Keystone Investment Trust plc

Annual Financial Report
Year ended 30 September 2012

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.

2012 Highlights

	2012	2011
Net asset value – total return	+15.8%	+5.0%
Share price – total return	+21.0%	+0.8%
FTSE All-Share – total return	+17.2%	–4.4%
Dividends per share	+4.3%	+2.2%

If you have any queries about Keystone Investment Trust plc,
or any of the other specialist funds managed by Invesco Perpetual,
please contact our Investor Services Team on

☎ 0800 085 8677

www.invescoperpetual.co.uk/investmenttrusts

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The Company is a member of

aic

The Association of Investment Companies

Keystone

A keystone is defined as the central stone at the summit of an arch, locking the whole together. The front cover shows the keystone as the main feature of the Torver Bridge in Cumbria, which spans the beck (mountain stream) of the same name. The cover picture is taken from a commissioned work by artist Rory Browne, who specialises in land and city scapes. Rory has contributed to the Royal Academy on a number of occasions and lives in Harpenden, Hertfordshire where he works full-time with young people.

FINANCIAL INFORMATION AND PERFORMANCE STATISTICS

Performance Statistics

	AT 30 SEPTEMBER 2012	AT 30 SEPTEMBER 2011	% CHANGE
Assets			
Net assets attributable to ordinary shareholders (£'000)	182,803	164,253	+11.3

	2012 % CHANGE	2011 % CHANGE
Total Return (capital growth with income reinvested)		
Net asset value ('NAV') per share:		
– debt at par	+15.8	+5.0
– debt at fair value	+14.0	+4.4
Share price (mid-market)	+21.0	+0.8
FTSE All-Share Index	+17.2	–4.4

Source: Thomson Reuters Datastream and Morningstar

	AT 30 SEPTEMBER 2012	AT 30 SEPTEMBER 2011	% CHANGE
Capital Return			
NAV per share:			
– debt at par	1367.4p	1228.6p	+11.3
– debt at fair value	1310.3p	1196.3p	+9.5
Share price	1318.0p	1135.5p	+16.1
FTSE All-Share Index	2998.9	2654.4	+13.0
Discount/(premium)† of share price to net asset value per share:			
– debt at par	3.6%	7.6%	
– debt at fair value	(0.6)%	5.1%	
Gearing† – gross	17.4%	19.4%	
– net	8.5%	9.0%	

	FOR THE YEAR TO 30 SEPTEMBER 2012	2011	
Revenue			
Net revenue available for ordinary shareholders (£'000)	6,566	6,085	
Revenue return per ordinary share	49.1p	45.5p	+7.9
Dividends per ordinary share – 1st interim	18.0p	17.5p	
– 2nd interim/final	30.5p	29.0p	
– total	48.5p	46.5p	+4.3
Ongoing charges†:			
Excluding performance fee	0.95%	0.99%	
Performance fee	0.19%	—	

† Defined in the Glossary of Terms on page 58.

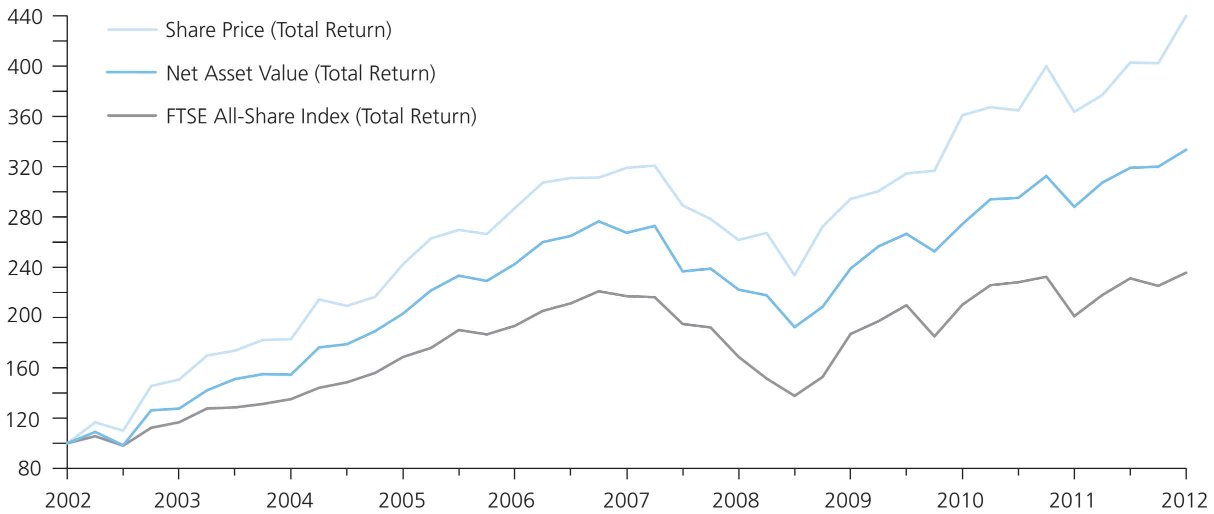
Ten Year Historical Record

YEAR ENDED 30 SEPTEMBER	GROSS REVENUE £'000	REVENUE EARNINGS PER SHARE P	DIVIDENDS PER SHARE P	NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS £'000	NET ASSET VALUE PER SHARE P	SHARE PRICE P	ONGOING CHARGES[3] %	NET GEARING %
2003	4,524	24.9	25.5	95,564	714.8	651.0	1.03	6.0
2004	5,659	32.2	30.0	111,224	832.0	754.0	1.26	12.9
2005	5,737	32.2[1]	31.5	143,415[1]	1072.8[1]	963.0	1.14	11.3
2006	6,477	37.3	35.0	166,739	1247.2	1102.0	1.09	16.7
2007	7,099	41.6	40.0	179,197	1340.4	1190.0	1.07	13.4
2008	8,159	50.4	44.0	144,908	1083.9	940.0	0.90	—
2009	8,263	57.4	56.6[2]	150,252	1123.9	1008.0	0.89	4.9
2010	6,864	40.6	45.5	162,154	1212.9	1170.0	0.92	7.5
2011	7,391	45.5	46.5	164,253	1228.6	1135.5	0.99	9.0
2012	**7,901**	**49.1**	**48.5**	**182,803**	**1367.4**	**1318.0**	**0.95**	**8.5**

(1) Restated for new UK Accounting Standards.
(2) Includes a special dividend of 11.1p per share.
(3) All calculations exclude performance fees.

Ten Year Total Return Performance

Figures have been rebased to 100 at 30 September 2002



Source: Thomson Reuters Datastream.

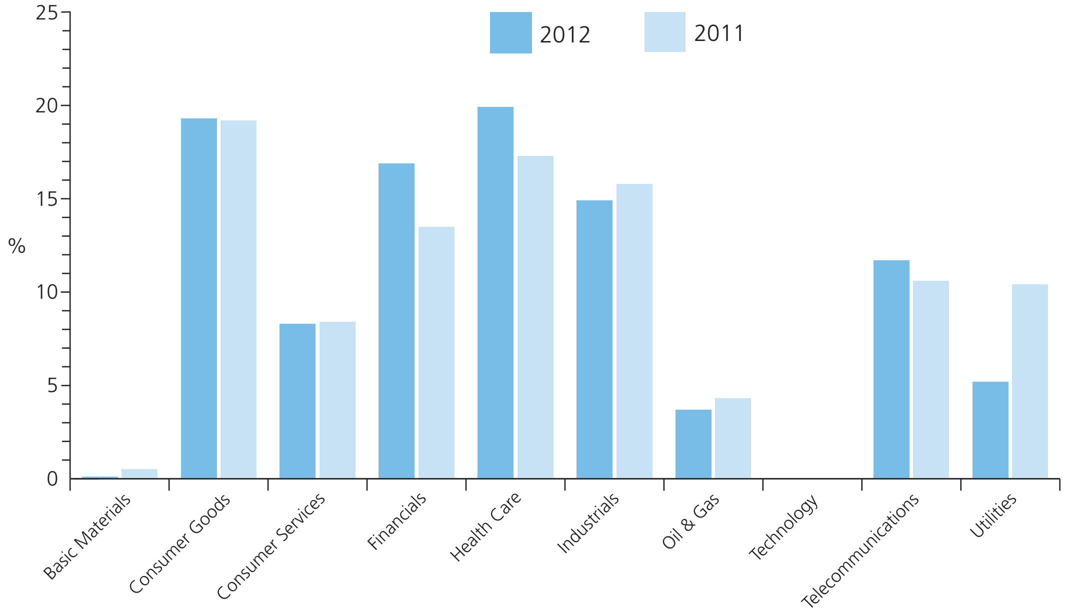
Total Return per Ordinary Share to 30 September

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	FIVE YEARS	TEN YEARS
Keystone NAV (at par) %	+27.6	+21.2	+31.3	+19.5	+10.2	−16.9	+7.5	+14.8	+5.0	+15.8	+24.7	+233.5
Keystone Share Price %	+50.7	+21.4	+32.5	+18.5	+11.1	−18.0	+12.5	+22.6	+0.8	+21.0	+37.9	+340.0
FTSE All-Share Index %	+16.7	+15.7	+24.9	+14.7	+12.2	−22.2	+10.8	+12.5	−4.4	+17.2	+8.7	+135.7

