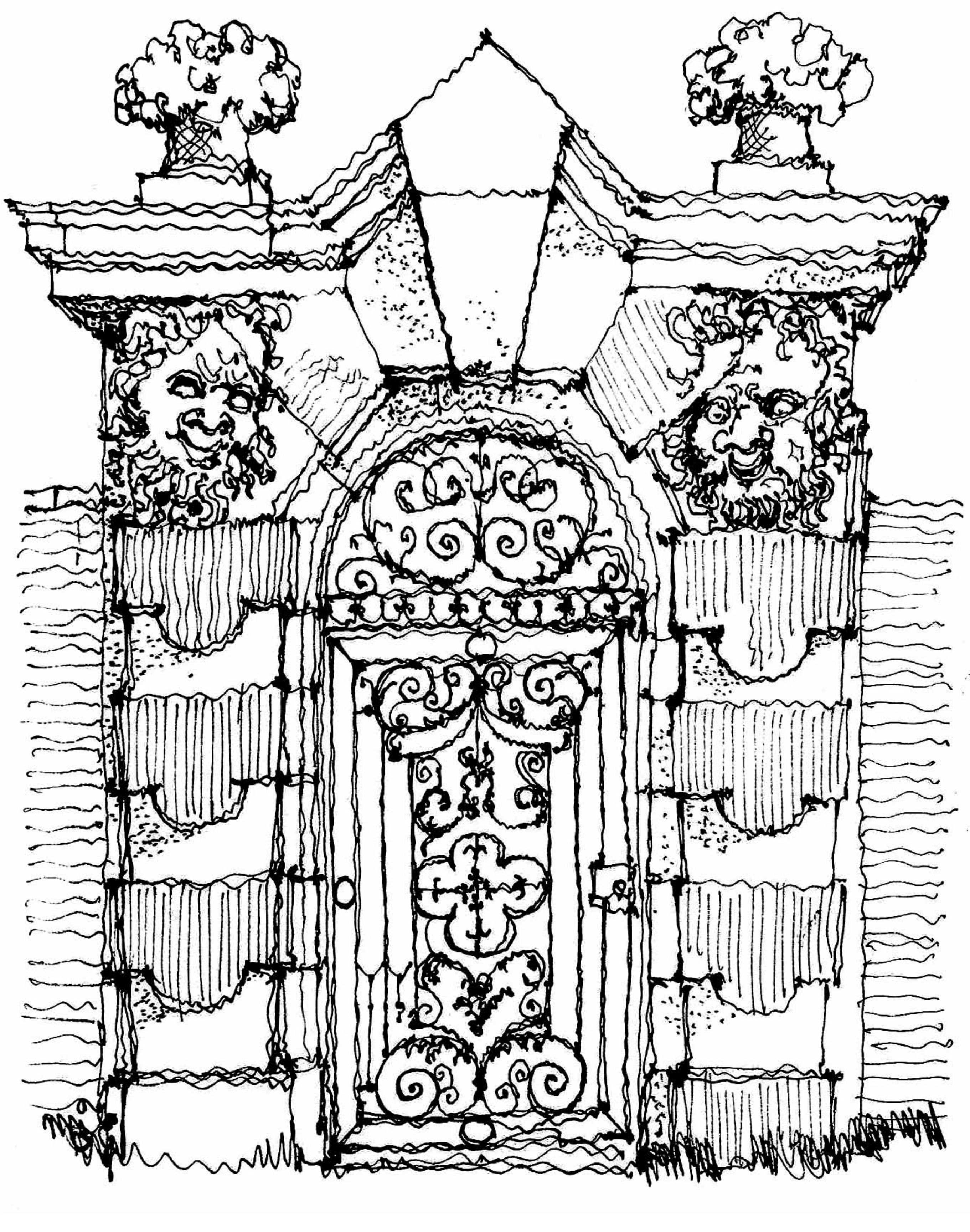
Keystone Investment Trust plc

Annual Financial Report

Year ended 30 September 2011



Keystone Investment Trust plc

Annual Financial Report 2011

If you have any queries about Keystone Investment Trust plc,
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please contact our Investor Services Team on

☎ 0800 085 8677

www.invescoperpetual.co.uk/investmenttrusts

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Investment Objective

Keystone Investment Trust plc is an investment trust whose objective is to provide shareholders with long-term growth of capital, mainly from UK investments.

The Company is a member of

aic
The Association of Investment Companies

Keystones

The keystone is the central feature of the magnificent Satyr Gate at Castle Howard in Yorkshire, designed by John Vanbrugh and Nicholas Hawksmoor and built in 1705. Deliberate emphasis has been given to the keystone, expressing its symbolic importance to the architects. The faces of satyrs were carved by Samuel Carpenter.

Vanbrugh, who began work on Castle Howard in 1699, enjoyed a remarkable career. He began life as a merchant and spent a year in India in the service of the East India Company, part of the astonishing explosion of England's international trade in the late 17th century. He was after that a soldier, imprisoned in the Bastille as a spy, and a successful playwright. When he later became an architect his time in India made him the only notable English architect of the period to have travelled further east than Europe.

Castle Howard is one of the greatest monuments of the English baroque. Still the family home of the Howard family, it was famously used as the setting for the television series of Evelyn Waugh's novel 'Brideshead Revisited', and again for the feature film released in October 2008.

This specially commissioned drawing is by Ptolemy Dean, an architect specialising in work on historic country houses. He is also well known as an author of 'Britain's Buildings, Places and Spaces', and as a television broadcaster on 'Restoration'.

Jeremy Musson

FINANCIAL INFORMATION AND PERFORMANCE STATISTICS

Performance Statistics

	AT 30 SEPTEMBER 2011	AT 30 SEPTEMBER 2010	% CHANGE
Assets			
Net assets attributable to ordinary shareholders (£'000)	164,253	162,154	+1.3
Net asset value† per ordinary share	1228.6p	1212.9p	+1.3
– with income reinvested			+5.0
Share price (mid-market) of ordinary shares	1135.5p	1170.0p	–2.9
– with income reinvested			+0.8
FTSE All-Share Index			–7.4
– with income reinvested			–4.4
Discount† of share price to net asset value per ordinary share (%):			
– debt at par	7.6	3.5	
– debt at fair value	5.1	1.7	
Gearing† – gross	19.4%	24.9%	
– net	9.0%	7.5%	
Revenue			
Net revenue available for ordinary shareholders (£'000)	6,085	5,428	
Dividends per ordinary share – interim	17.5p	17.5p	
– final	29.0p	28.0p	
– total	46.5p	45.5p	+2.2
Total expense ratio†:			
– excluding performance fee	1.0%	0.9%	
– including performance fee	1.0%	0.9%	

† Defined in the Glossary of Terms on page 60.

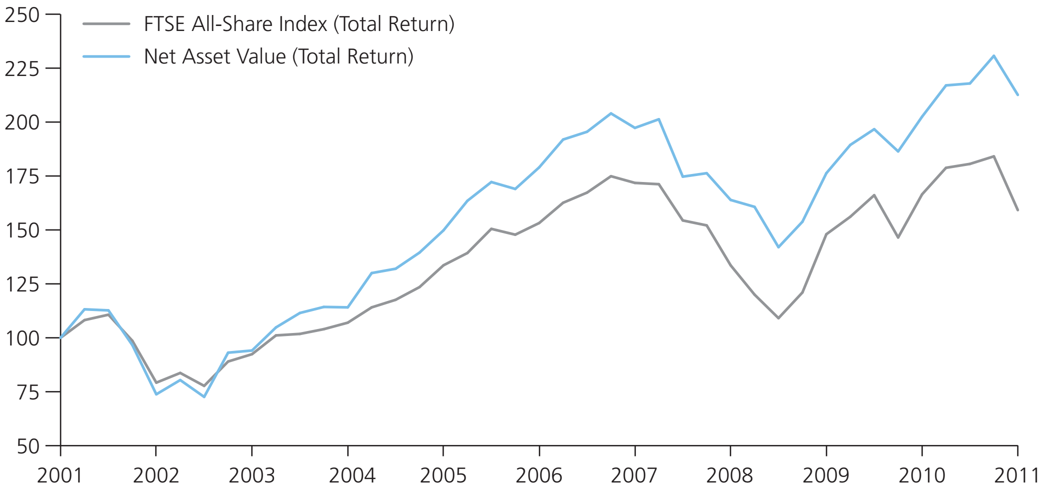
Historical Record – Last 10 Years

Year ended 30 September	Gross revenue £'000	Net revenue available for shares £'000	Revenue earnings per share p	Dividends per share p	Net assets attributable to shareholders £'000	Net asset value per share p	Mid-market price per share p
2002	3,786	2,647	19.4	25.5	78,286	585.6	455.0
2003	4,524	3,324	24.9	25.5	95,564	714.8	651.0
2004	5,659	4,298	32.2	30.0	111,224	832.0	754.0
2005	5,737	4,315(1)	32.2(1)	31.5	143,415(1)	1072.8(1)	963.0
2006	6,477	4,984	37.3	35.0	166,739	1247.2	1102.0
2007	7,099	5,566	41.6	40.0	179,197	1340.4	1190.0
2008	8,159	6,745	50.4	44.0	144,908	1083.9	940.0
2009	8,263	7,680	57.4	56.6(2)	150,252	1123.9	1008.0
2010	6,864	5,428	40.6	45.5	162,154	1212.9	1170.0
2011	**7,391**	**6,085**	**45.5**	**46.5**	**164,253**	**1228.6**	**1135.5**

(1) Restated for new UK Accounting Standards.
(2) Includes a special dividend of 11.1p per share.

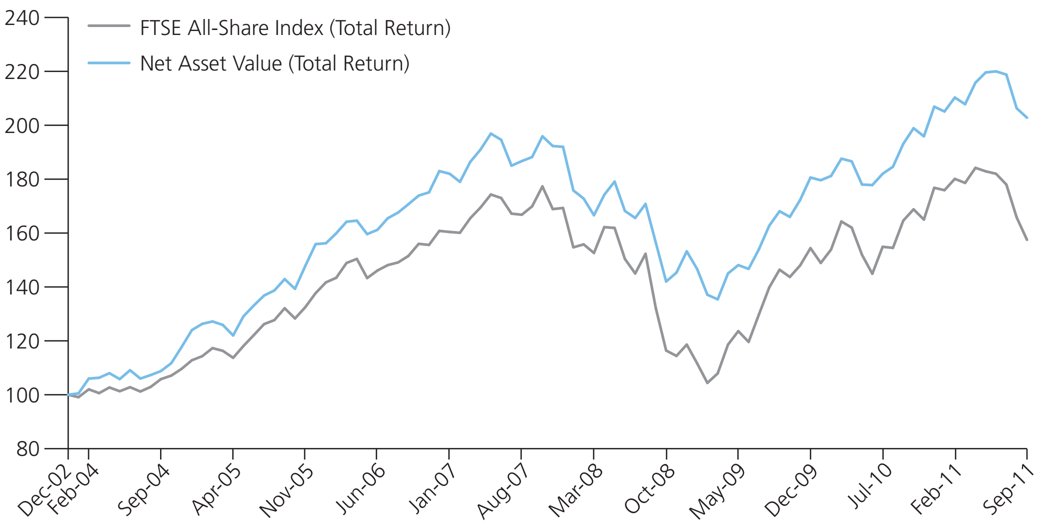
Total Return Net Asset Value Performance (10 years)

From 30 September 2001 to 30 September 2011
(Figures have been rebased to 100 at 30 September 2001



Total Return Net Asset Value Performance (since change of Manager)

From 1 January 2003 to 30 September 2011
(Figures have been rebased to 100 at 31 December 2002)



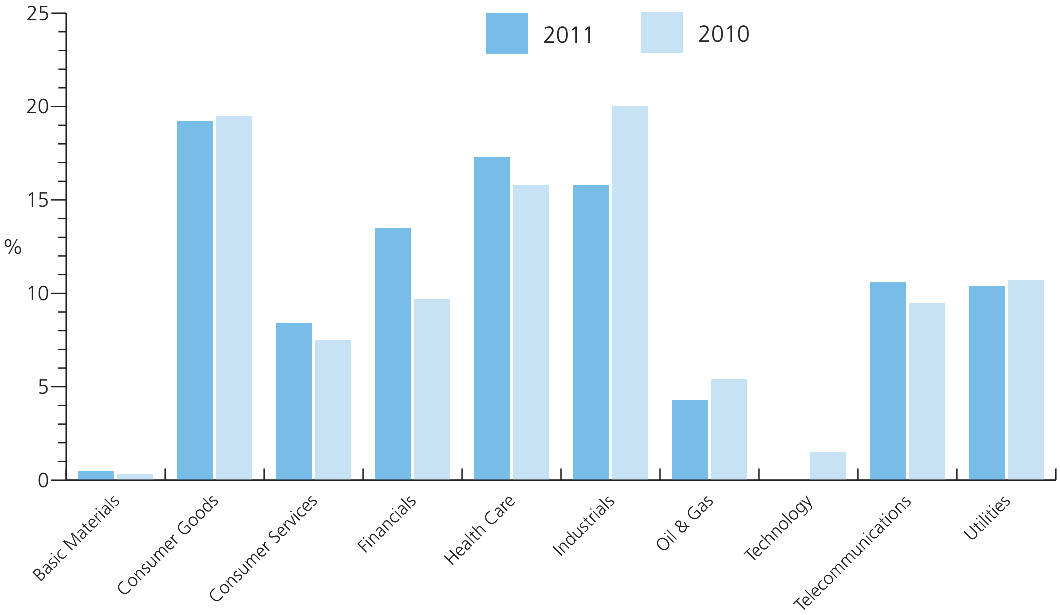
Total Return Net Asset Value per Ordinary Share to 30 September

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	FIVE YEARS	TEN YEARS
Keystone %	–26.2	+27.6	+21.2	+31.3	+19.5	+10.2	–16.9	+7.5	+14.8	+5.0	+18.8	+112.6
FTSE All-Share Index %	–20.8	+16.7	+15.7	+24.9	+14.7	+12.2	–22.2	+10.8	+12.5	–4.4	+4.0	+59.2

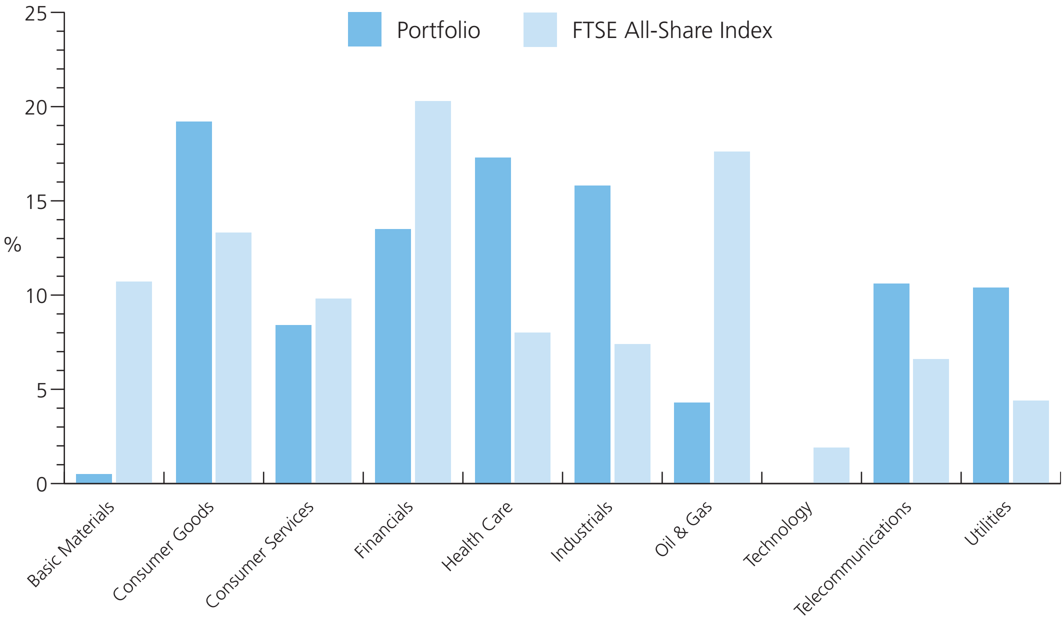
Source: Thomson Reuters, Morningstar and Invesco

FINANCIAL INFORMATION AND PERFORMANCE STATISTICS
continued

Allocation of Portfolio (excluding cash and borrowings) by Sector
As at 30 September



Allocation of Portfolio (excluding cash and borrowings) and FTSE All-Share Index by Sector
At 30 September 2011



CHAIRMAN'S STATEMENT

In the year to 30 September 2011, the Company's share price provided a total return of +0.8%. The total return of the net asset value per share was +5.0%. In the same period, the total return of the Company's benchmark for the purpose of performance measurement, the FTSE All-Share Total Return Index, was –4.4%. All these figures are with income reinvested. The discount of the share price relative to net asset value per share widened to 7.6% from 3.5% at the end of September 2010.

PERFORMANCE	SIX MONTHS	ONE YEAR	SINCE APPOINTMENT OF CURRENT MANAGER ON 1 JANUARY 2003
Share Price Total Return	–0.3%	+0.8%	+209.8%
NAV Total Return per share	–2.6%	+5.0%	+163.8%
FTSE All-Share Total Return Index	–11.8%	–4.4%	+90.3%

Source: Morningstar.

Gearing and investment guidelines

The Company's borrowings, in the form of long-term debentures, amount to £32 million after two of the debentures, the 10.25% Debenture Stock 2010 and the 11.375% Debenture Stock 2010/2015, were redeemed in full on 1 October 2010. The net gearing of the Company is determined by the extent to which these borrowings are invested in shares. The present position is that the Manager must make no net purchases which would take equity exposure above 110% of net assets, and has to make sales if, as a result of market movements, equity exposure goes higher than 115% of net assets. It is up to the investment manager to decide on exposure subject to those limits.

The Board takes responsibility for the Company's gearing strategy and sets parameters within which the fund manager operates.

