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Keystone Investment Trust plc

Report and Accounts

Year Ended 30 September 2007

37

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Investment Objective

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

Keystones

The keystone is the central stone of a Classical round arch It belongs to the type of arch developed and used widely in ancient Roman architecture, think of the Colosseum and the great aqueducts such as the Pont du Gard near Nimes

Round arches are made up of a series of tapered blocks known as voussoirs, of which the central and uppermost is the keystone, often, though not always, emphasised by decoration or projection Our illustration – specially commissioned from the contemporary Classical architect Francis Terry, son and partner of Quinlan Terry, who has designed new Classical country houses all over the UK and the US – shows such an arch, just at the moment before completion as the keystone is carefully lowered into place by the stonemasons

Traditionally the arch would be held in place by wooden scaffolding until the keystone arrived, the last of the voussoirs to be inserted The keystone made the arch complete and sound, and was thus a critical element in the stability of the whole building, of which it was yet a small part

A keystone can also be part of a flat arch of a doorway and in the case of the great English baroque architects such as Vanbrugh and Hawksmoor, keystones were often exaggerated to refer to the strength of giants

Jeremy Musson, Architectural Historian 2007

FINANCIAL INFORMATION AND PERFORMANCE STATISTICS

Performance Statistics

†Defined in the Glossary of Terms on page 55

	AT 30 SEPTEMBER 2007	AT 30 SEPTEMBER 2006	% CHANGE
Assets			
Net assets attributable to ordinary shareholders (£'000)	179,197	166,739	+7 5
Net asset value† per ordinary share	1340 4p	1247 2p	+7 5
– with income reinvested			+10 0
Share price (mid-market) of ordinary shares	1190 0p	1102 0p	+8 0
– with income reinvested			+11 1
FTSE All-Share Index			+8 7
– with income reinvested			+12 2
Discount† of share price to net asset value per ordinary share (%)			
– debt at par	11 2	11 6	
– debt at fair value	8 5	7 7	
Total borrowings as % of net assets attributable to ordinary shareholders	22 2	23 9	
Effective gearing† – equity exposure as % of net assets attributable to ordinary shareholders	114	117	
Revenue			
Net revenue available for ordinary shareholders (£'000)	5,566	4,984	
Dividends per ordinary share – Interim	15p	14p	
– Final	25p	21p	
Total expense ratio†			
– excluding performance fee	1 0%	1 0%	
– including performance fee	1 0%	1 8%	

Historical Record – Last 10 Years

Year ended 30 September	Gross revenue £'000	Net revenue available for shares £'000	Earnings per share p	Dividends per share p	Net assets attributable to share-holders £'000	Net asset value per share p	Mid-market price per share p
1998	7,899	4,722	33 1	25 0	146,411	1023 7	1017 0
1999	7,860	5,211	36 4	30 0	168,721	1179 7	1120 0
2000	6,106	4,621	32 4	30 0	170,110	1200 0	1044 0
2001	4,043	2,726	19 3	30 0	115,765	821 4	719 5
2002	3,786	2,647	19 4	25 5	78,286	585 6	455 0
2003	4,524	3,324	24 9	25 5	95,564	714 8	651 0
2004	5,659	4,298	32 2	30 0	111,224	832 0	754 0
2005	5,737	4,315*	32 2*	31 5	143,415*	1072 8*	963 0
2006	6,477	4,984	37 3	35 0	166,739	1247 2	1102 0
2007	**7,099**	**5,566**	**41 6**	**40 0**	**179,197**	**1340 4**	**1190 0**

* Restated for new UK Accounting Standards

Total Return Net Asset Value Performance (10 years)

From 30 September 1997 to 30 September 2007

(Figures have been rebased to 100 at 30 September 1997)

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

From 1 January 2003 to 30 September 2007

(Figures have been rebased to 100 at 31 December 2002)

Total Return Net Asset Value per Ordinary Share to 30 September

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	FIVE YEARS	TEN YEARS
Keystone %	-1 1	+20 5	+4 6	-30 9	-26 2	+27 6	+20 9	+30 7	+19 7	+10 0	+166 9	+69 8
FTSE All-Share Index %	-2 0	+23 6	+9 5	20 8	-20 8	+16 7	+15 7	+24 9	+14 7	+12 2	+117 0	+80 6

Source Datastream, Fundamental Data and Invesco

Allocation of Portfolio and Cash (excluding borrowings) by Sector
As at 30 September 2007

Allocation of Portfolio (excluding cash and borrowings) and FTSE All-Share Index by Sector
As at 30 September 2007

CHAIRMAN'S STATEMENT

In the year to 30 September 2007, the Company's share price provided a total return of 11 1% The total return of the net asset value per share was 10 0% In the same period, the total return of the Company's benchmark for the purpose of performance measurement, the FTSE All-Share Total Return Index, was 12 2% All these figures are with income reinvested The discount of the share price relative to net asset value per share narrowed slightly from 11 6% at the end of September 2006 to 11 2% at 30 September 2007

PERFORMANCE	6 MONTHS	ONE YEAR	SINCE APPOINTMENT OF CURRENT MANAGER ON 1 JANUARY 2003
Share Price Total Return	2 6%	11 1%	173 6%
NAV Total Return per share	0 8%	10 0%	144 9%
FTSE All-Share Total Return Index	2 7%	12 2%	105 4%

Source Fundamental Data

Gearing and investment guidelines

The Company's borrowings, in the form of long-term debentures, amount to £40 million At the year end £15 7 million was held in cash and certificates of deposit in order to keep the effective gearing to a level which the Board regards as sufficiently cautious Equity exposure decreased during the year from 117% of net assets to 114%

The Board sets limits for this exposure and regularly reviews them The present position is that the Manager must make no net purchases if equity exposure is more than 110% of net assets, and has to make sales if, as a result of market movements, equity exposure goes higher than 115% of net assets It is up to the investment manager to decide on exposure subject to those limits

Up to £4 million may also be held in corporate bonds During the year under review, no such bonds were held

Dividends

The Company's objective is long-term growth of capital The level of the Company's dividends is also important to many shareholders The Board has declared a final dividend of 25p per share (2006 21p), giving a total dividend for the year of 40p per share, compared with 35p last year Earnings per share in this year were 41 6p (2006 37 3p) The dividend will be paid on 21 December 2007 to shareholders on the register on 23 November 2007

Expenses

The Company's total management expenses were 1 0% of average net assets in the year ended 30 September 2007 (2006 1 0%, excluding performance fees in that year)

The Manager

During the year the Board again reviewed all aspects of the service provided by the Manager and the terms of the Manager's appointment We remain satisfied with the service and the current terms of appointment

VAT on Management Fees

In November this year, HM Revenue & Customs accepted the European Court of Justice ruling in a test case that investment trusts should not be charged VAT on management fees This paves the way for the start of the process to recover VAT paid in the past on your Company's management fees As you can appreciate, these fees span a number of years and the Board is holding discussions with the Manager concerning the amounts recoverable, and will advise shareholders of the results of these discussions in due course

CHAIRMAN'S STATEMENT

continued

Outlook

After several years with returns in double figures, it is not all that surprising that for this reason alone markets have become more difficult, and there are plenty of economic and financial issues to worry about We cannot expect double-figure returns in every year, nor can we expect the investment manager always to outperform the benchmark, the FTSE All-Share Index We are, however, as confident as we were when we appointed Invesco Asset Management that we have in Mark Barnett an investment manager who, in the long term, will fulfil the Company's objectives to provide, for the investor with the appropriate long-term outlook, strong returns from its portfolio of equities

Special Business at the Annual General Meeting (AGM)

As special business of the AGM, the Board will ask shareholders to renew the Board's authority to allot up to an aggregate nominal amount of £334,219 new ordinary shares, this being 5% of the Company's issued ordinary share capital, whilst disapplying pre-emption rights This authority, set out in Special Resolution 10, will expire at the AGM in 2008