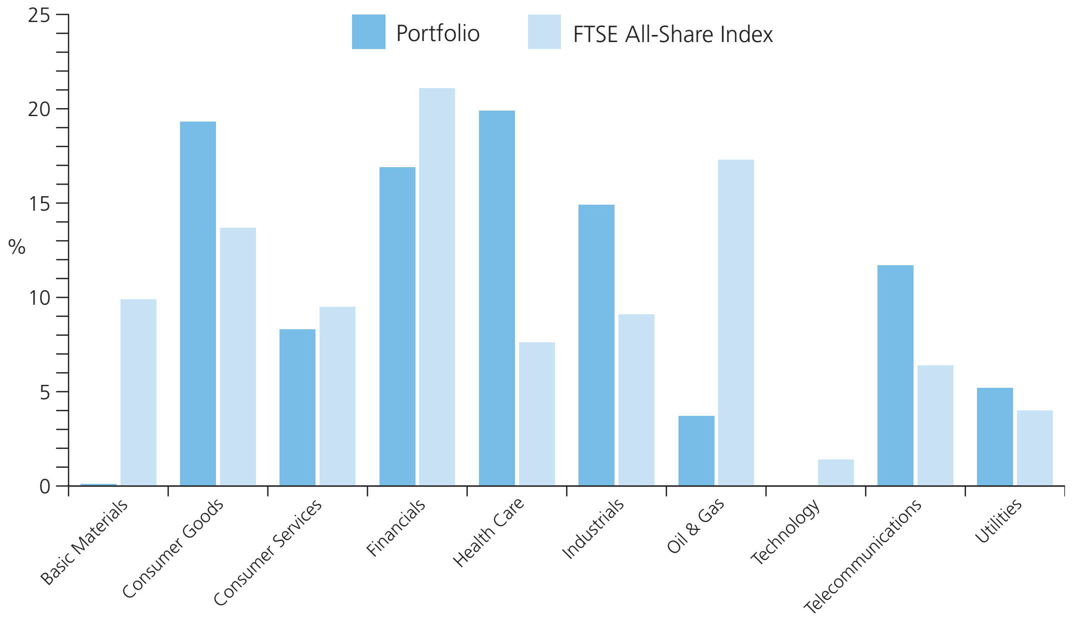
Source: Thomson Reuters Datastream.

FINANCIAL INFORMATION AND PERFORMANCE STATISTICS
continued

Sector Allocation of Portfolio
As at 30 September



Sector Allocation of Portfolio and FTSE All-Share Index
At 30 September 2012



CHAIRMAN'S STATEMENT

In the year to 30 September 2012, the total return to the holders of the Company's ordinary shares, based on the share price with dividends reinvested, was +21.0% and the total return on the net asset value per share (with debt at par value) was +15.8%. In comparison, the total return of the Company's benchmark, the FTSE All-Share Total Return Index, was +17.2%.

The Company's long term performance continues to be very strong with 3 year and 5 year net asset value per share (with debt at par value) total returns of +39.6% and +24.7%, respectively, compared with +26.1% and +8.7% for the FTSE All-Share Total Return Index. Our investment management agreement with Invesco provides that a performance related fee is payable when the annualised 3-year return exceeds by more than 2% that of the benchmark, so in light of the 3 year performance achieved to date we have provided for a performance fee of £322,000 in this year's financial statements. The final performance fee payable will be determined by returns for the 3 years to 31 December 2012.

The price of the Company's ordinary shares, relative to their net asset value (with debt at fair value), moved to a premium of 0.6% at the year end from a discount of 5.1% at the end of September 2011. I am pleased to report that the demand for the Company's shares that generated this premium also allowed us to issue 75,000 new ordinary shares after the year end. This is a welcome occurrence and we will be seeking to renew our powers to issue new shares at the forthcoming AGM.

Revenue and Dividends

Consistent with our Manager's continuing focus on investing in companies that can maintain and increase dividends, gross income in the year increased to £7,901,000, from £7,391,000 last year, giving a revenue return, after tax, of 49.1p per ordinary share (2011: 45.5p). Whilst 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.

The Board has declared a second interim dividend, in lieu of a final, of 30.5p per share (2011: 29p), giving a total dividend for the year of 48.5p per share (2011: 46.5p). The dividend will be paid on 14 December 2012 to shareholders on the register on 23 November 2012.

Gearing

When used successfully, gearing should enhance the returns to shareholders. The Board takes responsibility for the Company's gearing strategy and sets parameters within which the fund manager operates. The Company's borrowings, in the form of long-term debentures, amount to £32 million. The net gearing of the Company is determined by the extent to which these borrowings are invested in shares. The Board currently requires that the Manager must make no net purchases which would take equity exposure above 110% of net assets, and must 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 equity exposure subject to those limits.

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 £0.5 million or 0.3% of total investments.

The Board

On 1 November 2012, the Board appointed Ian Armfield as a new director of the Company. He has an accounting background and was an audit partner at PricewaterhouseCoopers for 20 years, where his specialisation was financial services. David Adams has decided that he will retire from the Board at the conclusion of the forthcoming AGM, after 15 years of very good and much appreciated service to the Company. It is intended that Mr Armfield will succeed him as Audit Committee Chairman in January.

Outlook

The figures above together with the evident demand for the Company's shares reflect the continued success of our Manager's investment approach. With the continuing challenging and uncertain economic background and volatile equity markets we remain convinced that this approach is appropriate 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.

CHAIRMAN'S STATEMENT
continued

Annual General Meeting

The Notice of the Annual General Meeting of the Company, which is to be held on 22 January 2013, is on pages 51 to 57 and a summary of the resolutions is set out in the Report of the Directors on pages 27 and 28. The business of the meeting this time includes one non-routine special resolution: to adopt new Articles of Association. This has been prompted by the introduction of new investment trust tax rules, which came into effect for the Company on 1 October 2012 and which, amongst other things, no longer prohibit investment trust companies from distributing capital profits by way of dividend. As well as enabling the Company to take advantage of the added flexibility allowed by the new tax rules the opportunity has been taken to update the articles generally to reflect current law and best practice. The Directors have no current intention to distribute capital profits as dividends. The Directors recommend that shareholders vote in favour of all the resolutions, as they intend to do themselves.

Beatrice Hollond
Chairman

20 November 2012

MANAGER'S REPORT

Market Review

A strong performance by the UK stock market over the past 12 months was characterised by periods of high volatility, as market sentiment swung between pessimism on the global economic outlook, driven by the slowdown in the Chinese economy, and optimism following each new policy initiative from the central bankers including the Bank of England. However, the period was also noteworthy for a growing number of profit downgrades from companies, particularly within the industrial cyclical part of the market.

The last few months of the period saw a sustained rally in the market following a more comprehensive policy statement from Mario Draghi, President of the ECB, on stabilising the Eurozone sovereign debt crisis, as well as the additional and unlimited monetary stimulus announced by US Federal Reserve Chairman, Ben Bernanke. However, the year ended with a further warning from the International Monetary Fund that it would cut its forecast for global economic growth, while civil unrest in Spain and Greece highlighted the challenges facing governments intent on imposing further austerity.

Portfolio Strategy & Review

The Company's net asset value (debt at par), including reinvested dividends, returned 15.8% over the 12 months to the end of September 2012, compared to a total return of 17.2% from the FTSE All-Share index.

The Company's focus on investing in companies with a track record of dependable earnings and dividend growth saw it delivering double digit absolute returns over the period. However, in an environment where investors had typically discovered a renewed appetite for risk, the underweight stance in some of the more cyclical sectors, notably banks, led to the Company's returns marginally lagging those of its benchmark.

Positive contributions to performance came from a collection of the Company's largest investments, in particular from the holding in BT Group. The company announced that it had agreed a reduction plan for its pension scheme deficit – allowing the company greater flexibility to increase future returns to shareholders. BT also announced deals for a range of exclusive TV rights for Premier League Football and then Premiership Rugby – further evidence of its strategic ambition to build its BT Vision content portfolio and benefit from on-going digital media convergence and the roll-out of the fibre network.

The Company is heavily invested in the pharmaceutical sector, including the Swiss companies Roche and new holding in the portfolio of the past year, Novartis. In common with their UK counterparts, these companies have the ability to deliver growth in earnings and dividends in challenging environments and have an undeservedly low valuation. They also offer the opportunity to diversify the portfolio outside the UK market into better quality businesses listed overseas, which has been a benefit to the portfolio

Shares in BAE Systems had performed strongly in the months before the company confirmed that it was in early stage talks with EADS regarding a merger. The deal did not look particularly beneficial to shareholders and, after an initial spike higher, BAE Systems' share price retreated to the level it stood at immediately before the announcement. Since the period end the two companies have confirmed that merger negotiations have been terminated.

There were also some significant contributions to the Company's performance from a number of the "mid-cap" stocks in the portfolio. Provident Financial announced a positive trading update, notably in its fast growing credit card business, Babcock said both civil and military markets remained strong, while Beazley and Amlin each announced a return to profits on the back of a more benign claims environment.

A negative impact on performance came from the holding in Homeserve, which announced that the Financial Services Authority was investigating "certain historic issues" relating to sales and marketing practices in its UK business. The company has since provided reassurance that it is continuing to grow its international businesses and is making progress in the UK in refocusing that business. The Manager took advantage of the share price weakness to increase the Company's holding in the shares.

There was disappointing news on the investment in Chemring, which announced that unexpected delays in customer orders would hit full year revenues and profits. However, towards the end of the period the company announced that it had received a "highly preliminary expression of interest" from private equity firm Carlyle Group in relation to a possible offer. The holding in Thomas Cook also detracted from the Company's performance, as the company warned that it was facing a challenging trading environment particularly in the key trading period at the beginning of the calendar year. This resulted in the perception that it would breach banking covenants on its significant level of existing debt. The company has since reassured investors with more positive trading news and a complete change in the senior management roles, and the Manager again used the fall in the share price as an opportunity to add to the holding.

With overall views on the market and the wider economy largely unaltered portfolio activity was relatively limited, but reflected the view that value had increasingly appeared in the mid-cap range of the stock market. The holding in International Power was the subject of an agreed cash bid from GDF Suez and the holding in Tesco was sold. New investments were made in Carnival, Filtrona, Lancashire Holdings, Novartis, Reed Elsevier, Regus and Thomas Cook.

Outlook

The stock market's rise in the past year, fuelled by monetary stimulus and central bank policy initiatives, has occurred despite reductions in the forecasts of company earnings for the current financial year due to renewed weakness in the key economics of the US, China and the Eurozone. Equity valuations are therefore no longer as compellingly cheap as they were at the beginning of the year, and it is expected that stock markets may now track sideways for a while.

