Deutsche Equity Income Trust

2648152

Annual Report and Accounts

30 September 2001

investment trusts
A member of the Association of Investment Trust Companies

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, convertible loan stocks and corporate bonds will make up the balance of the portfolio.

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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
Annual General Meeting	December

Key figures

At 30 September	2001	2000	% Change
Net asset value per ordinary share, basic	226.8p	262.0p	–13.4
Ordinary share price (mid market)	219.0p	249.0p	–12.0
Discount	3.4%	5.0%	–
Earnings per share	8.12p	7.62p*	+6.6
Proposed dividend for the year	7.55p	7.35p	+2.7
Dividend yield	3.4%	2.9%	–
Total shareholders' funds	£90m	£104m	–13.4
FT-SE All-Share Index	2,340.5	3,029.4	–22.7
Ordinary shares in issue	39,762,907	39,762,907	–

*As restated to reflect the change in accounting policy.

Chairman's statement

Background

I am pleased to report that the Company has had a successful year, albeit on a relative basis. The Company's net asset value per share fell by 13.4%, significantly outperforming the 22.7% capital decline in the UK equity market (as measured by the FT-SE All-Share Index); the net asset total return per share of the Company fell by 10.6%† against a 20.8% total decline for the index. Although the returns in absolute terms were disappointing, market conditions have been exceptionally difficult, the details of which are summarised in the manager's report. The share price fell by 12.0% over the same period, with the discount to net asset value narrowing from 5.0% to 3.4%.

In contrast to the previous twelve months, there was a consistent trend within the market with defensive shares such as Non-Cyclical Consumer Goods, Resources and Utilities performing relatively strongly but cyclical and technology-related shares sharply underperforming throughout the year. Despite the decline in the market, this was generally a better environment for income funds than the previous twelve months although the Board, together with the manager, has continued to keep a careful eye on achieving the right balance between capital return and income. The fact that your Company's net asset value per share has grown by 35.0%* over the past three years compared with 16.3%* from the UK Growth and Income investment trust sector and 9.9%** from comparable unit trusts, suggests that we have been right to pay attention to both capital growth and income.

It is perhaps worth reminding shareholders of the key reasons for the Company's success, namely its simple structure and emphasis on investment in companies with above average dividend yields, but with the potential for some capital growth. This helps us steer clear of the more fashionable and overvalued sections of the market. We are recommending that shareholders vote in favour of the resolution at the Annual General Meeting that the Company continues as an investment trust.

Earnings and Dividend Policy

We have reviewed our accounting policy for the treatment of management fees which have in previous years been charged entirely to the revenue account. We are now charging 30% of these against capital reserves as we believe that this is a more realistic split given our aim of achieving capital as well as income growth. In order to ensure comparability between periods, the Board has decided to implement this policy from the beginning of the financial year. Comparative figures have therefore been restated.

To give us flexibility we have deliberately pursued a policy of very modest dividend growth in recent years but I am pleased to report that the revenue return per share this year has increased by 6.6%, including the change in accounting policy. As a result, some of the reserves used partially to fund last year's final dividend have been replenished and the Board is proposing a final dividend of 5.05p per share which, together with the interim dividend of 2.50p per share already paid, gives a total dividend for the year of 7.55p per share (a 2.7% increase from last year's total dividend of 7.35p per share). The dividend will be paid on 28 December 2001 to those shareholders on the register at the close of business on 16 November 2001.

We continue to review the balance between capital and income. I repeat my comments of previous years that our aim is to concentrate on achieving a satisfactory total return whilst targeting a progressive dividend policy. The continued unpredictability of dividend growth, the timing and incidence of special dividends and the increasing use of capital reconstructions to return capital to shareholders make this altogether more challenging. We will continue to utilise a mix of revenue returns and reserves to meet our income objectives.

Annual General Meeting

The Annual General Meeting of the Company will be held at Winchester House, 1 Great Winchester Street, London EC2 on 14 December 2001 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.

Dividend Reinvestment Plan

The Company in conjunction with Computershare Investor Services PLC, the Company's Registrars, has established a Dividend Reinvestment Plan through which shareholders can use their dividends to purchase further shares in the Company. Full details of the Plan can be obtained by telephoning Mark Pope on 0800 317773 (Freephone), e-mail address: mark.pope@db.com.

Outlook

The terrorist attacks of 11 September and subsequent political and military response by the United States and its allies provide an extremely uncertain short-term outlook for global economies and corporate profitability, and hence stock markets. However, since the Company's year-end we have seen a further fall in interest rates which make bonds and cash look increasingly unattractive. As ever, our stock selection will continue to be the key to rewarding our shareholders.

J Leigh Pemberton
1 November 2001

† The net asset total return per share is based on the net asset value per share of 226.8p adjusted by 7.55p being the amount of the proposed total dividend per share for the year divided by 262.0p being the net asset value per share as at 30 September 2000.

* Source AITC (assumes net income reinvested).

** Source Lipper Hindsight (offer/offer, net income reinvested).

Company performance

Year ended 30 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	Share price p
1992(1)	1,522	922	3.78	3.45	22,945	94.2	87.0
1993	1,973	1,251	5.13	4.50	34,088	139.7	128.5
1994	2,767	1,829	5.32	4.80	48,494	141.1	131.0
1995(2)	3,066	2,015	5.85	5.77	56,064	162.7	153.5
1996	3,402	2,209	6.29	6.15	61,337	173.1	154.0
1997	3,941	2,609	7.14	7.00	76,836	207.3	181.5
1998	3,589	2,248	5.95	7.15	71,899	188.8	156.5
1999(3)	4,004	3,038	7.94	7.35	93,941	245.1	216.5
2000(4)	3,876	2,986	7.62	7.35	104,166	262.0	249.0
2001	**4,041**	**3,228**	**8.12**	**7.55**	**90,190**	**226.8**	**219.0**

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

(2) As restated to reflect the change in accounting policy whereby dividend income, previously recognised on a pay date basis, is now accounted for on an ex-dividend basis. Figures in earlier years have not been adjusted.

(3) Gross revenue for 1999 has been restated to exclude the attributable tax credit from dividend income. Figures in earlier years have not been adjusted.