Special Resolution 11 seeks the renewal the Board's authority to purchase up to 2,003,982 of the Company's own shares, this being 14 99% of the issued ordinary share capital Again, this authority will expire at the AGM in 2008

Special Resolution 12 seeks to adopt revised Articles of Association for the Company The Resolution concerns amendments to the Articles of Association of the Company, following the introduction of certain provisions of the Companies Act 2006, which came into force on 1 January, 20 January, 6 April and 1 October 2007, as well as the introduction of the Transparency Directive on 20 January 2007 Broadly, the proposed changes to the Articles of Association allow the Company to communicate with shareholders electronically via its website if it so chooses, unless a shareholder wishes to continue receiving information in hard copy, to remove the maximum age for Directors, and to change a number of references to statutory provisions in the Companies Act 1985 which have now been replaced by corresponding provisions in the Companies Act 2006 Further details are given in the Report of the Directors

Finally, pursuant to changes in UK Listing Rules, listed investment companies are now subject to additional requirements in respect of their published investment policies To comply with the new standards, the Directors are proposing a restated investment policy to be formally adopted, subject to shareholders' approval of Ordinary Resolution 13 at the Annual General Meeting The new, restated policy is set out on pages 15 and 16 in the Report of the Directors This will not give rise to changes in the way the Company's assets are managed

The Directors have carefully considered all the resolutions proposed in the Notice to the Annual General Meeting and consider them all to be in the best interest of the Company and its shareholders The Directors therefore recommend that shareholders vote in favour of each resolution

My fellow Directors and I look forward to seeing investors at the AGM of the Company on 20 December 2007, where there will be an opportunity to meet and question the investment manager

Richard Oldfield
Chairman

20 November 2007

MANAGER'S REPORT

Market Review

The UK equity market achieved a total return of +12 2% during the twelve months to 30 September 2007, as measured by the FTSE All-Share Index The overall return from UK equities is again very impressive, and marks the fifth successive year of double-digit gains However, this year witnessed a substantial increase in volatility, which was particularly evident in the last 3 months of the period

Having started the period robustly with the FTSE All-Share Index reaching new all-time highs in June, the market was hit by a serious bout of risk aversion towards the end of the period This was caused by problems emanating from the US sub-prime mortgage market which severely undermined investor confidence The potential for rising defaults on these assets was growing in the first half of the year but events this summer highlighted that the problems were much wider than the market had previously anticipated

In previous financial cycles, banks have been hit hardest by non-performing loans, but the recent appetite for innovative new financial instruments has allowed banks to package up these mortgage assets in new investment structures such as Collateralised Debt Obligations (CDOs), and sell them on to other investors, attracted by the high yield that these investments are able to generate This has spread the risk of defaults across a very wide base of investors, many of whom it appears, were not fully aware of the risks associated with these new instruments

For some time, CDOs and other new financial structures had been viewed by the market as a positive development because of the risk diversification that they provided Once defaults on the sub-prime mortgages held within these investments started to rise, the lack of transparency in the financial system led to a widespread risk aversion that affected all asset classes Liquidity in credit markets dried up overnight, as investors quickly reappraised the risks of sub-prime loans and banks became reluctant to lend to each other This so-called credit crunch was a very serious financial event, which ultimately led to the well-publicised downfall of Northern Rock Unsurprisingly, the UK equity market suffered significant losses in July and August

Concerns that the financial crisis would spread to the wider economy prompted action from the Federal Reserve and European Central Bank, both of whom injected large amounts of money into the financial system A further lifeline was thrown to the markets in mid-September in the form of a 0 5% cut in US interest rates from the Federal Reserve Since that time, global equity markets have recovered all the mid-summer losses, with most major indices moving back up to new highs for the year

Portfolio Performance

The Company's net asset value, including dividends, increased by 10% during the twelve months to the end of September 2007, compared to a total return of +12 2% from the FTSE All-Share Index The under-performance can be attributed largely to the defensive bias of the portfolio and a lack of exposure to both emerging market growth and merger & acquisition (M&A) speculation In the first half, M&A activity, driven primarily by interest from private equity funds, was the source of a great deal of market speculation Much of this activity, both rumoured and actual, has been focused on mid and small cap stocks which, in turn, drove out-performance from these areas compared to a more pedestrian performance from large caps This trend worked against the Company in the first half of the year, as the portfolio has been increasingly focused towards the largest stocks in the market

The second half of the period under review has seen the first signs of a reversal of recent trends, in that large caps have enjoyed a spell of relative out-performance for the first time in many years The portfolio's increased exposure to this part of the market was particularly rewarding in terms of performance during the summer volatility

Portfolio Strategy and Review

The most important evolution to the strategy adopted for the portfolio over the last 18 months, has been a gradual move up the market cap scale to take advantage of opportunities amongst the very largest UK companies Several years of underperformance have left many of these "mega-cap" stocks, as they are collectively known, trading at very attractive valuations During the year, the Manager commenced positions in AstraZeneca and BP, and added to existing holdings in Vodafone, GlaxoSmithKline and Royal Dutch Shell

MANAGER'S REPORT
continued

In terms of share price performance, the oil majors have not participated fully in the oil price rises we have seen in recent years The last twelve months have been very disappointing in particular for BP, with problems at its Prudhoe Bay oilfield in Alaska and Texas City refinery weighing on sentiment But the shares have also been overlooked by many investors simply because of the company's size – it is too big to benefit from M&A speculation and has therefore been easy for investors to ignore, or even to short, whilst in pursuit of the next bid target The shares have looked increasingly attractive on valuation grounds and, with a new CEO in charge, the Manager believes the company will benefit from new thinking, with a strong emphasis towards shareholder returns Royal Dutch Shell looks similarly attractive on most valuation measures and the Manager is confident that both stocks will contribute well to the portfolio going forward

Another area that has been broadly out of favour with the market for several years is the Pharmaceuticals sector The Manager has held GlaxoSmithKline in the portfolio for some time and it continues to look significantly undervalued in his view Indeed, he has added to the holding this year at times when the share price has been weak The Manager has also bought AstraZeneca, whose share price has fallen substantially in recent months on concern about the company's lack of new drug candidates in the pipeline and the risk of patent expiries on key drugs The recent acquisition of MedImmune in the US has not helped sentiment, being viewed by the market as over-priced However, the Manager believes there is very sound long-term strategic sense in the MedImmune acquisition The deal significantly expands the product pipeline and enhances the group's overall future growth prospects Furthermore, the business fits well alongside last year's acquisition of Cambridge Antibody Technology and provides a strong exposure to a new area of potential drug development, namely biologicals, which is the use of more complex and effective drugs based on the human body's natural chemistry The shares look significantly undervalued, with a considerably lower valuation now than at any stage in the company's history

At times, the M&A activity has been beneficial to the Company Several stocks received bid approaches during the review period Water company AWG was acquired by a consortium of private investors, realising a substantial profit for the portfolio Lloyds insurer Wellington Underwriting was acquired by its larger rival Catlin, and ICI is in the process of being acquired by Akzo Nobel

As well as increasing the portfolio's exposure to the UK "mega-caps", the Manager added several other new holdings to the portfolio, including Marks & Spencer Retailers have generally performed poorly in recent months as the market has started to discount the prospect of a significant consumer slowdown in the UK as we move into 2008 Whilst the Manager shares the market's concern regarding prospects for the UK consumer, he thinks Marks & Spencer offers some very attractive characteristics that will allow it to remain more resilient to a consumer slowdown than its peers Over half of its sales are in food, an area of spend that is less cyclical and also currently benefiting from inflation Meanwhile, Marks & Spencer's key customer group is the over-45's, where finances are generally in a better condition than amongst younger consumers Marks & Spencer also displays "self-help" characteristics, with an ongoing store modernisation programme that is having an immediate and lasting impact on sales The Manager believes these characteristics are not fully appreciated by the market and consequently the shares look very attractive for long-term returns