However, within the market as a whole, there is still a subset of stocks that look attractively valued, particularly for investors seeking income. Indeed with the yield on offer from equities currently well above that from bonds or cash – a situation last witnessed in the 1950s – and earnings growth under pressure, income is likely to provide a higher percentage of stock market total return.

The investment strategy being followed is to focus on companies with reliable cashflow and sustainable dividend growth, operating in less cyclical and more defensive industries. Overlaying this is balance sheet strength, with an associated ability to access the credit markets for funding. The valuations of such companies do not reflect their ability to deliver earnings and dividend growth in a continued challenging economic environment.

Mark Barnett
Investment Manager

20 November 2012

INVESTMENTS BY SECTOR

AT 30 SEPTEMBER 2012

UK listed ordinary shares unless stated otherwise

SECTOR/COMPANY	MARKET VALUE £'000	% OF PORTFOLIO
Basic Materials		
Halosource	174	0.1
UK Coal	108	0.1
	282	0.2
Consumer Goods		
Imperial Tobacco	10,763	5.4
British American Tobacco	9,969	5.0
Reynolds American – *US Common stock*	9,862	4.9
Reckitt Benckiser	6,309	3.2
Tate & Lyle	1,610	0.8
	38,513	19.3
Consumer Services		
Ladbrokes	3,746	1.9
Compass	3,397	1.7
Carnival	3,047	1.5
Brown (N)	2,066	1.0
Reed Elsevier	1,775	0.9
Wm Morrison Supermarkets	1,700	0.9
Thomas Cook	859	0.4
Hibu	19	—
Mirada	2	—
	16,611	8.3
Financials		
Hiscox	5,170	2.6
Provident Financial	4,707	2.3
Amlin	4,283	2.1
Beazley	3,763	1.9
A J Bell – *Unquoted*	3,300	1.6
Workspace	2,154	1.1
Lancashire	1,665	0.8
Doric Nimrod Air Two – Preference shares	1,456	0.7
Imperial Innovation – Convertible 'B' shares – *Unquoted*	702	0.6
– Ordinary shares	488	
Impax Asian Environmental Markets		
– Ordinary shares	1,123	0.6
– Subscription shares	3	
Damille Investments II	1,122	0.6
Impax Environmental Markets	890	0.4
Fusion IP	852	0.4
Damille Investments	748	0.4
Altus Resource	572	0.3
Macau Property Opportunities Fund	455	0.2
Helphire	12	—
	33,465	16.6
Health Care		
GlaxoSmithKline	8,013	4.0
Roche – *Swiss Common Stock*	7,980	4.0
AstraZeneca	7,621	3.8
Novartis – *Swiss Common Stock*	6,593	3.3
BTG	3,308	1.7
Napo Pharmaceuticals – *Unquoted*	2,698	1.3
Vectura	1,160	0.6
Lombard Medical Technologies	970	0.5
PuriCore	403	0.2
XCounter AB – *Swedish Common Stock*	402	0.2
XTL Biopharmaceutical – *US ADR (10 Ord Shares)*	106	0.1
	39,254	19.7

INVESTMENTS BY SECTOR

continued

SECTOR/COMPANY	MARKET VALUE £'000	% OF PORTFOLIO
Industrials		
BAE Systems	6,750	3.4
Capita	4,945	2.5
Babcock International	4,939	2.5
Serco	3,199	1.6
Rentokil Initial	3,177	1.6
Homeserve	1,786	0.9
Chemring	1,600	0.8
Filtrona	1,318	0.7
Regus	1,066	0.5
Nexeon – Series 'B' shares – *Unquoted*	497	
– Preference 'C' shares – *Unquoted*	400	0.4
– Ordinary shares – *Unquoted*	4	
	29,681	14.9
Oil & Gas		
BG	7,299	3.7
	7,299	3.7
Telecommunications		
BT	11,365	5.7
Vodafone	4,735	2.4
KCOM	4,116	2.1
TalkTalk Telecom	3,152	1.6
	23,368	11.8
Utilities		
Centrica	3,750	1.9
Drax	3,501	1.8
SSE	2,599	1.3
Barclays Bank – Nuclear Power Notes 28 Feb 2019(1)	436	0.2
	10,286	5.2
Total Equity Investments	**198,759**	**99.7**
Fixed Interest		
PuriCore Convertible Notes 6% 31 Dec 2013 – *Unquoted*	375	0.2
Ecofin Water & Power Opportunities 6% 31 Jul 2016	125	0.1
	500	0.3
Total Investments	**199,259**	**100.0**

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

TOP TEN INVESTMENTS (Excluding Certificates of Deposit)

AT 30 SEPTEMBER

COMPANY	2012 MARKET VALUE £'000	2012 % OF PORTFOLIO	2011 MARKET VALUE £'000	2011 % OF PORTFOLIO
BT	11,365	5.7	7,156	3.7
Imperial Tobacco	10,763	5.4	9,174	4.8
British American Tobacco	9,969	5.0	9,047	4.7
Reynolds American – *US Common Stock*	9,862	4.9	9,417	4.9
GlaxoSmithKline	8,013	4.0	8,978	4.7
Roche – *Swiss Common Stock*	7,980	4.0	4,877	2.5
AstraZeneca	7,621	3.8	7,817	4.1
BG	7,299	3.7	7,662	4.0
BAE Systems	6,750	3.4	5,008	2.6
Novartis – *Swiss Common Stock*	6,593	3.3	—	—

DIRECTORS

Beatrice Hollond
Was appointed to the Board in September 2003 and became Chairman on 14 December 2010. 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 Investment Trust 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 a non-executive director of Equitable Life Assurance Society from 2001 to 2012 and chief executive of the Chartered Institute of Public Finance and Accountancy from 1997 to 2000. Prior to that, he was chief executive of the Railways Pension Trustee Company.

He will retire from the Board at the conclusion of the Annual General Meeting on 22 January 2013.

Ian Armfield
Was appointed to the Board on 1 November 2012 and if elected by shareholders will become the Chairman of the Audit Committee at the end of the forthcoming Annual General Meeting. He was previously an audit partner at PricewaterhouseCoopers for 20 years, where his specialisation was financial services with a particular focus on asset management.

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, the Cambridge University Investment Board 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.

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 Contacts: Nira Mistry and 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 am to 6 pm, Monday to Friday. Please feel free to take advantage of their expertise.
☎ 0800 085 8677.
www.invescoperpetual.co.uk/investmenttrusts.

Custodian

The Bank of New York Mellon
160 Queen Victoria Street
London EC4V 4LA.

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:

International Financial Data Services
IFDS House
St Nicholas Lane
Basildon
Essex SS15 5FS
☎ 0800 028 5544.

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 9 am to 5.30 pm
Monday to Friday (excluding Bank Holidays).

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 2691.

Lines are open 8 am to 4.30 pm
Monday to Friday (excluding Bank Holidays).

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 participant in 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 £11,280 in shares of Keystone Investment Trust plc in the current tax year. Investors can also choose to make lump sum investments from £500, or regular investments from £20 per month.

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

Net Asset Value ('NAV') Publication

The NAV of the Company's ordinary shares 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 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.

The contents of websites referred to in this document, or accessible from links within those websites, are not incorporated into nor do they form part of, this financial report.

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

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 and dividends may normally be expected in the months shown below:

November

Annual results and 2nd interim dividend for year announced.
Annual Financial Report published.

December

2nd interim dividend paid.

January

Annual General Meeting.
Interim Management Statement.

May

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

June

1st interim dividend paid.

July

Interim Management Statement.

Interest on the debenture stocks is generally paid in April and October. See note 13 for more information.

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 30 SEPTEMBER 2012

Introduction

The Directors present their Report for the year ended 30 September 2012, incorporating the Business Review and Corporate Governance Statement.

Business Review

Business and Status

The Company was incorporated and registered in England and Wales on 17 September 1954 as a public limited company, 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 within the meaning of the Corporation Tax Act 2010 ('CTA') and the Investment Trust (Approved Company) (Tax) Regulations 2011. HM Revenue & Customs have approved the Company's status as an investment trust in respect of the year ended 30 September 2011, subject to there being no subsequent enquiry under Corporation Tax Self Assessment. In the opinion of the Directors, the Company has subsequently conducted its affairs so as to enable it to maintain such approval and to apply for approval under the new investment trust tax regulations, which apply to the Company from 1 October 2012.

Investment Objective and Policy

Investment Objective

The Company'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 stock market. 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 the time of investment, and £10 million at market value;
- the Company will not normally invest more than 15% of its equity investments in companies that are not UK listed and incorporated; and
- gearing may be used by the Company within limits determined by the Board.

Performance

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

- net asset value ('NAV');
- share price;
- peer group performance;
- premium/discount;
- ongoing charges; and
- dividend.

A chart showing the **NAV** and **share price** total return performance compared to the benchmark index, the FTSE All-Share Index, can be found on page 3. **Peer group performance** is monitored by comparing the Company with the 15 investment trust companies making up the UK Growth sector of the 300 investment companies in the UK. As at 30 September 2012, in NAV total return terms the Company was ranked 8th in its sector over one year, and ranked 4th and 5th over three and five years respectively (source: JPMorgan Cazenove).

The Board monitors the price of the Company's shares in relation to their NAV and the **premium/ discount** at which they trade. During the year the shares traded at a premium and discount relative to NAV (with debt at fair value) in a range of 0.6% premium to 8.5% discount and an average discount of 4.6%. At the year end the premium (with debt at fair value) was 0.6% (2011: 5.1% discount). The Board and Manager closely monitor movements in the Company's share price and dealings in the Company's shares. In order to avoid significant overhang or shortage of shares in the market, the Board asks shareholders to approve resolutions every year which allow for the repurchase of shares (for cancellation or to be held as treasury shares) and also their issuance. This may assist in the management of the discount. Although these authorities were not utilised in the year, subsequent to the year end the Company issued 75,000 ordinary shares at an average price of 1341.7p.

The expenses of the Company are reviewed at every board meeting, with the aim of managing costs incurred and their impact on performance. The **ongoing charges** figure at the year end was 0.95%, which was the same as the previous year's.

