.7	
Glaxo Wellcome	3,521		
Tobacco		1.9	
BAT Industries	1,439		
Services		**14.7**	12.4
Distributors		1.7	
Car Group	967		
Perry Group	330		
Leisure & Hotels		1.9	
Rank Group	658		
Capital Corporation	489		
Thistle Hotels	257		
Media		2.1	
United News & Media	778		
Reuters	758		

Classification of investments

continued

	£'000	Percentage of total portfolio 1997	1996
Retailers, General		5.0	
Kingfisher	1,486		
Next	1,090		
DFS Furniture	671		
Sears	240		
Thorn	228		
Support Services		1.2	
Stat-Plus Group	520		
Johnson Group Cleaners 7.5p Conv. Cum. Red. Pref.	219		
Leigh Interests	187		
Transport		2.8	
Transport Development Group	834		
Forth Ports	651		
Associated British Ports	581		
Utilities		**14.7**	9.7
Electricity		5.4	
Northern Ireland Electricity	1,563		
National Power	1,282		
Southern Electric	990		
Jersey Electricity	188		
Gas Distribution		2.9	
BG	1,436		
Centrica	744		
Telecommunications		3.3	
British Telecom	2,449		
Water		3.1	
Thames Water	827		
Severn Trent	778		
Anglian Water	737		
Financials		**27.8**	27.9



		Percentage of total portfolio	
	£'000	1997	1996
Banks, Retail		12.5	
Lloyds TSB	4,184		
Barclays	2,512		
Abbey National	955		
National Westminster	930		
HSBC Holdings	547		
Standard Chartered	178		
Insurance		4.7	
Royal & Sun Alliance	1,766		
Euclidian	666		
Sedgwick	625		
Angerstein Underwriting	404		
Life Assurance		4.7	
Britannic Assurance	1,463		
Prudential	1,036		
Irish Life	976		
Other Financial		2.3	
Man (E D &F)	846		
Gerrard Group	707		
Exco	143		
Property		3.6	
Brixton Estate	544		
Hemingway Properties 7.5% Conv. Unsec. Loan Stock 2027	540		
London Merchant Securities	459		
Nursing Home Properties	439		
Helical Bar 5.25% Conv. Cum. Red. Pref.	432		
Warner Estate	235		
Total Portfolio	**74,407**	**100.0**	**100.0**

Summary			
Equities	71,239	95.7	93.0
Convertibles	2,016	2.7	4.3
Preference Stocks	1,152	1.6	2.7
Total Portfolio	**74,407**	**100.0**	**100.0**

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Report of the directors

The directors present their annual report and the accounts of the Company for the year ended 30th September 1997.

Principal Activity and Status

The Company operates as an investment trust in accordance with the requirements of Section 266 of the Companies Act 1985 and Section 842 of the Income and Corporation Taxes Act 1988.

Specific approval to operate as an investment trust has been received from the Inland Revenue in respect of the year ended 30th September 1996; the Company has subsequently directed its affairs so as to enable it to continue to seek such approval. The close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Company.

Policy

Whilst it is not the directors' intention that Morgan Grenfell Equity Income Trust should have a limited life, they consider it desirable that shareholders should have the opportunity to consider the future of the Company at regular intervals. Accordingly, an ordinary resolution will be proposed at every fifth Annual General Meeting that the Company continue as an investment trust.

Review of Business

A review of the Company's activities is given in the Chairman's statement on page 4, and in the portfolio review on pages 7 to 9.

Revenue and Dividend

The gross revenue for the period amounted to £3,941,000 (1996-£3,402,000). The net revenue available for ordinary shareholders amounted to £2,609,000 (1996-£2,209,000). An interim dividend of 2.30p per ordinary share was paid in June and the directors are now recommending a final dividend of 4.70p per share, of which 0.85p is a foreign income dividend, payable on 30th December 1997 to make a total dividend of 7.00p per share (1996-6.15p per share). This leaves retained earnings for the year of £14,000 (1996-£30,000) to be added to undistributed revenue brought forward.

Directors

The directors of the Company throughout the year, unless otherwise stated, were as follows:

J. Leigh Pemberton CBE, Chairman
J.G. Fox
S. McClean
A.K. Mitchard
K.E. Percy

None of the directors has a service contract with the Company.