The Board has also authorised in the past some exposure to corporate bonds which is not treated as equity exposure for the purposes of the gearing limits. The maximum limit on corporate bond investments is £12 million. At the year-end, bonds held by the Company amounted to only £0.7 million or 0.4% of total investments.

Dividends

The Board has proposed a final dividend of 29p per share (2010: 28p), giving a total dividend of 46.5p per share for the year (2010: 45.5p). Based on the share price at the year-end, this total dividend represents a dividend yield of 4.1%. While the primary objective of the Company is long-term growth of capital, the Board will continue to pay attention to the importance of dividends to the Company's shareholders. This emphasis is in tune with the Manager's focus on investing in companies which can maintain and increase dividends. Revenue earnings per share in this year were 45.5p (2010: 40.6p). The dividend will be paid on 23 December 2011 to shareholders on the register on 25 November 2011.

Expenses

The Company's total management expenses were 1.0% of average net assets excluding performance fee in the year ended 30 September 2011 (2010: 0.9%). As was the case in the year to 30 September 2010, no performance fee was paid.

The Board

I succeeded Richard Oldfield as Chairman of the Company in December 2010. Richard was Chairman of the Company from 2001 until he retired at the last AGM. He provided excellent leadership and a calm guiding hand during a time that encompassed both extremely good and extremely bad market conditions. In particular, he took the stewardship of shareholder's funds as an absolute priority, questioning the management group when appropriate whilst, at the same time, providing full support to Mark Barnett, the Company's named fund manager, for him to follow his investment philosophy. This has established a fine template for me to follow. On 8 March 2011, the Board appointed John Wood as a new Director of the Company. He has a fund management background, with previous roles including being a fund manager at Artemis Investment Management and Head of UK Equities at Deutsche Asset Management. His broad experience of fund management complements the Board's skills and I ask shareholders to support his election at the AGM.

CHAIRMAN'S STATEMENT
continued

The Manager
During the year the Board again reviewed all aspects of the service provided by the Manager and the terms of the Manager's appointment. We remain satisfied with the service and the current terms of appointment. I would also like to record our appreciation for the strong performance produced by our appointed fund manager, Mark Barnett, over a torrid year.

Outlook
The figures above show that our fund manager's approach, committed to the long term and to the fundamental evaluation of companies, has protected shareholders from the worst of the adverse markets in the year to 30 September 2011. We believe this approach to be particularly appropriate in these turbulent times and are confident that it will enable the Company to continue to fulfil its investment objective to provide shareholders with long-term growth of capital.

Special Business at the Annual General Meeting ('AGM')
The resolutions put to shareholders at the AGM will include four items of special business. These are all to renew authorities that were granted by shareholders last year:

Share issuance
The Board is asking for the usual authority to issue up to an aggregate nominal amount of £334,220 in new ordinary shares, this being 5% of the Company's issued ordinary share capital. This will allow Directors to issue shares within the prescribed limits should any favourable opportunities arise to the advantage of shareholders. The powers authorised will not be exercised at a price below net asset value so that the interests of existing shareholders are not diluted. This authority will expire at the next AGM.

Disapplication of pre-emption rights
The Directors are again asking for the authority to issue new ordinary shares pursuant to a rights issue, or otherwise than in accordance with a rights issue, of up to an aggregate nominal amount of £334,220 (5% of the Company's issued ordinary share capital) of new ordinary shares disapplying pre-emption rights. This will allow for shares to be issued to new shareholders without having to be offered to existing shareholders first, thus broadening the shareholder base of the Company. This authority will expire at the next AGM.

Share Buybacks
The Board is seeking to renew the authority to purchase up to 2,003,980 of the Company's own shares, this being 14.99% of the issued ordinary shares, subject to the restrictions referred to in the notice of the AGM. This authority will expire at the next AGM.

Calling General Meetings at 14 Days' Notice
The minimum notice period permitted by the Companies Act 2006 for general meetings, other than annual general meetings, is 14 days. The EU Shareholder Rights Directive increases this to 21 days, except that companies can reduce the minimum notice period back to 14 days, other than for annual general meetings, provided that two conditions are met. The first condition is that the company offers facilities for shareholders to vote by electronic means. The second condition is that there is an annual resolution of shareholders approving the reduction in the minimum notice period from 21 days to 14 days. The Board is consequently proposing, as it did last year, a Special Resolution to approve 14 days as the minimum period of notice for all general meetings of the Company other than annual general meetings. It is intended that this flexibility will be used only where the Board believes it is in the interests of shareholders as a whole.

The Directors recommend that shareholders vote in favour of these resolutions.

Beatrice Hollond
Chairman

17 November 2011

MANAGER'S REPORT

The first half of the financial year saw strong stock market performance as hopes of economic recovery gathered pace. However, this optimism faded over the last six months as the economic news flow deteriorated reflecting a worsening outlook. In fact, by the summer months of 2011, the market sentiment had become so poor that the FTSE All-Share index recorded its largest quarterly fall since the third quarter of 2002. Macro-economic news flow, particularly the European sovereign debt and banking crisis, dominated investor sentiment for much of the period, while forecasts for slower economic growth led to reductions in profit estimates for cyclical industries and to even sharper falls in the share prices of those sectors.

The IMF cut its forecast for UK economic growth in 2011 from 1.5% to 1.1% as the Bank of England continued to keep interest rates on hold at 0.5% – raising expectations for an extension of quantitative easing, which has since been confirmed. Meanwhile the UK government's preferred measure of UK inflation, the Consumer Price Index (CPI), remained above its target of 2.0%. The Bank of England still believes that the CPI will fall sharply in 2012. However, despite this economic background, there continue to be areas of positive corporate news flow with a number of large companies announcing share buy backs as well as continuing to deliver resilient operational performance.

Portfolio Strategy & Review

The Company's net asset value, including reinvested dividends, returned 5.0% during the 12 months to the end of September 2011. This compares to a fall of 4.4% from the FTSE All-Share index (total return).

The stock market very rarely rewards investors in a straight line and the significant outperformance of the market by the Company over the year masked shorter term periods of underperformance, particularly during the first half. But the overall message from the first quarter of 2011 to date is that market dynamics appear to have changed significantly. For much of the previous two years, equity markets were driven by momentum with fundamentals largely being ignored. In 2011 however, fundamentals appear to have started to reassert themselves – valuation has again started to matter. This change has been broadly positive for the Company's investment strategy and has allowed its value to rise despite the market's decline.

The portfolio's holdings in the tobacco sector performed very strongly over the year, delivering positive absolute returns even through the challenging conditions of the second half.

The Company is also heavily invested in the pharmaceutical sector. News flow for the sector improved over the period; for an industry that is priced for terminal decline the market was wrong-footed by a string of new drug approvals.

The holding in BT provided a positive impetus to performance. The share price rose on news of on-going operational improvements and the realisation of the scope for further cost savings. BG also provided a positive impact, specifically during the first half of the period when the company benefited from encouraging news on production in Brazil.

The portfolio has no exposure to the mining sector and this benefited performance relative to the FTSE All-Share index; the sector fell sharply over the period as reduced forecasts for global economic growth and growing concerns about the possibility of a hard landing in China hit both sector profit forecasts and valuations. The zero weighting in the bank sector provided a further positive impact on relative performance; fears over the worsening situation in the Eurozone led to falls in share prices across the sector.

Weighing on performance were the holdings in BAE Systems, Amlin, Rentokil Initial and Regus, whose shares fell in nervous markets.

In terms of portfolio activity, overall activity was limited as our views on the market and the wider economy were largely unaltered. A number of new holdings were nevertheless introduced to the portfolio. These comprised both larger companies, including Rolls Royce, Roche and Daily Mail & General Trust, and some less well known businesses, including N.Brown, Amlin and Doric Nimrod Air Two.

The Company further reduced its exposure to the utilities sector over the year, disposing of the holding in Northumbrian Water. Other sales, following strong performance, were the holdings in Altria and Bunzl and part of the holding in Tate & Lyle.

Outlook

The recent news from the UK economy has provided strong evidence of the fragile condition of the domestic economic situation. Indeed, according to Sir Mervyn King, we are in the middle of the worst financial crisis since the 1930's. This level of economic weakness is not a big surprise to us and we expect this challenging environment to persist for several years to come. This view has been instrumental in shaping the strategy for the past year or so. The strategy has been focused on taking advantage of the strength of large quoted companies. In sharp contrast to the household and government sectors, corporates look to be in a position of strength, not just in the UK but globally. Large companies, in particular, are mostly well managed and have flexibility in their use of capital and labour. This has allowed them to gradually reduce debt levels in recent years, to the extent that company balance sheets in general are now in excellent shape. By comparison, most sovereign balance sheets have been vastly expanded to provide the large stimulus packages that have characterised the post-crisis world and leave many sovereign credit ratings at risk of downgrades.

Many of the biggest holdings in the portfolio have delivered solid levels of earnings, cash flow and dividend growth over the last three years. This operational progress has been achieved despite the financial crisis and the deepest recession in post-war history. The management teams of the companies in the portfolio have clearly demonstrated their ability to grow on a per share basis over the recent past. This gives confidence that these businesses can continue in similar vein in the future notwithstanding the continued probable weakness of developed world economies.

One thing that is surprising about these businesses is the valuation at which their shares trade. Despite their dependability and their proven ability to grow through the most testing of economic circumstances, their valuations are low both in absolute terms and relative to other asset classes. Indeed, in many instances, the dividend yield on their equity is higher than their equivalent corporate bond yield. Although the equity asset class remains out of favour, it is arguable that equities are lower risk now than for many years given the scale of the derating witnessed. From the perspective of an equity investor, this represents an exceptional opportunity to invest in some of the biggest and best companies in the market at very attractive valuations.

Mark Barnett
Investment Manager

17 November 2011

INVESTMENTS BY SECTOR

AT 30 SEPTEMBER 2011

UK listed ordinary shares unless stated otherwise

SECTOR/COMPANY		MARKET VALUE £'000	% OF PORTFOLIO
Basic Materials			
UK Coal		537	0.3
Halosource		367	0.2
		904	0.5
Consumer Goods			
Reynolds American	US Common stock	9,417	4.9
Imperial Tobacco		9,174	4.8
British American Tobacco		9,047	4.7
Reckitt Benckiser		4,708	2.4
Tate & Lyle		1,604	0.8
Landkom International		457	0.2
		34,407	17.8
Consumer Services			
Tesco		4,445	2.3
Compass		3,392	1.8
Morrison (W) Supermarkets		2,571	1.3
Daily Mail & General Trust		1,804	0.9
Ladbrokes		1,727	0.9
N.Brown		980	0.5
Yell		162	0.1
Mirada		3	0.0
		15,084	7.8
Financials			
Provident Financial		4,156	2.2
Hiscox		3,650	1.9
A J Bell	Unquoted	3,000	1.6
Beazley		2,524	1.3
Amlin		2,288	1.2
Doric Nimrod Air Two		1,443	0.8
Impax Asian Environmental Markets		1,183	0.6
Altus Resource		1,140	0.6
Damille Investment		946	0.5
Impax Environmental Markets		827	0.4
Imperial Innovation – ordinary shares		456	0.3
– preference shares	Unquoted	233	
Macau Property Opportunities Fund		484	0.2
Trading Emissions		477	0.2
Fusion IP		395	0.2
Workspace		215	0.1
Walton & Co	Unquoted	113	0.1
Helphire		28	0.0
Ecofin Water & Power Opportunities		—	0.0
		23,558	12.2
Health Care			
GlaxoSmithKline		8,978	4.7
AstraZeneca		7,817	4.1
Roche	Swiss Common stock	4,877	2.5
BTG		3,387	1.8
Napo Pharmaceuticals	Unquoted	3,030	1.6
Lombard Medical Technologies		1,214	0.6
Vectura		1,026	0.5
Xcounter AB		374	0.2
PuriCore		200	0.1
Renovo		120	0.1
XTL Biopharmaceutical	US ADR (10 Ord Shares)	41	0.0
		31,064	16.2

INVESTMENTS BY SECTOR

continued

SECTOR/COMPANY		MARKET VALUE £'000	% OF PORTFOLIO
Industrials			
BAE Systems		5,008	2.6
Capita		4,990	2.6
Babcock International		4,315	2.2
Balfour Beatty		2,877	1.5
Homeserve		2,844	1.5
Serco		2,685	1.4
Chemring		2,280	1.2
Rentokil Initial		2,067	1.1
Nexeon – preference 'C' shares	Unquoted	400	
– series 'B' shares	Unquoted	389	0.4
– ordinary shares	Unquoted	3	
Rolls Royce		512	0.3
		28,370	14.8
Oil & Gas			
BG		7,662	4.0
		7,662	4.0
Telecommunications			
Vodafone		7,972	4.1
BT		7,156	3.7
KCOM		2,942	1.5
TalkTalk Telecom		949	0.5
		19,019	9.8
Utilities			
Centrica		4,793	2.5
SSE (formerly: Scottish & Southern Energy)		3,633	1.9
Pennon		3,469	1.8
Drax		3,313	1.7
International Power		2,947	1.5
Barclays Bank – Nuclear Power Notes 28 February 2019(1)		519	0.3
		18,674	9.7
Total Equity Investments		**178,742**	**92.8**
Fixed Interest			
Puricore 6% December 2011	Unquoted	500	0.3
Ecofin 6% July 2016		151	0.1
		651	0.4
Total Fixed Asset Investment		**179,393**	**93.2**
Certificates of Deposit			
Barclays 1.43% 10 November 2011		5,001	2.6
RBS 0.72% 28 November 2011		4,998	2.6
Barclays 1.07% 28 October 2011		3,001	1.6
		13,000	6.8
Total Investments		**192,393**	**100.0**

(1) Contingent Value Rights ('CVR') referred to as Nuclear Power Notes ('NPN') were offered by EDF as a partial cash alternative to its cash bid for British Energy ('BE'). The NPNs were issued by Barclays Bank. The CVRs particpate in BE's existing business.

TOP TEN INVESTMENTS (Excluding Certificates of Deposit)

AT 30 SEPTEMBER

COMPANY	2011 MARKET VALUE £'000	2011 % OF PORTFOLIO	2010 MARKET VALUE £'000	2010 % OF PORTFOLIO
Reynolds American – US common stock	9,417	4.9	8,782	4.3
Imperial Tobacco	9,174	4.8	7,746	3.8
British American Tobacco	9,047	4.7	8,836	4.4
GlaxoSmithKline	8,978	4.7	8,173	4.0
Vodafone	7,972	4.1	8,085	4.0
AstraZeneca	7,817	4.1	8,782	4.3
BG	7,662	4.0	8,064	4.0
BT	7,156	3.7	6,353	3.1
BAE Systems	5,008	2.6	4,968	2.4
Capita	4,990	2.6	5,817	2.9

DIRECTORS

Beatrice Hollond
Took over as Chairman of the Company on 14 December 2010. She was appointed to the Board in September 2003. She is deputy chairman of Millbank Financial Services, an independent family office, and chairman of Millbank Investment Management Limited, its investment management subsidiary. She is also a director of Ora Capital Limited, Ora Capital Partners plc, Oldfield & Co. (London) Limited and Henderson Smaller Companies plc. She was previously managing director of Credit Suisse Asset Management, where she worked for 16 years, with a particular focus on global fixed income and currency investing.

David Adams OBE
Has been a Director of the Company since 1997. He was appointed as a non-executive director of Equitable Life Assurance Society in 2001. He was chief executive of the Chartered Institute of Public Finance and Accountancy from 1997 to March 2000. Prior to that, he was chief executive of the Railways Pension Trustee Company.

William Kendall
Was appointed to the Board in April 2002. He is a director of Wheatsheaf Investments Limited, part of the Grosvenor Estate, of Adnams plc and a founder director of Nemadi Advisors Limited, which advises on investments in the smaller companies sector. He was previously chief executive of Green & Black's Limited, a premium organic chocolate brand in the UK, and chief executive of The New Covent Garden Soup Company Limited.

Peter Readman
Has been a Director of the Company since 1993. He is chairman of Abercromby Property International and of the Chamber Orchestra of Europe, a partner of Abercromby & Company and a director of Pantheon International Participations plc and Schroder Income Growth Fund plc.

John Wood
Was appointed to the Board on 8 March 2011. He was a fund manager at Artemis Investment Management until August 2009, where he primarily managed institutional and hedge fund portfolios invested in UK and Continental European securities. Prior to this he was Head of UK Equities at Deutsche Asset Management.

Richard Oldfield retired on 14 December 2010.

All Directors are non-executive.

All Directors are, in the opinion of the Board, independent of the management company and, with the exception of Mr Readman, are members of the Audit Committee. All Directors are members of the Nomination Committee.

ADVISERS AND PRINCIPAL SERVICE PROVIDERS

Manager, Company Secretary and Registered Office

Keystone Investment Trust plc is managed by Invesco Asset Management Limited. Day-to-day investment management is the responsibility of Mark Barnett who is a member of the UK equity investment team.

Invesco Asset Management Limited
30 Finsbury Square
London EC2A 1AG.
☎ 020 7065 4000.
Company Secretarial Contact: Paul Griggs.

Company Number

Registered in England and Wales.
Number: 538179.

Invesco Perpetual Investor Services

Invesco Perpetual has an Investor Services Team, available to assist you from 8.30 a.m. to 6 p.m. every working day. Please feel free to take advantage of their expertise.
☎ 0800 085 8677.
www.invescoperpetual.co.uk/investmenttrusts.

Custodian

The Bank of New York Mellon
One Canada Square
London E14 5AL.

Auditor

Ernst & Young LLP
1 More London Place
London SE1 2AF.

Savings Scheme and ISA Administrators

For queries relating to both the Invesco Perpetual Investment Trust Savings Scheme and ISA:

Invesco Perpetual
Perpetual Park
Perpetual Park Drive
Henley-on-Thames
Oxfordshire RG9 1HH
☎ 0800 085 8677.

Registrars

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU.