(4) As restated to reflect the change in accounting policy, whereby 30% of investment management fees are charged against the realised capital reserve. The figures in earlier years have not been adjusted.

Portfolio review

Portfolio manager

Graham Ashby

Graham Ashby, a UK investment director, joined Deutsche Asset Management Group as a fund manager in 1994. Since then, he has had responsibility for a wide variety of major investment funds and took over responsibility for the Deutsche Equity Income Trust in March 2001.

Background

The year was a poor one for investors in the UK equity market. A substantial weakening of the US economy in the fourth quarter of last year due to a sudden reduction in capital investment led to aggressive de-stocking in subsequent quarters and had a knock-on effect to other economies around the world. This led many companies to announce profit warnings for the current year and to downgrade substantially expectations for the next few years. Against this background defensive companies, which were largely unaffected by the economic slowdown, fared relatively well although positive returns were difficult to achieve.

There was some hope earlier in the year that the downturn in the global economy would be relatively short-lived as the leading economic indicators were showing some signs of stabilisation, but the terrible events of 11 September are likely to hit consumer confidence which has remained remarkably buoyant.

Portfolio Strategy

The actions taken in January and February 2000 to increase the exposure to higher yielding areas of the market were beneficial to the Company's success in relative terms. However, the extent and breadth of the global economic downturn meant that we continued vigorously to re-examine positions in the portfolio. Attention was also focused on increasing revenue generation following the utilisation of some of the reserves from the previous financial year to pay the dividend. Good examples of this activity were the disposal of holdings in Rexam, Rolls Royce, Six Continents (formerly known as Bass) and Northern Foods as well as significant reductions of holdings in both Smiths Group and Cookson Group. Purchases were made in a number of high yielding shares such as HSBC Holdings and Legal & General, as well as some growth stocks such as GlaxoSmithKline and Morrison (Wm) Supermarkets.

We continue to try and keep a sensible balance across different sectors of the market, preferring to select the best companies within sectors rather than make large macro-economic decisions. However, we continue to be significantly underweight in Telecoms and are now underweight in a number of consumer-related areas such as Food Producers and Leisure. Key overweight sectors are currently Life Assurance, Engineering & Machinery and Gas Distribution.

The Company's holding in Railtrack was written down to zero shortly after the year-end following the surprise decision to put the group's major subsidiary into administration under the Railways Act 1993. Deutsche Asset Management has joined a consortium that has appointed Allen & Overy to advise on legal redress.

Outlook

Although predicting the short-term outlook is particularly difficult at the current time, there can be no doubt that the expected reduction in consumer confidence caused by the terrorist attacks of 11 September and the subsequent political and military response will delay the recovery in global economies and corporate profitability.

However, the recent fall in oil and gas prices should help to keep inflation under control, and the concerted efforts of policy makers both in the UK and abroad to provide liquidity, lower interest rates and release more funds for personal and public expenditure should help stimulate the global economy. This should ultimately provide a more attractive environment for investors in equity markets, although the short-term outlook for corporate newsflow remains extremely challenging across a wide range of industries.

Within the UK equity market, there has been a substantial underperformance of mid-sized and smaller companies in recent months as these companies are typically more sensitive to movements in the underlying economy. Although short-term concerns regarding the economic outlook and corporate newsflow remain, we have been selectively increasing exposure to companies in this area where we feel valuations are attractive for the medium-term.

Analysis of shareholders

At 30 September 2001

Number of Shareholders	Class of Shareholder	Number of Shares	%
976	Bank or Nominee	27,384,531	68.9
2,263	Named Individuals	7,615,408	19.1
411	Other Institutions	4,132,432	10.4
10	Investment Trusts	120,920	0.3
22	Insurance Companies	367,912	0.9
8	Pension Funds	141,704	0.4
3,690		**39,762,907**	**100.0**

Classification of investments

Valuation at 30 September

	£'000	Percentage of total portfolio 2001	2000
Preference Stocks		**0.3**	0.3
P&O 5% Cum. Pfd	257		
Bonds		**2.1**	0.0
Capital Shopping 6.875%	545		
Associated British Ports 6.625%	501		
Yell Finance 10.75%	499		
Energis 9.5%	185		
Energis 9.125%	180		
Resources		**14.5**	12.1
Mining		1.8	
Lonmin	974		
Antofagasta	605		
Oil & Gas		12.7	
BP	6,142		
Shell	3,276		
BG Group	1,445		
Enterprise Oil	589		
Basic Industries		**3.1**	8.4
Chemicals		1.4	
Yule Catto	497		
Croda	423		
Imperial Chemical Industries	383		
Construction & Building Materials		1.4	
SIG	879		
Ultraframe	345		
Forestry & Paper		0.3	
Smith (DS)	310		
General Industrials		**3.9**	8.5
Aerospace & Defence		1.8	
BAE Systems	993		
Smiths Group	658		
Engineering & Machinery		2.1	
Senior	884		
Vitec Group	514		
Cookson Group 7% Conv. 02/11/04	481		
Cyclical Consumer Goods		**1.4**	2.2
Automobiles		1.4	
Brambles	647		
GKN	429		
Avon Rubber	172		
Non-Cyclical Consumer Goods		**19.5**	17.1
Beverages		2.7	
Diageo	2,012		
Allied Domecq	462		
Food Producers & Processors		0.6	
Tate & Lyle	282		
Express Dairies	275		

Classification of investments

continued

	£'000	Percentage of total portfolio 2001	2000
Health		0.5	
Bespak	409		
Pharmaceuticals		15.0	
GlaxoSmithKline	9,530		
AstraZeneca	3,969		
Tobacco		0.7	
Imperial Tobacco	643		
Cyclical Services		**11.6**	14.6
Distributors		0.5	
Dixon Motors	231		
Sytner Group	226		
General Retailers		1.9	
GUS	561		
Next	509		
Carphone Warehouse	404		
Dixons Group	254		
Leisure, Entertainment & Hotels		1.0	
Luminar	458		
Hilton Group	240		
Thistle Hotels	217		
Media & Photography		3.8	
EMAP	1,431		
Reuters Group	850		
Pearson	516		
Carlton Communications	363		
Euromoney	198		
Taylor Nelson Sofres	89		
Support Services		1.7	
Bunzl	1,453		
Davis Service	59		
Transport		2.7	
Forth Ports	1,047		
*Railtrack Group	627		
Transport Development Group	280		
BAA	277		
Associated British Ports	157		
Non-Cyclical Services		**8.7**	9.7
Food & Drug Retailers		1.9	
Morrison (Wm) Supermarkets	1,266		
Safeway	455		
Telecommunications Services		6.8	
Vodafone Group	2,974		
British Telecom	1,915		
Mediaone Group 7% Exch 2002	1,005		
Cable & Wireless	265		

*The Company's holding in Railtrack Group has been written down to zero following the press announcement issued on 15 October 2001 that Railtrack Plc had been placed into administration.