Dividends form a key component of the total return to shareholders, and the level of potential dividend payable and income from the portfolio is reviewed at every board meeting. For the year ended 30 September 2012, a 1st interim dividend was paid in June 2012 and a 2nd interim dividend has been declared of 30.5p (2011 final: 29p) per share, which will be payable on 14 December 2012 to shareholders on the register at 23 November 2012. With the 1st interim dividend of 18p (2011: 17.5p) paid, this will give a total dividend for the year of 48.5p compared with 46.5p for the previous year. The ten year record on page 3 shows both ongoing charges and dividends.

Financial Position

At 30 September 2012, the Company's net assets were valued at £183 million (2011: £164 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.

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.

At 30 September 2012, the Company's ordinary shares were geared by borrowings in the form of two issues of long-term debentures, totalling £32 million nominal (2011: £32 million). The weighted average interest rate was 6.77% (2011: 6.77%). The Company also has £0.25 million of 5% cumulative preference shares in issue (2011: £0.25 million).

Gearing Policy

The Board has carefully considered the Company's policy in respect of the level of net gearing and sets guidelines as to equity exposure to control it. These guidelines currently require 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.

Future Trends

The main trends and factors likely to affect the future development, performance and position of the Company's business can be found in the Manager's Report on pages 7 and 8. Further details as to the risks affecting the Company are set out under 'Principal Risks and Uncertainties'.

Principal Risks and Uncertainties

Investment Objective

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.

Market Risk

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. 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. In addition, there is the risk that the European policy makers fail to maintain the current fragile market confidence by not implementing an effective and lasting solution to the Eurozone crisis. Such factors are out of the control of the Board and the Manager and may give rise to high levels of volatility in the prices of investments held by the Company.

Investment Risk

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.

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

A fuller discussion of economic and market conditions and prospects for future performance of the Portfolio are included in the Chairman's Statement and the Manager's Report on pages 5 to 8.

Foreign Exchange Risk

The Company has some non-sterling denominated investments and is therefore subject to foreign exchange risk. The foreign currency exposure of the Company is monitored by the Manager on a daily basis and foreign currency contracts are used to hedge exposure in accordance with guidelines set by the Board.

Shares

The ordinary shares of the Company may trade at a discount to its NAV. As at 30 September 2012, the Company's shares traded at a premium of 0.6% (debt at fair value) and during the year they traded at an average discount of 4.6%.

The value of an investment in the Company and the income derived from that investment may go down as well as up and an investor may not get back the amount invested.

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 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.

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 total return 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 2012, net gearing stood at 8.5%.

Regulatory

The Company is subject to various laws and regulations by virtue of its status as a public limited company and as an investment company. A loss of investment trust status 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. 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 tax 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 19 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 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. The Company's main service providers are listed on page 13.

CORPORATE GOVERNANCE STATEMENT

Principles and Compliance

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

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

The Company has complied with the recommendations of the AIC Code and provisions of the UK Corporate Governance Code, except the provisions relating to:

- the role of the chief executive;
- executive directors' remuneration; and
- the need for an internal audit function.

The Board considers these provisions are not relevant to the position of Keystone Investment Trust plc, being an externally managed investment company, since it has no executive employees and in view of the Manager having an internal audit function.

The Board

The Board currently comprises six non-executive Directors, all of whom the Board regards as wholly independent of the Company's Manager. 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 the members of the Board are shown on page 12.

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 nine years, is not compromised by their length of service.

Chairman

The Chairman of the Company is Beatrice Hollond, a non-executive and independent Director who has no conflicting relationships. She has been on the Board since September 2003 and 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 have not been resolved through the normal channels of contact with the Chairman or Manager, or for which such channels are inappropriate.

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 and controlling risk, reviewing investment performance, monitoring borrowing, 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 £10,000, 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 Manager 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 27.
- *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. The remuneration of Directors is reviewed periodically and reported on in more detail in the Directors' Remuneration Report on pages 29 and 30.

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 Board believes that the Company benefits from a balance of board members with different tenures. 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. However, 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.

In light of Mr Adams' intention to retire the Board decided to recruit a new Director who would be suitable to succeed him as Chairman of the Audit Committee. The Board was able to identify a number of strong candidates fitting that requirement without engaging an external search consultancy or advertising the position. After due consideration by the Nomination Committee Ian Armfield was appointed as a Director on 1 November 2012 and will be subject to election by shareholders at the forthcoming AGM.

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 opted to conduct performance evaluation through questionnaires and discussion between the Directors, the Chairman and the Chairman of the Audit Committee. The result of this year's performance evaluation process was that the Board and the Audit Committee collectively and the Directors individually were assessed to have performed satisfactorily.

Accordingly, the Board confirms that the performance of all Directors is and continues to be effective and demonstrates commitment to the role. It recommends to shareholders the approval of Resolutions 3 to 6 relating to the Directors seeking to be re-elected.

Attendance at Board and Committee Meetings

The following table sets out the number of Board and Audit Committee meetings held during the year to 30 September 2012 and the number of meetings attended by each Director.

	BOARD MEETINGS		AUDIT COMMITTEE MEETINGS		NOMINATION COMMITTEE MEETINGS	
	HELD	ATTENDED	HELD	ATTENDED	HELD	ATTENDED
Beatrice Hollond	5	5	3	3	2	2
David Adams	5	5	3	3	2	2
William Kendall	5	5	3	3	2	2
Peter Readman(1)	5	5	—	—	2	2
John Wood	5	5	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 sub-committees of the Board to approve the Interim Management Statements of the Company and deal with other *ad hoc* items.

The Audit Committee

The Board is supported by an Audit Committee which, during the financial year to 30 September 2012, comprised Mrs Hollond and Messrs Adams, Kendall and Wood. Ian Armfield was appointed to the Committee on 1 November 2012. The current Chairman of the Audit Committee is David Adams, who will retire at the conclusion of the AGM and will be succeeded, subject to his election by shareholders as a Director, by Ian Armfield who, as a past audit partner of PricewaterhouseCoopers LLP, has the requisite relevant financial experience. A separate risk committee has not been established.

The Audit Committee has written terms of reference that 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. 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 half-yearly 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 Audit Committee 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.

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 financial statements.

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 fulfilled its obligations to shareholders and as independent auditor to the Company. There is no current intention to seek tenders in respect of the Audit contract.

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.

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 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 2012 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 by the Board.

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

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.

Directors

Directors' Interests

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

	30 SEPTEMBER 2012	1 OCTOBER 2011
David Adams	1,699	—
Beatrice Hollond	850	—
William Kendall	6,250	6,250
Peter Readman	—	—
John Wood	1,000	1,000

Save as aforesaid, no Director had any interests, beneficial or otherwise, in the ordinary shares, preference shares or debenture stock of the Company during the year. No changes to these holdings have been notified since the year end. Ian Armfield held no interest in the shares or debenture stocks of the Company from his appointment on 1 November 2012 until 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 each Director, details of which are set out below.

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.

Deeds of Indemnity and Insurance

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.

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

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.*

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 its suitability for the portfolio, the Manager does not necessarily decide not to make an investment on environmental and social grounds alone.

The Company may 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.

Capital Structure

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. There were no changes to either the ordinary shares or the 5% cumulative preference shares in issue during the year. Since the year end the Company has issued 75,000 ordinary shares at an average price of 1341.7p.

Rights Attaching to the Ordinary Shares

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. Except that the Directors can restrict voting powers (and dividends) where shareholders fail to provide information in respect of interests in voting rights when so requested.

Rights Attaching to the 5% Cumulative Preference Shares

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%. The holders of preference shares receive their fixed dividend before any dividends are paid to the holders of ordinary shares. Should the Company not be able make timely dividend payments, the dividends of cumulative preference shares will accrue. In the event of 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 2012, 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.

Substantial Holdings in the Company

The Company was aware of the following holdings of 3% and over of the Company's share capital carrying unrestricted voting rights:

	AS AT 31 OCTOBER 2012		AS AT 30 SEPTEMBER 2012	
	HOLDING	%	HOLDING	%
Investec Wealth & Investment	1,983,458	14.8	2,016,558	15.1
Brewin Dolphin	1,800,141	13.4	1,799,702	13.5
Rathbones	800,056	6.0	785,759	5.9
Speirs & Jeffrey	687,681	5.1	677,641	5.1
Charles Stanley	631,065	4.7	656,530	4.9
Legal & General Investment Management	439,663	3.3	439,663	3.3
JM Finn	432,085	3.2	413,155	3.1

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 monthly and daily fact sheets 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 20 working days' notice of the AGM. Shareholders wishing to lodge questions in advance of the AGM are invited to do so, 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 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.

The Manager

The Manager is responsible for the day-to-day investment management decisions of the Company.

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.

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.

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 provided. 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.

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.

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 2012 (2011: nil).

Business of the Annual General Meeting

The following summarises the business of the forthcoming AGM of the Company, which is to be held on 22 January 2013 at 11.00 am. The notice of the AGM and related notes can be found on pages 51 to 57.

Resolution 1 is for members to receive this Annual Financial Report, including the financial statements and Auditor's report.

Resolution 2 is to approve the Directors' Remuneration Report. It is mandatory for listed companies to put their report on Directors' remuneration to an advisory shareholder vote. The Report on Directors' Remuneration is set out on pages 29 and 30 of this Annual Financial Report.

Resolutions 3 to 7 are to re-elect/elect Directors. Biographies of the Directors can be found on page 12.

Resolution 8 is to re-appoint the Auditor and to authorise the Directors to determine the Auditor's remuneration. Ernst and Young LLP have expressed their willingness to continue to hold office until the conclusion of the next annual general meeting of the Company.

Special Business

Resolution 9 is to renew the Directors' authority to allot shares. Your Directors are asking for authority to allot new ordinary shares up to an aggregate nominal value of £2,240,633 (one third of the Company's issued share capital at 19 November 2012). This will allow Directors to issue shares within the prescribed limits should opportunities to do so arise that they consider would be in shareholders' interests. This authority will expire at the AGM in 2014.