Rolls-Royce is another new holding for the portfolio It is a very well-managed company, operating in markets that offer very attractive growth rates The company has traditionally been viewed by the market as a cyclical manufacturer but, with over half of its revenues currently coming from long-term servicing contracts, it is not as cyclically vulnerable as it used to be In the Manager's view, the valuation looks very attractive given the strength, stability and sustainability of the cashflows that the business is able to generate

Outlook

The Manager's view of the economic outlook continues to be cautious The Manager has felt for some time that the rate of consumer spending growth in the UK would have to moderate as a result of a very highly leveraged household balance sheet, and as the negative impact of higher interest rates filtered through to consumers' disposable income The events of this summer in the credit markets are likely to leave a lasting impression in the form of higher borrowing costs and a more prudent approach from the banking sector towards risk across all forms of lending This can only serve to exacerbate the slowdown in consumer activity

There are similar dynamics in the US, where ongoing problems in the US sub-prime mortgage market have already had a substantial impact on activity in the housing market, and caused the overall economy to slow The situation in the UK differs in one important respect, however the Bank of England will not cut interest rates until it has more confidence that medium-term inflation is under control

The Manager's prognosis for the UK economy is therefore bleak But the market as a whole is aware of the challenges that the economy faces, and they are largely reflected in valuations Some parts of the market, however, are much more vulnerable to the consumer slowdown, and the Manager continues to be wary of cyclical sectors such as banks, retailers and house-builders

Instead, the Manager continues to focus on companies that he believes will be able to continue to grow earnings and dividends, even in the more challenging economic environment that he foresees In valuation terms, the UK "mega-caps" look more attractive now than they have done for a long time, and now form an important part of the portfolio These are financially strong, highly liquid, globally diversified businesses, which offer further defensive characteristics The Manager believes these characteristics are currently under-valued by the market as a whole, and should stand the Company in good stead going forward

Mark Barnett
Investment Manager

20 November 2007

INVESTMENTS BY SECTOR

AT 30 SEPTEMBER 2007

UK Listed ordinary shares unless stated otherwise SECTOR/COMPANY		MARKET VALUE £'000	% OF PORTFOLIO
Basic Materials			
Imperial Chemical Industries		2,633	1 3
		2,633	1 3
Consumer Goods			
British American Tobacco		11,062	5 3
Reynolds American	*US Listed common stock*	10,130	4 9
Imperial Tobacco		9,631	4 7
Associated British Foods		3,656	1 8
Tate & Lyle		3,407	1 6
		37,886	18 3
Consumer Services			
Tesco		7,611	3 6
British Airways		3,519	1 7
TUI Travel		3,235	1 5
Reed Elsevier		3,060	1 5
Carnival		2,811	1 3
Informa		2,639	1 3
Marks & Spencer		2,075	1 0
William Hill		994	0 5
Yoomedia	*Ordinary shares & warrants*	260	0 1
Local Radio		227	0 1
		26,431	12 6
Financials			
Hiscox		3,976	1 9
Climate Exchange		2,262	1 1
Helphire		1,952	0 9
Trading Emissions		1,672	0 8
Impax Environmental Markets		1,550	0 7
A J Bell	*Unquoted*	1,200	0 6
Macau Property Opportunities Fund		633	0 3
Trading Emissions		149	0 1
		13,394	6 4
Health Care			
GlaxoSmithKline		10,109	4 8
Astrazeneca		2,828	1 4
Protherics		2,135	1 0
Renovo		1,903	0 9
Gyrus		1,215	0 6
Xcounter AB		1,094	0 5
XL Techgroup		1,085	0 5
Puricore		947	0 5
Biofusion		925	0 4
Napo Pharmaceutical		835	0 4
Vectura		771	0 4
Spacelabs Healthcare		573	0 3
BTG		539	0 3
Phoqus Pharmaceutical		418	0 2
Idmos		310	0 1
XTL Biopharmaceutical	*Ordinary shares & ADRs*	280	0 1
Lombard Medical Technologies		189	0 1
		26,156	12 5

SECTOR/COMPANY	MARKET VALUE £'000	% OF PORTFOLIO
Industrials		
BAE Systems	5,507	2 6
Rexam	4,699	2 2
Capita	4,544	2 2
Bunzl	4,259	2 0
Rolls Royce	3,925	1 9
Balfour Beatty	3,081	1 5
Homeserve	1,038	0 5
Agcert International	206	0 1
	27,259	13 0
Oil & Gas		
Royal Dutch Shell	11,393	5 4
BP	10,373	5 0
	21,766	10 4
Technology		
Sage	3,847	1 8
	3,847	1 8
Telecommunications		
Vodafone	9,487	4 5
BT	9,361	4 5
	18,848	9 0
Utilities		
National Grid	7,225	3 5
British Energy	5,863	2 8
Drax	5,675	2 7
Scottish & Southern Energy	4,482	2 1
Pennon	2,424	1 2
	25,669	12 3
Total	**203,889**	**97 6**
Certificates of Deposit		
Alliance & Leicester 6 57% 23 Nov 2007	5,004	2 4
Total Investments	**208,893**	**100 0**

DIRECTORS

Richard Oldfield

Aged 52, has been Chairman of the Company since December 2001, and a Director since 2000 Previously the chief executive of Alta Advisers Limited, a private investment advisory and investment management firm, he founded Oldfield & Co (London) Limited in 2004 Until 1996 he was a director of Mercury Asset Management plc

David Adams OBE

Aged 68, has been a Director of the Company since 1997 He was appointed as a non-executive director of Equitable Life Assurance Society in 2001 He was chief executive of the Chartered Institute of Public Finance and Accountancy from 1997 to March 2000 Prior to that, he was chief executive of the Railways Pension Trustee Company

Beatrice Hollond

Aged 47, was appointed to the Board in September 2003 She is deputy chairman of Millbank Financial Services, an independent family office, and chairman of Millbank Investment Management Limited, its investment management subsidiary She is also a director of Ora Capital Limited, Ora Capital Partners plc and Oldfield & Co (London) Limited as well as chairman of Artbar Limited 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

William Kendall

Aged 46, was appointed to the Board in April 2002 Previously the chief executive of Green & Black's Limited, a premium organic chocolate brand in the UK, he is now a director of that company He is also a director of Adnams plc and a founder director of Nemadi Advisors Limited, which advises on investments in the smaller companies sector Other appointments as a director include Fauna & Flora International, Moyses Stevens Ltd and Sleeperz Limited He was previously chief executive of The New Covent Garden Soup Company Limited

Peter Readman

Aged 60, has been a Director of the Company since 1993 He is chairman of Abercromby Property International and of the Chamber Orchestra of Europe, a partner of Abercromby & Company and a director of Pantheon International Participations plc and Schroder Income Growth Fund plc

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

ADVISERS AND PRINCIPAL SERVICE PROVIDERS

Manager, Secretary and Registered Office

Invesco Asset Management Limited
30 Finsbury Square
London EC2A 1AG
☎ 020 7065 4000
Company Secretarial Contact Kerstin Rucht

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 30am to 6pm every working day Please feel free to take advantage of their expertise
☎ 0800 085 8677

Custodian

JPMorgan Cazenove Limited
20 Moorgate
London EC2R 6DA

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Registered Auditor
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London SE1 2AF

Stockbrokers

UBS Limited
1 Finsbury Avenue
London EC2M 2PP

Registrars

Capita Registrars
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Huddersfield
West Yorkshire HD8 0LA

If you hold your shares direct and not through a savings scheme, PEP or ISA and have queries relating to your shareholding you should contact the Registrars ☎ 0870 162 3100

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

Capita Registrars provide an on-line and telephone shareholding service to existing shareholders who are not seeking advice on buying or selling This website is www capitadeal com