Mr. K.E. Percy retires from the Board by rotation and, being eligible, offers himself for re-election at the Annual General Meeting.

Report of the directors

continued

Directors' Interests

Interests of the directors serving at the year end in the Company's ordinary shares and warrants, all of which were held beneficially except where stated, were as follows:

		30th September 1997	30th September 1996
J. Leigh Pemberton			
Ordinary shares		3,000	3,000
J.G. Fox			
Ordinary shares		35,500	35,500
Subscription warrants		10,000	10,000
S. McClean			
Ordinary shares		1,000	1,000
Subscription warrants		200	200
A.K. Mitchard			
Ordinary shares		5,000	5,000
K.E. Percy			
Ordinary shares	- (beneficial)	10,925	10,925
	- (non-beneficial)	10,925	10,925
Subscription warrants	- (beneficial)	1,200	1,200
	- (non-beneficial)	1,200	1,200

By 31st October 1997 there had been no changes in the above details.

Except in the ordinary course of business no director had an interest in any contract in relation to the Company's business at any time during the financial year.

Substantial Holders

No notification has been received by the Company of interests comprising 3% or more of the Company's ordinary share capital at the date of this report.

Management

Investment management, accounting, secretarial and administrative services are provided to the Company by Morgan Grenfell Trust Managers Limited for a quarterly fee payable in arrears equal to 0.75% per annum of the value of shareholders' funds plus long term indebtedness (i.e. loan indebtedness with a maturity of more than one year).These services are carried out under a contract terminable by either party at one year's notice.

Warrants

On 31st January 1997 the holders of 1,638,558 subscription warrants exercised their right to subscribe for 1,638,558 ordinary shares at 100p per share and, on the 18th June 1997 and 21st August 1997, the Company bought back and cancelled 180,000 warrants at 69.75p and 40,000 warrants at 69.00p respectively.

As at 30th September 1997 there were 3,696,535 warrants outstanding.

Eligibility for Personal Equity Plans

The Company intends to continue as a fully qualifying investment trust company under the Personal Equity Plan Regulations.

The tax benefits of PEPs are planned to remain until 5th April 1999. It is not yet clear whether PEPs will continue to exist after that date, although it is probable that new subscriptions will cease at that time. The Government plans to introduce a new tax-efficient scheme, the Individual Savings Account (ISA), in 1999. During that year investors may be able to transfer some or all of their PEP investments to an ISA. If PEP's continue, the Plan Manager will not be able to recover the tax credit on UK dividends on behalf of investors from 6th April 1999.

Auditors

KPMG Audit Plc have indicated their willingness to continue in office as auditors. A resolution will be proposed at the Annual General Meeting to re-appoint the auditors and to authorise the directors to fix their remuneration for the ensuing year.

Directors' Power to Allot Shares

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 5 gives the directors, for the period until the conclusion of the Annual General Meeting in 1998 or 16th March 1999 whichever is the earlier, authority to allot securities up to an aggregate nominal amount of £2,800,000. Resolution 6 empowers the directors, until the conclusion of the Annual General Meeting in 1998 or 16th March 1999 whichever is the earlier, to allot securities for cash, otherwise than to existing shareholders on a pro-rata basis, up to an aggregate nominal amount of £463,413, which is 5% of the Company's existing issued share capital. This authority provides the directors with a degree of flexibility to increase the assets of the Company by the issue of new shares for cash, should any favourable opportunities arise to the advantage of shareholders. The directors could, if necessary, use this authority to satisfy demand from participants in the Morgan Grenfell Trust Managers' Private Investors' and Personal Equity Plans if they believe it is advantageous to Plan participants and the Company's shareholders to do so. Under no circumstances would the directors use the authority to issue shares at a price which is less than the fully diluted net asset value attributable to the ordinary shares at the time of issue.

Report of the directors

continued

Corporate Governance

The Board has established procedures to enable the Company to comply both with the Code of Best Practice published by the Committee on the Financial Aspects of Corporate Governance ("the Code") and with the Guidelines for Best Practice on Corporate Governance published by the Association of Investment Trust Companies. In particular the Board has established an Audit Committee and a Remuneration and Management Engagement Committee; the members of both Committees are Mr. A.K. Mitchard (Chairman), Mr. J. Leigh Pemberton and Mr. S. McClean. Directors are appointed by the Board as a whole, which acts in this capacity as a Nomination Committee. Appointments are for an initial term of three years.