Resolution 10 is to renew the authority to disapply pre-emption rights. Your Directors are asking for authority to issue new ordinary shares for cash up to an aggregate nominal value of £672,190 (10% of the Company's issued share capital as at 19 November 2012), disapplying pre-emption rights. This will allow shares to be issued to new shareholders without them first having to be offered to existing shareholders, thus broadening the shareholder base of the Company. This authority will not be exercised at a price below NAV (with debt at fair value) and will expire at the AGM in 2014.

Resolution 11 is to renew the authority for the Company to purchase its own shares. Your Directors are seeking authority for the purchase of up to 2,015,225 shares (14.99% of the Company's issued ordinary share capital as at 19 November 2012), subject to the restrictions referred to in the notice of the AGM. This authority will expire at the AGM in 2014. Your Directors are proposing that shares bought back by the Company either be cancelled or, alternatively, held as treasury shares with a view to their resale, if appropriate, or later cancellation. Any resale of treasury shares will only take place on terms that are in the best interests of shareholders.

Resolution 12 is to adopt new Articles of Association that have been amended to remove the prohibition on making dividend distributions from capital, following the introduction of new investment trust tax rules, and to update them generally to reflect current law and best practice. Provisions of the Company's Memorandum of Association which are deemed under the Companies Act 2006 to be part of the Company's Articles of Association, but which are no longer required, will also be removed by this resolution. The main changes to the Articles are summarised in an appendix to the Notice of Annual General Meeting on pages 55 to 57.

Resolution 13 is to permit the Company to hold general meetings (other than annual general meetings) on 14 days notice, which is the minimum notice period permitted by the Companies Act 2006. The EU Shareholder Rights Directive increases the minimum notice period to 21 days unless 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, hence this resolution being proposed. 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 have carefully considered all the resolutions proposed in the Notice of AGM and, in their opinion, consider them all to be in the best interests of shareholders as a whole. The Directors therefore recommend that shareholders vote in favour of each resolution.

By order of the Board

Invesco Asset Management Limited
Company Secretary

30 Finsbury Square
London EC2A 1AG

20 November 2012

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 30 SEPTEMBER 2012

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 on pages 32 and 33.

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.

Policy on Directors' Remuneration

The Board's policy is that the remuneration of Directors should be fair and reasonable in relation to that of other comparable investment trusts and to ensure that candidates of a high calibre are recruited to the Board. Remuneration levels should properly reflect time incurred and responsibility undertaken. It is intended that this policy will continue for the year ending 30 September 2013 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.

For the year under review, Directors' remuneration was paid at the following rate:

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

Following a review of the fees subsequent to the year end the Board resolved that the Directors' fees be increased to £20,000 per annum with effect from 1 January 2013. The fees of the Chairman and the Chairman of the Audit Committee will remain unchanged.

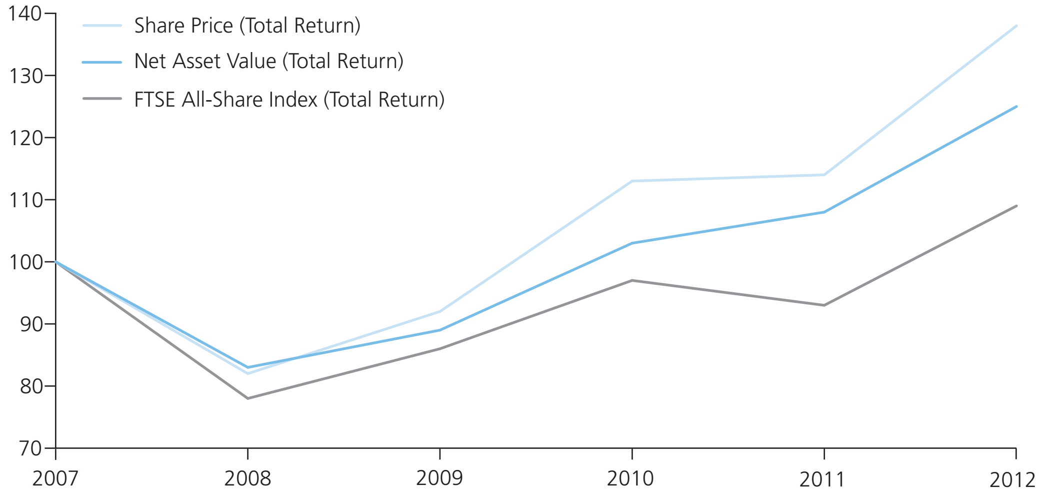
Directors' Service Contracts

All Directors have letters of appointment which are available for inspection at the Registered Office of the Company and on the Manager'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 Company's Performance

The graph overleaf plots the net asset value total return and share price total return to ordinary shareholders compared to the total return of the FTSE All-Share Index over the 5 years to 30 September 2012. This index is the benchmark adopted by the Company for comparison purposes. Figures have been rebased to 100 at 30 September 2007. A graph showing the performance over the last 10 years is shown on page 3.

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 30 SEPTEMBER 2012
continued



Directors' Emoluments for the Year (Audited)

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

	2012 £	2011 £
Beatrice Hollond (Appointed Chairman of the Board on 14 December 2010)	25,000	23,605
David Adams (Chairman of the Audit Committee)	22,500	22,500
William Kendall*	18,000	18,000
Peter Readman*	18,000	18,000
John Wood (Appointed on 8 March 2011)	18,000	10,183
Richard Oldfield (Retired 14 December 2010)	—	5126
Total	101,500	97,414

*£18,000 plus VAT each was paid to third parties in respect of Directors' services for William Kendall and Peter Readman (2011: £18,000 each).

Approval

The Directors' Remuneration Report was approved by the Board of Directors on 20 November 2012.

Beatrice Hollond
Chairman

Signed on behalf of the Board of Directors

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 financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the net return 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;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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 financial statements 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 financial statements, which have been prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and net return of the Company;
- the 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; and
- they consider that the annual financial report taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Beatrice Hollond
Chairman

Signed on behalf of the Board of Directors

20 November 2012

Electronic Publication

The annual financial report is published on *www.invescoperpetual.co.uk/investmenttrusts* which is the Manager's website for the Company. 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 2012 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 21. 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 Statement of Directors' Responsibilities set out on page 31, 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 2012 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 on page 23 in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

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

20 November 2012

INCOME STATEMENT

FOR THE YEAR ENDED 30 SEPTEMBER

	NOTES	2012 REVENUE £'000	2012 CAPITAL £'000	2012 TOTAL £'000	2011 REVENUE £'000	2011 CAPITAL £'000	2011 TOTAL £'000
Gains on investments	9	—	21,056	21,056	—	4,930	4,930
Gains/(losses) on certificates of deposit	10	—	11	11	—	(6)	(6)
Foreign exchange gains/(losses)		—	84	84	—	(295)	(295)
Income	2	7,901	32	7,933	7,391	—	7,391
Investment management fees	3	(321)	(1,285)	(1,606)	(312)	(935)	(1,247)
Other expenses	4	(316)	—	(316)	(323)	—	(323)
Net return before finance costs and taxation		7,264	19,898	27,162	6,756	3,694	10,450
Finance costs	5	(560)	(1,643)	(2,203)	(559)	(1,641)	(2,200)
Return on ordinary activities before tax		6,704	18,255	24,959	6,197	2,053	8,250
Tax on ordinary activities	6	(138)	—	(138)	(112)	—	(112)
Net return on ordinary activities after tax for the financial year		6,566	18,255	24,821	6,085	2,053	8,138
Return per ordinary share							
Basic	8	49.1p	136.6p	185.7p	45.5p	15.4p	60.9p

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 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 at 30 September 2011	6,685	1,258	466	147,633	8,211	164,253
Dividends paid – note 7	—	—	—	—	(6,271)	(6,271)
Net return on ordinary activities	—	—	—	18,255	6,566	24,821
Balance at 30 September 2012	6,685	1,258	466	165,888	8,506	182,803

The accompanying notes are an integral part of these statements.

BALANCE SHEET

AT 30 SEPTEMBER

	NOTES	2012 £'000	2011 £'000
Fixed assets			
Investments held at fair value through profit or loss	9	199,259	179,393
Current assets			
Certificates of deposit	10	—	13,000
Debtors	11	985	1,380
Cash and cash funds		15,934	3,441
		16,919	17,821
Creditors: amounts falling due within one year	12	(1,158)	(1,089)
Net current assets		15,761	16,732
Total assets less current liabilities		215,020	196,125
Creditors: amounts falling due after more than one year	13	(31,895)	(31,872)
Provisions	14	(322)	—
Net assets		182,803	164,253
Capital and reserves			
Called up share capital	15	6,685	6,685
Share premium	16	1,258	1,258
Capital redemption reserve	16	466	466
Capital reserve	16	165,888	147,633
Revenue reserve	16	8,506	8,211
Shareholders' funds		182,803	164,253
Net asset value per ordinary share			
Basic	17	1367.4p	1228.6p

These financial statements were approved and authorised for issue by the Board of Directors on 20 November 2012.

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	2012 £'000	2011 £'000
Cash inflow from operating activities	18(a)	6,421	5,205
Servicing of finance	18(b)	(2,180)	(2,179)
Capital expenditure and financial investment	18(b)	14,523	14,935
Net equity dividends paid	7	(6,271)	(6,039)
Net cash inflow before management of liquid resources and financing		12,493	11,922
Management of liquid resources	18(b)	(15,000)	—
(Decrease)/increase in cash		(2,507)	11,922
Reconciliation of net cash flow to movement in net debt			
(Decrease)/increase in cash		(2,507)	11,922
Cashflow from movement in liquid resources		15,000	—
Debenture stock non-cash movement		(23)	(21)
Movement in net debt in the year		12,470	11,901
Net debt at beginning of the year		(28,431)	(40,332)
Net debt at end of the year	18(c)	(15,961)	(28,431)

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 as the investments are managed and their performance evaluated on a fair value basis in accordance with a documented investment strategy, and this is also the basis on which investment information is provided internally to the Board.