	£'000	Percentage of total portfolio 2001	2000
Utilities		**6.1**	6.1
Electricity		2.7	
National Grid	889		
Powergen	799		
Scottish & Southern Energy	752		
Gas Distribution		2.0	
Centrica	1,469		
Lattice Group	366		
Water		1.4	
United Utilities	1,281		
Information Technology		**1.9**	3.3
Information Technology Hardware		1.1	
Arm Holdings	532		
Spirent	428		
Software and Computer Services		0.8	
Sage Group	567		
London Bridge Software	69		
Autonomy	50		
Financials		**26.9**	17.7
Banks		16.4	
HSBC Holdings	4,635		
Royal Bank of Scotland	3,277		
Lloyds TSB Group	2,349		
Barclays	1,604		
Abbey National	1,001		
HBOS	876		
Alliance & Leicester	565		
Standard Chartered	500		
Insurance		0.6	
Royal & Sun Alliance	542		
Life Assurance		6.0	
Legal & General	2,271		
CGNU	1,667		
Britannic	898		
Countrywide Assured Group	524		
Investment Companies		1.1	
3i Group	970		
Real Estate		0.7	
Canary Wharf Group	651		
Speciality & Other Finance		2.1	
Singer & Friedlander Group	871		
Schroders	593		
Caledonia Investment	367		
Kensington Group	64		
Total Portfolio	**90,149**	**100.0**	**100.0**

Summary			
Equities	86,496	96.0	96.0
Bonds	1,910	2.1	–
Convertibles	1,486	1.6	3.7
Preference Stocks	257	0.3	0.3
Total Portfolio	**90,149**	**100.0**	**100.0**

Report of the directors

The directors present their annual report and the accounts of the Company for the year ended 30 September 2001.

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 30 September 2000; 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 Deutsche 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 the forthcoming Annual General Meeting ("AGM") and at every fifth subsequent AGM 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 pages 2 to 3, and in the portfolio review on pages 5 to 6.

Revenue and Dividend

The gross revenue for the period amounted to £4,041,000 (2000-£3,876,000). The net revenue available for ordinary shareholders amounted to £3,228,000 (2000 restated-£2,986,000). An interim dividend of 2.50p per ordinary share was paid in June and the directors are now recommending a final dividend of 5.05p per share, payable on 28 December 2001 to make a total dividend of 7.55p per share (2000-7.35p per share). This leaves retained revenue for the year of £226,000 (2000 restated-£64,000) to be transferred to undistributed revenue reserves brought forward.

Directors

The directors of the Company, all of whom served throughout the year, 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.

Messrs J Leigh Pemberton and A K Mitchard retire from the Board in accordance with the Company's Articles of Association at the forthcoming AGM and, being eligible, offer themselves for re-election.

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.

Directors' Interests

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

		30 September 2001	2000
J Leigh Pemberton			
Ordinary shares		7,450	7,450
J G Fox			
Ordinary shares		70,500	70,500
S McClean			
Ordinary shares		1,200	1,200
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

By 1 November 2001 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.

Management

Investment management, accounting, secretarial and administrative services are provided to the Company by Deutsche Investment 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 (ie 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.

Dividend Reinvestment Plan

The Company in conjunction with Computershare Services PLC, the Company's Registrars, has established a Dividend Reinvestment Plan through which shareholders who hold their shares outside our savings scheme can use their dividends to purchase further shares in the Company. Full details of the Plan are available from Mark Pope at Deutsche Investment Trust Managers Limited, One Appold Street, London EC2A 2UU, e-mail address: mark.pope@db.com or by telephoning the Deutsche Investment Trust Managers Limited Helpline on 0800 317773 (Freephone).

Auditors

KPMG Audit Plc have indicated their willingness to continue in office as auditors. A resolution will be proposed at the AGM 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 6 to be proposed at the AGM gives the directors, for the period until the conclusion of the AGM in 2002 or 13 March 2003, whichever is the earlier, authority to allot securities up to an aggregate nominal amount of £2,800,000 equivalent to 28.2% of the issued share capital on 1 November 2001. Resolution 7 to be proposed at the AGM empowers the directors, until the conclusion of the AGM in 2002 or 13 March 2003, 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 £497,000 being 5.0% of the Company's issued share capital on 1 November 2001. Whilst the directors have no present intention of exercising this authority it provides them 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 Deutsche Investment Trust Managers' Private Investors' Plan and also the Individual Savings Account if they believe it is advantageous to 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 net asset value attributable to the ordinary shares at the time of issue.

Purchase of Own Shares

The resolution passed at last year's AGM to authorise the Company to make market purchases of up to 14.99% of its own shares will expire at the conclusion of this years AGM. No shares were purchased under this authority during the financial year. Accordingly, resolution 8 will be proposed as a special resolution to authorise the Company to make market purchases of up to 5,960,459 ordinary shares (being 14.99 per cent of the Company's issued share capital on 1 November 2001). However, shares purchased will not exceed 14.99 per cent of the Company's issued share capital immediately following the passing of the resolution. Purchases of shares will be made within guidelines established from time to time by the Board, but the Board will only exercise the authority if, in its opinion, it would be in the interests of the Company to do so. Such purchases will only be made at prices below the prevailing net asset value per share and within the price constraints set out in paragraphs (ii) and (iii) of the resolution.

The authority to purchase shares will last until the earlier of 13 March 2003 or the conclusion of the Company's AGM in 2002 or until 14.99 per cent of the issued share capital has been acquired. The authority may be renewed by shareholders at any time at a General Meeting.