The Board is responsible for establishing and maintaining the Company's system of internal financial control. Internal control systems are designed to meet the particular needs of the company concerned and the risks to which it is exposed, and by their nature can provide reasonable but not absolute assurance against material misstatement or loss.

The Board meets quarterly to review the overall business of the Company and to consider the matters specifically reserved for it to decide on. At these meetings the directors monitor the investment performance of the Company to ensure that its investment objective is being met. The directors also review the Company's activity over the quarter to ensure it adheres to its investment policy or, if it is considered appropriate, to authorise any change to that policy.

The Board has engaged external firms to undertake the investment management, administrative and custodial activities of the Company. Documented contractual arrangements are in place between the Company and these firms which define the areas where the Board has delegated authority to them. The Remuneration and Management Engagement Committee meets at least annually to, inter alia, review the contractual arrangements with these firms. The Audit Committee also meets at least annually to review the adequacy of accounting systems and controls, accounting policies and the contents of external financial reports. In addition, the Committee reviews the adequacy and scope of the external audit and compliance with the regulatory and financial reporting requirements. The Committee has direct access to the senior executives of the Investment Manager and Custodian and also to the Company's auditors who regularly attend its meetings. The Audit Committee has reviewed the operation and effectiveness of the Company's system of internal financial controls during the year.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

The auditors, KPMG Audit Plc, have confirmed that in their opinion: with respect to the directors' statements above on internal financial control and going concern, the directors have provided the disclosures required by the Listing Rules of the London Stock Exchange and such statements are not inconsistent with the information of which they are aware from their audit work on the accounts; and that the directors' statement above appropriately reflects the Company's compliance with the other aspects of the Cadbury Code of Best Practice specified by the Listing Rules for their review. They have carried out their review in accordance with the relevant guidance issued by the Auditing Practices Board, which does not require them to perform any additional work necessary to, and they did not, express a separate opinion on the effectiveness of either the Company's system of internal financial control or corporate governance procedures, or on the ability of the Company to continue in operational existence.

Payment of Suppliers

It is the Company's payment policy to obtain the best possible terms for all business and therefore there is no consistent policy as to the terms used. The Company agrees with its suppliers the terms on which business will take place and it is our policy to abide by these terms.

Directors' Responsibilities

The directors are required by UK company law to prepare accounts for each financial year on a going concern basis, unless it is inappropriate to do so. These accounts should disclose a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit and loss for that period. In preparing the accounts, suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made. Relevant accounting standards have been followed. The directors are responsible for maintaining adequate accounting records, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.

By order of the Board, P.A. Hogwood *Secretary*
20 Finsbury Circus London, EC2M 1NB
6th November 1997

Report of the auditors

KPMG Audit Plc

To the Members of Morgan Grenfell Equity Income Trust PLC.

We have audited the accounts on pages 21 to 29 in accordance with Auditing Standards.

Respective Responsibilities of Directors and Auditors

As described on page 19 the Company's directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of Opinion

We conducted our audit in accordance with Auditing Standards 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. It also includes an assessment of the significant estimates and judgements 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 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.

Opinion

In our opinion the accounts give a true and fair view of the state of the Company's affairs as at 30th September 1997 and of its total return for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
6th November 1997

Statement of total return

(incorporating the revenue account*)
For the year ended 30th September

	Notes	Revenue 1997 £'000	Capital 1997 £'000	Total 1997 £'000	Revenue 1996 £'000	Capital 1996 £'000	Total 1996 £'000
Gains on investments	9	-	14,000	14,000	-	4,272	4,272
Income	2	3,941	-	3,941	3,402	-	3,402
Investment management fee	3	(614)	-	(614)	(522)	-	(522)
Other expenses	4	(147)	-	(147)	(134)	-	(134)
Net return before finance costs and taxation		3,180	14,000	17,180	2,746	4,272	7,018
Interest payable	5	(1)	-	(1)	(4)	-	(4)
Return on ordinary activities before tax		3,179	14,000	17,179	2,742	4,272	7,014
Tax on ordinary activities	6	(570)	-	(570)	(533)	-	(533)
Return on ordinary activities after tax for the financial year attributable to equity shareholders		2,609	14,000	16,609	2,209	4,272	6,481
Dividend in respect of equity shares	7	(2,595)	-	(2,595)	(2,179)	-	(2,179)
Cancellation of warrants	13	-	(130)	(130)	-	-	-
Exercise of warrants	13	-	178	178	-	163	163
Transfer to reserves after aggregate dividend paid and proposed of 7.00p per share, (1996-6.15p per share)		14	14,048	14,062	30	4,435	4,465
Return per ordinary share:							
Basic	8	7.14p	38.33p	45.47p	6.29p	12.17p	18.46p
Fully diluted	8	6.89p	34.83p	41.72p	6.24p	11.27p	17.51p