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.

1. Accounting Policies (continued)

(b) Financial Instruments (continued)

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

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.

(c) Accounting for Capital Reserves

Realised gains and losses on sales of investments (note 9(b)) and certificates of deposit (note 10) and realised gains or losses on derivatives (including any related foreign exchange gains and losses), realised gains and losses on foreign currency, management fee and finance costs allocated to capital and any other capital charges, are included in the income statement and dealt with in the capital reserve. Unrealised increases and decreases in the valuation of investments and certificates of deposit and any derivatives held at the year end (including the related foreign exchange gains and losses), are also included in the income statement and dealt with in the capital reserve.

(d) 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. Special dividends representing a return of capital are allocated to capital in the income statement. 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.

(e) 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.

(f) 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 (e) 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.

(g) 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.

(h) 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.

(i) 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.

(j) 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

	2012 £'000	2011 £'000
Income from investments		
UK dividends	6,760	6,463
Overseas dividends	982	752
UK unfranked investment income – interest	128	174
Scrip dividends	23	—
	7,893	7,389
Other income		
Deposit interest	8	2
Total income	7,901	7,391

A special dividend of £32,000 (2011: nil) has been recognised in capital.

3. Investment Management and Performance-related Fees

	2012			2011		
	REVENUE £'000	CAPITAL £'000	TOTAL £'000	REVENUE £'000	CAPITAL £'000	TOTAL £'000
Investment management fee	321	963	1,284	312	935	1,247
Performance-related fee	—	322	322	—	—	—
	321	1,285	1,606	312	935	1,247

Details of the management agreement are disclosed in the Report of the Directors. The performance-related fee is based on a calendar year basis; a performance-related fee of £322,000 has been provided for the year ended 31 December 2012 (31 December 2011 and 31 December 2010: none). At 30 September 2012, investment management fees of £347,000 (2011: £301,000) were accrued.

4. Expenses

	2012 £'000	2011 £'000
Directors' fees	102	97
Fees payable to the Company's auditor in relation to*:		
– the audit of the financial statements	26	25
– for other services, relating to taxation	6	6
Other expenses	182	195
	316	323

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

NOTES TO THE FINANCIAL STATEMENTS
continued

5. Finance Costs

	2012 REVENUE £'000	2012 CAPITAL £'000	2012 TOTAL £'000	2011 REVENUE £'000	2011 CAPITAL £'000	2011 TOTAL £'000
Interest payable on borrowings repayable not by installment:						
Debenture stock repayable after 5 years	548	1,643	2,191	547	1,641	2,188
	548	1,643	2,191	547	1,641	2,188
Dividends on 5% cumulative preference shares	12	—	12	12	—	12
	560	1,643	2,203	559	1,641	2,200

6. Taxation
(a) Current Tax Charge

	2012 REVENUE £'000	2011 REVENUE £'000
Overseas tax	138	112

(b) Reconciliation of Current Tax Charge

	2012 £'000	2011 £'000
Total return on ordinary activities before taxation	24,959	8,250
UK Corporation Tax effective rate of 25% (2011: 27%)	6,240	2,228
Effect of:		
– Gains on investments and certificates of deposit	(5,267)	(1,330)
– (Gains)/losses on foreign exchange movements	(21)	80
– UK dividends which are not taxable	(1,690)	(1,745)
– Non-taxable overseas dividends	(245)	(203)
– Overseas tax	138	112
– Non-taxable scrip dividends	(6)	—
– Disallowed expenses	6	8
– Excess of management expenses over taxable income	983	962
Current tax charge for the year	138	112

(c) Factors that may Affect Future Tax Changes
The Company has excess expenses of £49,414,000 (2011: £45,488,000) that are available to offset future taxable revenue. A deferred tax asset, of £11,361,000 measured at the standard corporation tax rate of 23% (2011: £11,827,000 at 26%), 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

	2012 £'000	2011 £'000
Dividends on equity shares paid and recognised in the year:		
Final dividend for 2011 of 29p (2010: 28p)	3,877	3,743
1st interim dividend for 2012 of 18p (2011: 17.5p)	2,406	2,340
Return of unclaimed dividends from previous years	(12)	(44)
	6,271	6,039

	2012 £'000	2011 £'000
Dividends on equity shares payable in respect of the year:		
1st interim paid 18p per ordinary share (2011: 17.5p)	2,406	2,340
2nd interim dividend of 30.5p per ordinary share (2011: final: 29p)	4,100	3,877
	6,506	6,217

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 (2011: 13,368,799) shares being the number of ordinary shares in issue throughout the year.

9. Investments

(a) Analysis of Investments by Listing Status

	2012 £'000	2011 £'000
Investments listed on a recognised stock exchange	191,283	171,725
Unlisted investments	7,976	7,668
	199,259	179,393

(b) Analysis of Investment Gains and Losses

	2012 LISTED £'000	2012 UNLISTED £'000	2012 TOTAL £'000	2011 TOTAL £'000
Opening valuation	171,725	7,668	179,393	174,833
Movements in year:				
Purchases at cost	40,014	342	40,356	42,031
Sales – proceeds	(41,433)	(113)	(41,546)	(42,401)
– net realised gains on sales	3,921	—	3,921	6,429
Movement in investment holding gains/(losses)	17,056	79	17,135	(1,499)
Closing valuation	191,283	7,976	199,259	179,393
Closing book cost	166,564	5,565	172,129	169,398
Closing investment holding gains	24,719	2,411	27,130	9,995
Closing valuation	191,283	7,976	199,259	179,393
Net realised gains based on historical cost	3,921	—	3,921	6,429
Movement in investment holding gains/(losses) in year	17,056	79	17,135	(1,499)
Gains on investments	20,977	79	21,056	4,930

9. Investments (continued)

(c) Transaction Costs

Transaction costs on purchases of £195,000 (2011: £225,000) and on sales of £64,000 (2011: £39,000) are included within gains and losses on investments in the income statement.

10. Certificates of Deposit

	2012 £'000	2011 £'000
Opening valuation	13,000	28,000
Movements in the year:		
Purchases	83,000	62,020
Sales – proceeds	(96,011)	(77,014)
– net realised gains	1	4
Movements in investment holding gains/(losses)	10	(10)
Closing valuation	—	13,000
Closing book cost	—	13,010
Closing investment holding losses	—	(10)
Closing valuation	—	13,000
Net realised gains based on historical cost	1	4
Movement in investment holding gains/(losses) in year	10	(10)
Gains/(losses) on certificates of deposit	11	(6)

11. Debtors

	2012 £'000	2011 £'000
Amounts due from brokers	130	429
Unrealised profit on forward currency contracts	—	83
Prepayments and accrued income	732	835
Overseas withholding tax recoverable	123	33
	985	1,380

12. Creditors: amounts falling due within one year

	2012 £'000	2011 £'000
Unrealised loss on forward currency contracts	3	—
Accruals and deferred income	1,155	1,089
	1,158	1,089

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

	2012 £'000	2011 £'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	(355)	(378)
	31,645	31,622
5% cumulative preference shares of £1 each	250	250
	31,895	31,872

The debenture stocks both pay interest twice a year; the 7.75% Debenture Stock 2020 for the six months ended 31 March and 30 September, and the 6.5% Debenture Stock 2023 for the six months to 27 April and 27 October. Both debenture stocks generally make the payments in April and October. The preference shares dividend is paid bi-annually in March and September.

14. Provision

	2012 £'000	2011 £'000
Performance-related fee:		
Charge in the year	322	—
Closing provision	322	—

Details of the performance-related fee are given in the Report of the Directors and in note 3.

15. Called up share capital

	2012 NUMBER	2012 £'000	2011 NUMBER	2011 £'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 on a poll carry one vote per £1 nominal held.

Subsequent to the year end 75,000 ordinary shares of 50p each were issued at an average price of 1341.7p.

16. 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 and certificate of deposit holding gains/(losses), being the difference between cost and market value at the balance sheet date, totalling a gain of £27,130,000 (2011: £9,985,000). The capital reserve is currently non-distributable by way of dividend, however, it can be used to fund share buy backs.

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

NOTES TO THE FINANCIAL STATEMENTS
continued

17. 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	
	2012 PENCE	2011 PENCE	2012 £'000	2011 £'000
Ordinary shares				
– Basic	1367.4	1228.6	182,803	164,253

Net asset value per ordinary share is based on net assets at the year end and on 13,368,799 (2011: 13,368,799) ordinary shares, being the number of ordinary shares in issue at the year end.

18. Notes to the Cash Flow Statement

(a) Reconciliation of Operating Profit to Operating Cash Flows

	2012 £'000	2011 £'000
Total return before finance costs and taxation	27,162	10,450
Adjustment for gains on investments and certificates of deposit	(21,067)	(4,924)
Cash inflow/(outflow) from forward currency contracts	86	(71)
Scrip dividends	(23)	—
Decrease/(increase) in debtors	13	(149)
Increase in creditors and provisions	388	11
Tax on overseas dividends	(138)	(112)
Net cash inflow from operating activities	6,421	5,205

(b) Analysis of Cash Flow for Headings Netted in the Cash Flow Statement

	2012 £'000	2011 £'000
Servicing of finance		
Preference dividends paid	(12)	(12)
Bank interest paid	—	—
Interest paid on debenture stocks	(2,168)	(2,167)
Net cash outflow from servicing of finance	(2,180)	(2,179)
Capital expenditure and financial investment		
Purchase of investments*	(40,333)	(42,031)
Sale of investments	41,845	41,972
Purchase of certificates of deposit	(83,000)	(62,020)
Sale of certificates of deposit	96,011	77,014
Net cash inflow from capital expenditure and financial investments	14,523	14,935
Management of liquid resources		
Cash movement on cash funds and short term deposits	(15,000)	—
Net cash outflow from management of liquid resources	(15,000)	—

*Excludes scrip dividends received as income.