Corporate Governance

The UK Listing Authority requires all listed companies to disclose how they have applied the principles and complied with the provisions of the Combined Code of Best Practice ("the Combined Code"). Arrangements have been put in place by the Board which it believes are appropriate to an investment trust company and which enable the Company to apply the principles and comply with the provisions of the Combined Code.

The Board and Committees

The Board comprises a majority of wholly independent non-executive directors. Their biographical details, set out on page 25 demonstrates a breadth of investment commercial and professional experience. Mr J Leigh Pemberton is the Chairman and, in accordance with the Combined Code, has been designated the senior independent director. The Company has no executive directors nor any employees; the Board has engaged external firms to undertake the investment management, administrative and custodial activities of the Company. Clear 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 Board meets at least quarterly to review the overall business of the Company and to consider the matters specifically reserved for it to decide on. Prior to each meeting directors are provided with a comprehensive set of papers giving detailed information on the Company's transactions, financial position and performance. At these meetings, which are also attended by representatives of the investment manager, 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 the policy. The directors have access to the advice and services of the company secretary and additional independent professional advice can be sought at any time by the directors at the expense of the Company.

As the Board is small there is no formal Nomination Committee and appointments of new directors are considered by the Board as a whole taking into account appropriate external advice. Upon appointment each director is provided with a summary of the responsibilities and duties of directors, together with relevant background information on the Company. Consistent with the recommendation of the Combined Code appropriate training is arranged for new directors where necessary. All directors are appointed for an initial term of three years and are subject to re-election by shareholders at the first AGM after their appointment and thereafter at least at every third subsequent AGM.

The Board has established an Audit Committee under the Chairmanship of Mr A K Mitchard. Other members of the Committee are Mr J Leigh Pemberton and Mr S McClean. The Committee meets at least twice a year and reviews the adequacy of accounting systems and controls, accounting policies and the contents of external financial reports. In addition, the Committee reviews the relationship with the Company's auditors, 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 and report at its meetings.

Directors' Remuneration

The Board has established a Remuneration and Management Engagement Committee under the Chairmanship of Mr A K Mitchard. Other members of the Committee are Mr J Leigh Pemberton and Mr S McClean. The Committee meets at least annually to agree the remuneration of the members of the Board and also to review the contractual arrangements with external firms. In setting directors' fee levels, it is the Company's policy to take account of the fees paid by comparable investment trusts to ensure that remuneration is sufficient to attract directors of the appropriate quality and experience. No director has a contract of service with the Company.

As the Company is an investment trust and all its directors are non-executive, the Company is not required to comply with the Principles of the Combined Code in respect of executive directors' remuneration. Directors' remuneration comprises solely of directors' fees, details of which are shown in note 4 of the accounts.

Internal Control

Whilst the Board as a whole is responsible for establishing, maintaining and reviewing the Company's system of internal financial control, they have appointed Mr A K Mitchard as the independent director to take a lead on internal control issues. 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. Following publication of guidance for directors on internal control - Internal Control; Guidance for Directors on the Combined Code ("the Turnbull Guidance"), the Board confirms that there is an ongoing process for identifying, evaluating and managing significant risks faced by the Company that has been in place for the year under review and up to the date of approval of the annual report and accounts, and that this process is regularly reviewed by the Board and accords with the Turnbull Guidance. The Board has reviewed the effectiveness of the system of internal control. In particular, it has reviewed and updated the process for identifying and evaluating the significant risks affecting the business and the policies and procedures by which these risks are managed.

Accountability and Audit

The Board has contractually delegated to external firms, including the investment manager, the management of the investment portfolio, the custodial services (which include the safeguarding of the assets), the day to day accounting and company secretarial, administration and registration services. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of services offered, including the financial control systems in operation in so far as they relate to the affairs of the Company. The Board also monitors the investment performance of the Company to ensure that its investment objective is being met and a review of the Company's activity over the quarter is carried out to ensure it adheres to its investment policy or, if it is considered appropriate, to authorise any change to the policy. Key staff from the investment manager and custodian regularly attend Board meetings to brief the directors on the nature and extent of the risks facing the Company. At least once a year the directors consider the Company's internal financial controls. Both written and verbal reports are received throughout the year from the firms to which services are subcontracted detailing the internal financial control objectives and procedures adopted in each case. The Board's examination of these reports allows it to assess the effectiveness of the external systems of financial control which affect the Company. Such a review has been carried out for the year to 30 September 2001.

Relations with Shareholders

The Company's assets continue to be invested in mainly high yielding, quoted UK equities. The Company's net asset value is published on a weekly basis. The Company reports formally to shareholders twice a year by way of the annual and interim report and accounts and the Investment Manager meets regularly with financial intermediaries who invest in the Company on behalf of their clients to give them a detailed report on its progress; the directors are always available to discuss issues of concern or areas of uncertainty with any shareholders.

The Company has adopted a nominee code, which ensures that, where notification has been received in advance, nominee operators will be provided with copies of shareholder communications for distribution to their customers. Nominee investors may attend general meetings and speak at meetings when invited by the Chairman.

Members of the Deutsche Investment Trust Managers Private Investors' Plan, Individual Savings Account and Personal Equity Plan, whose shares are held in the nominee names of the scheme or plan administrator, are given the opportunity to vote by means of a voting form enclosed with the annual report. These voting forms are forwarded to the Registrars who count the votes and forward the information to the administrator of the appropriate scheme. A proxy will then be prepared on behalf of the scheme/plan member(s) and forwarded to the Company's Registrars for inclusion in the voting figures. Those members who attend the AGM are given the opportunity to speak when invited by the Chairman.

The Company's AGM provides a forum for communication with private shareholders and is attended by the Chairman of the Board and the Chairman of the Audit and Remuneration and Management Engagement Committees. The Investment Manager makes a presentation to the meeting and the Chairman announces the level of proxies lodged on each resolution, and the balance for and against, after it has been dealt with on a show of hands. A separate resolution is proposed in respect of each substantially separate issue. In order to ensure that detailed discussion of key issues is possible, the notice of the AGM is circulated to shareholders at least 20 working days before the meeting.

Compliance with the Provisions of the Combined Code

The Board considers that throughout the year the Company has been in compliance with the Provisions as set out in Section 1 of the Combined Code, with the exception of the appointment of a nomination committee, the absence of which has been explained above.