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

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

MORGAN GRENFELL EQUITY INCOME TRUST

Balance sheet

As at 30th September

	Notes	1997 £'000	1996 £'000
Fixed assets			
Investments	9	74,407	61,374
Current assets			
Debtors	10	873	1,441
Cash at bank and in hand		4,060	1,314
		4,933	2,755
Creditors: amounts falling due within one year	11	(2,504)	(2,792)
Net current assets/(liabilities)		2,429	(37)
Total assets less current liabilities		76,836	61,337
Capital and reserves			
Called-up share capital	12	9,268	8,858
Share premium account	13	16,216	16,216
Other reserves			
Warrant reserve	13	402	604
Capital redemption reserve	13	12,609	12,609
Capital reserve - realised	13	22,934	17,096
Capital reserve - unrealised	13	14,672	5,233
Revenue reserve	13	735	721
Total equity shareholders' funds		76,836	61,337
Net asset value per ordinary share :			
Basic		207.3p	173.1p
Fully diluted		197.6p	163.1p

The accounts on pages 21 to 29 were approved by the Board of directors on 6th November 1997 and were signed on its behalf by:

Simon McClean

S. McClean
Director

Cash flow statement

For the year ended 30th September

	Notes	1997 £'000	1996 £'000
Reconciliation of operating profit to net cash inflow from operating activities			
Cash received from investments		3,769	3,191
Interest received		144	95
Cash received from stocklending and underwriting		20	50
Investment management fees paid		(579)	(510)
Cash paid to and on behalf of directors		(41)	(39)
Other cash payments		(112)	(83)
Net cash inflow from operating activities	15	3,201	2,704
Returns on investments and servicing of finance			
Interest paid		(1)	(4)
Taxation			
UK corporation tax refunded		-	85
Overseas tax paid		(6)	(9)
Income tax (paid)/received		(11)	40
Imputed tax paid		(681)	(591)
Total tax paid		(698)	(475)
Financial investment			
Purchase of investments		(36,854)	(32,230)
Sales of investments		37,865	32,104
Net cash inflow/(outflow) from financial investment		1,011	(126)
Equity dividends paid		(2,252)	(2,010)
Cash inflow before financing		1,261	89
Financing			
Exercise of subscription warrants		1,639	971
Cancellation of warrants		(154)	-
Net cash inflow from financing		1,485	971
Increase in cash	16	2,746	1,060

Notes to the accounts

1 Accounting Policies

Basis of Preparation

The accounts have been prepared under the historical cost convention, as modified to include the revaluation of investments, in accordance with applicable accounting standards and with the Statement of Recommended Practice "Financial Statements of Investment Trust Companies".

Income

All dividends on quoted equity shares are accounted for on an ex-dividend basis. Interest on bank deposits, stocklending fee income and bond interest is dealt with on an accruals basis.

Expenses

All expenses are accounted for on an accruals basis and are charged to the revenue account except as follows:

- expenses which are incidental to the acquisition of an investment are included within the cost of the investment.
- expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment.

Taxation

Deferred taxation is provided on timing differences arising from the inclusion of income and expenditure in tax computations in periods different from those in which they are included in the financial statements, to the extent that it is probable that a liability will crystallise in the future.

Valuation of Investments

Listed investments are stated at closing middle market prices on recognised stock exchanges.

Reserves

Gains and losses on the realisation of investments are accounted for in the realised capital reserve. Increases and decreases in the valuation of investments held at the year end are accounted for in the unrealised capital reserve.