☎ 0870 458 4577

SHAREHOLDER INFORMATION

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

NAV Publication

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

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	
Trust Net	www trustnet com
Interactive Investor	www iii co uk
Invesco	www invescoperpetual co uk/ investmenttrusts
The Association of Investment Companies	www theaic co uk

Financial Calendar

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

November

Preliminary results and final dividend for year announced
Annual Report published

December

Annual General Meeting
Final dividend paid

January

Interim Management Statement

May

Interim figures announced and interim report published

June

Interim dividend paid

July

Interim Management Statement

REPORT OF THE DIRECTORS (incorporating the Business Review)
FOR THE YEAR ENDED 30 SEPTEMBER 2007

Introduction

The Directors present their annual report together with the audited financial statements of Keystone Investment Trust plc ("the Company") for the year ended 30 September 2007

The Report of the Directors incorporates the Business Review and expands on the following areas

page 15 Nature of the Company
page 15 Objective and Investment Policy
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Nature of the Company

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

The Company is an investment company as defined by section 266 of the Act and operates as an investment trust in accordance with section 842 of the Income and Corporation Taxes Act 1988 ("ICTA 1988") HM Revenue & Customs ("HMRC") have approved the Company's status as an investment trust, subject to there being no subsequent enquiry under Corporation Tax Self Assessment, in respect of the year ended 30 September 2006 In the opinion of the Directors, the Company has subsequently conducted its affairs so as to enable it to maintain such approval It is the Company's intention to continue to seek authorisation under Section 842 of ICTA 1988

Objective and Investment Policy

Pursuant to changes in UK Listing Rules, listed investment companies are now subject to additional requirements in respect of their published investment policies To comply with the new standards, the Directors are proposing a restated investment policy to be formally adopted, subject to shareholders' approval, at the Annual General Meeting This will not give rise to changes in the way the Company's assets are managed

The proposed statement is as follows

Objective

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

Investment policy and risk

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

The Manager controls stock-specific and sector risk by ensuring that portfolios are always appropriately diversified In-depth, continual analysis of the fundamentals of investee companies allows the portfolio managers to assess the financial risks associated with any particular stock The portfolio is typically made up of 50-80 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

REPORT OF THE DIRECTORS (incorporating the Business Review)

FOR THE YEAR ENDED 30 SEPTEMBER 2007

continued

Investment limits

The Board has prescribed limits on the investment policy, among which are the following

- 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 £4 million in bonds, with a maximum of £1 5 million in any issue,
- the Company will not invest more than £5 million in unquoted investments, and
- gearing may be used by the Company within limits determined by the Board

Share Capital

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

Revenue and Dividends

The results for the year are shown in the Income Statement on page 36

Subject to approval at the Annual General Meeting, the final proposed dividend for the year ended 30 September 2007 of 25 0p (2006 21 0p) per ordinary share will be payable on 21 December 2007 to Shareholders on the register on 23 November 2007 This will give a total dividend for the year of 40 0p per share, compared with 35 0p in 2006 Revenue returns per share in this year were 41 6p (2006 37 3p)

Share Valuations

On 30 September 2007 the mid-market price and the net asset value per 50p ordinary share were 1190p and 1340 4p respectively The comparative figures on 30 September 2006 were 1102p and 1247 2p

Key Performance Indicators

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

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

Asset Performance

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

The net asset value of the Company rose by 10% during the course of the year, compared with a rise of 12 2% in the benchmark index (in both cases with income reinvested)

There are currently some 300 investment trust companies in the UK, of which there are 26 in the UK Growth sector The Board monitors the performance of the Company in relation to its sector as a whole and to those companies within the sector which most closely match its objectives and capital structure

As at 30 September 2007, the Company was ranked number 4, 5, and 7 in its sector over one, three and six months respectively, number 14 over one year and number 8 and 7 over three and five years respectively (source Cazenove)

Discount

The Board monitors the price of the shares in relation to their net asset value and the premium/ discount at which the Company's shares trade During the year, the shares traded at a discount to net asset value, with debt at par, in the range of 7 1% to 14 7% At the year end, the discount with debt at par stood at 11 2% (2006 11 6%) To enable the Board to take action to deal with any significant overhang or shortage of shares in the market, it seeks approval from shareholders every year to buy back and issue shares This may assist in the management of the discount, but the primary reason for buying back or issuing shares is to enhance investor value

Total Expense Ratio ("TER")

The expenses of managing the Company are carefully monitored by the Board Management and performance fees and other expenses for the year totalled £1,777,000 (2006 £2,742,000) excluding finance costs The TER, excluding finance costs, provides a guide to the effect on performance of all annual operating costs

At the year end, the TER was 1% (2006 1%) excluding performance fee

Invesco's Investment Process and Performance

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 that company currently trades in the market

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

Portfolio performance is substantially dependent on the performance of UK equities, which is influenced by the general health of the economy in the UK, other influences include pressures on US interest rates and commodity prices The Fund Manager strives to maximise capital growth from the stocks in which he invests, but these stocks are obviously influenced by market conditions and the Board recognises the external influences which affect portfolio performance

For a fuller discussion of economic and market conditions and prospects for future performance of the portfolio, please see the Chairman's Statement and the Manager's Report on pages 5 to 9

The Board does not envisage any changes in the business of the Company No important events affecting the Company have occurred since the end of its financial year

Principal Risks and Uncertainties

The majority of the Company's investments are traded on the UK stockmarket The principal risk for investors in the Company is of a significant fall in the market This could be triggered by unfavourable developments within the region or events outside it At times performance may be geared by bank borrowings which may accentuate any decline in performance Other significant risks include consistent underperformance by the Manager, or an unusually large discount of share price in relation to net asset value

While the Board obviously cannot influence market movements, it is vigilant in monitoring and taking steps to mitigate the effects of falls in markets should they occur As has been indicated, the performance of the Manager is carefully monitored by the Board, and the continuation of the Manager's mandate is revisited annually The Board has established guidelines to ensure that the investment policy that it has approved, including limits on particular exposures, is pursued by the Manager The Board and the Manager maintain an active dialogue with the aim of ensuring that the market rating of the Company's shares reflects the underlying net asset value, and there are in place both buy-back and issuance facilities to assist in the management of this process

The Company is subject to various laws and regulations by virtue of its status as an investment trust and its listing on the London Stock Exchange A breach of s 842 ICTA 1988 could lead to the Company being subject to capital gains tax on the profits arising from the sale of its investments A serious breach of other regulatory rules might lead to suspension from the Stock Exchange or to a qualified Audit Report Other control failures, either by the Manager or any other of the Company's service providers, might result in operational or reputational problems, erroneous disclosures or loss of assets through fraud, as well as breaches of regulations

The Manager reviews the level of compliance with Section 842 ICTA 1988 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

The Risks and Risk Management Policies are also detailed in note 19 to the financial statements

Resources

The Company is an investment trust and has no employees All the Directors are non-executive However, through the contractual arrangements in place, a full range of services is available to it The most significant contract is with the Manager, Invesco Asset Management Limited, to whom responsibility for the management of the portfolio is delegated The Board reviews the performance of the Manager at every Board meeting

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

The Board has adopted guidelines within which the Manager is permitted wide discretion, any proposed variations outside these parameters are referred to the Board The Board has the power to replace the Manager and reviews the management contract formally once a year The outcome of this review is discussed on page 22

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

Relationships

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

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

Advisers and Principal Service Providers

The Company has the following additional advisers and principal service providers

- UBS as Corporate Broker,
- Ernst & Young LLP as Auditors,
- JP Morgan Cazenove as Custodian, and
- Capita Registrars as Registrar

Financial Position

Assets and Liabilities

At 30 September 2007, the Company's net assets were valued at £179 million (2006 £167 million) These comprised a portfolio of mainly equity investments and net current assets

The Company has an uncommitted short-term overdraft facility with the Custodian The purpose of the facility is to allow for settlement of cash timing differences and for gearing up in the short term if the Manager determines that market conditions are appropriate The Company has also issued long-term debentures and cumulative preference shares as noted in the gearing policy below For details please see note 19 to the financial statements