The Board has considered the Turnbull Guidance and has carried out a comprehensive review of the Company's internal controls. As a result it has introduced regular review procedures for the identification, evaluation and management of significant risks to the Company to enable full compliance with Turnbull for the year ending 30 September 2001.

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 its policy to abide by these terms. At 30 September 2001 the Company had no outstanding trade creditors.

Directors' and Officers' Liability Insurance

The Company has maintained directors' and officers' liability insurance cover throughout the year.

Environmental Policy

The directors recognise that their duty is to act in the best financial interests of the Company's shareholders. The directors acknowledge that there are long term risks to shareholders from companies which fail to conduct business in a socially responsible manner. They have asked the investment manager to take these issues into account, where possible, as long as the investment objectives and the performance of the Company are not compromised.

Exercise of Voting Powers

The directors believe that the exercise of voting rights at company meetings lies at the heart of the regulation and promotion of corporate governance. It is with this in mind that the directors have given discretion to the investment manager to exercise the votes of the Company's holdings and all other rights attached to those holdings in the Company's best interests.

Directors' Responsibilities

Company law requires the directors 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 or 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 keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

By order of the Board

M Pope *Joint Company Secretary*
One Appold Street, London EC2A 2UU

1 November 2001

Report of the independent auditors

To the Members of Deutsche Equity Income Trust PLC.

We have audited the accounts on pages 17 to 24.

Respective Responsibilities of Directors and Auditors

The directors are responsible for preparing the Annual Report. As described on page 15 this includes responsibility for preparing the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the report of the directors is not consistent with the accounts, if 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 or the Listing Rules regarding directors' remuneration and transactions with the Company is not disclosed.

We review whether the statement on pages 12 to 15 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statement on internal control covers 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 the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Basis of Audit 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 affairs of the Company as at 30 September 2001 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
1 November 2001

Statement of total return

(incorporating the revenue account*)

For the year ended 30 September

	Notes	Revenue 2001 £'000	Capital 2001 £'000	Total 2001 £'000	Restated Revenue 2000 £'000	Restated Capital 2000 £'000	Restated Total 2000 £'000
(Losses)/gains on investments	9	–	(13,933)	(13,933)	–	8,999	8,999
Income	2	4,041	–	4,041	3,876	–	3,876
Investment management fee	3	(628)	(269)	(897)	(650)	(278)	(928)
Other expenses	4	(172)	–	(172)	(198)	–	(198)
Net return before finance costs and taxation		**3,241**	**(14,202)**	**(10,961)**	**3,028**	**8,721**	**11,749**
Interest payable	5	(3)	–	(3)	(32)	–	(32)
Return on ordinary activities before tax		**3,238**	**(14,202)**	**(10,964)**	**2,996**	**8,721**	**11,717**
Tax on ordinary activities	6	(10)	–	(10)	(10)	–	(10)
Return on ordinary activities after tax for the financial year attributable to equity shareholders		**3,228**	**(14,202)**	**(10,974)**	**2,986**	**8,721**	**11,707**
Dividend in respect of equity shares	7	(3,002)	–	(3,002)	(2,922)	–	(2,922)
Transfer to reserves after aggregate dividend paid and proposed of 7.55p per share (2000-7.35p per share)		**226**	**(14,202)**	**(13,976)**	**64**	**8,721**	**8,785**
Return per ordinary share:							
Basic	8	**8.12p**	**(35.72)p**	**(27.60)p**	**7.62p**	**22.24p**	**29.86p**

*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.

No operations were acquired or discontinued in the year.

Balance sheet

As at 30 September

	Notes	2001 £'000	2000 £'000
Fixed assets			
Investments	9	90,149	99,315
Current assets			
Debtors	11	2,039	9,410
Cash at bank and in hand		1,122	4
		3,161	**9,414**
Creditors: amounts falling due within one year	12	**(3,120)**	**(4,563)**
Net current assets		**41**	**4,851**
Total assets less current liabilities		**90,190**	**104,166**
Capital and reserves			
Called-up share capital	13	9,941	9,941
Share premium account	14	20,373	20,373
Other reserves			
Capital redemption reserve	14	12,609	12,609
Capital reserve - realised	14	56,865	53,858
Capital reserve - unrealised	14	(10,091)	7,118
Revenue reserve	14	493	267
Total equity shareholders' funds	15	**90,190**	**104,166**
Net asset value per ordinary share:			
Basic		**226.8p**	**262.0p**

The accounts on pages 17 to 24 were approved by the Board of directors on 1 November 2001 and were signed on its behalf by:

Simon McClean

S McClean
Director

Cash flow statement

For the year ended 30 September

	Notes	2001 £'000	2000 £'000
Reconciliation of operating profit to net cash inflow from operating activities			
Cash received from investments		3,957	3,896
Interest received		155	66
Cash received from stocklending and underwriting		46	18
Investment management fees paid		(928)	(905)
Cash paid to and on behalf of directors		(49)	(46)
Other cash payments		(122)	(129)
Net cash inflow from operating activities	16	**3,059**	**2,900**
Returns on investments and servicing of finance			
Interest paid		**(3)**	**(32)**
Taxation			
Overseas tax paid		(19)	(16)
Income tax received/(paid)		17	(27)
Total tax paid		**(2)**	**(43)**
Financial investment			
Purchases of investments		(71,337)	(65,814)
Sales of investments		74,072	59,396
Net cash inflow/(outflow) from financial investment		**2,735**	**(6,418)**
Equity dividends paid		**(2,942)**	**(2,852)**
Cash inflow/(outflow) before financing		**2,847**	**(6,445)**
Financing			
Exercise of subscription warrants		–	1,440
Net cash inflow from financing		–	**1,440**
Increase/(decrease) in cash	17	**2,847**	**(5,005)**

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.

Investment Management Fees
The Company's accounting policy has been changed with effect from 1 October 2000, whereby 30% of investment management fees are charged against the realised capital reserve in line with the Board's expectation of returns from the Company's investments over the long term in the form of revenue and capital.

Any tax relief obtained in respect of those expenses is allocated between capital and revenue in the same proportion as the expenses are allocated, using the Company's effective rate of corporation tax for the account period.