If you hold your shares directly and not through a savings scheme or ISA and have queries relating to your shareholding you should contact the Registrars on ☎ 0871 664 0300.
Calls cost 10p per minute plus network charges.
(From outside the UK: +44 (0)208 639 3399).

Lines are open 8.30 a.m. to 5.30 p.m. every working day.

Shareholders can also access their holding details via Capita's websites www.capitaregistrars.com or www.capitashareportal.com.

Capita Registrars provide an on-line and telephone shareholding service to existing shareholders who are not seeking advice on buying or selling. This service is available at www.capitadeal.com or ☎ 0871 664 0364.
Calls cost 10p per minute plus network charges.
(From outside the UK: +44 (0)203 367 2686).

Lines are open 8.00 a.m. to 4.30 p.m. every working day.

The shares of Keystone Investment Trust plc are quoted on the London Stock Exchange.

Savings Plan and ISA

The Company's ordinary shares are eligible for investment via an ISA.

Keystone Investment Trust plc is also a member of the Invesco Perpetual Investment Trust Savings Scheme and ISA. Shares in this Company can be purchased and sold via these two schemes.

Invesco Perpetual Investment Trust Savings Scheme

The Invesco Perpetual Investment Trust Savings Scheme allows investors to make purchases from £20 per month or through lump sum investments from £500.

Invesco Perpetual Investment Trust ISA

The Invesco Perpetual Investment Trust ISA allows investments up to £10,680 in shares of Keystone Investment Trust plc in each tax year. Investors can also choose to make lump sum investments from £500, or regular investments from £20 per month.

For full details of these Invesco Perpetual investment schemes please contact the Invesco Perpetual's Investor Services Team free on ☎ 0800 085 8677.

NAV Publication

The net asset value of the Company's ordinary shares ('NAV') is calculated by the Manager on a daily basis and is notified to the Stock Exchange on the next business day. It is published daily in the newspapers detailed below under Share Price Listings.

Manager's Website

Information relating to the Company can be found on the Manager's website, www.invescoperpetual.co.uk/investmenttrusts

Share Price Listings

The price of your shares can be found in the following places:

Financial Times	Investment Companies
Daily Telegraph	Investment Trusts
The Times	Investment Companies
Reuters	
ordinary shares	KIT.L
Bloomberg	
ordinary shares	KIT.LN

Internet addresses

TrustNet	www.trustnet.com
Interactive Investor	www.iii.co.uk
Invesco Perpetual	www.invescoperpetual.co.uk/investmenttrusts
Association of Investment Companies	www.theaic.co.uk

Financial Calendar

The timing of the announcement and publication of the Company's results may normally be expected in the months shown below:

November

Annual Results and final dividend for year announced
Annual Financial Report published

December

Annual General Meeting
Final dividend paid

January

Interim Management Statement

May

Half-yearly figures announced and half-yearly financial report published

June

Interim dividend paid

July

Interim Management Statement

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 30 SEPTEMBER 2011

Introduction

The Directors present their report together with the audited financial statements of Keystone Investment Trust plc (the 'Company') for the year ended 30 September 2011. The Report of the Directors incorporates the Business Review and includes the Corporate Governance Statement. It expands on the following main areas:

Nature of the Company

The Company was incorporated and registered in England and Wales as a public limited company on 17 September 1954, registered number 538179.

The Company is an investment company as defined by section 833 of the Companies Act 2006 and operates as an investment trust in accordance with section 1159 of the Corporation Tax Act 2010 ('CTA'). HM Revenue & Customs ('HMRC') have approved the Company's status as an investment trust, subject to there being no subsequent enquiry under Corporation Tax Self Assessment, in respect of the year ended 30 September 2010 . In the opinion of the Directors, the Company has subsequently conducted its affairs so as to enable it to maintain such approval. The Board seeks to ensure that the Company is managed in such a way that it will continue to qualify as an investment trust under the provisions of the CTA.

Objectives and Investment Policy

Objective

Keystone Investment Trust plc's objective is to provide shareholders with long-term growth of capital, mainly from UK investments.

Investment policy and risk

The Portfolio is invested by the Manager so as to maximise exposure to the most attractive sectors and stocks within the UK stockmarket. The Manager does not set out to manage the risk characteristics of the portfolio relative to the benchmark index and the investment process will result in potentially very significant over or underweight positions in individual sectors versus the benchmark.

The Manager controls stock-specific and sector risk by ensuring that portfolios are always appropriately diversified. In depth, continual analysis of the fundamentals of investee companies allows the portfolio manager to assess the financial risks associated with any particular stock. The portfolio is typically made up of 50 to 80 stocks. If a stock is not considered to be a good investment, then the Company will not own it, irrespective of its weight in the index.

Investment limits

The Board has prescribed the following limits on the investment policy, all of which are at time of investment, unless otherwise stated:

– no single equity investment in a UK listed company may exceed 12.5% of gross assets;
– the Company will not invest more than 15% of its assets in other listed investment companies;
– the Company will not invest more than £12 million in bonds, with a maximum of £1.5 million in any issue;

- the Company will normally not invest more than £5 million in unquoted investments, at time of investment, and £10 million at market value; and
- gearing may be used by the Company within limits determined by the Board.

Company Business

The Board does not at present envisage any significant changes to the business of the Company. No important events affecting the Company have occurred since the end of its financial year.

A review of the Company's business is provided in the Chairman's Statement on pages 5 to 6 and in the Manager's Report on pages 7 and 8.

Share Capital and Rights Attaching to the Company's Shares

At the year end, the Company's issued share capital consisted of 13,368,799 ordinary shares of 50p each and 250,000 5% cumulative preference shares of £1 each. During the year, there have been no changes to either the ordinary shares or the 5% cumulative preference shares in issue.

Rights Attaching to the Ordinary Shares

Under the Company's Articles of Association, any share in the Company may be issued with such rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise as the Company may from time to time by ordinary resolution determine (or, in the absence of any such determination, as the Directors may determine).

The profits of the Company available for distribution and resolved to be distributed, subject to the provisions of UK law, shall be distributed by way of dividends to the holders of the ordinary shares. On a return of capital on liquidation, the assets of the Company shall be applied in repaying a sum equal to the nominal capital paid up or credited as paid up on the ordinary shares. The remaining balance shall be distributed rateably among the holders of the ordinary shares according to the number of shares held by them.

At a general meeting of the Company every ordinary shareholder has one vote on a show of hands and on a poll one vote per £1 nominal held. The notice of general meeting specifies deadlines for exercising voting rights either by proxy or present in person in relation to resolutions to be passed at a general meeting.

Unless the Board decides otherwise, no shareholder is entitled to attend or vote either personally or by proxy at a general meeting or to exercise any other right conferred by being a shareholder if he or she or any person with an interest in shares has been sent a notice under section 793 of the Companies Act 2006 (which confers upon public companies the power to require information with respect to interests in their voting shares) and he or she or any interested person fails to supply the Company with the information requested within 14 days after delivery of that notice. The Board may also decide that no dividend is payable in respect of those default shares and that no transfer of any default shares shall be registered. These restrictions end seven days after receipt by the Company of a notice of an approved transfer of the shares or all the information required by the relevant section 793 notice, whichever is the earlier.

Rights Attaching to the 5% Cumulative Preference Shares

The holders of preference shares receive their dividend before any dividends are paid to the holders of ordinary shares. Also, the dividends on the preference shares are fixed while the dividends in respect of the ordinary shares can fluctuate. In case the Company does not make timely dividend payments, the dividends of cumulative preference shares will accrue.

Twice annually, on the last business days in March and September, the Company pays a fixed dividend of 2.5% in respect of the preference shares, a total of 5%.

In the event of a liquidation, the preference shares take precedence over ordinary shares so that preferred shareholders have the first claim on the Company's assets and are paid off before the ordinary shareholders, receiving the nominal value of their preference shares and any outstanding dividends.

Like ordinary shares, preference shares represent partial ownership in the Company, but holders of preference shares do not enjoy any of the voting rights of ordinary shareholders.

Restrictions on the Transfers of Ordinary or Preference Shares

The Directors may refuse to register any transfer of any share which is not a fully-paid share, although such discretion may not be exercised in a way which the Financial Services Authority regards as preventing dealings in the shares of the relevant class or classes from taking place on an open or proper basis. As at 30 September 2011, the Company's issued share capital did not include any ordinary or preference shares that were not fully paid.

The Directors may refuse to register any transfer of a share in favour or more than four persons jointly.

The Company is not aware of any other restrictions on the transfer of shares in the Company other than certain restrictions that may from time to time be imposed by laws and regulations (for example insider trading laws).

The Company is also not aware of any agreements between shareholders that may result in restrictions on the transfer of securities or voting rights.

Revenue and Dividends

The results for the year are shown in the Income Statement.

Subject to approval at the Annual General Meeting, the proposed final dividend for the year ended 30 September 2011 of 29p (2010: 28p) per ordinary share will be payable on 23 December 2011 to Shareholders on the register on 25 November 2011. This will give a total dividend for the year of 46.5p per share, compared with 45.5p in 2010. Revenue returns per share in this year were 45.5p (2010: 40.6p).

Share Valuations

On 30 September 2011 the mid-market price and the net asset value per 50p ordinary share were 1135.5p and 1228.6p respectively. The comparative figures on 30 September 2010 were 1170.0p and 1212.9p.

Key Performance Indicators

The Board reviews performance by reference to a number of Key Performance Indicators that include the following:

- asset performance, in absolute terms and relative to the benchmark;
- discount of share price to net asset value; and
- total expense ratio.

Asset Performance

In reviewing the performance of the assets in the Company's portfolio the Board reviews the total return provided by the net asset value in relation to that of the benchmark index, the FTSE All-Share Index. Performance is also compared with that of other investment trust companies investing in this sector of the market.

The net asset value of the Company rose by 5.0% during the course of the year, compared with a fall of 4.4% in the benchmark index (in both cases with income reinvested).

There are currently some 300 investment trust companies in the UK, of which there are 19 in the UK Growth sector. The Board monitors the performance of the Company in relation to its sector as a whole and to those companies within the sector which most closely match its objectives and capital structure.

As at 30 September 2011, the Company was ranked number 2, 2, and 5 in its sector over one, three and six months respectively, number 5 over one year and number 8 and 6 over three and five years respectively (source: JPMorgan Cazenove).

Discount

The Board monitors the price of the shares in relation to their net asset value and the premium/discount at which the Company's shares trade. During the year, the shares traded at a premium and a discount to net asset value, with debt at par, in the range of 8.3% discount to 2.1% premium. At the year end, the discount with debt at par stood at 7.6% (2010: 3.5%). To enable the Board to take action to deal with any significant overhang or shortage of shares in the market, it seeks approval from shareholders every year to buy back and issue shares. This may assist in the management of the discount, but the primary reason for buying back or issuing shares is to enhance investor value.

Total Expense Ratio ('TER')

The expenses of managing the Company are carefully monitored by the Board. Management and performance fees and other expenses for the year totalled £1,570,000 (2010: £1,414,000) excluding finance costs. The TER, excluding finance costs, provides a guide to the effect on performance of all annual operating costs.

At the year end, the TER was 1.0% (2010: 0.9%) excluding performance fee, and 1.0% (2010: 0.9%) including performance fee.

Main trends and factors likely to affect the future development, performance and position of the Company's business

As Keystone Investment Trust plc is an investment company, details of the main trends and factors likely to affect the future development, performance and position of the Company's business can be found in the Investment Manager's Report on pages 7 and 8. Further details as to the risks affecting the Company are set out below under 'Principal Risks and Uncertainties'.

Resources

The Company is an investment trust which outsources its management, company secretarial and administrative functions. As a result the Company has no employees. However, through the contractual arrangements in place, a full range of services is available to it. The most significant contract is with the Manager, Invesco Asset Management Limited, to whom responsibility for the management of the portfolio is delegated. The Board reviews the performance of the Manager at every Board meeting and otherwise as appropriate.

The day-to-day management of the portfolio is the responsibility of Mark Barnett, who forms part of the UK Equities team of Invesco Perpetual based in Henley-on-Thames. Mark has worked in equity markets since 1992, joined Perpetual in 1996 and has been the Fund Manager of the Company since January 2003, when Invesco Asset Management Limited took over the management of Keystone Investment Trust plc.

The Board has adopted guidelines within which the Manager is permitted wide discretion; any proposed variations outside these parameters are referred to the Board. The Board has the power to replace the Manager and reviews the management contract formally each year. The outcome of this review is discussed on page 23.

Other contractual arrangements govern relationships with the Company Secretary and Administrator, Registrar and Custodian. These contracts are also reviewed by the Board on a regular basis and, more formally, on an annual basis.

Relationships

Through the annual and half-yearly financial reports, interim management statements and the publication of a daily net asset value, the Board endeavours to ensure that shareholders understand the Company's investment objectives and policies and that the Board, both independently and through the Manager, reviews its objectives and policies in the light of feedback from shareholders. The Board monitors and reviews shareholder communications on a regular basis.

Advisers and Principal Service Providers

The Company's main supplier of services is the Manager who provides both Investment Management Services and Company Secretarial and Administrative support.

The Company has the following additional advisers and principal service providers:

- Ernst & Young LLP as Auditor;
- The Bank of New York Mellon as Custodian; and
- Capita Registrars as Registrar.

Further details of the advisers and principal service providers can be found on page 13.

Principal Risks and Uncertainties

The principal risk factors relating to the Company can be divided into the following areas:

Investment Objective

The Company's investment objective is described on page 15. There is no guarantee that the Company's investment objective will be achieved or will provide the returns sought by the Company.

The Board has established guidelines to ensure that the investment policy that has been approved is pursued by the Manager.

Investment Process

The investment process employed by the Manager combines top down assessment of economic and market conditions with stock selection. Fundamental analysis forms the basis of the Company's stock selection process, with an emphasis on sound balance sheets, good cash flows, the ability to pay and sustain dividends, good asset bases and market conditions. The process is complemented by constant assessment of market valuations. It is important to have a sense of a company's realistic valuation which, to some extent, will be independent of the price at which the company currently trades in the market.

Overall, the investment process is aiming to achieve absolute returns through a genuinely active fund management approach. This can therefore result in a portfolio which looks substantially different from the index.

Risk management is an integral part of the investment management process. The Manager effectively controls risk by ensuring that the Company's portfolio is always appropriately diversified. In depth and continual analysis of the fundamentals of all holdings gives the Manager a full understanding of all the financial risks associated with any particular security.

Market Movement and Portfolio Performance

The majority of the Company's investments are traded on the London Stock Exchange. The principal risk for investors in the Company is of a significant fall in the markets and/or a prolonged period of decline in the markets relative to other forms of investment as well as bad performance of individual portfolio investments. The value of investments held within the portfolio is influenced by many factors including the general health of the economy in the UK, interest rates, inflation, government policies, industry conditions, political events, tax laws, environmental laws, and by changing investor demand. The Manager strives to maximise the total return from the securities in which it invests, but these securities are influenced by market conditions and the Board acknowledges the external influences on portfolio performance.

While the Board obviously cannot influence market movements, it is vigilant in monitoring the Manager's performance and additionally in reviewing regularly the degree of gearing, through borrowings, which it permits the Manager to undertake. The continuation of the Manager's mandate is formally reviewed each year.

Past performance of the Company is not necessarily indicative of future performance.

For a fuller discussion of economic and market conditions and prospects for future performance of the portfolio, please see the Chairman's Statement and the Manager's Report on pages 5 to 8.

The Ordinary Shares

The market price of an ordinary share may trade at a discount to its NAV. As at 30 September 2011, an ordinary share of the Company traded at a discount of 7.6% (debt at par). During the year, the Company's shares traded at an average discount of 4.1%.

There can be no guarantee that any appreciation in the value of the Company's investments will occur and investors may not get back the full value of their investment. Due to the potential difference between the mid-market price of the ordinary shares and the prices at which they are sold, there is no guarantee that their realisable value will reflect their market price.

While it is the intention of the Directors to pay dividends to ordinary shareholders twice a year, the ability to do so will depend upon the level of income received from securities and the timing of receipt of such income by the Company. Accordingly, the amount of the twice-yearly dividends paid to ordinary shareholders may fluctuate. Any change in the tax or accounting treatment of dividends or other investment income received by the Company may also affect the level of dividend paid on the ordinary shares in future years.

Bond Holdings

Fixed interest securities are subject to credit, liquidity, duration and interest rate risks. Adverse changes in the financial position of an issuer or in general economic conditions may impair the ability of the issuer to make payments of principal and interest or may cause the liquidation or insolvency of an issuer.

Gearing

Gearing levels may change from time to time in accordance with the Manager's and the Board's assessment of risk and reward. Whilst the use of borrowings by the Company should enhance the total return on the ordinary shares where the return on the Company's underlying securities is rising and exceeds the cost of borrowing, it will have the opposite effect where the underlying return is falling. As at 30 September 2011, net gearing stood at 9.0% (equity exposure as a percentage of net assets attributable to ordinary shareholders).

Regulatory and Tax-related

The Company is subject to various laws and regulations by virtue of its status as an investment company under s833 of the Companies Act 2006, as an investment trust, and its listing on the London Stock Exchange. A breach of s1159 CTA could lead to the Company being subject to capital gains tax on the profits arising from the sale of its investments. A serious breach of other regulatory rules might lead to suspension from the Stock Exchange or to a qualified Audit Report. Other control failures, either by the Manager or any other of the Company's service providers, might result in operational or reputational problems, erroneous disclosures or loss of assets through fraud, as well as breaches of regulations.

The Manager reviews the level of compliance with s1159 CTA and other financial regulatory requirements on a daily basis. All transactions, income and expenditure are reported to the Board. The Board regularly considers all risks, the measures in place to control them and the possibility of any other risks that could arise. The Board ensures that satisfactory assurances are received from service providers. The Manager's Compliance Officer produces regular reports for review by the Company's Audit Committee.