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

Gearing Policy

The Company's ordinary shares are geared by borrowings in the form of four issues of long-term debentures, totalling £40 million The weighted average interest rate is 7 55% In addition, the Company also has 5% cumulative preference shares of £0 25 million

The Board has carefully considered the Company's policy in respect of the level of effective gearing (borrowings less cash, as a percentage of net assets) According to the established gearing limits, currently 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

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

The Company's policy is that, subject to an overriding requirement to pursue the best financial interests of the Company, the Manager should take account of social, environmental and ethical factors in making and holding investments and in the use of voting powers conferred by such investments

Substantial Holdings in the Company

At 20 November 2007, the Company had been notified of the following holdings of 3% and over of the Company's share capital carrying unrestricted voting rights

	HOLDING	%
Rensburg Sheppards Investment Management	2,014,444	15 1
Brewin Dolphin, Stockbrokers	916,860	6 9
M&G Investment Management	624,000	4 7
Rathbones	582,744	4 4
Legal & General Investment Management	534,950	4 0
Kleinwort Benson Private Bank	516,317	3 9

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

Shareholders will find on pages 51 to 54 the notice of the forthcoming AGM of the Company to be held on 20 December 2007 In addition to the ordinary business of the meeting, four resolutions are proposed as special business These will be proposed as three Special Resolutions and one Ordinary Resolution and are as follows

Authority to Issue Shares

By law, Directors are not permitted to allot new shares (or to grant rights over shares) unless authorised to do so by shareholders In addition, Directors require specific authority from shareholders before allotting new shares (or granting rights over shares) for cash without first offering them to existing shareholders in proportion to their holdings Special Resolution 10 gives the Directors, for the period until the conclusion of the next AGM, the necessary authority to allot securities up to an aggregate nominal amount of £334,219, which is equivalent to 668,438 ordinary shares and approximately 5% of the issued ordinary share capital

The Resolution also empowers the Directors until the conclusion of the next AGM or, if earlier, the expiry of 15 months from the date on which the Resolution is passed, to allot securities for cash, otherwise than to existing shareholders on a pro-rata basis, up to an aggregate nominal amount of £334,219 which is equivalent to 668,438 ordinary shares, this being approximately 5% of the issued share capital

The Resolution provides the Directors with a degree of flexibility to increase the assets of the Company by the issue of new shares, should any favourable opportunities arise to the advantage of shareholders The Directors would not use the authority to dilute the interests of existing shareholders by issuing shares at a price which is less than the NAV attributable to the shares

Authority to Buy Back Shares

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

The Directors are, however, seeking to renew this authority and Special Resolution 11, a resolution to purchase in the market, for cancellation, up to 2,003,982 ordinary shares (being 14 99% of the issued ordinary share capital as at 20 November 2007), will be proposed at the AGM This authority, if approved, will expire on the earlier of 20 June 2009 or the date of the Company's next AGM, unless renewed The Directors intend that the authority to purchase the Company's shares will only be exercised when such a purchase would result in an increase in the NAV per share and is in the best interests of shareholders generally

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

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

Articles of Association

Special Resolution 12 seeks to adopt revised Articles of Association for the Company

Certain provisions of the Companies Act 2006 came into force on 1 January, 20 January, 6 April and 1 October 2007 respectively, as well as changes to the Financial Services Authority's rules for listed companies following implementation of the European Transparency Obligations Directive on 20 January 2007 These changes have updated and in some instances amended current companies' legislation and the regulation of listed companies such as Keystone Investment Trust plc This Resolution provides, broadly, for the following changes to be made to the Company's Articles of Association, together with some consequential changes, so as to update them with the new legislation and regulations

(a) The necessary amendments so as to permit the Company to communicate with shareholders electronically via its website if it chooses, unless a shareholder wishes to receive documents or other information in hard copy, in accordance with the new provisions of the Companies Act 2006 and the Disclosure and Transparency Rules of the Financial Services Authority

If these amendments are adopted, the Company will, in future, have the option of consulting with its shareholders as to whether or not they wish to continue receiving notices or other documents or information from the Company in hard copy As part of such consultation the Company can ask shareholders to elect either to receive future notices or other documents or information in hard copy or to elect to receive them by electronic means A shareholder who does not respond to such consultation within 28 days would be deemed to have elected to receive future notices or other documents and information from the Company by electronic means However, shareholders who make an election or a deemed election to receive notices or other documents or information from the Company by electronic means would still be able to notify the Company at any time they wish to receive them from the Company in hard copy, and in this respect the future rights of shareholders to receive hard copies of documents or other information would be safeguarded

(b) The removal of a maximum age for Directors, in keeping with the repeal of the corresponding provision contained in the Companies Act 1985

(c) The removal of the requirement by the Company to keep a register showing, as respects each Director, interests of his shares in the Company in keeping with the repeal of the corresponding provision contained in the Companies Act 1985

(d) Changes to a number of references to statutory provisions in the Companies Act 1985 which have now been replaced by corresponding provisions in the Companies Act 2006

Further provisions of the Companies Act 2006 are due to come into force during the course of the next year The Company will, in due course, need to adopt a new set of Articles of Association to comply fully with the Companies Act 2006

Investment Objective and Policy

Ordinary Resolution 13 will be proposed pursuant to changes in UK Listing Rules whereby a restated investment policy needs to be formally adopted by shareholders The proposed new policy statement is shown in full on page 52

Investment Management Agreement

The terms of the agreement with Invesco Asset Management Limited, dated 31 December 2002, 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 (benchmark return) plus 2% per annum, the performance-related fee is payable The performance-related fee is 15% of the value of any outperformance of this hurdle

The amount of any payment of performance-related fee is a maximum of 1% of the Company's gross assets less the basic management fees In addition, the amount of any payment of performance-related fee in respect of any financial year is limited to an amount which, if added to the basic management fees paid in respect of that year, would not exceed 1 5% of gross assets less basic management fees The amount of any payment of performance-related fee in excess of these limits would be carried forward and would become payable in any subsequent year in which the total fees payable are less than the maximum levels for that year

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

The Manager's Responsibilities

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

The Manager provides full administration and company secretarial services to the Company, ensuring that the Company complies with all legal and regulatory 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 the Manager prepares interim and annual financial statements on behalf of the Company as well as – with effect from 1 October 2007 – Interim Management Statements

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 services with reference to key performance indicators The Board, based on its recent review of activities, believes that the continuing appointment of Invesco Asset Management Limited remains in the best interest of the Company and its shareholders

Directors

The present members of the Board, all of whom served throughout the year, are listed on page 12 together with their biographies

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

The Board decided in 2006 that, until further notice, all Directors will stand for annual re-election Accordingly, resolutions 4 to 8 deal with the re-elections of the Directors at the forthcoming AGM on 20 December 2007

The following table sets out the number of Directors' meetings (including committee meetings) held during the year and the number of meetings attended by each Director

	BOARD MEETINGS		AUDIT COMMITTEE MEETINGS	
	HELD	ATTENDED	HELD	ATTENDED
David Adams	5	5	3	3
Beatrice Hollond	5	4	3	3
William Kendall	5	4	3	2
Richard Oldfield	5	5	3	3
Peter Readman (not a member of the Audit Committee)	5	5	n/a	n/a

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

Directors' Interests

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

	30 SEPTEMBER 2007	1 OCTOBER 2006
David Adams	–	–
Beatrice Hollond	–	–
William Kendall	4,500	4,500
Richard Oldfield	8,780	8,780
Peter Readman – beneficial	–	–
– non beneficial	–	1,374

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

Disclosable Interests

No Director was a party to, or had any interests in, any contract or arrangement with the Company at any time during the year or at the year end

Deeds of Indemnity

At the AGM in 2005, shareholders approved a widening of the indemnity provisions for Directors and officers of the Company Following that approval, a Deed of Indemnity for each Director was executed on behalf of the Company on 23 May 2006