The effect of the change in accounting policy has increased the return on ordinary activities before tax to £3,238,000 (2000 restated-£2,996,000). There is no effect on reserves at the beginning of the period (2000 total return figures have been restated to reflect this change).

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.

Notes to the accounts

continued

	2001 £'000	2000 £'000
2 Income		
Income from investments:		
Franked investment income	3,503	3,634
Unfranked investment income	186	100
Overseas income	125	60
Total	**3,814**	**3,794**
Other income:		
Scrip dividend income	24	–
Deposit interest	155	65
Underwriting commission	41	7
Stocklending fees	7	10
Total	**227**	**82**
Total Income	**4,041**	**3,876**
Income from investments:		
Total - Listed UK	**3,814**	**3,794**
3 Investment Management Fee		
		Restated
First quarter	239	233
Second quarter	223	227
Third quarter	231	233
Fourth quarter	204	235
	897	**928**
Charged against the realised capital reserve	**(269)**	**(278)**
Total	**628**	**650**
4 Other Expenses		
Directors' emoluments	46	46
Auditor's remuneration for audit	19	18
Professional charges	87	104
Other	20	30
Total	**172**	**198**

The emoluments of Mr J Leigh Pemberton, Chairman, the highest paid director were £12,716 (2000-£11,625). Two directors, Mr A K Mitchard and Mr S McClean, received £9,208 and £8,791 respectively (2000-£8,771). The remaining two directors, Mr J G Fox and Mr K E Percy, received £7,558 (2000-£7,204).

5 Interest Payable		
Bank overdraft	**3**	**32**
6 Tax on Ordinary Activities		
Overseas tax	10	9
General provision	–	1
Total	**10**	**10**

Notes to the accounts
continued

	2001 £'000	2000 £'000
7 Dividends on Ordinary Shares		
Interim paid of 2.50p per share (2000-2.45p)	994	974
Proposed final dividend of 5.05p per share (2000-4.90p)	2,008	1,948
Total	**3,002**	**2,922**

8 Return per Ordinary Share

Basic revenue return per ordinary share is based on the net revenue on ordinary activities after taxation of £3,228,000 (2000 restated-£2,986,000), and on 39,762,907 (2000-39,206,645 weighted average) ordinary shares in issue during the year.

Basic capital return per ordinary share is based on the net capital losses for the financial year of £14,202,000 (2000 restated gains-£8,721,000), and on 39,762,907 (2000-39,206,645 weighted average) ordinary shares in issue during the year.

	2001 £'000	2000 £'000
9 Investments		
All investments are listed in Great Britain	**90,149**	**99,315**
Opening book cost	92,197	84,822
Opening unrealised appreciation	7,118	8,037
Opening valuation	**99,315**	**92,859**
Movements in the year:		
Purchases at cost	71,616	64,745
Sales – proceeds	(66,849)	(67,288)
– realised gains on sales	3,276	9,918
Decrease in unrealised depreciation	(17,209)	(919)
Closing valuation	**90,149**	**99,315**
Closing book cost	100,240	92,197
Closing unrealised appreciation	(10,091)	7,118
Total	**90,149**	**99,315**
Realised gains on sales	3,276	9,918
Decrease in unrealised appreciation	(17,209)	(919)
(Losses)/gains on investments	**(13,933)**	**8,999**
Stocklending details:		
Aggregate value of securities on loan at year end	3,935	5,701
Maximum aggregate value of securities on loan during the year	5,935	12,595
Gross fee income from stocklending during the year	7	10

10 Post Balance Sheet Event

The holding in Railtrack Group was valued at £627,000 on 30 September 2001. The holding was written down to zero shortly after the year-end following the decision to put the group's major subsidiary into administration under the Railways Act 1993.

Notes to the accounts

continued

	2001 £'000	2000 £'000
11 Debtors		
Amounts due from brokers	1,376	8,598
Current taxation	23	31
Prepayments and accrued income	40	6
Other debtors	600	775
Total	**2,039**	**9,410**
12 Creditors: Amounts Falling Due Within One Year		
Amounts due to brokers	858	603
Accruals and deferred income	254	283
Bank overdraft	–	1,729
Proposed final dividend	2,008	1,948
Total	**3,120**	**4,563**
13 Called-up Share Capital		
Authorised:		
148,000,000 ordinary shares of 25p each	**37,000**	**37,000**
Allotted, called-up and fully-paid:		
39,762,907 ordinary shares of 25p each (2000- 39,762,907)	**9,941**	**9,941**

	Share premium account £'000	Capital redemption reserve £'000	Capital reserve-realised £'000	Capital reserve-unrealised £'000	Revenue reserve £'000
14 Reserves					
Beginning of year	20,373	12,609	53,858	7,118	267
Net gains on realisation of investments	–	–	3,276	–	–
Decrease in unrealised appreciation	–	–	–	(17,209)	–
Management fee charged against the capital reserve	–	–	(269)	–	–
Retained net revenue for the year	–	–	–	–	226
End of year	**20,373**	**12,609**	**56,865**	**(10,091)**	**493**

	2001 £'000	Restated 2000 £'000
15 Reconciliation of Movements in Shareholders' Funds		
Opening shareholders' funds	104,166	93,941
Less management fee charged against the capital reserve	(269)	(278)
	103,897	93,663
Revenue profit available for distribution	3,228	2,986
Other recognised (losses)/profits relating to the year	(13,933)	8,999
Exercise of subscription warrants	–	1,440
Dividends	(3,002)	(2,922)
Closing shareholders' funds	**90,190**	**104,166**

Notes to the accounts

continued

	2001 £'000	Restated 2000 £'000
16 Reconciliation of Net Revenue before Finance Costs and Taxation to Net Cash Inflow from Operating Activities		
Net revenue before finance costs and taxation	3,241	3,028
Management fee charged against the capital reserve	(269)	(278)
	2,972	2,750
Decrease in accrued income	–	2
Increase in other debtors	140	107
(Decrease)/increase in other creditors	(29)	41
Income from stock dividends	(24)	–
Net cash inflow from operating activities	**3,059**	**2,900**
17 Movement in Net Funds		
Beginning of year	(1,725)	3,280
Net cash inflow/(outflow)	2,847	(5,005)
End of year	**1,122**	**(1,725)**
Analysis of balances:		
Cash at bank and in hand	**1,122**	**4**
Bank overdraft	–	**(1,729)**
Total	**1,122**	**(1,725)**

18 Derivatives and Other Financial Instruments

The Company invests primarily in the shares and securities of UK listed companies. The entire portfolio is held in equities, or in shares or securities convertible into equities, preference shares and corporate bonds. The Company has not used derivative instruments to hedge its portfolio, but, in such an event, the value of derivative instruments held at the balance sheet date would be determined by reference to market value on that date.