Further details of risks and risk management policies as they relate to the financial assets and liabilities of the Company are detailed in note 18 to the financial statements.

Reliance on Third Party Service Providers

The Company has no employees and the Directors have all been appointed on a non-executive basis. The Company is therefore reliant upon the performance of third party service providers for its executive function. In particular, the Manager performs services which are integral to the operation of the Company. Failure by any service provider to carry out its obligations to the Company in accordance with the terms of its appointment could have a materially detrimental impact on the operation of the Company and could affect the ability of the Company to successfully pursue its investment policy.

The Manager may be exposed to reputational risks. In particular, the Manager may be exposed to the risk that litigation, misconduct, operational failures, negative publicity and press speculation, whether or not it is valid, will harm its reputation. Any damage to the reputation of the Manager could result in potential counterparties and third parties being unwilling to deal with the Manager and by extension the Company. This could have an adverse impact on the ability of the Company to pursue its investment policy successfully.

Financial Position

Assets and Liabilities

At 30 September 2011, the Company's net assets were valued at £164 million (2010: £162 million). These comprised a portfolio of mainly equity investments, corporate bonds and net current assets.

The Company has an uncommitted short-term overdraft facility with the Custodian for settlement and liquidity purposes. The Company has also issued long-term debentures and cumulative preference shares as noted in the gearing policy below. For details please see notes 12 and 13 to the financial statements.

Due to the readily realisable nature of the Company's assets, cash flow does not have the same significance as for an industrial or commercial company. The Company's principal cash flows arise from the purchase and sales of investments and the income from investments against which must be set the costs of borrowing and management expenses.

Gearing Policy

At 30 September 2011, the Company's ordinary shares were geared by borrowings in the form of two issues of long-term debentures, totalling £32 million (2010: four issues totalling £40 million). The weighted average interest rate was 6.77% (2010: 7.55%).

The Company also has 5% cumulative preference shares of £0.25 million (2010: £0.25 million) in issue.

The Board has carefully considered the Company's policy in respect of the level of net gearing (borrowings less cash, as a percentage of net assets). At the year end the Company's gearing limits were that the Manager must make no net purchases if equity exposure is more than 110% of net assets, and must make sales if (as a result of market movements) equity exposure exceeds 115% of net assets. The Board and the Manager regularly review gearing and will continue to monitor the level closely over the year ahead.

Redemption of the Company's Debentures

On 1 October 2010, the Company redeemed all of the outstanding £3,000,000 11.375% debenture stock 2010/2015 and £5,000,000 10.25% debenture stock 2010 in accordance with the trust deeds between the Company and the Trustee (The Prudential Assurance Company Limited). Each of these two debenture stocks were redeemed at par together with accrued interest up to and including the redemption date of 1 October 2010. Thereafter, the two debenture stocks were cancelled and the Company does not intend to re-issue such redeemed stock.

Following the redemption of the above two debenture stocks, the Company's structured debt is provided by 250,000 5% cumulative preference shares of £1 each and the following debentures totalling £32 million:

£7,000,000 7.75% debenture stock 2020; and
£25,000,000 6.5% debenture stock 2023.

Social and Environmental Policies

As an investment trust company with no employees, property or activities outside investment management, environmental policy has limited application.

The Manager considers various factors when evaluating potential investments. Some are financial ratios and measures, such as free cash flow, earnings per share and price-to-book value. Others are more subjective indicators which rely on first hand research; for example quality of management, innovation and product strength.

While a company's policy towards the environment and social responsibility is considered as part of the overall assessment of risk and the suitability of the company for the portfolio, the Manager does not necessarily decide not to make an investment on environmental and social grounds alone.

At the AGM in 2007, the Directors received approval from shareholders to send or supply documents or information to shareholders in electronic form (e.g. by e-mail) or by means of a website. This delivers environmental benefits through reduced use of paper and of the energy required for its production and distribution.

Substantial Holdings in the Company

At 17 November 2011, the Company had been notified of the following holdings of 3% and over of the Company's share capital carrying unrestricted voting rights:

	HOLDING	%
Investec Wealth & Investment	1,739,168	13.0
Brewin Dolphin, Stockbrokers	1,591,503	11.9
Rathbones	787,558	5.9
Charles Stanley, Stockbrokers	655,077	4.9
Speirs & Jeffrey, Stockbrokers	627,129	4.7
M&G Investment Management	498,936	3.7
Legal & General Investment Management	459,212	3.4

Special Business at the Annual General Meeting ('AGM')

Shareholders will find on pages 55 to 59 the notice of the forthcoming AGM of the Company to be held on 20 December 2011. In addition to the ordinary business of the meeting, four resolutions are proposed as special business. These will be proposed as one Ordinary Resolution and three Special Resolutions as follows:

Authority to Issue Shares

Directors are only permitted to allot new shares (or to grant rights over shares) if they have been 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 10 is an Ordinary Resolution which seeks to renew the Directors' authority to allot up to 5% of the Company's issued ordinary share capital. This will allow the Directors to issue ordinary shares within the prescribed limits should any favourable opportunities arise to the advantage of shareholders. The powers authorised will not be exercised at a price below net asset value of the relevant share so that interests of existing shareholders are not diluted.

Resolution 11 is a Special Resolution which seeks authority to issue new ordinary shares pursuant to a rights issue or otherwise than in connection with a rights issue of up to an aggregate nominal amount of £334,220, (5% of the issued ordinary share capital) disapplying pre-emption rights. This will allow ordinary shares to be issued to new shareholders without having to be offered to existing shareholders first, thus broadening the shareholder base of the Company. These authorities will expire at the next AGM.

Authority to Buy Back Shares

The Directors were granted authority at last year's AGM to buy back shares for cancellation. During the period, no shares were bought back and cancelled.

The Directors are, however, seeking to renew this authority and Special Resolution 12, a resolution to purchase in the market, for cancellation, up to 2,003,980 ordinary shares (being 14.99% of the issued ordinary share capital as at 17 November 2011), will be proposed at the AGM. This authority, if approved, will expire on the date of the Company's next AGM, unless renewed. The Directors intend that the authority to purchase the Company's shares will only be exercised when such a purchase would result in an increase in the NAV per share and is in the best interests of shareholders generally.

Purchases of ordinary shares will only be made through the market for cash at prices below the prevailing NAV per ordinary share. Under the Listing Rules of the Financial Services Authority, the maximum price which can be paid is 5% above the average of the middle market values of the ordinary shares for the five business days before the purchase is made. The minimum price which may be paid will be 50p per share, this being the nominal value of a share. In making purchases, the Company will deal only with member firms of the London Stock Exchange.

The Company will finance the purchase of ordinary shares by using its existing cash balance or by selling securities in the Company's portfolio.

Calling General Meetings at 14 days' Notice

For general meetings other than annual general meetings, the minimum notice period permitted by the Companies Act 2006 is 14 days. However, the EU Shareholder Rights Directive increases the minimum notice period for listed company general meetings to 21 days, except that companies can reduce this period back to 14 days, other than for annual general meetings, provided that two conditions are met. The first condition is that the company offers facilities for shareholders to vote by electronic means. The second condition is that there is an annual resolution of shareholders approving the reduction in the minimum notice period from 21 days to 14 days.

Consequently the Board is proposing Special Resolution 13 to again approve 14 days as a minimum period of notice for general meetings of the Company other than annual general meetings. It is intended that this flexibility will be used only where the Board believes it is in the interests of shareholders as a whole.

Investment Management Agreement

The terms of the agreement with Invesco Asset Management Limited include a basic management fee for investment management and company secretarial work. This is, in respect of each of the quarterly periods ending on 31 March, 30 June, 30 September and 31 December each year, 0.2% of the average value of the market capitalisation of its shares for the ten business days ending on the relevant quarter end date. The market capitalisation is calculated using middle market quotations derived from the Stock Exchange Daily Official List and the weighted average number of shares in issue during the quarter.

The Manager is also entitled to a performance-related fee based on the previous three years' performance of the net asset value (including dividends reinvested) and the FTSE All-Share (Total Return) Index, annualised and calculated per annum on 31 December each year. If the net asset value total return (including dividends reinvested) per annum of the Company as at 31 December of that year is greater than the percentage change per annum in the FTSE All-Share (Total Return) Index plus 2% per annum, the performance-related fee is payable. The performance-related fee is 15% of the value of any outperformance of this hurdle.

The amount of any payment of performance-related fee is a maximum of 1% of the Company's gross assets less the basic management fees. In addition, the amount of any payment of performance-related fee in respect of any financial year is limited to an amount which, if added to the basic management fees paid in respect of that year, would not exceed 1.5% of gross assets less basic management fees. The amount of any payment of performance-related fee in excess of these limits would be carried forward and would become payable in any subsequent year in which the total fees payable are less than the maximum levels for that year.

The Investment Management Agreement can be terminated by either the Company or the Manager upon the expiry of not less than three months' written notice given to the other.

The Manager's Responsibilities

The Directors have delegated to Invesco Asset Management Limited (the 'Manager') the responsibility for the day-to-day investment management activities of the Company. The Manager has full discretion to manage the assets of the Company in accordance with the Company's stated objectives and policies as determined from time to time by the Board. The Manager has discretion to make purchases and sales, make and withdraw cash deposits, enter into underwriting commitments and exercise all rights over the investment portfolio. The Manager also advises on borrowings.

The Manager provides full administration and company secretarial services to the Company, ensuring that the Company complies with all legal, regulatory and corporate governance requirements and officiating at Board meetings and shareholders' meetings. The Manager additionally maintains complete and accurate records of the Company's investment transactions and portfolio and all monetary transactions from which interim management statements, half-yearly and annual financial statements are prepared.

Assessment of the Investment Manager

The Board continually reviews the policies and performance of the Manager. The Board's philosophy and the Manager's approach are that the portfolio should consist of shares thought attractive irrespective of their index weightings. The portfolio's composition and performance are likely, therefore, to be very different from those of the benchmark index. Over the short term, there may be periods of sharp underperformance compared with the benchmark. Over the long term, the Board expects the combination of the Company's and Manager's approach to result in a significant degree of outperformance compared with the benchmark. The Board is satisfied with the current terms of appointment of the Manager.

Annually, the Board also considers the ongoing secretarial and administrative requirements of the Company and assesses the services. The Board, based on its recent review of activities, believes that the continuing appointment of Invesco Asset Management Limited remains in the best interest of the Company and its shareholders.

Directors

Directors are elected by ordinary resolution at a general meeting of ordinary shareholders. The Directors have the power to appoint a Director during the year but any person so appointed must stand for election at the next Annual General Meeting.

REPORT OF THE DIRECTORS

continued

Subject to its Articles of Association and the relevant statutory law and to such direction as may be given by the Company in general meeting by special resolution, the business of the Company is managed by the Directors, who may exercise all powers of the Company which are not required to be exercised by the Company in general meeting.

The present members of the Board, all of whom except John Wood who was appointed on 8 March 2011, served throughout the year, are listed on page 12 together with their biographies.

The Company's Articles of Association require that no Directors shall serve more than three years since previously elected or re-elected before offering himself or herself for re-election.

The Board decided in 2006 that, until further notice, all Directors will stand for annual re-election. Accordingly, resolutions 4 to 8 deal with the re-elections of the Directors at the forthcoming AGM on 20 December 2011.

The following table sets out the number of Board and Audit Committee meetings held during the year (and in the case of Directors who did not serve throughout the year, the meetings for which they were eligible to attend) and the number of meetings attended by each Director:

	BOARD MEETINGS		AUDIT COMMITTEE MEETINGS	
	HELD	ATTENDED	HELD	ATTENDED
David Adams	5	5	3	3
Beatrice Hollond	5	5	3	3
William Kendall	5	5	3	3
Richard Oldfield	2	2	1	1
Peter Readman[1]	5	5	—	—
John Wood	3	3	2	2

1. Not a member of the Audit Committee.

Apart from the meetings detailed above, there were a number of meetings held by committees of the Board to approve the Interim Management Statements of the Company and deal with other ad hoc items. The Board as a whole deals with all issues otherwise dealt with by Remuneration and Management Engagement Committees.

All Directors have letters of appointment which are available for inspection at the Registered Office of the Company and on the Company's website. All Directors are independent of the investment manager.

Directors' Interests

The beneficial interests of the Directors in the ordinary share capital of the Company are set out below:

	30 SEPTEMBER 2011	1 OCTOBER 2010
David Adams	—	—
Beatrice Hollond	—	—
William Kendall	6,250	4,500
Peter Readman	—	—
John Wood	1,000	n/a

Save as aforesaid, no Director had any interests, beneficial or otherwise, in the shares of the Company during the year. No Director held any of the Company's preference shares or debenture stocks at either date. No changes to these holdings had been notified up to the date of this report.

Disclosable Interests

No Director was a party to, or had any interests in, any contract or arrangement with the Company at any time during the year or at the year end. The Company has entered into a Deed of Indemnity with Directors under which Directors are indemnified by the Company for, *inter alia*, costs incurred in defending claims made by third parties.

Conflicts of Interest

A Director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the company's interests.

The Articles of Association of the Company provide that Directors can authorise potential conflicts of interest and there are safeguards that apply when Directors decide to do so. First, only Directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision the Directors must act in a way they consider, in good faith, is most likely to promote the Company's success. The Directors are able to impose limits or conditions when giving authorisation if they think this is appropriate.

The Directors have declared any potential conflicts of interest to the Company. Potential conflicts of interest are entered into the Company's Register of Potential Conflicts, which is reviewed regularly by the Board. The Directors have undertaken to advise the Company Secretary and/or Chairman as soon as they become aware of any potential conflicts of interest. Directors will not participate in Board decisions on issues when they may be conflicted.

Deeds of Indemnity

Deeds of Indemnity have been exercised on behalf of the Company for each of the Directors.

Under the terms of the indemnities, a Director may be indemnified out of the assets of the Company against all costs, charges, expenses, losses and liabilities which he may sustain or incur in or about the discharge of his duties or the exercise of his powers or discretions as a Director of the Company. This includes any liability incurred by the Director in disputing, defending, investigating or providing evidence in connection with any actual or threatened or alleged claims, demands, investigations or proceedings whether civil or criminal, and any settlement in respect thereof. Directors will continue to be indemnified under the terms of the indemnities notwithstanding that they may have ceased to be Directors of the Company.

However, Directors will not be entitled to be indemnified for any liability to the Company for fines payable to regulatory authorities, for defending any criminal proceedings in which they are convicted or in defending any civil proceedings brought by the Company. In the event that judgment is given against a Director in relation to any claim, the Director will repay to the Company any amount received from the Company under his indemnity. The indemnity does not apply to the extent that a liability is recoverable from any insurers, if it is prohibited by law, if it relates to tax payable on remuneration or other benefits received, or if a liability arises from an act or omission of the Director which is shown to have been in bad faith or arising from gross negligence.

Directors' and Officers' Liability Insurance

The Company maintains a Directors' and Officers' liability insurance policy.

Report of the Audit Committee

The Audit Committee is responsible to the Board for reviewing each aspect of the financial reporting process: the Manager's systems of internal control and management of the financial risks; the audit process; relationships with the external auditor; the Company's processes for monitoring compliance with laws and regulations; its code of business conduct; and for making recommendations to the Board.

The Company's internal financial controls and risk management systems have been reviewed with the Manager against risk parameters approved by the Board. The Audit Committee has also received a satisfactory report on the Manager's internal operations from the Manager's Compliance and Internal Audit Officers.

The audit programme and timetable were drawn up and agreed with the Auditor in advance of the Company's financial year end. At this stage, matters for audit focus were agreed. These matters were given particular attention during the audit process and among other matters they were reported on by the Auditor to the Audit Committee. These matters were considered by the Audit Committee and discussed with the Auditor and the Manager prior to approving and signing the financial statements.

The Audit Committee has reviewed the financial statements for the year ended 30 September 2011 with the Manager and the Auditor at the conclusion of the audit process.

Audit Information

The Directors confirm that, so far as they are aware, there is no relevant audit information of which the Company's Auditor is unaware; and each Director has taken steps that he or she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Auditor

The Audit Committee has considered the independence of the Auditor and the objectivity of the audit process and is satisfied that Ernst & Young LLP has fulfiled its obligations to shareholders and as independent auditor to the Company.

The Committee and the Board have approved an audit fee of £25,000, exclusive of expenses and VAT.

A resolution proposing the re-appointment of Ernst & Young LLP as the Company's auditor and authorising the Directors to determine their remuneration will be put to shareholders at the forthcoming AGM.

Individual Savings Account ('ISA')

The ordinary shares of the Company are qualifying investments under applicable ISA regulations.

Creditor Payment Policy

It is the Company's policy to obtain the best terms for all business, including purchases of investments, and to abide by those agreed terms. It is the Company's policy to settle all investment transactions according to settlement periods established for the relevant markets. The Company had no trade creditors at 30 September 2011 (2010: nil).

Donations

The Company made no political or charitable donations during the year.

Going Concern

The financial statements have been prepared on a going concern basis. The Directors consider this is the appropriate basis as they have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, being taken as 12 months after the signing of the balance sheet. In considering this, the Directors took into account the diversified portfolio of readily realisable securities which can be used to meet short-term funding commitments, and the ability of the Company to meet all of its liabilities and ongoing expenses. The Directors also considered the revenue forecasts for the forthcoming year and future dividend payments in concluding on the going concern basis.

CORPORATE GOVERNANCE STATEMENT

Corporate Governance Principles

The Board is committed to maintaining high standards of Corporate Governance and is accountable to shareholders for the governance of the Company's affairs.

In February 2006, the Financial Reporting Council ('FRC') first confirmed that AIC member companies who report against the AIC Code and who follow the AIC Guide would meet their obligations in relation to the Combined Code on Corporate Governance (now called the UK Corporate Governance Code (UK Code)) and paragraph 9.8.6 of the Listing Rules (relating to additional items to be included in the annual financial report). On 30 September 2010 the FRC provided the AIC with an updated endorsement letter to cover the fifth edition of the AIC Code. This statement describes how the principles of the AIC Code and Guide have been complied with in the affairs of the Company. Any reference to the 'AIC Code' in this statement includes references to the AIC Guide. Copies of the AIC Code and AIC Guide can be found on the AIC's website at *www.theaic.co.uk*.