The proceeds of the public offers which took place in prior periods have been allocated between warrants and shares so that the proportion attributable to the warrants is based on the relative share and warrant prices on the first day of trading. The premium arising on warrants issued is dealt with in the warrant reserve. On exercise of warrants the premium attributable to the warrants exercised is transferred to the realised capital reserve. Any premium on lapsed warrants will be reflected in the statement of total return.

The capital redemption reserve is the amount arising on redemption of deferred shares following the conversion of C shares and issue of new ordinary shares and warrants in accordance with the terms of the offer.

2 Income

	1997 £'000	1996 £'000
Income from investments:		
Franked investment income	3,326	2,984
Foreign income dividends	333	128
Fixed interest income	24	39
Unfranked investment income	29	36
Overseas income	46	59
Total	**3,758**	**3,246**
Other income:		
Scrip dividend income	18	11
Deposit interest	144	95
Underwriting commission	15	48
Stocklending fees	6	2
Total	**183**	**156**
Total Income	**3,941**	**3,402**
Income from investments:		
Listed UK	3,758	3,246
Total	**3,758**	**3,246**

3 Investment Management Fee

	1997 £'000	1996 £'000
Investment management fee	**614**	**522**

4 Other Expenses

	1997 £'000	1996 £'000
Directors' emoluments	37	39
Auditors' remuneration for audit	17	16
Professional charges	58	45
Other	35	34
Total	**147**	**134**

The emoluments of the directors fell into the following bands:

	No. of directors	No. of directors
£0-£5,000	-	1
£5,001-£10,000	4	5
£10,001-£15,000	1	-

The emoluments of the Chairman, the highest paid director, were £10,154 (1996-£9,295).

Notes to the accounts

continued

5 Interest Payable	1997 £'000	1996 £'000
Bank overdraft	**1**	4

6 Tax on Ordinary Activities		
Tax on franked investment income	665	597
Tax relief for excess management expenses	(101)	(72)
Prior period adjustment	-	(1)
Overseas tax	6	9
Total	**570**	533

7 Dividends on Ordinary Shares		
Interim paid of 2.30p per share (1996-2.20p)	853	780
Proposed final dividend 3.85p per share (1996-3.60p)	1,427	1,275
Proposed final foreign income dividend 0.85p per share (1996-0.35p)	315	124
Total	**2,595**	2,179

8 Return per Ordinary Share

Basic revenue return per ordinary share is based on the net revenue on ordinary activities after taxation of £2,609,000 (1996-£2,209,000), and on 36,526,872 (1996-35,110,679) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

Basic capital return per ordinary share is based on the net capital gains for the financial year of £14,000,000 (1996-£4,272,000), and on 36,526,872 (1996-35,110,679) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

The fully diluted returns per ordinary share have been calculated on the assumption that the share warrants were fully converted on the first day of the financial year at 100p giving a weighted average number of ordinary share of 40,769,593 (1996-40,989,593) shares. The revenue return of £2,808,000 (1996-£2,556,000) and the capital return £14,199,000 (1996-£4,618,000) include deemed income from investing in 2.5% consolidated stock from that date.

9 Investments

	1997 £'000	1996 £'000
All investments are listed in Great Britain	**74,407**	**61,374**
Opening book cost	56,141	52,230
Opening unrealised appreciation	5,233	5,499
Opening valuation	**61,374**	**57,729**
Movements in the year:		
Purchases at cost	36,212	32,164
Sales - proceeds	(37,179)	(32,791)
- realised gains on sales	4,561	4,538
Increase/(decrease) in unrealised appreciation	9,439	(266)
Closing valuation	**74,407**	**61,374**
Closing book cost	59,734	56,141
Closing unrealised appreciation	14,673	5,233
Total	**74,407**	**61,374**
Realised gains on sales	4,560	4,538
Increase/(decrease) in unrealised appreciation	9,440	(266)
Gains on investments	**14,000**	**4,272**

Stocklending details:

	1997 £'000	1996 £'000
Aggregate value of securities on loan at year-end	6,136	819
Maximum aggregate value of securities on loan during the year	8,946	3,086
Gross fee income from stocklending during the year	6	2

10 Debtors

	1997 £'000	1996 £'000
Amounts due from brokers	-	686
Current taxation	210	98
Prepayments and accrued income	4	1
Other debtors	659	656
Total	**873**	**1,441**