(c) Analysis of changes in net debt

	1 OCTOBER 2011 £'000	CASH FLOW £'000	DEBENTURE STOCK NON-CASH MOVEMENT £'000	30 SEPTEMBER 2012 £'000
Cash	3,441	(2,507)	—	934
Cash funds and short term deposits	—	15,000	—	15,000
Debentures	(31,622)	—	(23)	(31,645)
5% Cumulative preference shares	(250)	—	—	(250)
Net debt	(28,431)	12,493	(23)	(15,961)

19. 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 distribution by way of 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 19 and 20. No derivatives 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.

19. Financial Instruments (continued)

Risk Management Policies and Procedures (continued)

Market risk (continued)

Currency risk

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

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 also used 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 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.

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 2012			30 SEPTEMBER 2011		
	US DOLLAR £'000	SWISS FRANC £'000	SWEDISH KRONA £'000	US DOLLAR £'000	SWISS FRANC £'000	SWEDISH KRONA £'000
Debtors (due from brokers, dividends receivable and accrued income)	115	104	—	132	—	—
Forward currency contracts	—	—	(405)	(9,288)	(4,821)	—
Foreign currency exposure on net monetary items	115	104	(405)	(9,156)	(4,821)	—
Investments at fair value through profit or loss that are equities	9,968	14,573	402	9,458	4,877	—
Total net foreign currency exposure	10,083	14,677	(3)	302	56	—

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

Currency sensitivity

The following table illustrates the sensitivity of the net return after taxation for the year using exchange rates for £ to US dollar, Swiss franc and Swedish krona. 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 rate.

	2012	2011
£/US dollar	±1.5%	±1.8%
£/Swiss franc	±2.5%	±6.5%
£/Swedish krona	±2.1%	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, Swiss franc and Swedish krona against the mean during the year.

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

	30 SEPTEMBER 2012			30 SEPTEMBER 2011		
	US DOLLAR £'000	SWISS FRANC £'000	SWEDISH KRONA £'000	US DOLLAR £'000	SWISS FRANC £'000	SWEDISH KRONA £'000
Income statement – return after taxation						
Revenue return	(7)	(8)	—	(11)	(11)	—
Capital return	(147)	(373)	3	(3)	(4)	—
Total return after taxation for the year	(154)	(381)	3	(14)	(15)	—
Effect on NAV	0.1%	(0.2%)	—	—	—	—

If sterling had weakened against US dollar, Swiss franc and Swedish krona to this extent, the effect would have been the exact opposite.

In the opinion of the Directors, the above sensitivity analysis is 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 the 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 there was none drawn down (2011: nil).

At the balance sheet date the Company has 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 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 table below shows the maturity analysis and exposure of the debt securities:

	2012		2011	
	FIXED RATE EXPOSURE £'000	FLOATING RATE EXPOSURE £'000	FIXED RATE EXPOSURE £'000	FLOATING RATE EXPOSURE £'000
Less than one year	—	—	500	—
More than one year but less than two years	375	—	—	—
More than two years but less than five years	125	—	151	—
	500	—	651	—

Fixed rate exposure gives rise to fair value interest rate risk and floating rate exposure gives rise to cash flow interest rate risk. If interest rates were either to increase or decrease by 1%, there would be no effect on revenue as all are fixed; the estimated effect on capital net return after taxation is £17,000 (2011: £27,000), resulting in an insignificant effect 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, and it is the business of the Manager to manage the portfolio to achieve the best returns that he can.

NOTES TO THE FINANCIAL STATEMENTS
continued

19. 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.

Based on the equity portfolio value of £198,759,000 (2011: £178,742,000), if the value of the portfolio rose or fell by 10% at the balance sheet date, the net return after tax for the year would increase or decrease by £19.9 million (2011: £17.9 million) respectively; in calculating these amounts no adjustment has been made for other variables including management fees.

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 if necessary. In addition, the bank overdraft facility provides for additional funding flexibility.

Liquidity risk exposure

The contractual maturities of the financial liabilities at the year end, based on the earliest date on which payment can be required, are as follows:

	2012 THREE MONTHS OR LESS £'000	2012 MORE THAN THREE MONTHS BUT LESS THAN ONE YEAR £'000	2012 MORE THAN ONE YEAR £'000	2012 TOTAL £'000	2011 THREE MONTHS OR LESS £'000	2011 MORE THAN THREE MONTHS BUT LESS THAN ONE YEAR £'000	2011 MORE THAN ONE YEAR £'000	2011 TOTAL £'000
Debenture stocks	—	—	32,000	32,000	—	—	32,000	32,000
Interest on debenture stocks	813	1,355	20,047	22,215	813	1,355	22,215	24,383
Unrealised loss on forward currency contracts	3	—	—	3	—	—	—	—
Accruals and deferred income	451	—	—	451	385	—	—	385
	1,267	1,355	52,047	54,669	1,198	1,355	54,215	56,768

The 5% cumulative preference shares do not have a fixed repayment date and are, as a result, not shown in the above table. Details are shown in note 13 of the financial statements.

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 depositaries approved by the Board are used.

Fair Values of Financial Assets and Financial Liabilities

The fair values of the financial assets and financial liabilities, other than debentures and preference shares, 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 follow.

	BOOK VALUE 2012 £'000	FAIR VALUE 2012 £'000	BOOK VALUE 2011 £'000	FAIR VALUE 2011 £'000
Debentures repayable in more than 5 years:				
7.75% Debenture Stock 2020	7,000	8,505	7,000	7,875
6.5% Debenture Stock 2023	25,000	30,824	25,000	28,121
Discount on issue of debentures	(355)	—	(378)	—
	31,645	39,329	31,622	35,996
5% Cumulative preference shares of £1 each	250	192	250	192
	31,895	39,521	31,872	36,188

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 are:

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.

	2012				2011			
	LEVEL 1 £'000	LEVEL 2 £'000	LEVEL 3 £'000	TOTAL £'000	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	—	125	—	125	—	151	—	151
Other securities	—	436	—	436	13,000	519	—	13,519
Equities	190,722	—	—	190,722	171,055	—	—	171,055
Unquoted investments:								
Debt securities	—	—	375	375	—	—	500	500
Equities	—	—	7,601	7,601	—	—	7,168	7,168
Total for financial assets	190,722	561	7,976	199,259	184,055	670	7,668	192,393

19. Financial Instruments (continued)

Fair Value Hierarchy Disclosures (continued)

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

	2012 £'000	2011 £'000
Opening fair value of Level 3	7,668	5,234
Transfer from Level 1 to Level 3	—	513
Investments purchased	342	1,772
Investments redeemed or sold	(113)	—
Movement in holding gains on assets held at the year end	79	149
Closing fair value of Level 3	7,976	7,668

Capital Management

The Company's capital, or equity, is represented by its net assets which are managed to achieve the Company's investment objective set out on page 15.

The main risks to the Company's investments are shown in the Report of the Directors under the 'Principal Risks and Uncertainties' section on pages 17 and 18. These also explain that the Company is able to gear and that gearing will amplify the effect on equity of changes in the value of the portfolio.

The Board can also manage the capital structure directly since it has taken the powers, which it is seeking to renew, to issue and buy-back shares and it also determines dividend payments.

The Company is subject to externally imposed capital requirements with respect to the obligation and ability to pay dividends by section 1159 Corporation Tax Act 2010 and by the Companies Act 2006, respectively, and with respect to the availability of the overdraft facility, by the terms imposed by the custodian. The Board regularly monitors, and has complied with, the externally imposed capital requirements. This is unchanged from the prior year.

Total equity at 30 September 2012, the composition of which is shown on the balance sheet on page 35, was £182,803,000 (2011: £164,253,000).

20. Contingencies, Guarantees and Financial Commitments

There were no other contingencies, guarantees or financial commitments of the Company at the year end (2011: £nil).

21. Related Party Transactions and Transactions with the Manager

Under United Kingdom Generally Accepted Accounting Practice (UK Accounting Standards and applicable law), the Company has identified no related parties and there have been no related party transactions during the year. 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 and management fees payable to IAML are shown in note 3.

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 at 43-45 Portman Square, London W1H 6LY at 11 am on 22 January 2013 for the following purposes:

Ordinary Business

1. To receive the Directors' Report and Financial Statements for the year ended 30 September 2012.
2. To approve the Directors' Remuneration Report.
3. To re-elect Mrs Beatrice Hollond a Director of the Company.
4. To re-elect Mr William Kendall a Director of the Company.
5. To re-elect Mr Peter Readman a Director of the Company.
6. To re-elect Mr John Wood a Director of the Company.
7. To elect Mr Ian Armfield a Director of the Company.
8. 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 and 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 9 will be proposed as Ordinary Resolution and Resolutions 10, 11, 12 and 13 will be proposed as Special Resolutions.

9. 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 £2,240,633, 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.

10. 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 9 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 £672,190.

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.

11. 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 2,015,225;

(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.

12. THAT:

the Articles of Association produced to the meeting and initialled by the Chairman for the purposes of identification be adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association of the Company (including the removal of the provisions of the Company's Memorandum of Association which, by virtue of section 28 of the Companies Act 2006, are treated as provisions of the existing Articles of Association of the Company).

13. THAT:

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

Please refer to the Report of the Directors on pages 27 and 28 for further explanations of all Resolutions presented under Special Business.

The main changes to the Articles of Association are summarised in an appendix to this notice on pages 55 to 57.

Dated this 20th November 2012

By order of the Board

Invesco Asset Management Limited
Company Secretary

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 am on 20 January 2013.

4. A person entered on the Register of Members at close of business on 18 January 2013 ('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.

NOTICE OF ANNUAL GENERAL MEETING

continued

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 19 November 2012 (being the last practicable day prior to the publication of this Notice) the Company's issued share capital consisted of 13,443,799 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.