The Board of Keystone Investment Trust plc has considered the principles and recommendations of the AIC Code by reference to the AIC Guide. The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the UK Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to Keystone Investment Trust plc.

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the UK Code), will provide better information to shareholders.

The Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Code, except as set out below:

The UK Code includes provisions relating to the role of the chief executive, executive directors' remuneration and the need for an internal audit function. For the reasons set out in the AIC Guide, and as explained in the UK Code, the Board considers these provisions are not relevant to the circumstances of Keystone Investment Trust plc, being an externally managed investment company.

Directors

Independence

The Board currently comprises five non-executive Directors, all of whom the Board regards as wholly independent of the Company's Manager.

The Board understands that concern has been expressed about length of service compromising independence, which is based on the view that after a certain period a director may not be sufficiently independent of management. The AIC does not believe that this is the case for investment companies and therefore does not recommend that long-serving directors be prevented from forming part of the independent majority.

The Board considers that the independence of Messrs Adams, Kendall and Readman, who have served on the Board for more than 9 years, is not compromised by their length of service, in particular because the current Manager has been in place for less than nine years. The Board believes that the Company benefits from a balance of board members with different tenures. All Directors, long-serving or not, will stand for annual re-election at the AGM.

All Directors are equally responsible under the law for the proper conduct of the Company's affairs, and for ensuring that its policies and operations are in the best interests of shareholders, creditors and suppliers to the Company.

Chairman

The Chairman of the Company is currently Beatrice Hollond, a non-executive and independent Director who has no conflicting relationships and succeeded Richard Oldfield when he retired from the Board on 14 December 2010. As the Company is an investment trust and sub-contracts its day-to-day investment management and administration, its Board consists exclusively of non-executive Directors and it does not have a Chief Executive Officer.

Beatrice Hollond has been on the Board since September 2003. She is subject to an annual performance appraisal. Following this year's appraisal, the Board has confirmed that Mrs Hollond's performance continues to be effective and therefore recommends her re-election.

The Chairman will be present at the AGM to answer questions.

Senior Independent Director/Deputy Chairman

The nature of an investment trust and the relationship between the Board and the Manager are such that it is considered unnecessary to identify a senior non-executive Director other than the Chairman.

All Directors are available to shareholders if they have concerns which contact through the normal channels of Chairman or Manager have failed to resolve, or for which such contact is inappropriate.

Board Balance

The Directors have a range of business, financial and asset management skills as well as experience relevant to the direction and control of the Company. Brief biographical details of members of the Board are shown on page 12.

Supply of Information

To enable the Directors of the Board to fulfil their roles, the Manager ensures that all Directors have timely access to all relevant management, financial and regulatory information.

On being appointed to the Board, Directors are fully briefed as to their responsibilities and are continually updated throughout their term in office on industry and regulatory matters. The Manager and the Board have formulated a programme of induction training for newly appointed Directors. They have also put arrangements in place to address ongoing training requirements of Directors which include briefings from key members of the Manager's staff and which ensure that Directors can keep up to date with new legislation and changing risks.

The Board meets on a regular basis at least five times each year. Additional meetings are arranged as necessary. Regular contact is maintained between the Manager, the Chairman and the other Directors between formal meetings.

Board meetings follow a formal agenda, which includes a review of the investment portfolio with a report from the Manager on the current investment position and outlook, strategic direction, performance against stock market indices and the Company's peer group, asset allocation, gearing policy, cash management, revenue forecasts for the financial year, marketing and shareholder relations, corporate governance, regulatory changes and industry and other issues.

Appointment, Re-election, Tenure and the Nomination Committee

As the Board is considered small for the purposes of the AIC Code, all Directors are members of the Nomination Committee under the chairmanship of Beatrice Hollond. The main responsibilities of the Nomination Committee are to review the size, structure and skills of the Board and to make recommendations with regard to any changes considered necessary or new appointments. The Nomination Committee has written terms of reference which are reviewed regularly and clearly define its responsibilities and duties. They will be available for inspection at the AGM and can be inspected at the Registered Office of the Company as well as on the Manager's website.

No Director has a contract of employment with the Company. Directors' terms and conditions of appointment are set out in letters of appointment which are available for inspection at the Registered Office of the Company and the Manager's website at *www.invescoperpetual.co.uk/investmenttrusts*. They will also be available at the AGM.

The Articles of Association require that a Director shall retire and be subject to re-election at the first AGM after appointment and at least every three years thereafter. The Board has resolved that, for the time being, all Directors shall stand for annual re-election at the AGM.

The Articles of Association provide that the Directors may, by notice in writing, remove any Director from the Board without notice or compensation.

The Chairman confirms that the performance of all Directors is and continues to be effective and demonstrates commitment to the role. She recommends to shareholders the approval of Resolutions 5 to 8 relating to the Directors seeking to be re-elected.

Board, Committee and Directors' Performance Appraisal

The Directors recognise the importance of the AIC Code's recommendations in respect of evaluating the performance of the Board as a whole, the Audit Committee and individual Directors. The performance of the Board, Audit Committee and Directors has been assessed during the year in terms of:

- attendance at Board and Committee meetings;
- the independence of individual Directors;
- the ability of Directors to make an effective contribution to the Board and Committees through the range and diversity of skills and experience each Director brings to their role; and
- the Board's ability to challenge the Manager's recommendations, suggest areas of debate and set the future strategy of the Company.

The Board again opted to conduct performance evaluation through questionnaires and discussion between the Directors, the Chairman and the Chairman of the Audit Committee. Findings and feedback from the previous evaluation were used as the basis for review and update of performance during the year. The result of this year's performance evaluation process was that the Board and the Audit Committee collectively and the Directors individually were deemed to have performed satisfactorily. The Directors are confident of their ability to continue to make effective contributions and to demonstrate commitment to their respective roles.

Directors' Remuneration

The Board as a whole reviews Directors' remuneration periodically. The Directors' Remuneration Report is set out on pages 33 and 34.

Relations with Shareholders

Shareholder relations are given high priority by both the Board and the Manager. The prime medium by which the Company communicates with shareholders is through the half-yearly and annual financial reports, which aim to provide shareholders with a full understanding of the Company's activities and its results. This information is supplemented by the daily calculation and publication, via the regulatory information service, of the net asset value of the Company's ordinary shares, the interim management statements and by a monthly fact sheet produced by the Manager. At each AGM, a presentation is made by the Fund Manager following the business of the Meeting and shareholders have the opportunity to communicate directly with the whole Board.

There is a regular dialogue between the Manager and institutional shareholders to discuss aspects of investment performance, governance and strategy and to listen to shareholder views in order to help develop an understanding of their issues and concerns. General presentations to both institutional shareholders and analysts follow the publication of the annual results. All meetings between the Manager and institutional and other shareholders are reported to the Board.

It is the intention of the Board that the Annual Financial Report and Notice of the AGM be issued to shareholders so as to provide at least twenty working days' notice of the AGM. Shareholders wishing to lodge questions in advance of the AGM are invited to do so, either on the reverse of the proxy card or otherwise in writing to the Company Secretary at the address given on page 13. At other times, the Company responds to any letters from shareholders.

Shareholders can also visit the Manager's investment trust website: *www.invescoperpetual.co.uk/investmenttrusts* in order to access copies of half-yearly and annual financial reports; interim management statements; shareholder circulars; Company factsheets; regulatory announcements; and ISA and savings scheme literature. Shareholders can also access various Company reviews and information such as an overview of UK equities and the Company's share price. Shareholders are also able to access copies of the schedule of matters reserved for the Board and the terms of reference of the Audit Committee and the Nomination Committee, the Directors' letters of appointment and, following any shareholders' general meetings, proxy voting results.

Accountability and Audit

The Directors' responsibilities with regard to the Company's accounting records and financial statements are set out on page 35 and the Independent Auditor's Report is set out on pages 36 and 37.

Internal Financial and Non-Financial Controls

The Directors acknowledge that they are responsible for ensuring that the Company maintains a sound system of internal financial and non-financial controls ('internal controls') to safeguard shareholders' investments and the Company's assets.

The Company's internal controls and risk management systems have been reviewed with the Manager against risk parameters approved by the Board. The Audit Committee has also received a satisfactory report on the Manager's internal operations from the Manager's Compliance and Internal Audit Officers. The Audit Committee is pleased to report that, as a result of this year's review, no weaknesses were found in the financial reporting process.

The Board reviews, at least annually, the effectiveness of the Company's system of internal controls, including financial, operational and compliance and risk management systems. The Company's system of internal control is designed to manage rather than eliminate risk of failure to achieve the Company's investment objective and/ or adhere to the Company's investment policy and/or investment limits. The system can therefore only provide reasonable and not absolute assurance against material misstatement or loss. The Board confirms that the necessary actions are taken to remedy any significant failings or weaknesses identified from its review. No significant failings or weaknesses occurred during the year ended 30 September 2011 or subsequently up to the date of this annual financial report.

As stated above, the Board meets regularly, at least five times a year, and reviews financial reports and performance against approved forecasts, relevant stock market criteria and the Company's peer group. In addition, the Manager and Custodian maintain their own systems of internal controls and the Board and the Audit Committee receive regular reports from the Internal Audit and Compliance Departments of the Manager. Formal reports are also produced annually on the internal controls and procedures in place for the operation of secretarial and administrative, custodial, investment management and accounting activities and are reviewed annually by the Board. The programme of reviews is set up by the Manager and the reports are not necessarily directed to the affairs of any one client of the Manager.

The control systems are designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate the risk of failure to achieve business objectives. The Directors consider that these procedures enable the Company to comply with the Financial Reporting Council's Internal Control: Revised Guidance for Directors on the Combined Code.

Internal Audit Function

The Audit Committee has reviewed the need for the Company to establish an internal audit function, but, in view of the extent of the Manager's executive responsibilities and, given that the Manager has an internal audit function, consider that such a function is not necessary for the Company.

Board Responsibilities

Directors have a duty to promote the success of the Company taking into consideration the likely consequences of any decision in the long-term; the need to foster the Company's business relationships with its Manager and advisers; the impact of the Company's operations on the community and the environment; the desirability of the Company maintaining a reputation for high standards of business conduct; and the need to act fairly as between shareholders of the Company.

The Directors are equally responsible under United Kingdom law for the proper conduct of the Company's affairs and for promoting the success of the Company by directing and supervising its affairs within a framework of effective controls which enable risk to be assessed and managed. In addition, the Directors are responsible for ensuring that the Company's policies and operations are in the best interest of all of its shareholders and that the interests of creditors and suppliers to the Company are properly considered.

The Board is committed to the prevention of corruption in the conduct of the Company's affairs and, taking account of the nature of the Company's business and operations, has put in place procedures that the Board considers adequate to prevent persons associated with it from engaging in bribery for and on behalf of the Company.

A formal schedule of matters reserved for decision by the Board and detailing the responsibilities of the Board has been established. The main responsibilities include: setting the Company's objectives, policies and standards, ensuring that the Company's obligations to shareholders and others are understood and complied with, approving accounting policies and dividend policy, managing the capital structure, setting long-term objectives and strategy, assessing risk, reviewing investment performance, approving loans and borrowing, and controlling risk, approving recommendations made by the Audit Committee, reviewing Directors' remuneration, undertaking nomination responsibilities and assessing the Manager on an ongoing basis. The schedule of matters reserved for decision by the Board will be available for inspection at the AGM and is otherwise available at the Registered Office of the Company and on the Manager's website at *www.invescoperpetual.co.uk/investmenttrusts*.

The Board also seeks to ensure that shareholders are provided with sufficient information in order to understand the risk/reward balance to which they are exposed by holding their shares, through the portfolio details given in the annual and half-yearly financial reports, interim management statements, factsheets and daily net asset value disclosures.

There is an agreed procedure for Directors, in the furtherance of their duties, to take legal advice at the Company's expense up to an initial cost of £5,000, having first consulted with the Chairman.

The Board as a whole undertakes the responsibilities which would otherwise be assumed by committees for management engagement and remuneration:

- *Management Engagement*
  The Board as a whole operates as the Management Engagement Committee by reviewing all supplier services, and in particular the Investment Management and Services Agreements, annually. The performance of the Managers in respect of investment performance and administration is reviewed formally in respect of agreed standards and reported on in the Report of the Directors under 'Assessment of the Investment Manager' on page 23.
- *Remuneration*
  The Board as a whole operates as a Remuneration Committee by determining the Company's remuneration policy, taking into account all factors which are deemed necessary in order to ensure that members of the Board are provided with appropriate compensation and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company. The remuneration of Directors is reviewed periodically and reported on in more detail in the Directors' Remuneration Report on pages 33 and 34.

The Manager's Responsibilities

The Manager is responsible for the day-to-day investment management decisions of the Company and for the provision of Company Secretarial and Accounting Services. A statement of the Manager's responsibilities is shown on page 35 in the Report of the Directors.

The Board has reviewed and accepted the Manager's 'whistleblowing' policy under which staff of Invesco Asset Management can, in confidence, raise concerns about possible improprieties or irregularities in matters affecting the Company.

The Audit Committee

The Board is currently supported by an Audit Committee consisting of Mrs Hollond and Messrs Adams, Kendall and Wood. The Chairman of the Audit Committee is David Adams. A separate risk committee has not been established. The Audit Committee has written terms of reference which clearly define its responsibilities and duties. The terms of reference of the Audit Committee, including its role and authority, will be available for inspection at the AGM and can be inspected at the Registered Office of the Company or on the Manager's website at *www.invescoperpetual.co.uk/investmenttrusts*.

The Audit Committee is responsible to the Board for reviewing each aspect of the financial reporting process, systems of internal control and the management of financial risks, the audit process, relationships with the external auditor, the Company's processes for monitoring compliance with laws and regulations, its code of business conduct and for making recommendations to the Board.

The Audit Committee is responsible for the appointment, reappointment and removal of the auditor as laid out in the terms of reference of the Audit Committee.

The Audit Committee meets at least three times a year to review the internal financial and non-financial controls, accounting policies and the contents of the interim and annual reports to shareholders.

In addition, the Committee reviews the Auditor's independence, objectivity and effectiveness, the quality of the services of the service providers to the Company and, together with the Manager, reviews the Company's compliance with financial reporting and regulatory requirements as well as risk management processes. At each meeting, representatives of the Manager's Internal Audit and Compliance Departments are present. Representatives of Ernst & Young LLP, the Company's Auditor, attend the Committee meeting at which the draft annual financial report is reviewed and are given the opportunity to speak to Committee members without the presence of representatives of the Manager.

REPORT OF THE DIRECTORS
continued

The audit programme and timetable are drawn up and agreed with the Company's Auditor in advance of the financial year-end. At this stage, matters for audit focus are discussed and agreed. These matters are given particular attention during the audit process and, among other matters, are reported on by the Auditor in their report to the Committee. This report is considered by the Committee and discussed with the Auditor and the Manager prior to approval and signature of the Financial Statements.

It is the Company's policy normally not to seek substantial non-audit services from its auditor. The Audit Committee considers whether the skills and experience of the auditor make them a suitable supplier of the non-audit service and whether there are safeguards in place to ensure that there is no threat to objectivity and independence in the conduct of the audit resulting from the provision of such services by the auditor.

Apart from the normal audit-related services, the Company's auditor also provides tax compliance services. Details are set out in note 4 to the financial statements.

The Chairman of the Audit Committee will be present at the AGM to deal with questions relating to the accounts.

The Company Secretary

The Board has direct access to the advice and services of the Company Secretary, Invesco Asset Management Limited, which is responsible for ensuring that the Board and Committee procedures are followed and that applicable rules and regulations are complied with. The Company Secretary is also responsible to the Board for ensuring timely delivery of information and reports and that the statutory obligations of the Company are met. Finally, the Company Secretary is responsible for advising the Board through the Chairman on all governance matters.

Stewardship

The Board considers that the Company has a responsibility as a shareholder towards ensuring that high standards of Corporate Governance are maintained in the companies in which it invests. To achieve this, the Board does not seek to intervene in daily management decisions, but aims to support high standards of governance and, where necessary, will take the initiative to ensure these standards are met. The principal means of putting shareholder responsibility into practice is through the exercise of voting rights. The Company's voting rights are exercised on an informed and independent basis.

The Company's stewardship functions have been delegated to the Manager. The Manager has adopted a clear and considered policy towards its responsibility as a shareholder on behalf of the Company. As part of this policy, the Manager takes steps to satisfy itself about the extent to which the companies in which it invests look after shareholders' value and comply with local recommendations and practices, such as the UK Corporate Governance Code. A copy of the Manager's Policy on Corporate Governance and stewardship can be found at *www.invescoperpetual.co.uk*.

By order of the Board

Invesco Asset Management Limited
Company Secretary
30 Finsbury Square
London EC2A 1AG

17 November 2011

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 30 SEPTEMBER 2011

The Board presents this Remuneration Report which has been prepared under the requirements of Schedule 8 to the Large and Medium-sized Companies and Group Regulations 2008 and in accordance with the Directors' Remuneration Report Regulations 2002 and the Listing Rules of the Financial Services Authority. An ordinary resolution for the approval of this Report will be put to shareholders at the Annual General Meeting.

The Company's auditor is required to audit certain of the disclosures provided in this Report. Where disclosures have been audited, they are indicated in this Report. The independent auditor's opinion is included in the Report on pages 36 and 37.

Remuneration Responsibilities

The Board has resolved that a remuneration committee is not appropriate for a company of this size and nature. Remuneration is therefore regarded as part of the Board's responsibilities to be addressed regularly.

All Directors are non-executive and all participate in meetings of the Board at which Directors' remuneration is considered. The Board seeks advice, *inter alios*, from the Company Secretary, Invesco Asset Management Limited, when considering the level of Directors' fees.