Notes to the accounts

continued

11 Creditors: Amounts Falling Due Within One Year

	1997 £'000	1996 £'000
Amounts due to brokers	539	1,200
Accruals and deferred income	223	193
Proposed final dividend	1,742	1,399
Total	**2,504**	**2,792**

12 Called-up Share Capital

	1997 £'000	1996 £'000
Authorised:		
148,000,000 ordinary shares of 25p each	**37,000**	**37,000**
Allotted, called-up and fully-paid:		
37,073,058 ordinary shares of 25p each (1996-35,434,500)	**9,268**	**8,858**

The unissued ordinary shares are sufficient to satisfy in full the subscription rights attached to the outstanding warrants which were issued on the original subscription dates on the basis of one warrant for every five ordinary shares of 25p. Each warrant entitles the holder to subscribe for one ordinary share at 100p on 31st January in any of the years 1998 to 2000 inclusive.

On the 31st January 1997 the holders of 1,638,558 warrants exercised their right to subscribe for 1,638,558 ordinary shares. On the 18th June 1997 and 21st August 1997, the Company bought back and cancelled 180,000 warrants at 69.75p and 40,000 warrants at 69.00p respectively. The number of warrants outstanding on 30th September 1997 was 3,696,535 (1996-5,555,093).

13 Reserves

	Share premium account £'000	Warrant reserve £'000	Capital Redemption reserve £'000	Capital reserve-realised £'000	Capital reserve-unrealised £'000	Revenue reserve £'000
Beginning of year	16,216	604	12,609	17,096	5,233	721
Net gain on realisation of investments	-	-	-	4,561	-	-
Increase in unrealised appreciation	-	-	-	-	9,439	-
Premium on warrants exercised during the year	-	-	-	1,229	-	-
Transfer of premium on warrants exercised	-	(178)	-	178	-	-
Cancellation of warrants during the year	-	-	-	(154)	-	-
Transfer of premium on warrants cancelled		(24)	-	24	-	-
Retained net revenue for the year	-	-	-	-	-	14
End of year	**16,216**	**402**	**12,609**	**22,934**	**14,672**	**735**

14 Reconciliation of Movements in Shareholders' Funds

	1997 £'000	1996 £'000
Opening shareholders' funds	61,337	56,064
Revenue profit available for distribution	2,609	2,209
Other recognised profits relating to the year	14,000	4,272
Exercise of subscription warrants	1,639	971
Cancellation of warrants	(154)	-
Dividends	(2,595)	(2,179)
Closing shareholders' funds	**76,836**	**61,337**

15 Reconciliation of Net Revenue before Finance Costs and Taxation to Net Cash Inflow from Operating Activities

	1997 £'000	1996 £'000
Net revenue before finance costs and taxation	3,180	2,746
Increase in accrued income	(3)	(2)
Increase in other creditors	30	25
Increase in other debtors	(12)	(77)
Income from stock dividends	(18)	(11)
Fixed interest income movement	-	23
Net cash inflow from operating activities	**3,201**	**2,704**

16 Movement in Net Funds

	1997 £'000	1996 £'000
Beginning of year	1,314	254
Net cash inflow	2,746	1,060
End of year	**4,060**	**1,314**
Analysis of balances:		
Cash at bank and in hand	**4,060**	**1,314**

17 Commitments

	1997 £'000	1996 £'000
Uncalled capital on partly-paid investments	-	362
Underwriting commitments	-	743
Total	-	**1,105**

Notice of meeting

Notice is hereby given that the sixth Annual General Meeting of Morgan Grenfell Equity Income Trust PLC will be held at 23 Great Winchester Street, London EC2 on Thursday the 18th day of December 1997 at 11.00 a.m. for the following purposes:

Ordinary Business

1. To receive and, if approved, to adopt the report of the directors and the accounts for the year ended 30th September 1997.
2. To declare a final dividend of 3.85p together with a final foreign income dividend of 0.85p making a total final dividend of 4.70p per ordinary share.
3. To re-elect Mr. K.E. Percy as a director.
4. To re-appoint KPMG Audit Plc as auditors and to authorise the directors to fix their remuneration.