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 the Companies Act 1985 or otherwise 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

Report of the Audit Committee

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

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

The audit programme and timetable are drawn-up and agreed with the Auditors in advance of the Company's 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 they are reported on by the Auditors in their audit review to the Audit Committee The audit review is considered by the Audit Committee and discussed with the Auditors and the Manager prior to approving and signing the financial statements

The Audit Committee has reviewed the financial statements for the year ended 30 September 2007 with the Manager and the Auditors at the conclusion of the audit process

Audit Information

The Directors who held office at the date of the approval of the Directors' Report confirm that, so far as they are aware, there is no relevant audit information of which the Company's Auditors are 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 Auditors are aware of that information This confirmation is given and should be interpreted in accordance with the provisions of section 234ZA of the Companies Act 1985

Individual Savings Account ("ISA") and Personal Equity Plan ("PEP") Eligibility

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

Supplier 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 The Company had no trade creditors at 30 September 2007 (2006 nil)

Donations

The Company made no political or charitable donations during the year

Auditors

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

By order of the Board

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

20 November 2007

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 30 SEPTEMBER 2007

The Board presents this Report which has been prepared under the requirements of Schedule 7A of the Companies Act 1985 An Ordinary Resolution for the approval of this Report will be put to shareholders at the Annual General Meeting

The Company's auditors are required to audit certain of the disclosures provided in this Report Where disclosures have been audited, they are indicated in this Report The auditors' opinion is included in their Report on pages 34 and 35

Remuneration

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

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

The Board reviewed Directors' remuneration in December 2006 and increased Directors' fees as follows with effect from 1 January 2007

– Chairman	from £17,500 to £20,000
– Chairman of the Audit Committee	from £14,000 to £17,500
– Directors	from £12,000 to £14,000

Policy on Directors' Remuneration

The Board's policy is that the remuneration of non-executive Directors should be fair and reasonable in relation to that of other investment trusts and to the time incurred and responsibility undertaken

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

It is intended that this policy will continue for the year ending 30 September 2008 and subsequent years

Service Contracts

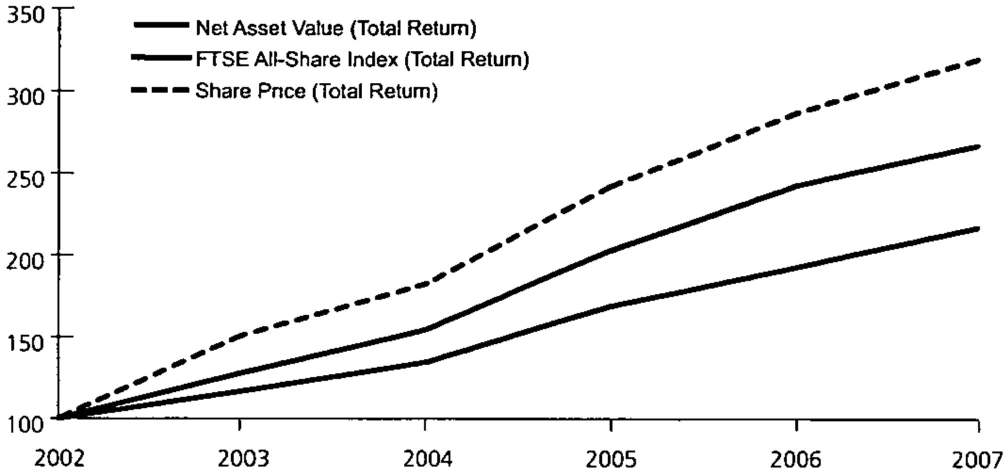
All Directors have letters of appointment which are available for inspection at the Registered Office of the Company Under the Articles of Association of the Company, the terms of the Directors' appointment provide that a Director shall retire and be subject to re-election at the first AGM after appointment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

The Company's Performance

The graph overleaf plots the total return net asset value and total return share price to ordinary shareholders compared to the total return of the FTSE All-Share Index over the 5 years to 30 September 2007 This index is the benchmark adopted by the Company for comparison purposes (Figures have been rebased to 100 at 30 September 2002) Graphs showing the performance over the last 10 years and since the appointment of the present Manager are shown on page 3

DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 30 SEPTEMBER 2007

continued



Directors' Emoluments for the Year (Audited)
The Directors who served during the year received the following emoluments in the form of fees

	2007 £	2006 £
David Adams (Chairman of the Audit Committee)	16,625	14,000
Beatrice Hollond	13,500	12,000
William Kendall*	13,500	12,000
Richard Oldfield (Chairman)	19,375	17,500
Peter Readman*	13,500	12,000
Total	76,500	67,500

*£13,500 each was paid to third parties in respect of Directors' services for William Kendall and Peter Readman (2006 £12,000 each)

Approval
The Directors' Remuneration Report was approved by the Board of Directors on 20 November 2007

Richard Oldfield
Chairman

Signed on behalf of the Board of Directors

CORPORATE GOVERNANCE STATEMENT

*Directors' Statement of Compliance with the revised Association of Investment Companies' Code of Corporate Governance ("AIC Code") and the AIC's Corporate Governance Guide for Investment Companies ("AIC Guide")**

The Principles

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

On 3 February 2006, the Financial Reporting Council confirmed that AIC member companies who report against the AIC Code and who follow the AIC Guide would meet their obligations in relation to the 2003 Combined Code on Corporate Governance and paragraph 9 8 6 of the Listing Rules (relating to additional items to be included in the Annual Report and Accounts) This statement describes how the principles of the AIC Code and Guide have been complied with in the affairs of the Company Any reference to the AIC Code in this statement includes references to the AIC Guide

During the year under review, the terms of reference for the Board and the Audit Committee were reviewed and updated to bring them in line with latest best practice and to ensure compliance with the AIC Code

The Company's Corporate Governance procedures are considered regularly by the Board and amended as necessary

The Directors believe that, throughout the period, they have complied with the provisions of the AIC Code and Guide and, therefore, with all the relevant provisions in Section 1 of the Combined Code, save in respect of those matters discussed below as being in the course of implementation or except as explained under the relevant sections The Company has also complied with the Turnbull guidance throughout the year under review and up to the date of signing the accounts

Directors

Independence

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

The Board understands that concern has been expressed about length of service compromising independence, which is based on the view that after a certain period a director may not be sufficiently independent of management

The Board considers that the independence of Mr Adams and Mr Readman, who have served on the Board for more than 10 years, is not compromised by their length of service, in particular because the current Manager has been in place for less than five years The Board believes that the Company benefits from a balance of board members with different tenures All Directors, long-serving or not, will stand for annual re-election at the AGM

Chairman

The Chairman of the Company is Richard Oldfield, a non-executive and independent Director who has no conflicting relationships As the Company is an investment trust and sub-contracts its day-to-day investment management and administration, its Board consists exclusively of non-executive Directors and it does not have a Chief Executive Officer

Richard Oldfield has been a member of the Board since 2000 and Chairman since 2001 He is subject to an annual performance appraisal Following this year's appraisal, the Board has confirmed that the Chairman's performance continues to be effective and therefore recommends his 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

Board Balance

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

Supply of Information

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

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

The Board meets on a regular basis at least five times each year Additional meetings are arranged as necessary Regular contact is maintained by the Manager with the Board 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

Directors are selected and appointed by the Board as a whole functioning as a Nomination Committee There is no separate Nomination Committee, as the Board is considered small for the purposes of the Code The nomination responsibilities include reviewing the size, structure and skills of the Board and considering any changes necessary or new appointments

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 will be available at the AGM

The Articles of Association currently require one third of the Directors to retire by rotation and offer themselves for re-election at the AGM Therefore, no Director serves a term of more than three years before re-election The terms of the Directors' appointment also 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 The Board has resolved that, for the time being, all Directors shall stand for annual re-election at the AGM