The Company's liquidity is held in sterling, almost entirely on interest-bearing current account or on short-term deposit in the money market. Deposits are rarely fixed for terms in excess of one month.

At the year-end, the Company's financial instruments were as follows:-

	2001		2000	
	Carrying Value £'000	**Fair Value £'000**	Carrying Value £'000	Fair Value £'000
Assets:				
Shares and securities listed in the UK	90,149	90,149	99,315	99,315
Short-term deposits - at call	1,120	1,120	4	4

	2001		2000	
	Carrying Value £'000	**Fair Value £'000**	Carrying Value £'000	Fair Value £'000
Liabilities:				
Bank overdraft	–	–	1,729	1,729

Company information

Directors

*__J Leigh Pemberton, CBE,__ (67) Chairman, is an independent non-executive director of the Company. He has been a director and Chairman since 1995, and is the senior independent director. He is chairman of Fleming US Discovery Trust plc, and was formerly Managing Director of Whatman plc, a director of The Savoy Hotel plc and the London and Manchester Group plc.

J G Fox, (58) a non-executive director of the Company, joined the Board in 1991. He is managing director of Deutsche Investment Trust Managers Limited and a director of Anglo & Overseas Trust PLC and Deutsche Latin American Companies Trust PLC. He has overall responsibility for co-ordinating the activities of Deutsche Investment Trust Managers and has been involved in investment management, principally international equities, for the last 33 years.

*__S McClean,__ (55) an independent non-executive director of the Company, was appointed to the Board in 1991. He is chairman of the Scottish Value Trust plc and was formerly managing director of Sun Life Asset Management Limited and a director of the London and Manchester Group plc.

*__A K Mitchard,__ (66) an independent non-executive director of the Company, joined the Board in 1995. He is chairman of Automotive Precision Holdings plc and is also a director of Wellington Holdings plc and Access-Plus plc. He was formerly chief executive of Avon Rubber plc.

K E Percy, (56) a non-executive director of the Company, was appointed to the Board in 1991. He is chief executive of SG Asset Management Limited and is also Chairman of Raw Communications Limited. He was formerly chief executive of Morgan Grenfell Asset Management Limited.

Company information

continued

The Company

Deutsche Equity Income Trust is one of three investment trusts managed by Deutsche Investment Trust Managers Limited, a subsidiary of the Deutsche Asset Management group which manages more than £450.9 billion* of assets worldwide. Deutsche 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.

*As at 30 June 2001.

Investment Manager

Deutsche Investment Trust Managers Limited
(regulated by the FSA)
One Appold Street
London EC2A 2UU

Website address www.deam-uk.com/uk/invest/

Portfolio Manager

G J Ashby

Joint Company Secretaries

P A Hogwood, FCA
M Pope, ACIS

Registered Office

One Appold Street
London EC2A 2UU
Telephone 020 7545 0520
Freephone 0800 317773
Fax 020 7547 1042
Registered in England and Wales No. 2648152

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8 Salisbury Square
London EC4Y 8BB
Chartered Accountants
Registered Auditor

Bankers

Deutsche Bank AG
6 Bishopsgate
London EC2P 2AT

Stockbrokers

HSBC
Vintners Place
68 Upper Thames Street
London EC4B 3BT

Registrars

Computershare Investor Services PLC
P.O. Box 435 Owen House
8 Bankhead Crossway North
Edinburgh EH11 4BR
Telephone 0870 702 0011
Fax: 0870 703 6143

Shareholders who hold their shares in certificated form can check their shareholding with the Registrars, Computershare Investor Services PLC, via www.computershare.com. Please note that to gain access to your details on the Computershare site you will need the holder reference number on the top left hand corner of your share certificate or on your tax voucher.

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

Solicitors

Norton Rose
Kempson House
PO Box 570
Camomile Street
London EC3A 7AN

Disability Act

Copies of this Report and Accounts or other documents issued by the Company are available from the Company Secretary.

If needed, copies can be made available in a variety of formats including Braille, in larger type or on audio tape.

Our Registrars have installed textphones to allow speech and hearing impaired people who have their own textphone to contact them directly without the need for an intermediate operator. Specially trained operators are available during normal business hours to answer queries via this service.

Alternatively, you may use a "typetalk" operator (provided by the Royal National Institute for the Deaf) on 0800 959598.

Share Information

The Company's shares 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 Deutsche Asset Management Website which can be found at: www.deam–uk.com/uk/invest/, Interactive Investor Investment Trust Service, Website address: www.iii.co.uk/natwest/and TrustNet, Website address: www.trustnet.co.uk.

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

Private Investors' Plan, Individual Savings Account and Personal Equity Plan

Alternatively, shares can be purchased or sold through Deutsche Investment 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 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.

The Company's investment manager also offer an Individual Savings Account, (ISA) available on a maxi or mini basis, whose costs have been kept to a very competitive level, through which shares in the Company can be purchased.

Existing Deutsche Investment Trust Managers PEPs continue alongside the ISA with the same tax benefits as the ISA. Existing Deutsche Investment Trust Managers PEP and ISA holders will not be charged either an initial charge or an additional management fee for any subsequent ISA subscribed for. You are also able to transfer in both PEPs and ISAs in order to rationalise underpricing funds held with other managers.

If you are in any doubt as to your taxation position, you should consult your professional financial adviser.

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. Fluctuations in exchange rates may also affect the value of your investment.

Full details of the Private Investors' Plan, ISA and PEP, including application and transfer forms, are available from Mark Pope at Deutsche Investment Trust Managers Limited, One Appold Street, London EC2A 2UU, e-mail address: mark.pope@db.com or by telephoning the Deutsche Investment Trust Managers Limited Helpline on 0800 317773 (Freephone).