Throughout the year under review, Directors' remuneration was as follows:

– Chairman: £25,000;
– Chairman of the Audit Committee: £22,500; and
– Directors: £18,000.

Policy on Directors' Remuneration

The Board's policy is that the remuneration of non-executive Directors should be fair and reasonable in relation to that of other comparable investment trusts and to the time incurred and responsibility undertaken. It is intended that this policy will continue for the year ending 30 September 2012 and subsequent years.

Fees for the Directors are determined by the Board within the limits stated in the Company's Articles of Association. The maximum currently dictated by the Company's Articles of Association is £150,000 in aggregate per annum. The Directors are not eligible for bonuses, pension benefits, share options or other incentives or benefits.

Directors' Service Contracts

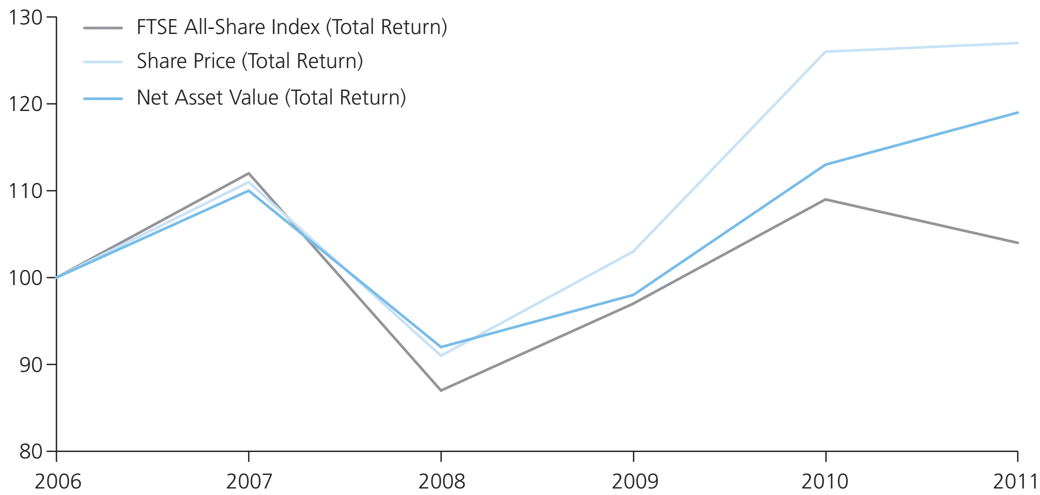
All Directors have letters of appointment which are available for inspection at the Registered Office of the Company and on the Company's website. Under the Articles of Association of the Company, the terms of the Directors' appointment provide that a Director shall retire and be subject to re-election at the first AGM after appointment and at least every three years thereafter. However, the Board has decided that, for the time being, all Directors retire at every AGM and offer themselves for re-election. The terms of the appointment letters also provide that a Director may be removed from office without notice and that no compensation will be due on leaving office.

The Company's Performance

The graph overleaf plots the total return net asset value and total return share price to ordinary shareholders compared to the total return of the FTSE All-Share Index over the 5 years to 30 September 2011. This index is the benchmark adopted by the Company for comparison purposes. (Figures have been rebased to 100 at 30 September 2006.) Graphs showing the performance over the last 10 years and since the appointment of the present Manager are shown on page 3.

DIRECTORS' REMUNERATION REPORT

continued



Directors' Emoluments for the Year (Audited)

The Directors who served during the year received the following emoluments in the form of fees:

	2011 £	2010 £
Beatrice Hollond (Appointed Chairman of the Board on 14 December 2010)	23,605	14,000
David Adams (Chairman of the Audit Committee)	22,500	17,500
William Kendall*	18,000	14,000
Peter Readman*	18,000	14,000
John Wood	10,183	—
Richard Oldfield (Retired 14 December 2010)	5,126	20,000
Total	97,414	79,500

*£18,000 plus VAT each was paid to third parties in respect of Directors' services for William Kendall and Peter Readman (2010: £14,000 each).

Approval

The Directors' Remuneration Report was approved by the Board of Directors on 17 November 2011.

Beatrice Hollond
Chairman

Signed on behalf of the Board of Directors

17 November 2011

STATEMENT OF DIRECTORS' RESPONSIBILITIES
IN RESPECT OF THE PREPARATION OF FINANCIAL STATEMENTS

The Directors are responsible for preparing the annual financial report in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping adequate accounting records which are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the accounts comply with company law. 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.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, a Directors' Remuneration Report and a Corporate Governance Statement that comply with that law and those regulations.

The Directors of the Company, whose names are shown on page 12 of this Report, each confirm to the best of their knowledge that:

- the accounts, which have been prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- this annual financial report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

Beatrice Hollond

Chairman

Signed on behalf of the Board of Directors

17 November 2011

Electronic Publication

The annual financial report is published on *www.invescoperpetual.co.uk/investmenttrusts* which is the Company's website maintained by the Company's Manager. The work carried out by the Auditor does not involve consideration of the maintenance and integrity of this website and accordingly, the Auditor accepts no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF KEYSTONE INVESTMENT TRUST PLC

We have audited the financial statements of Keystone Investment Trust plc for the year ended 30 September 2011 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 35, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual financial report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2011 and of its net return for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on Other Matters Prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are Required to Report by Exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or

- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' Statement, set out on page 26, in relation to going concern;
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the 2010 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Caroline Gulliver (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

17 November 2011

INCOME STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER

	NOTES	2011 REVENUE £'000	2011 CAPITAL £'000	2011 TOTAL £'000	2010 REVENUE £'000	2010 CAPITAL £'000	2010 TOTAL £'000
Gains on investments	9	—	4,930	4,930	—	17,312	17,312
(Losses)/gains on certificates of deposit	10	—	(6)	(6)	—	1	1
Foreign exchange losses		—	(295)	(295)	—	(149)	(149)
Income	2	7,391	—	7,391	6,864	—	6,864
Investment management fee	3	(312)	(935)	(1,247)	(280)	(840)	(1,120)
Other expenses	4	(323)	—	(323)	(294)	—	(294)
Net return before finance costs and taxation		6,756	3,694	10,450	6,290	16,324	22,614
Finance costs	5	(559)	(1,641)	(2,200)	(772)	(2,283)	(3,055)
Return on ordinary activities before tax		6,197	2,053	8,250	5,518	14,041	19,559
Tax on ordinary activities	6	(112)	—	(112)	(90)	—	(90)
Return on ordinary activities after tax for the financial year		6,085	2,053	8,138	5,428	14,041	19,469
Return per ordinary share							
Basic	8	45.5p	15.4p	60.9p	40.6p	105.0p	145.6p

The total column of this statement represents the Company's profit and loss account, prepared in accordance with the accounting policies detailed in note 1 to the financial statements. The supplementary revenue and capital columns are presented for information purposes in accordance with the Statement of Recommended Practice issued by the Association of Investment Companies. All items in the above statement derive from continuing operations and the Company has no other gains or losses. Therefore no statement of total recognised gains or losses is presented. No operations were acquired or discontinued in the year.

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

FOR THE YEAR ENDED 30 SEPTEMBER

	SHARE CAPITAL £'000	SHARE PREMIUM £'000	CAPITAL REDEMPTION RESERVE £'000	CAPITAL RESERVE £'000	REVENUE RESERVE £'000	TOTAL £'000
Balance as at 30 September 2009	6,685	1,258	466	131,539	10,304	150,252
Dividends paid – note 7	—	—	—	—	(7,567)	(7,567)
Net return on ordinary activities	—	—	—	14,041	5,428	19,469
Balance as at 30 September 2010	6,685	1,258	466	145,580	8,165	162,154
Dividends paid – note 7	—	—	—	—	(6,039)	(6,039)
Net return on ordinary activities	—	—	—	2,053	6,085	8,138
Balance as at 30 September 2011	6,685	1,258	466	147,633	8,211	164,253

The accompanying notes are an integral part of these statements.

BALANCE SHEET

AT 30 SEPTEMBER

	NOTES	2011 £'000	2010 £'000
Fixed assets			
Investments held at fair value through profit or loss	9	179,393	174,833
Current assets			
Certificates of deposit	10	13,000	28,000
Debtors	11	1,380	731
Cash and cash funds		3,441	—
		17,821	28,731
Creditors: amounts falling due within one year	12	(1,089)	(9,559)
Net current assets		16,732	19,172
Total assets less current liabilities		196,125	194,005
Creditors: amounts falling due after more than one year	13	(31,872)	(31,851)
Net assets		164,253	162,154
Capital and reserves			
Share capital	14	6,685	6,685
Share premium	15	1,258	1,258
Capital redemption reserve	15	466	466
Capital reserve	15	147,633	145,580
Revenue reserve	15	8,211	8,165
Shareholders' funds		164,253	162,154
Net asset value per ordinary share			
Basic	16	1228.6p	1212.9p

These financial statements were approved and authorised for issue by the Board of Directors on 17 November 2011.

Signed on behalf of the Board of Directors

Beatrice Hollond
Chairman

The accompanying notes are an integral part of this statement.

CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER

	NOTES	2011 £'000	2010 £'000
Cash inflow from operating activities	17(a)	5,571	5,946
Servicing of finance	17(b)	(2,179)	(3,036)
Capital expenditure and financial investment	17(b)	14,935	811
Net equity dividends paid	7	(6,039)	(7,567)
Net cash inflow/(outflow) before management of liquid resources and financing		12,288	(3,846)
Management of liquid resources		—	—
Increase/(decrease) in cash		12,288	(3,846)
Reconciliation of net cash flow to movement in net debt			
Increase/(decrease) in cash		12,288	(3,846)
Exchange movements		(366)	(397)
Debenture stock non-cash movement		(21)	(19)
Movement in net debt in the year		11,901	(4,262)
Net debt at beginning of the year		(40,332)	(36,070)
Net debt at end of the year	17(c)	(28,431)	(40,332)

The accompanying notes are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the year and the preceding year, is set out below.

(a) Basis of preparation

(i) *Accounting Standards applied*

The financial statements have been prepared in accordance with applicable United Kingdom Accounting Standards and with the Statement of Recommended Practice ('SORP') 'Financial Statements of Investment Trust Companies and Venture Capital Trusts', issued by the Association of Investment Companies in January 2009. The financial statements are also prepared on a going concern basis.

(ii) *Functional and presentation currency*

The financial statements are presented in sterling, which is the Company's functional and presentation currency and the currency in which the Company's share capital and expenses, as well as a majority of its assets and liabilities, are denominated.

(b) Financial instruments

(i) *Recognition of financial assets and financial liabilities*

The Company recognises financial assets and financial liabilities when the Company becomes a party to the contractual provisions of the instrument. The Company will offset financial assets and financial liabilities if the Company has a legally enforceable right to set off the recognised amounts and interests and intends to settle on a net basis.

(ii) *Derecognition of financial assets*

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire or it transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in the transferred financial asset that is created or retained by the Company is recognised as an asset.

(iii) *Derecognition of financial liabilities*

The Company derecognises financial liabilities when its obligations are discharged, cancelled or expired.

(iv) *Trade date accounting*

Purchases and sales of financial assets are recognised on trade date, being the date on which the Company commits to purchase or sell the assets.

(v) *Classification and measurement of financial assets and financial liabilities*

Financial assets

The Company's investments are classified as held at fair value through profit or loss.

Financial assets held at fair value through profit or loss are initially recognised at fair value, which is taken to be their cost, with transaction costs expensed in the income statement, and are subsequently valued at fair value.

Fair value for investments that are actively traded in organised financial markets is determined by reference to stock exchange quoted bid prices at the balance sheet date. For investments that are not actively traded or where active stock exchange quoted bid prices are not available, fair value is determined by reference to a variety of valuation techniques including broker quotes and price modelling. Where there is no active market, unlisted/illiquid investments are valued by the Directors at fair value based on recommendations from Invesco's Pricing Committee, which in turn is guided by the International Private Equity and Venture Capital Valuation Guidelines, using valuation techniques such as earnings multiples, recent arm's length transactions and net assets.

Financial liabilities

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method.

1. Accounting policies (continued)

(c) Income

Dividend income arises from equity investments held and is recognised on the date investments are marked 'ex-dividend'. Where the Company elects to receive dividends in the form of additional shares rather than cash, the equivalent to the cash dividend is recognised as income in the revenue account and any excess in value of the shares received over the amount of the cash dividend is recognised in capital reserve. Interest income arising from fixed income securities and cash is recognised in the income statement using the effective interest method. Deposit interest and underwriting commission receivable are taken into account on an accruals basis.

(d) Management and performance-related fees

Investment management fees are charged 75% to capital and 25% to revenue. This is in line with the Board's expected long-term split of returns, in the form of capital gains and income respectively, from the investment portfolio of the Company.

Performance-related fees are calculated as detailed in the Report of the Directors and are charged wholly to capital as they arise mainly from capital returns on the portfolio.

(e) Expenses and finance costs

Expenses are recognised on an accruals basis and finance costs are recognised using the effective interest method, with the debentures being held at amortised cost. The finance costs of debt are allocated 75% to capital and 25% to revenue for the reasons outlined in (d) above. The 5% cumulative preference shares are classified as a liability and therefore the dividends payable on these shares are classified as finance costs and charged to the revenue column of the income statement.

(f) Hedging and derivatives

Forward currency contracts entered into for hedging purposes are valued at the appropriate forward exchange rate ruling at the balance sheet date. Profits or losses on the closure or revaluation of positions are included in capital.

Futures contracts may be entered into for hedging purposes and any profits and losses on the closure or revaluation of positions are included in capital.

Derivative instruments are valued at fair value in the balance sheet. Derivative instruments may be capital or revenue in nature and, accordingly, changes in their fair value are recognised in revenue or capital in the income statement as appropriate.

(g) Foreign currency translation

Transactions in foreign currency, whether of a revenue or capital nature, are translated to sterling at the rates of exchange ruling on the dates of such transactions. Foreign currency assets and liabilities are translated to sterling at the rates of exchange ruling at the balance sheet date. Any gains or losses, whether realised or unrealised, are taken to capital or to revenue, depending on whether the gain or loss is of a capital or revenue nature. All gains and losses are recognised in the income statement.

(h) Taxation

Foreign dividends that suffer withholding tax at source are shown gross, with the corresponding tax charge in the income statement.

Deferred taxation is provided using the liability method on all timing differences to the extent that they are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse.

(i) Dividends payable

Dividends are not recognised in the accounts unless there is an obligation to pay at the balance sheet date. Proposed final dividends are recognised in the period in which they are either approved by or paid to shareholders.

2. Income

	2011 £'000	2010 £'000
Income from investments		
UK dividends	6,463	5,901
Overseas dividends	752	601
UK unfranked investment income – interest	174	310
Scrip dividends	—	38
	7,389	6,850
Other income		
Deposit interest	2	8
Underwriting commission	—	6
	2	14
Total income	7,391	6,864

3. Investment management fee

	2011			2010		
	REVENUE £'000	CAPITAL £'000	TOTAL £'000	REVENUE £'000	CAPITAL £'000	TOTAL £'000
Investment management fee	312	935	1,247	280	840	1,120
	312	935	1,247	280	840	1,120

Details of the management agreement are disclosed in the Report of the Directors. The performance fee is based on a calendar year basis; no performance fee has been provided for the year ended 31 December 2011 (31 December 2010 and 31 December 2009: none).

4. Expenses

	2011 £'000	2010 £'000
Directors' fees	97	80
Fees payable to the Company's auditor in relation to*:		
– the audit of the financial statements	25	25
– for other services, relating to taxation	4	4
Other expenses	197	185
	323	294

* Fees payable to the Company's auditor are shown excluding VAT which is included in other expenses.

5. Finance costs

	2011 REVENUE £'000	2011 CAPITAL £'000	2011 TOTAL £'000	2010 REVENUE £'000	2010 CAPITAL £'000	2010 TOTAL £'000
Interest payable on borrowings repayable not by installment:						
Interest payable on overdraft	—	—	—	—	2	2
Debenture stock repayable in less than 1 year	—	—	—	213	640	853
Debenture stock repayable after 5 years	547	1,641	2,188	547	1,641	2,188
	547	1,641	2,188	760	2,283	3,043
Dividends on 5% Cumulative preference shares	12	—	12	12	—	12
	559	1,641	2,200	772	2,283	3,055

6. Taxation

(a) Current tax charge

	2011 REVENUE £'000	2010 REVENUE £'000
Overseas tax	112	90

(b) Reconciliation of current tax charge

	2011 £'000	2010 £'000
Total return on ordinary activities before taxation	8,250	19,559
UK Corporation Tax effective rate of 27% (2010: 28%)	2,228	5,477
Effect of:		
– Gains on investments and certificates of deposit	(1,330)	(4,848)
– Losses on foreign exchange movements	80	41
– UK dividends which are not taxable	(1,745)	(1,652)
– Non-taxable overseas dividends	(203)	(168)
– Overseas tax	112	90
– Non-taxable scrip dividends	—	(11)
– Disallowed expenses	8	6
– Movement in unutilised management expenses	962	1,155
Current tax charge for the year	112	90

(c) Factors that may affect future tax changes

The Company has excess expenses of £45,488,000 (2010: £41,923,000) that are available to offset future taxable revenue. A deferred tax asset has not been recognised in respect of these expenses since the directors believe that there will be no taxable profits in the future against which the deferred tax assets can be offset.

7. Dividends

	2011 £'000	2010 £'000
Dividends on equity shares paid and recognised in the year:		
Final dividend for 2010 of 28p (2009: 28p)	3,743	3,743
Special dividend of 11.1p in respect of VAT refunds	—	1,484
Interim dividend for 2011 of 17.5p (2010: 17.5p)	2,340	2,340
Return of unclaimed dividends from previous years	(44)	—
	6,039	7,567

	2011 £'000	2010 £'000
Dividends on equity shares payable in respect of the year:		
Interim paid 17.5p per ordinary share (2010: 17.5p)	2,340	2,340
Proposed final dividend of 29p per ordinary share (2010: 28p)	3,877	3,743
	6,217	6,083

8. Return per ordinary share

Basic revenue, capital and total return per ordinary share is based on each of the returns on ordinary activities after taxation and on 13,368,799 (2010: 13,368,799) shares being the number of ordinary shares in issue throughout the year.