Under the Articles of Association, Directors who have reached the age of 70 are not required to retire Directors may, by notice in writing, remove any Director from the Board without notice or compensation

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 fix timetables for debates on the future strategy of the Company

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

Directors' Remuneration

The Board as a whole reviews Directors' remuneration periodically The Directors' Remuneration Report is set out on pages 25 and 26

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 interim and annual report and accounts, which aim to provide shareholders with a full understanding of the Company's activities and their results This information is supplemented by the daily calculation and publication at the Stock Exchange of the net asset value of the Company's ordinary shares and by a monthly fact sheet produced by the Manager At each AGM, a presentation is made by the Fund Manager following the business of the Meeting and shareholders have the opportunity to communicate directly with the whole Board

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

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

Shareholders can also visit the Manager's investment trust website *www invescoperpetual co uk/investmenttrusts* in order to access copies of annual and interim reports and accounts, shareholder circulars, Company factsheets, Stock Exchange announcements, and PEP/ISA and savings scheme literature Shareholders can also access various Company reviews and information such as an overview of UK equities and the Company's share price Shareholders are also able to access copies of the schedule of matters reserved for the Board and the terms of reference of the Audit Committee and, following any shareholders' general meetings, proxy voting results

Accountability and Audit

The Directors' responsibilities with regard to the financial statements are set out on page 33 and the Independent Auditors' Report is set out on pages 34 and 35

Internal Financial and Non-Financial Controls

The Directors acknowledge that they are responsible for the Company's systems of internal financial and non-financial controls ("internal controls") which have been in place throughout the year and up to the date of this report The effectiveness of the Company's operations has been reviewed, and the control systems codified to enable the ongoing monitoring and management of risks and to facilitate a regular review by the Audit Committee

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 The programme of reviews is set up by the Manager and the reports are not necessarily directed to the affairs of any one client of the Manager

CORPORATE GOVERNANCE STATEMENT
continued

These control systems are set up to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate the risk of failure to achieve business objectives

The Directors consider that these procedures enable the Company to comply with the Financial Reporting Council's Internal Control Revised Guidance for Directors on the Combined Code

Internal Audit Function

The Directors have reviewed the need for the Company to establish an internal audit function, but, in view of the extent of the Manager's executive responsibilities, consider that such a function is not necessary

Terms of Reference of the Board

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 their policies and operations are in the best interest of all of the Company's shareholders and that the best interests of creditors and suppliers to the Company are properly considered

The Board has a schedule of matters reserved for its consideration, which clearly define the Directors' responsibilities This schedule was updated during the year in order to ensure best practice and compliance with the AIC Code 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 capital structure, setting long-term objectives and strategy, reviewing investment performance, assessing risk, approving loans and borrowing, and controlling risks 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

Finally, the Board ensures 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 reports and daily NAV disclosures

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

- *Management Engagement*
  The Board as a whole operates as the Management Engagement Committee by reviewing all supplier services, and in particular the Investment Management and Services Agreements, annually The performance of the Managers in respect of investment performance and administration is reviewed formally in respect of agreed standards and reported on in the Report of the Directors under "Assessment of the Investment Manager" on page 22

- *Remuneration*
  The Board as a whole operates as a Remuneration Committee by determining the Company's remuneration policy, taking into account all factors which are deemed necessary in order to ensure that members of the Board are provided with appropriate compensation and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company The remuneration of Directors is reviewed periodically and reported on in more detail in the Directors' Remuneration Report on pages 25 and 26

- *Nomination*
  The Board as a whole operates as a Nomination Committee by making relevant changes to the structure, size and composition of the Board as well as ensuring adequate succession planning

  When appointing a new Director, the Board takes care to ensure that there is a balance of skills and experience appropriate for the requirements of the Company and that new directors have enough time available to devote to the affairs of the Company

The Manager's Responsibilities

The Manager is responsible for the day-to-day investment management decisions of the Company and for the provision of Company Secretarial and Accounting Services A statement of the Manager's responsibilities is shown on pages 21 and 22 in the Report of the Directors

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

The Audit Committee

The Board is supported by an Audit Committee consisting of Mrs Hollond and Messrs Adams, Kendall and Oldfield The Chairman of the Audit Committee is David Adams The Committee has written terms of reference which clearly define its responsibilities and duties The terms of reference of the Audit Committee, including its role and authority, were updated during the year to ensure best practice and compliance with the AIC Code They will be available for inspection at the AGM and can be inspected at the Registered Office of the Company

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 external auditors, 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 auditors as laid out in the terms of reference of the Audit Committee

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

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

The audit programme and timetable is drawn up and agreed with the Company's Auditors 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 Auditors in their report to the Committee This report is considered by the Committee and discussed with the Auditors and the Managers 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 auditors The Audit Committee considers whether the skills and experience of the auditors 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 auditors

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

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 Officer

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

CORPORATE GOVERNANCE STATEMENT
continued

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 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 Secretary is responsible for advising the Board through the Chairman on all governance matters

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

Institutional Voting

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 those 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 and are not simply passed back to the company concerned for discretionary voting by its chairman

Going Concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future For this reason, they continue to adopt the going concern basis in preparing the financial statements

STATEMENT OF DIRECTORS' RESPONSIBILITIES

IN RESPECT OF THE PREPARATION OF THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the financial statements 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 the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period In preparing these financial statements, the Directors are required to

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

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

The Directors are responsible for ensuring that the Report of the Directors and other information included in the Annual Report is prepared in accordance with company law in the United Kingdom They are also responsible for ensuring that the Annual Report includes information required by the Listing Rules of the Financial Services Authority

Electronic Publication

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

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF KEYSTONE INVESTMENT TRUST PLC

We have audited the financial statements of Keystone Investment Trust plc ("the Company") for the year ended 30 September 2007 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 These financial statements have been prepared under the accounting policies set out therein We have also audited the information in the Directors' Remuneration Report that is described as having been audited

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985 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 auditors' 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 Auditors

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

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view, the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' report is consistent with the financial statements

We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

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

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements The other information comprises only the Financial Information and Performance Statistics, Chairman's Statement, Manager's Report, Investments by Sector, Directors, Advisers and Principal Service Providers, Shareholder Information, the Report of the Directors (incorporating the Business Review), Corporate Governance Statement, the unaudited part of the Directors' Remuneration Report, Notice of Annual General Meeting and Glossary of Terms We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements Our responsibilities do not extend to any other information

Basis of Audit Opinion

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

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

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 September 2007 and of its net return for the year then ended,
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Report of the Directors is consistent with the financial statements

Ernst & Young LLP

Ernst & Young LLP
Registered auditor
London

20 November 2007

INCOME STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER

		2007			2006		
	NOTES	REVENUE £'000	CAPITAL £'000	TOTAL £'000	REVENUE £'000	CAPITAL £'000	TOTAL £'000
Gain on investments	9	–	14,045	14,045	–	26,355	26,355
Gain/(loss) on certificates of deposit	10	–	22	22	–	(27)	(27)
Foreign exchange gain		–	1,011	1,011	–	753	753
Income	2	7,099	–	7,099	6,477	–	6,477
Investment management fees	3	(368)	(1,095)	(1,463)	(329)	(2,118)	(2,447)
Other expenses	4	(314)	–	(314)	(295)	–	(295)
Net return before finance costs and taxation		6,417	13,983	20,400	5,853	24,963	30,816
Finance costs	5	(773)	(2,279)	(3,052)	(771)	(2,278)	(3,049)
Return on ordinary activities before tax		5,644	11,704	17,348	5,082	22,685	27,767
Tax on ordinary activities	6	(78)	–	(78)	(98)	–	(98)
Return on ordinary activities after tax for the financial year		5,566	11,704	17,270	4,984	22,685	27,669
Return per ordinary share							
Basic	8	41 6p	87 5p	129 1p	37 3p	169 7p	207 0p