Special Business

5. To consider and, if thought fit, pass the following resolution as an Ordinary Resolution:-
   That the directors be and they are hereby 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 (within the meaning of section 80 of the Act) up to an aggregate nominal amount of £2,800,000 during the period commencing on the date of the passing of this resolution and expiring at the conclusion of the next Annual General Meeting of the Company or 16th March 1999 whichever is the earlier, but so that this authority shall allow the Company to make before the expiry of this authority offers or agreements which would or might require relevant securities (within the meaning of section 80 of the Act) to be allotted after such expiry and notwithstanding such expiry the directors may allot relevant securities in pursuance of any such offer or agreement.
6. To consider and, if thought fit, pass the following resolution as a Special Resolution:

   That, subject to the passing of resolution number 5 set out above, the directors be and they are hereby empowered, pursuant to section 95 of the Act to allot equity securities (as defined in section 94 (2) of the Act) pursuant to the authority given in accordance with section 80 of the Act by the said resolution number 5 as if section 89 (1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

   (a) during the period commencing on the date of this resolution and expiring at the conclusion of the next Annual General Meeting of the Company or on 16th March 1999 whichever is the earlier, but so that this power shall allow the Company to make before the expiry of this power offers or agreements which would or might require equity securities to be allotted after such expiry and notwithstanding such expiry the directors may allot such securities in pursuance of any such offer or agreement;

   (b) up to an aggregate nominal amount of £463,413, being 5 per cent. of the Company's share capital in issue on 25th November 1997;

   (c) at a price which is not less than the fully diluted net asset value per ordinary share at the time of such allotment.

By order of the Board, P.A. Hogwood *Secretary*

Registered office:
20 Finsbury Circus, London EC2M 1NB
25th November 1997

1. Any member of the Company who is entitled to attend and vote at this meeting is also entitled to appoint one or more proxies to attend and, on a poll, vote instead of him or her. A proxy need not also be a member of the Company.

2. Only ordinary shareholders of the Company are entitled to attend or be represented at this Meeting.

3. For the assistance of ordinary shareholders, forms of proxy are enclosed which should be returned to The Royal Bank of Scotland plc, Registrar's Department, P.O. Box 457, Owen House, 8 Bankhead Crossway North, Edinburgh EH11 0XG. The return of a duly completed form of proxy will not preclude any such shareholder from attending in person and voting at the meeting.

4. No director has any contract of service with the Company.

5. Warrants for the final dividend, if approved at the meeting, will be posted on 29th December 1997 for payment on 30th December 1997 to ordinary shareholders on the register on 21st November 1997.

THIS IS A LOOSE SHEET

MORGAN GRENFELL EQUITY INCOME TRUST

Form of proxy

For the use of ordinary shareholders only

Please complete in BLOCK CAPITALS

I/We ______________________________

of ______________________________

being (a) Member(s) of the above-named Company HEREBY APPOINT the Chairman of the Meeting, or .... (note 3) as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on the 18th December 1997, and at any adjournment thereof, in the following manner.

	For	*Against*
Ordinary Business		
1. The adoption of the report and accounts.	☐	☐
2. The declaration of a final dividend.	☐	☐
3. The re-election of Mr. K.E. Percy as a director.	☐	☐
4. The re-appointment of KPMG Audit Plc as auditors and authority for the directors to fix their remuneration.	☐	☐
Special Business		
5. The granting of authority to the directors to allot relevant securities for the purposes of section 80 of the Companies Act 1985 (Ordinary Resolution).	☐	☐
6. The empowering of the directors to allot equity securities for cash other than in accordance with the statutory pre-emption rights in section 95 of the Companies Act 1985 (Special Resolution).	☐	☐

Dated this ______________ day of ______________________, 1997

Signature or common seal ______________ Holding ______________

Notes:

1. Unless otherwise instructed the proxy will vote or abstain from voting as he thinks fit.

2. This form of proxy must be deposited with the Registrars not later than 48 hours before the time of the meeting. A form of proxy given by a corporation must be under its common seal or under the hand of an officer or attorney duly authorised in writing. In the case of joint holders the signature of one holder will be accepted.

3. A member may appoint a proxy of his own choice who need not be a member of the Company by deleting the words 'the Chairman of the meeting' and inserting the name of his proxy in the space provided and initialling the alteration.

4. The return of this form will not preclude a member from attending in person and voting at the meeting.

5. The numbering of the above resolutions corresponds to that given on the notice of meeting.