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 6 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 14 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 (telephone 020 7282 5555) along with full details of other publications available from the Association. Alternatively, visit their website on www.itsonline.co.uk

Electronic Communications

We are now able to send you annual reports and notices of meetings electronically. Full details are given below.

Reports to shareholders are made available on our investment manager's website as soon as they are published. As a result of new legislation, we are now allowed to send information, including our annual report, to registered shareholders by e-mail and over the internet, rather than in paper form.

How does this Work?

Once you register for the electronic communication option an e-mail is sent to you when a document is available. The e-mail provides a link to a website where you will be able to access and download the document.

What Documents are Typically Available?

The documents which are available include the annual report and accounts, interim report, notices of general meetings, proxy forms and any other notices to shareholders.

What are the Advantages?

If your shares are held in a designated nominee account you can request that the nominee holder registers you to receive the information electronically. Advantages of this facility include documents can be accessed quickly, nominees who currently receive excess unwanted copies of documents can eliminate waste and costs savings can be made through reduced use of paper handling and storage.

What about Terms and Conditions?

Before you register, you will be asked to agree to the Terms and Conditions for Electronic Communication with Shareholders which will be displayed on the registration screens. It is important that you read them carefully as they set out the basis on which electronic communications will be sent to you.

Do I have to use this Service?

No. The use of electronic communications is voluntary. If you wish to continue to receive communications in paper form you should take no action.

What Equipment will I need to make use of this Service?

An internet-enabled PC with Internet Explorer 4 or Netscape 4 or above. Your browser must be configured to accept cookies.

Who will have Access to my e-mail Address?

Your e-mail address will not form part of the information that we are required to make public by law. It will be held separately and securely and will not be used by the Company or by its registrars for any purpose other than communication with you as a shareholder. Your details will not be given to any other party.

What about Computer Viruses?

Every precaution will be taken to ensure that all messages sent to you are free from computer viruses. However, it is possible for e-mail messages to be intercepted by someone else. In choosing to receive electronic communications you are agreeing that neither the Company nor the registrars will be under any liability for losses that may arise as a result of interference by a third party.

What happens if I do not Receive a Specific Electronic Communication?

It is possible that there will be a small number of cases where electronic communication is unsuccessful. Although the Company's obligation is satisfied by sending the e-mail to the address provided by you, the Company will make every effort to make sure that every delivery is successful. When a transmission failure is notified, a further attempt will be made at electronic delivery. If delivery is not successful details on how to re-register for electronic shareholder communications will be sent through the post within 48 hours of the original message.

Can I change my e-mail Address?

Yes. As with your postal address you will need to inform the registrars of any changes to your e-mail address. This can be done at www-uk.computershare.com/Investor.

How do I Register?

If you wish to receive notice of future communications by e-mail please log on to www-uk.computershare.com/Investor and follow these four easy steps to complete the formal registration process. You will need to have your shareholder reference number, which can be found on your tax voucher or share certificate, available when you first log in:

1. Select the View Shareholding option.

2. Enter the Company Code which is **MGE**.

3. Enter your shareholder details (reference number, family name and postcode).

4. Select the Communication Details option.

Notice of meeting

Notice is hereby given that the tenth Annual General Meeting of Deutsche Equity Income Trust PLC will be held at Winchester House, 1 Great Winchester Street, London EC2 on Friday, 14 December 2001 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 30 September 2001.
2. To declare a final dividend of 5.05p per ordinary share.
3. To re-elect Mr J Leigh Pemberton as a director.
4. To re-elect Mr A K Mitchard as a director.
5. To re-appoint KPMG Audit Plc as auditors and to authorise the directors to fix their remuneration.

Special Business

6. 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, equivalent to 28.2% of the issued share capital on 1 November 2001, 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 13 March 2003, 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.
7. To consider and, if thought fit, pass the following resolution as a Special Resolution:
   That, subject to the passing of resolution number 6 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 6 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 13 March 2003, 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 £497,000, being 5.0% of the Company's share capital in issue on 1 November 2001;
   (c) at a price which is not less than the net asset value per ordinary share at the time of such allotment.
8. To consider and, if thought fit, pass the following as a Special Resolution:
   The Company be and is hereby generally authorised in accordance with section 166 of the Companies Act 1985 to make market purchases (within the meaning of section 163 of the said Act) of shares provided that:
   (i) the maximum number of shares hereby authorised to be purchased is 5,960,459;
   (ii) the minimum price which may be paid for a share shall be 25p
   (iii) the maximum price (exclusive of expenses) which may be paid for a share shall be not more than 5 per cent above the average of the market values of the shares taken from the Daily Official list of the London Stock Exchange for the 5 business days before the purchase is made; and

(iv) unless renewed, the authority hereby conferred shall expire at the conclusion of the Annual General Meeting of the Company held in 2002 or on 13 March 2003 which ever is the earlier, save that the Company may, prior to such expiry, enter into a contract to purchase shares which will or may be completed or executed wholly or partly after such expiry.

9. To consider and, if thought fit, to pass the following resolution, which will be proposed as an Ordinary Resolution: "That the Company continues as an investment trust subject to review by shareholders at the Annual General Meeting five years from now".

By order of the Board,
M Pope *Joint Company Secretary*

Registered office:
One Appold Street, London EC2A 2UU
1 November 2001

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 Computershare Investor Services PLC, 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 27 December 2001 for payment on 28 December 2001 to ordinary shareholders on the register on 16 November 2001.*

Deutsche Equity Income Trust

Form of proxy

(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 14 December 2001, 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 J Leigh Pemberton as a director.	☐	☐
4. The re-election of Mr A K Mitchard as a director.	☐	☐
5. The re-appointment of KPMG Audit Plc as auditors and authority for the directors to fix their remuneration.	☐	☐
Special Business		
6. The granting of authority to the directors to allot relevant securities for the purposes of section 80 of the Companies Act 1985. (Ordinary Resolution)	☐	☐
7. 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)	☐	☐
8. The granting of authority to the Company to make market purchases (within the meaning of section 163 of the Companies Act 1985). (Special Resolution)	☐	☐
9. To approve the continuation of the Company as an investment trust. (Ordinary Resolution)	☐	☐

Dated this ____________________ day of ____________________, 2001

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.*