9. Investments

(a) Analysis of investments by listing status

	2011 £'000	2010 £'000
Investments listed on a recognised stock exchange	171,725	169,599
Unlisted investments	7,668	5,234
	179,393	174,833

(b) Analysis of investment gains and losses

	2011 LISTED £'000	2011 UNLISTED £'000	2011 TOTAL £'000	2010 TOTAL £'000
Opening valuation	169,599	5,234	174,833	165,788
Movements in year:				
Purchases at cost	40,259	1,772	42,031	34,081
Sales– proceeds	(42,401)	—	(42,401)	(42,348)
– net realised gains on sales	6,429	—	6,429	4,191
Transfer in the year	(513)	513	—	—
Movement in investment holding (losses)/gains	(1,648)	149	(1,499)	13,121
Closing valuation	171,725	7,668	179,393	174,833
Closing book cost	164,062	5,336	169,398	163,339
Closing investment holding gains	7,663	2,332	9,995	11,494
Closing valuation	171,725	7,668	179,393	174,833
Net realised gains based on historical cost	6,429	—	6,429	4,191
Movement in investment holding (losses)/gains in year	(1,648)	149	(1,499)	13,121
Gains on investments	4,781	149	4,930	17,312

NOTES TO THE FINANCIAL STATEMENTS
continued

9. Investments (continued)

(c) Transaction costs

Transaction costs on purchases of £225,000 (2010: £191,000) and on sales of £39,000 (2010: £46,000) are included within gains and losses on investments in the income statement.

10. Certificates of deposit

	2011 £'000	2010 £'000
Opening valuation	28,000	20,999
Movements in the year:		
Purchases	62,020	101,002
Sales – proceeds	(77,014)	(94,002)
– net realised gains	4	—
Movements in investment holding (losses)/gains	(10)	1
Closing valuation	13,000	28,000
Closing book cost	13,010	28,000
Closing investment holding losses	(10)	—
Closing valuation	13,000	28,000
Net realised gains based on historical cost	4	—
Movement in investment holding (losses)/gains in year	(10)	1
(Losses)/gains on certificates of deposit	(6)	1

11. Debtors

	2011 £'000	2010 £'000
Amounts due from brokers	429	—
Unrealised profit on forward currency contracts	83	12
Prepayments and accrued income	835	719
Tax recoverable	33	—
	1,380	731

12. Creditors: amounts falling due within one year

	2011 £'000	2010 £'000
Bank overdraft	—	481
Debenture Stock:		
10.25% redeemable 1 October 2010	—	5,000
11.375% redeemable 1 October 2010	—	3,000
Accruals and deferred income	1,089	1,078
	1,089	9,559

13. Creditors: amounts falling due after more than one year

	2011 £'000	2010 £'000
Debenture Stock:		
7.75% redeemable 1 October 2020	7,000	7,000
6.5% redeemable 27 April 2023	25,000	25,000
	32,000	32,000
Discount and issue expenses on debenture stock	(378)	(399)
	31,622	31,601
5% cumulative preference shares of £1 each	250	250
	31,872	31,851

The dividend entitlement of the preference shares is cumulative and on a winding-up holders would be entitled to repayment of capital and any arrears of dividends in priority to the ordinary shares. Preference shareholders are not entitled to vote at general meetings of the Company.

14. Share capital

	2011		2010	
	NUMBER	£'000	NUMBER	£'000
Authorised				
Ordinary shares of 50p each	20,000,000	10,000	20,000,000	10,000
Allotted, called-up and fully paid:				
Ordinary shares of 50p each	13,368,799	6,685	13,368,799	6,685

The ordinary shares are fully participating and carry one vote per £1 nominal held.

15. Reserves

The capital redemption reserve maintains the equity share capital arising from the buy back and cancellation of shares; it, and the share premium account, are non-distributable.

The capital reserve includes the investment holding gains/(losses), being the difference between cost and market value at the balance sheet date, totalling a gain of £9,985,000 (2010: £11,494,000). The capital reserve is non-distributable, however, it can be used to fund share buy backs.

The revenue reserve is the only reserve that is distributable by way of dividend.

16. Net asset value per ordinary share

The net asset value per ordinary share and the net assets attributable at the year end were as follows:

	NET ASSET VALUE PER SHARE		NET ASSETS ATTRIBUTABLE	
	2011 PENCE	2010 PENCE	2011 £'000	2010 £'000
Ordinary shares				
– Basic	1228.6	1212.9	164,253	162,154

Net asset value per ordinary share is based on net assets at the year end and on 13,368,799 (2010: 13,368,799) ordinary shares, being the number of ordinary shares in issue at the year end.

17. Notes to the cash flow statement

(a) Reconciliation of operating profit to operating cash flows

	2011 £'000	2010 £'000
Total return before finance costs and taxation	10,450	22,614
Adjustment for gains on investments and certificates of deposit	(4,924)	(17,313)
Adjustment for exchange losses	295	149
Scrip dividends	—	(38)
(Increase)/decrease in debtors	(149)	604
Increase in creditors and provisions	11	20
Tax on overseas dividends	(112)	(90)
Net cash inflow from operating activities	5,571	5,946

(b) Analysis of cash flow for headings netted in the cash flow statement

	2011 £'000	2010 £'000
Servicing of finance		
Preference dividends paid	(12)	(12)
Bank interest paid	—	(2)
Interest paid on debenture stocks	(2,167)	(3,022)
Net cash outflow from servicing of finance	(2,179)	(3,036)
Capital expenditure and financial investment		
Purchase of investments*	(42,031)	(35,103)
Sale of investments	41,972	42,914
Purchase of certificates of deposit	(62,020)	(101,002)
Sale of certificates of deposit	77,014	94,002
Net cash inflow from capital expenditure and financial investments	14,935	811

*Excludes scrip dividends received as income.

(c) Analysis of changes in net debt

	1 OCTOBER 2010 £'000	CASH FLOW £'000	EXCHANGE MOVEMENTS £'000	DEBENTURE STOCK NON-CASH MOVEMENT £'000	30 SEPTEMBER 2011 £'000
Cash/(bank overdraft)	(481)	4,288	(366)	—	3,441
Debentures	(39,601)	8,000	—	(21)	(31,622)
5% Cumulative preference shares	(250)	—	—	—	(250)
Net debt	(40,332)	12,288	(366)	(21)	(28,431)

18. Financial instruments

The Company's financial instruments comprise its investment portfolio (as shown on pages 9 and 10), cash, borrowings, debtors and creditors that arise directly from its operations such as sales and purchases awaiting settlement and accrued income. The accounting policies in note 1 include criteria for the recognition and the basis of measurement applied for financial instruments. Note 1 also includes the basis on which income and expenses arising from financial assets and liabilities are recognised and measured.

The principal risks that an investment company faces in its portfolio management activities are set out below:

> ***Market risk*** – arising from fluctuations in the fair value or future cash flows of a financial instrument because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk:
>
> > *Currency risk* – arising from fluctuations in the fair value or future cash flows of a financial instrument because of changes in foreign exchange rates;
> >
> > *Interest rate risk* – arising from fluctuations in the fair value or future cash flows of a financial instrument because of changes in market interest rates; and
> >
> > *Other price risk* – arising from fluctuations in the fair value or future cash flows of a financial instrument for reasons other than changes in foreign exchange rates or market interest rates.
>
> ***Liquidity risk*** – arising from any difficulty in meeting obligations associated with financial liabilities.
>
> ***Credit risk*** – arising from financial loss for a company where the other party to a financial instrument fails to discharge an obligation.

Risk management policies and procedures

The Directors have delegated to the Manager the responsibility for the day-to-day investment activities of the Company as more fully described in the Report of the Directors.

An investment company invests in equities and other investments for the long term so as to meet its investment objective and policies. In pursuing its investment objective, the Company is exposed to a variety of risks that could result in either a reduction in the Company's net assets or a reduction of the profits available for dividends.

The risks applicable to the Company and the policies the Company used to manage these risks for the two years under review follow.

Market risk

The Company's Manager assesses the Company's exposure when making each investment decision, and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis. The Board meets at least quarterly to assess risk and review investment performance, as disclosed on pages 30 and 31. No derivative or hedging instruments are utilised to manage market risk. Gearing is used to enhance returns, however, this will also increase the Company's exposure to market risk and volatility.

Currency risk

The majority of the Company's assets, liabilities and income are denominated in sterling. There is some exposure to US dollars and Swiss francs.

Management of the currency risk

The Manager monitors the Company's exposure to foreign currencies on a daily basis and reports to the board on a regular basis.

Forward currency contracts can be used to limit the Company's exposure to anticipated future changes in exchange rates which are used also to achieve the portfolio characteristics that assist the Company in meeting its investment objective and policies. All contracts are limited to currencies and amounts commensurate with the asset exposure to those currencies.

Income denominated in foreign currencies is converted to sterling on receipt. The Company does not use financial instruments to mitigate the currency exposure in the period between the time that income is included in the financial statements and its receipt.

18. Financial instruments (continued)

Risk management policies and procedures (continued)

Currency exposure

The fair values of the Company's monetary items that have currency exposure at 30 September are shown below. Where the Company's equity investments (which are not monetary items) are priced in a foreign currency, they have been included separately in the analysis so as to show the overall level of exposure.

30 SEPTEMBER 2011	US DOLLAR £'000	SWISS FRANC £'000
Debtors (due from brokers, dividends receivable and accrued income)	132	—
Forward currency sales	(9,288)	(4,821)
Foreign currency exposure on net monetary items	(9,156)	(4,821)
Investments at fair value through profit or loss that are equities	9,458	4,877
Total net foreign currency exposure	302	56

30 SEPTEMBER 2010	US DOLLAR £'000	SWISS FRANC £'000
Debtors (due from brokers, dividends receivable and accrued income)	128	—
Forward currency sales	(9,919)	—
Foreign currency exposure on net monetary items	(9,791)	—
Investments at fair value through profit or loss that are equities	9,924	—
Total net foreign currency exposure	133	—

The above may not be representative of the exposure to risk during the year, because the levels of foreign currency exposure may change significantly throughout the year.

Currency sensitivity

The following table illustrates the sensitivity of the profit after taxation for the year using exchange rates for sterling to US dollars and Swiss francs. It is based on the Company's monetary foreign currency financial instruments held at each balance sheet date and takes account of forward foreign exchange contracts that offset the effects of changes in currency exchange rates.

	2011	2010
£/US dollar	±1.8%	±3.9%
£/Swiss franc	±6.5%	n/a

These percentages have been determined based on the market volatility in the year, using the standard deviation of sterling's daily fluctuation to the US dollar and the Swiss franc against the mean during the year.

If sterling had strengthened against the US dollar and Swiss franc to this extent, this would have had the following effect:

2011	US DOLLAR £'000	SWISS FRANC £'000
Income statement – profit/(loss) after taxation		
Revenue return	(11)	(11)
Capital return	(3)	(4)
Total loss after taxation for the year	(14)	(15)

2010	US DOLLAR £'000	SWISS FRANC £'000
Income statement – profit after taxation		
Revenue return	(24)	—
Capital return	(392)	—
Total (loss)/profit after taxation for the year	(416)	—

If sterling had weakened against the US dollar and Swiss franc to this extent, this would have had the following effect:

2011	US DOLLAR £'000	SWISS FRANC £'000
Income statement – profit after taxation		
Revenue return	11	11
Capital return	3	4
Total profit after taxation for the year	14	15

2010	US DOLLAR £'000	SWISS FRANC £'000
Income statement – profit/(loss) after taxation		
Revenue return	24	—
Capital return	392	—
Total profit after taxation for the year	416	—

In the opinion of the Directors, the above sensitivity analyses are not representative of the year as a whole, since the level of exposure may change frequently as part of the currency risk management process of the Company.

Interest rate risk

Interest rate movements may affect the level of income receivable on cash deposits and the interest payable on variable rate borrowings. When the Company has cash balances, they are held on variable rate bank accounts yielding rates of interest dependent on the base rate of the Custodian. The Company has an uncommitted bank overdraft facility which it uses for settlement purposes. Use of this facility has been minimal over the two years being reported on. At the year end none was drawn down (2010: £0.5 million).

At the balance sheet date the Company had structural debt comprising £32 million of debenture stock and £250,000 of 5% cumulative preference shares. The interest rates on the debenture stocks and preference shares are fixed and the details are shown in note 5. The Company's portfolio is substantially invested in equities which are not directly exposed to interest rate risk.

The Company can invest in fixed interest securities and at the year end the level of exposure was £500,000 (2010: nil) maturing in less than a year and £151,000 (2010: £157,000) maturing in less than five years. Of this none (2010: nil) was exposure to floating interest rates, giving cash flow interest rate risk, and £651,000 (2010: £157,000) was exposure to fixed interest rates, giving fair value interest rate risk. If interest rates were either to increase or decrease by 1%, there would be no effect on revenue as all was fixed; the estimated effect on capital profit after taxation is £27,000, resulting in no impact on the net asset value.

Other price risk

Other price risks (i.e. changes in market prices other than those arising from interest rate risk or currency risk) may affect the value of the equity investments, but it is the business of the Manager to manage the portfolio to achieve the best return that he can.

18. Financial instruments (continued)

Risk management policies and procedures (continued)

Management of other price risk

The Directors manage the market price risks inherent in the investment portfolio by meeting regularly to monitor on a formal basis the Manager's compliance with the Company's stated objectives and policies and to review investment performance.

The Company's portfolio is the result of the Manager's investment process and as a result is not correlated with the Company's benchmark or the market in which the Company invests. The value of the portfolio will not move in line with the market but will move as a result of the performance of the company shares within the portfolio.

If the value of the portfolio fell by 10% at the balance sheet date, the profit after tax for the year would decrease by £17.9 million (2010: £17.5 million). If the value of the portfolio rose by 10%, the profit after tax would increase by £17.9 million (2010: £17.5 million).

Liquidity risk

Liquidity risk is minimised as the majority of the Company's investments are readily realisable securities which can be sold to meet funding commitments as necessary. In addition, the bank overdraft facility provides for additional funding flexibility.

Credit risk

Credit risk encompasses the failure by counterparties to deliver securities which the Company has paid for, or to pay for securities which the Company has delivered. This risk is mitigated by using only approved counterparties. Investments may be adversely affected if the Company's custodian suffers insolvency or other financial difficulties. The Board reviews the custodian's annual controls report and the Manager's management of the relationship with the custodian. Cash balances are limited to a maximum of either £10 or £15 million with any one depositary and only depositories approved by the Board are used.

Fair values of financial assets and financial liabilities

The fair values of the financial assets and financial liabilities are either carried in the balance sheet at their fair value (investments), or the balance sheet amount is a reasonable approximation of fair value (due from brokers, dividends receivable, accrued income, due to brokers, accruals, cash at bank and overdraft). The book cost and fair value of the debentures and the preference shares based on the offer value at the balance sheet date are as follows:

	BOOK VALUE 2011 £'000	FAIR VALUE 2011 £'000	BOOK VALUE 2010 £'000	FAIR VALUE 2010 £'000
Debentures repayable in less than 5 years:				
10.25% Debenture Stock 2010	—	—	5,000	5,000
11.375% Debenture Stock 2010/2015	—	—	3,000	3,000
Debentures repayable in more than 5 years:				
7.75% Debenture Stock 2020	7,000	7,875	7,000	7,988
6.5% Debenture Stock 2023	25,000	28,121	25,000	27,065
Discount on issue of debentures	(378)	—	(399)	—
	31,622	35,996	39,601	43,053
5% Cumulative preference shares of £1 each	250	192	250	192
	31,872	36,188	39,851	43,245

Fair value hierarchy disclosures

Nearly all of the Company's portfolio of investments are in the Level 1 category as defined in FRS 29 'Financial Instruments: Disclosures'. The three levels set out in FRS 29 follow.

Level 1 – fair value based on quoted prices in active markets for identical assets.

Level 2 – fair values based on valuation techniques using observable inputs other than quoted prices within Level 1.

Level 3 – fair values based on valuation techniques using inputs that are not based on observable market data.

Categorisation within the hierarchy is determined on the basis of the lowest level input that is significant to the fair value measurement of each relevant asset/liability. The valuation techniques used by the Company are explained in the accounting policies note.

	2011			
	LEVEL 1 £'000	LEVEL 2 £'000	LEVEL 3 £'000	TOTAL £'000
Financial assets designated at fair value through profit or loss:				
Quoted investments:				
Debt securities	—	151	500	651
Other securities	13,000	519	—	13,519
Equities	171,055	—	—	171,055
Unquoted investments	—	—	7,168	7,168
Total for financial assets	184,055	670	7,668	192,393
Financial liabilities				
Debenture stocks	—	31,622	—	31,622

	2010			
	LEVEL 1 £'000	LEVEL 2 £'000	LEVEL 3 £'000	TOTAL £'000
Financial assets designated at fair value through profit or loss:				
Quoted investments:				
Debt securities	—	157	—	157
Other securities	28,000	468	—	28,468
Equities	168,974	—	—	168,974
Unquoted investments	—	—	5,234	5,234
Total for financial assets	196,974	625	5,234	202,833
Financial liabilities				
Debenture stocks	—	39,601	—	39,601

A reconciliation of the fair value movements in Level 3 is set out below:

	2011 £'000	2010 £'000
Opening fair value of Level 3	5,234	1,950
Transfer from Level 1 to Level 3	513	15
Investments purchased	1,772	325
Movement in holding gains on assets held at the year end	149	2,944
Closing fair value of Level 3	7,668	5,234

18. Financial instruments (continued)

Maturity analysis of contractual liability cash flows

The financial liabilities of the Company are shown in note 13.