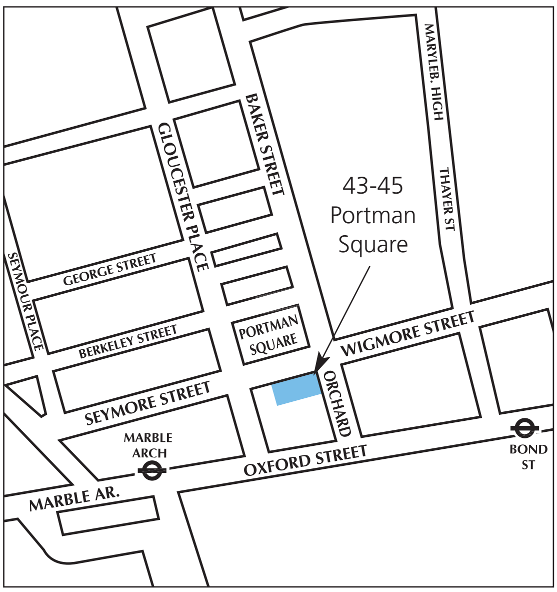
12. This notice is sent for information only to the holders of the 7.75% Debenture Stock (redeemable 1 October 2020), 6.5% Debenture Stock (redeemable 27 April 2023) and 5% Cumulative Preference Shares, who are not entitled to attend and vote at the meeting.

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 financial statements (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 2011; or (ii) any circumstance connected with an auditor of the Company appointed for the financial year beginning on 1 October 2011 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.

The Annual General Meeting will be held at 11 am on 22 January 2013 at the offices of Invesco Perpetual on the first floor of 43-45 Portman Square, London W1H 6LY. The Manager will be giving a presentation following the Annual General Meeting.

Map of venue



EXPLANATORY NOTES OF PRINCIPAL CHANGES TO THE COMPANY'S ARTICLES OF ASSOCIATION

1. The Company's objects

The provisions regulating the operations of the Company were until 1 October 2009 set out in the Company's memorandum and articles of association.

The Companies Act 2006 ('CA 2006') significantly reduces the constitutional significance of a company's memorandum. It provides that the memorandum will record only the names of subscribers and the number of shares each subscriber has agreed to take in the company. However, it also provides that from 1 October 2009 the majority of the previous provisions of the memorandum, most notably the objects clause, are deemed to be part of the company's articles of association.

CA 2006 also states that, unless a company's articles provide otherwise, a company's objects are unrestricted. This abolishes the need for companies to have objects clauses. For this reason the Company is proposing to remove its objects clause (together with all other provisions of its memorandum which, by virtue of the CA 2006, are treated as forming part of the Company's articles of association as of 1 October 2009). This will be achieved by the adoption of new articles of association ('New Articles') which contain no such provisions other than a statement regarding the limited liability of shareholders.

2. Redeemable shares (Article 5)

Under the 1985 Companies Act, if a company wished to issue redeemable shares, it had to include in its articles the terms and manner of redemption. The CA 2006 enables directors to determine such matters instead, provided they are so authorised by the articles. The New Articles contain such an authorisation. The Company has no plans to issue redeemable shares but if it did so the directors would need shareholders' authority to issue new shares in the usual way.

3. Authorised share capital and unissued shares (Former Article 9)

The CA 2006 removes the concept of authorised share capital. As with the objects clause (see paragraph 1), the statement of authorised share capital previously contained in a company's memorandum of association has been deemed from 1 October 2009 to be a provision of the company's articles of association (and takes effect as setting out the maximum number of shares that may be allotted by the company). The adoption of the New Articles will have the effect of removing this provision.

The Directors will still be limited as to the number of shares they can at any time allot because an allotment authority continues to be required under the CA 2006, save in respect of employee share schemes.

4. Suspension of registration of share transfers (Former Article 39)

The Current Articles permit the directors to suspend the registration of transfers for up to 30 days in any year, reflecting a provision of the 1985 Companies Act. Under the CA 2006 share transfers must be registered as soon as practicable. The provision which allowed the Company to suspend the registration of transfers has been removed in the New Articles.

5. Authority to purchase own shares, consolidate and sub-divide shares, and reduce share capital (Former Articles 54 and 56)

Under the 1985 Companies Act, a company required specific enabling provisions in its articles to purchase its own shares, to consolidate or sub-divide its shares and to reduce its share capital or other undistributable reserves as well as shareholder authority to undertake the relevant action. The current articles of association ('Current Articles') include these enabling provisions. Under the CA 2006 a company will only require shareholder authority to do any of these things and it will no longer be necessary for the articles to contain enabling provisions. Accordingly the relevant enabling provisions have been removed in the New Articles.

6. Notice of general meetings (Article 57)

Under the CA 2006 as amended by the Shareholders' Rights Regulations, general meetings cannot be held on shorter notice than the statutory minimum period (which depends on the nature of the meeting and the business to be conducted at it). The New Articles therefore reflect this.

7. Adjournments for lack of quorum (Article 61.2)

Under the CA 2006 as amended by the Shareholders' Rights Regulations, general meetings adjourned for lack of quorum must be held at least 10 clear days after the original meeting. The New Articles reflect this requirement.

8. Electronic conduct of meetings (Article 62)

Amendments made to the CA 2006 by the Shareholders' Rights Regulations specifically provide for the holding and conducting of electronic meetings. The Current Articles have been amended to reflect more closely the relevant provisions.

9. Short notice (Former Article 61)

Official List companies are no longer able to hold general meetings on short notice. The provision relating to the ability of the Company to hold general meetings on short notice has been deleted from the New Articles.

10. Chairman's casting vote (Former Article 67.2)

The New Articles remove the provision giving the chairman a casting vote in the event of an equality of votes as this is no longer permitted under the CA 2006.

11. Voting by proxies on a show of hands (Article 69)

Under the CA 2006 as amended by the Shareholders' Rights Regulations, each proxy appointed by a member has one vote on a show of hands unless the proxy is appointed by more than one member in which case the proxy has one vote for and one vote against if the proxy has been instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution. The New Articles reflect these changes and contain a provision clarifying how the provision of the CA 2006 giving a proxy a second vote on a show of hands should apply to discretionary authorities.

12. Validity of votes by proxies and corporate representatives (Article 72)

Under the CA 2006 as amended by the Shareholders' Rights Regulations, proxies have an obligation to vote in accordance with the instructions given to them by the member appointing them. The New Articles contain a provision stating that the Company is not required to enquire whether a proxy or corporate representative has voted in accordance with instructions given to him and that votes cast by a proxy or corporate representative will be valid even if he has not voted in accordance with these instructions.

The New Articles also provide that any objection to the qualification of a person voting must be made at the meeting at which the vote objected to is tendered or at the time any poll is taken and that the chairman's decision is final and binding. The New Articles require a member to provide reasonable evidence of his and his proxy's identity and also specify what a member must provide by way of evidence if a proxy is appointed by a person acting on behalf of a member.

13. Timing for submission of proxy appointments (Article 77)

Article 77 has been amended to permit the directors to specify, in a notice of meeting, that in determining the time for delivery of proxy appointments, no account shall be taken of non-working days. This brings the provisions relating to timing for proxy appointments into line with the provisions of Article 126 (see paragraph 17) regarding determining which persons may attend and vote at a general meeting.

14. Use of seals (Former Article 99)

Under the 1985 Companies Act, a company required authority in its articles to have an official seal for use abroad. Under the CA 2006, such authority is no longer required. Accordingly, the relevant authorisation has been removed in the New Articles.

15. Directors' interests (Articles 94)

The provisions in the Current Articles dealing with directors' conflicts of interest have been amended in line with market practice. Under the New Articles certain conflicts of interest do not need to be authorised, for example an interest as a director of a group company. Generally the nature and extent of any conflict of interest must be disclosed before it can be authorised or before it is permitted without being authorised; but the New Articles provide for some situations in which disclosure is not required where knowledge can be presumed and disclosure is unlikely to be necessary. The New Articles also allow the board to exercise voting rights in group companies without restriction e.g. so as to appoint a director to the board of a group company without this counting as a conflict requiring authorisation.

16. Application of sums standing to credit of capital reserve (Article 120.1)

The Companies Act 2006 (Amendment of Part 23) (Investment Companies) Regulations 2012 removed the requirement that the articles of association of an investment company must prohibit the distribution of capital profits. The New Articles reflect this change and no longer prohibit the distribution of capital profits by way of dividend.

17. Record date for right to attend and vote at meetings (Article 126)

The New Articles include a new provision, not in the Current Articles, dealing with the method for determining which persons are allowed to attend or vote at a general meeting of the Company and how many votes each person may cast. Under this new provision, when convening a meeting the Company must specify a time, not more than 48 hours before the time of the meeting (excluding any part of a day that is not a working day), by which a person must be entered on the register of members in order to have the right to attend or vote at the meeting. This reflects a new provision introduced by the Shareholders' Rights Regulations.

18. Change of name (Article 152)

Under the 1985 Companies Act, a company could only change its name by special resolution. Under the CA 2006 a company is able to change its name by other means provided for by its articles. To take advantage of this provision, the New Articles enable the directors to pass a resolution to change the Company's name. The directors currently have no intention of using this power.

19. Articles which duplicate statutory provisions

Provisions in the Current Articles which replicate provisions contained in the CA 2006 are in the main removed in the New Articles. This is in line with the approach advocated by the Government that statutory provisions should not be duplicated in a company's constitution.

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.

Ongoing Charges

The annualised ongoing charges, including those charged to capital but excluding interest, incurred by the Company, expressed as a percentage of the average undiluted net asset value (with debt at fair value) in the period reported.

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 $677.4 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 2012.*

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 Limited

A Jersey incorporated closed-ended Company that aims to generate a high level of income from a variety of fixed income instruments combined with a degree of security. The Company is geared by bank debt.

Invesco Income Growth Trust plc

Aims to provide shareholders with 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 Company 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 Company 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 Company 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 Company 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 Company 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 Company 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 Company is geared by bank debt.

Invesco Perpetual Select Trust plc – Global Equity Income Portfolio

The investment objective is 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.

Investing for Total Returns

Invesco Perpetual Select Trust plc – Balanced Risk Portfolio

Aims 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 will not normally pay dividends.

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.

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