Capital Management

The Company does not have any externally imposed capital requirements. The Company's capital is as disclosed in the Balance Sheet and is managed on a basis consistent with its Investment Policy as disclosed in the Report of the Directors' on pages 15 and 16. The principal risks and their management are disclosed above.

19. Contingencies, guarantees and financial commitments

There were no other contingencies, guarantees or financial commitments of the Company at the year end (2010: £nil).

20. Related party transactions

Invesco Asset Management Limited ('IAML'), a wholly owned subsidiary of Invesco Limited, acts as Manager, Company Secretary and Administrator to the Company. Details of IAML's services and fees are disclosed in the Report of the Directors. Full details of Directors' interests are set out in the Report of the Directors on page 24. There are no other related party transactions.

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to what action to take, you should consult your stockbroker, solicitor, accountant or other appropriate independent professional adviser authorised under the Financial Services and Markets Act 2000. If you have sold or otherwise transferred all your shares in Keystone Investment Trust plc, please forward this document and the accompanying Form of Proxy to the person through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS GIVEN that the Annual General Meeting of Keystone Investment Trust plc will be held at the offices of Invesco Perpetual in 43-45 Portman Square, London W1H 6LY at 11.00 a.m. on 20 December 2011 for the following purposes:

Ordinary Business

1. To receive the Directors' Report and Accounts for the year ended 30 September 2011.
2. To declare a final dividend as recommended.
3. To approve the Directors' Remuneration Report.
4. To re-elect Mrs Beatrice Hollond a Director of the Company.
5. To re-elect Mr David Adams a Director of the Company.
6. To re-elect Mr William Kendall a Director of the Company.
7. To re-elect Mr Peter Readman a Director of the Company.
8. To elect Mr John Wood a Director of the Company.
9. To re-appoint Ernst & Young LLP as auditor to the Company and authorise the Directors to determine their remuneration.

Biographies of Directors seeking re-election are shown on page 12 of the Annual Financial Report.

Special Business

To consider and, if thought fit, pass the following resolutions of which Resolution 10 will be proposed as Ordinary Resolution and Resolutions 11, 12 and 13 will be proposed as Special Resolutions.

10. THAT:

    the Directors be generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 as amended from time to time prior to the date of the passing of this Resolution (the 'Act') to exercise all powers of the Company to allot relevant securities (as defined in that Section) up to an aggregate nominal amount (within the meaning of Sections 551(3) and (6) of the Act) of £334,220, such authority to expire at the conclusion of the next AGM of the Company or the date 15 months after the passing of this Resolution, whichever is the earlier, but so that this authority shall allow the Company to make offers or agreements before the expiry of this authority which would or might require relevant securities to be allotted after such expiry as if the authority conferred by this Resolution had not expired.

11. THAT:

    the Directors be and they are hereby empowered, in accordance with Sections 570 and 573 of the Companies Act 2006 as amended from time to time prior to the date of the passing of this Resolution (the 'Act') to allot equity securities for cash, pursuant to the authority given by Resolution 10 set out above, as if Section 561 of the Act did not apply to any such allotment, provided that this power shall be limited:

    (a) to the allotment of equity securities in connection with a rights issue in favour of all holders of a class of equity securities where the equity securities attributable respectively to the interests of all holders of securities of such class are either proportionate (as nearly as may be) to the respective numbers of relevant equity securities held by them or are otherwise allotted in accordance with the rights attaching to such equity securities (subject in either case to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or legal or practical problems under the laws of, or the requirements of, any regulatory body or any stock exchange in any territory or otherwise); and

(b) to the allotment (otherwise than pursuant to a rights issue) of equity securities up to an aggregate nominal amount of £334,220

and this power shall expire at the conclusion of the next AGM of the Company or the date 15 months after the passing of this Resolution, whichever is the earlier, but so that this power shall allow the Company to make offers or agreements before the expiry of this power which would or might require equity securities to be allotted after such expiry as if the power conferred by this Resolution had not expired; and so that words and expressions defined in or for the purposes of Part 17 of the Act shall bear the same meanings in this Resolution.

12. THAT:

the Company be generally and subject as hereinafter appears unconditionally authorised in accordance with Section 701 of the Companies Act 2006 ('the Act') to make market purchases (within the meaning of Section 693(4) of the Act) of its issued ordinary shares of 50p each ('Shares').

PROVIDED ALWAYS THAT:

(a) the maximum number of Shares hereby authorised to be purchased shall be 14.99% of the Company's issued ordinary shares, this being 2,003,980;

(b) the minimum price which may be paid for a Share shall be 50p;

(c) the maximum price which may be paid for a Share be an amount equal to 105% of the average of the middle market quotations for a Share taken from and calculated by reference to the London Stock Exchange Daily Official List for five business days immediately preceding the day on which the Share is purchased;

(d) any purchase of Shares will be made in the market for cash at prices below the prevailing net asset value per Share;

(e) the authority hereby conferred shall expire at the conclusion of the next AGM of the Company or, if earlier, on the expiry of 15 months from the passing of this Resolution unless the authority is renewed at any other general meeting prior to such time; and

(f) the Company may make a contract to purchase Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Shares pursuant to any such contract.

13. THAT

The period of notice required for general meetings of the Company (other than AGMs) shall be not less than 14 clear days.

For further explanations of all Resolutions presented under Special Business please refer to the Report of the Directors on page 22.

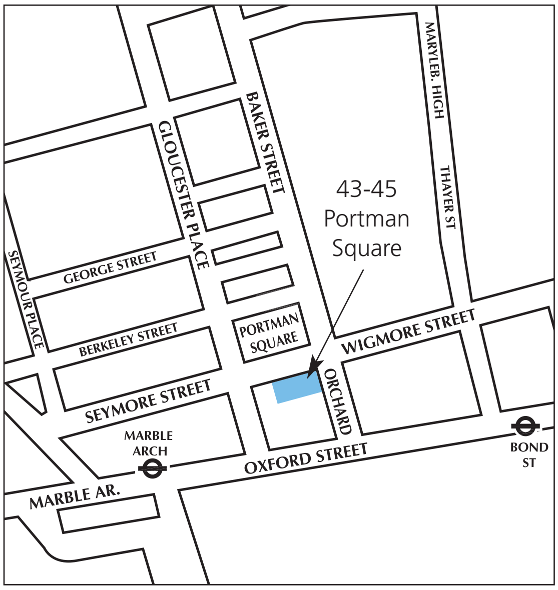
Dated this 17th November 2011

By order of the Board

Invesco Asset Management Limited
Company Secretary

The Annual General Meeting will be held at 11.00 a.m. on 20 December 2011 at the offices of Invesco Perpetual in 43-45 Portman Square, London W1H 6LY. The Manager will be giving a presentation following the Annual General Meeting.

Map of venue



Invesco Perpetual's offices are on the first floor of 43-45 Portman Square.

NOTICE OF ANNUAL GENERAL MEETING
continued

Notes:

1. A member entitled to attend and vote at the AGM is entitled to appoint one or more proxies to attend, speak and vote in his stead. Where more than one proxy is appointed, each proxy must be appointed to exercise the rights attached to a different share or shares. A proxy need not be a member of the Company. In order to be valid an appointment of proxy must be returned by one of the following methods:

   - via Capita Registrars' website *www.capitashareportal.com*; or
   - in hard copy form by post, by courier or by hand to the Company's registrars, Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU; or
   - In the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below

   and in each case to be received by the Company not less than 48 hours before the time of the meeting.

2. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so by utilising the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions as described in the CREST Manual. The message, regardless of whether it relates to the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by the latest time(s) for receipt of proxy appointments specified in this document. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001. CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that CRESTCo does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s), such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

3. A form of appointment of proxy is enclosed. Appointment of a proxy (whether by completion of a form of appointment of proxy, or other instrument appointing a proxy or any CREST proxy instruction) does not prevent a member from attending and voting at this meeting.

   To be effective, the form of appointment of proxy, duly completed and executed, together with any power of attorney or other authority under which it is signed (or a notarially certified copy thereof) must be lodged at the office of the Company's registrars, Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU, by not later than 11.00 a.m. on 18 December 2011.

4. A person entered on the Register of Members at close of business on 18 December 2011 ('a member') is entitled to attend and vote at the Meeting pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001. Any changes to the Register of Members after such time and date shall be disregarded in determining the rights of any person to attend and/or vote at the Meeting. If the Meeting is adjourned, entitlement to attend and vote at the adjourned meeting, and the number of votes which may be cast thereat, will be determined by reference to the Company's register of members 48 hours before the time fixed for the adjourned meeting.

5. The Register of Directors' Interests, the Schedule of Matters Reserved for the Board, the Terms of Reference of the Audit Committee and the Nomination Committee and the Letters of Appointment for Directors will be available for inspection at the Company's AGM.

6. A copy of the Articles of Association is available for inspection at the Registered Office of the Company during normal business hours on Monday to Friday (excluding public holidays) and will also be available at the Annual General Meeting for at least 15 minutes prior to the Annual General Meeting until its conclusion.

7. Any person to whom this Notice is sent who is a person nominated under section 146 under the Companies Act 2006 to enjoy information rights (a 'Nominated Person') may have a right, under an agreement between

him/her and the shareholder by whom he/she was nominated, to be appointed (or to have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may have a right, under such an agreement, to give instructions to the shareholder as to the exercise of voting rights.

The statement of the above rights of the shareholders in relation to the appointment of proxies does not apply to Nominated Persons. Those rights can only be exercised by shareholders of the Company.

8. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

9. Any member attending the AGM has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the AGM but no such answer need be given if (a) to do so would interfere unduly with the preparation for the AGM or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the AGM that the question be answered.

10. You may not use any electronic address (within the meaning of section 333(4) of the Companies Act 2006) provided in this Notice (or in any related documents including the proxy form) to communicate with the Company for any purposes other than those expressly stated.

11. As at 17 November 2011 (being the last practicable day prior to the publication of this Notice) the Company's issued share capital consisted of 13,368,799 ordinary shares of 50p each carrying one vote for every £1 nominal held; and 250,000 5% Cumulative Preference Shares of £1 each carrying no voting rights.

12. This notice is sent for information only to the holders of the 7.75% Debenture Stock (redeemable 1 October 2020), 6.5% Debenture Stock (redeemable 27 April 2023) and 5% Cumulative Preference Shares, who are not entitled to attend and vote at the meeting.

13. A copy of this notice, and other information required by section 311A of the Companies Act 2006, can be found at *www.invescoperpetual.co.uk/investmenttrusts*

14. Shareholders should note that it is possible that, pursuant to requests made by shareholders of the Company under section 527 of the Companies Act 2006 (the '2006 Act'), the company may be required to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting for the financial year beginning on 1 October 2010; or (ii) any circumstance connected with an auditor of the Company appointed for the financial year beginning on 1 October 2010 ceasing to hold office since the previous meeting at which annual financial reports were laid in accordance with section 437 of the Companies Act 2006 (in each case) that the shareholders propose to raise at the relevant Annual General Meeting. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the 2006 Act. Where the Company is required to place a statement on a website under section 527 of the 2006 Act, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.

GLOSSARY OF TERMS

Net Asset Value ('NAV')

The value of the Company's assets, principally investments made in other companies and cash being held, minus any liabilities for which the Company is responsible (for example, money owed). The NAV is also described as 'shareholders' funds'. The NAV is often expressed in pence per share after being divided by the number of shares which have been issued. The NAV per share is unlikely to be the same as the share price which is the price at which the Company's shares can be bought or sold by an investor. The share price is determined by the relationship between the demand for and supply of the shares.

Discount

A description of the situation when the share price is lower than the NAV per share. The size of the discount is calculated by subtracting the share price from the NAV per share and is expressed as a percentage (%) of the NAV per share. If the share price is higher than the NAV per share, this situation is called a premium.

Total Return

The combined effect of any dividends paid, together with the rise or fall in the share price or NAV. Performance comparisons can then be made between companies with different dividend policies. Any dividends received by a shareholder are assumed to have been reinvested in either additional shares (to give share price total return) or the company's assets (to give NAV total return).

Gearing

The gearing percentage reflects the amount of borrowings that a company has invested. This figure indicates the extra amount by which shareholders' funds would move if a company's investments were to rise or fall. A positive percentage indicates the extent to which shareholders' funds are geared; a nil gearing percentage, or 'nil', shows a company is ungeared. A negative percentage indicates that a company is not fully invested.

There are several methods of calculating gearing and the following has been used in this report:

Gross Gearing

This reflects the amount of gross borrowings in use by a company and takes no account of any cash balances. It is based on gross borrowings as a percentage of shareholders' funds.

Net Gearing

This reflects the amount of net borrowings invested, ie borrowings less cash and bond holdings. It is based on net borrowings as a percentage of shareholders' funds.

Total Expense Ratio

The total expenses excluding interest incurred by the Company, including those charged to capital, as a percentage of average net assets (shareholders' funds).

Invesco Perpetual

The Manager of Keystone Investment Trust plc is Invesco Asset Management Limited.

Invesco Asset Management Limited is a wholly owned subsidiary of Invesco Limited and is authorised and regulated by the Financial Services Authority.

Invesco is one of the largest independent global investment management firms, with funds under management of $635.7 billion.*

We aim to provide the highest returns available from markets, through active management, but in a controlled manner, conscious of the risks involved and within our clients' objectives.

** Funds under Management as at 31 October 2011.*

SPECIALIST FUNDS MANAGED BY INVESCO PERPETUAL

Investing for Income, Income Growth and Capital Growth (from equities, fixed interest securities or property)

City Merchants High Yield Trust plc
Aims to generate a high level of income from a variety of fixed income instruments combined with a degree of security. The Trust is geared by bank debt.

Invesco Income Growth Trust plc
Aims to provide shareholders with a long-term growth in capital and real, long-term growth in dividends from an above-average yielding portfolio comprising mainly UK equities and equity-related securities. Seeks to achieve a total return in excess of the FTSE All-Share Index. The Trust is geared by bank debt.

Invesco Leveraged High Yield Fund Limited
A Jersey-incorporated closed-ended Company that aims to provide a high level of income, paid gross to UK investors, whilst seeking to maximise total return through investing, primarily in a diversified portfolio of high-yielding corporate and government bonds. The Company seeks to balance the attraction of high-yield securities with the need for protection of capital and to manage volatility. The Trust is highly geared.

Invesco Perpetual Select Trust plc – Managed Liquidity Portfolio
Aims to generate income from a variety of fixed income instruments combined with a high degree of security. Income will reduce during periods of very low interest rates.

Invesco Perpetual Select Trust plc – UK Equity Portfolio
Portfolio Aims to generate long-term capital and income growth with real growth in dividends from investment, primarily in the UK equity market. The portfolio is geared by bank debt.

Invesco Property Income Trust Limited
The Company is a closed-ended investment company with limited liability incorporated in Jersey. At a general meeting of the Company held on 12 September 2011, shareholders approved the adoption of a revised investment policy and objective, namely: to repay its bank borrowings and other liabilities on or before 28 September 2014 and, having met those obligations, to provide a return for shareholders. The Company is geared by bank debt.

Keystone Investment Trust plc
Aims to provide shareholders with long-term growth of capital mainly from UK investments. The Trust is geared by way of debenture stocks.

Perpetual Income and Growth Investment Trust plc
Aims to provide shareholders with capital growth and real growth in dividends over the medium to longer term from a portfolio of securities listed mainly in the UK and fixed interest markets. The trust is geared by a debenture stock and bank debt.

The Edinburgh Investment Trust plc
Invests primarily in UK securities with the long-term objective of achieving:

1. an increase of the Net Asset Value per share by more than the growth in the FTSE All Share Index; and
2. growth in dividends per share by more than the rate of UK inflation.

The trust is geared by two debenture stocks.

Investing in Smaller Companies

Invesco Perpetual UK Smaller Companies Investment Trust plc
Aims to achieve long-term total returns for the Company's shareholders from investment in a broad cross-section of small to medium size UK-quoted companies. The Trust may gear by bank debt.

Investing Internationally

Invesco Asia Trust plc
Aims to provide long-term capital growth by investing in a diversified portfolio of Asian and Australasian securities. The Company aims to achieve growth in its net asset value in excess of the Morgan Stanley Capital International (All Country) Asia Pacific (ex Japan) Index, measured in sterling. The Trust is geared by bank debt.

Invesco Perpetual Select Trust plc – Global Equity Portfolio
At a general meeting of the Company held on 15 November 2011, shareholders approved a change in the investment objective of this Share Class with immediate effect: to provide an attractive and growing level of income return and capital appreciation over the long term, predominantly through investment in a diversified portfolio of equities worldwide. The portfolio may be geared by bank debt.

Investing for Total Returns

Invesco Perpetual Select Trust plc – Hedge Fund Portfolio
With effect from 29 February 2012, the name will change to:

Invesco Perpetual Select Trust plc – Balanced Risk Portfolio
At a general meeting of the Company held on 15 November 2011, shareholders approved a change to the name of this share class on 29 February 2012, and the adoption of a new investment policy:

To provide shareholders with an attractive total return in differing economic and inflationary environments and with low correlation to equity and bond market indices by gaining exposure to three asset classes: debt securities, equities and commodities.

The portfolio is constructed so as to balance risk, is long-only, using transparently-priced exchange-traded futures contracts and other derivative instruments to gain such exposure and to provide gearing.

Investing in Multiple Asset Classes

Invesco Perpetual Select Trust plc
- UK Equity Portfolio
- Global Equity Portfolio
- Managed Liquidity Portfolio
- Balanced Risk Portfolio

A choice of four investment policies and objectives, each intended to generate attractive risk-adjusted returns from segregated portfolios, with the ability to switch between them, four times a year, free from capital gains tax liability. Dividends paid quarterly, apart from Balanced Risk which aims for total return.

Please contact our Investor Services Team on 0800 085 8677 if you would like more information about the investment trusts or other specialist funds listed above. Further details are also available on the following website: www.invescoperpetual.co.uk/investmenttrusts.