The total column of this statement represents the Company's profit and loss account, prepared in accordance with UK Accounting Standards The supplementary revenue and capital columns are both prepared under guidance published 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 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 ACCOUNT £'000	CAPITAL REDEMPTION RESERVE £'000	CAPITAL RESERVE-REALISED £'000	CAPITAL RESERVE-UNREALISED £'000	REVENUE RESERVE £'000	TOTAL £'000
Balance as at 1 October 2005	6,685	1,258	466	96,164	32,791	6,051	143,415
Final dividend for 2005	–	–	–	–	–	(2,473)	(2,473)
Net return on ordinary activities	–	–	–	14,762	7,923	4,984	27,699
Interim dividend paid in 2006	–	–	–	–	–	(1,872)	(1,872)
Balance as at 30 September 2006	6,685	1,258	466	110,926	40,714	6,690	166,739
Final dividend for 2006	–	–	–	–	–	(2,807)	(2,807)
Net return on ordinary activities	–	–	–	24,878	(13,174)	5,566	17,270
Interim dividend paid 2007	–	–	–	–	–	(2,005)	(2,005)
Balance as at 30 September 2007	6,685	1,258	466	135,804	27,540	7,444	179,197

The accompanying notes are an integral part of these statements

BALANCE SHEET
AS AT 30 SEPTEMBER

	NOTES	2007 £'000	2006 £'000
Fixed assets			
Investments held as fair value through profit or loss	9	203,889	195,162
Current assets			
Certificates of deposit	*10*	5,004	9,970
Debtors	*11*	1,464	3,382
Cash and cash funds		10,713	1,950
		17,181	15,302
Creditors amounts falling due within one year	*12*	(2,074)	(3,126)
Net current assets		15,107	12,176
Total assets less current liabilities		218,996	207,338
Creditors amounts falling due after more than one year	*13*	(39,799)	(39,784)
Provisions	*14*	–	(815)
Net assets		179,197	166,739
Capital and reserves			
Share capital	*15*	6,685	6,685
Share premium account	*16*	1,258	1,258
Capital redemption reserve	*16*	466	466
Other reserves			
Capital reserves – realised	*16*	135,804	110,926
Capital reserves – unrealised	*16*	27,540	40,714
Revenue reserve	*16*	7,444	6,690
Shareholders' funds		179,197	166,739
Net asset value per ordinary share			
Basic	*17*	1340 4p	1247 2p

These financial statements were approved and authorised for issue by the Board of Directors on 20 November 2007

Signed on behalf of the Board of Directors

Richard Oldfield

Chairman

The accompanying notes are an integral part of this statement

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 SEPTEMBER

	NOTES	2007 £'000	2006 £'000
Cash inflow from operating activities	*18(a)*	4,679	2,694
Servicing of finance	*18(b)*	(3,036)	(3,033)
Capital expenditure and financial investment	*18(b)*	11,008	(17,741)
Equity dividends paid	7	(4,812)	(4,345)
Net cash inflow/(outflow) before management of liquid resources and financing		7,839	(22,425)
Management of liquid resources	*18(b)*	(8,750)	21,717
Decrease in cash		(911)	(708)

Reconciliation of net cash flow to movement in net debt			
Decrease in cash		(911)	(708)
Cashflow from movement in liquid resources		8,750	(21,717)
Exchange movements		924	757
Debenture stock non-cash movement		(15)	(14)
Movement in net debt in the year		8,748	(21,682)
Net debt at beginning of year		(37,834)	(16,152)
Net debt at end of year	*18(c)*	(29,086)	(37,834)

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, is set out below

(a) Basis of Preparation

The financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP") and with the Statement of Recommended Practice ("SORP") "Financial Statements of Investment Trust Companies", issued by the Association of Investment Trust Companies in December 2005

(b) Investments

Investments, including certificates of deposit, are recognised on the date they are traded and are classified as fair value through profit or loss As the Company's business is investing in financial assets with a view to profiting from their total return in the form of interest, dividends or increases in fair value, listed equities and fixed income securities are designated as fair value through profit or loss on initial recognition

Certificates of deposits are shown as current asset investments as they have a maturity date of less than one year

Financial assets designated as at fair value through profit or loss, are measured at subsequent reporting dates at fair value, which is the bid price

Transaction costs for financial investments at fair value through profit or loss are required to be expensed The Company's policy is to capitalise transaction costs on acquisition and the profit or loss on disposal is calculated net of transaction costs on disposal Whilst there is no overall impact on the total return for the year or net assets, this results in an overstatement of investment book cost and misallocation between realised and unrealised capital reserves In the view of the Directors, this departure from UK GAAP does not have a material impact on the Company's results and details of transaction costs are disclosed in note 9

Foreign securities are translated at the exchange rates ruling at the close of business in London on the Balance Sheet date

Any gains or losses (including currency movements) whether realised or unrealised, arising on fixed asset investments are taken through profit or loss and shown in capital reserves

(c) Income

Income from equity investments, including taxes deducted at source, is included in revenue by reference to the date on which the investment is quoted 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 – realised Interest income and expenses are accounted for on an accruals basis

(d) Management and performance-related fees

The investment management fee is charged 75% to capital reserve - realised and 25% to the revenue account 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

The performance-related fee is calculated as detailed in the Report of the Directors and is charged wholly to capital as it arises mainly from capital returns on the portfolio

(e) Finance costs

Finance costs are accounted for on an accruals basis The finance costs of debt are allocated 75% to capital reserve - realised and 25% to the revenue account for the reasons outlined in (d) above Debentures are recognised at amortised cost using the effective interest method The 5% cumulative preference shares are classified as a liability and therefore the dividend payable on these shares are classified as finance costs

NOTES TO THE FINANCIAL STATEMENTS
continued

1 Accounting policies (continued)

(f) Hedging

The Company uses forward foreign currency contracts to reduce exposure to foreign currency assets

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

(g) Foreign currency translation

All transactions in foreign currencies are translated into sterling at the rates of exchange ruling on the dates of such transactions Foreign currency assets and liabilities at the balance sheet date are translated into sterling at the exchange rates ruling at that date Exchange differences arising on the translation of foreign currency financial assets and liabilities are taken to capital reserve – realised

(h) Taxation

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

(i) Dividends

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

(j) Financial instruments

Financial assets and liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument The Company offsets financial assets and financial liabilities if it has a legally enforceable right to set-off the recognised amounts intends to settle on a net basis Financial liabilities are derecognised when the Company settles the obligations Financial assets are derecognised when the contractual right to the cashflow ceases

(k) Capital reserve – realised

The following are accounted for in this reserve

- gains and losses on the realisation of investments,
- realised exchange differences of a capital nature,
- expenses, together with the related taxation effect, charged to this reserve in accordance with the above policies, and
- realised exchange differences on forward currency contracts undertaken to hedge an exposure of a capital nature

(l) Capital reserve – unrealised

The following are accounted for in this reserve

- increases and decreases in the valuation of investments held at the year end,
- unrealised exchange differences on forward currency contracts undertaken to hedge an exposure of a capital nature, and
- performance-related fee provision at the year end

2 Income

	2007 £'000	2006 £'000
Income from investments		
UK dividends	6,111	5,049
Overseas dividends	723	946
UK unfranked investment income - interest	263	386
	7,097	6,381
Other income		
Deposit interest	1	96
Underwriting commission	1	–
	2	96
Total income	7,099	6,477

3 Investment management fees

	2007 REVENUE £'000	2007 CAPITAL £'000	2007 TOTAL £'000	2006 REVENUE £'000	2006 CAPITAL £'000	2006 TOTAL £'000
Investment management fee	313	940	1,253	280	839	1,119
Performance related fee relating to						
31 December 2005	–	–	–	–	270	270
31 December 2006	–	(7)	(7)	–	–	–
Provision for performance related fee relating to						
31 December 2006	–	–	–	–	693	693
31 December 2007	–	–	–	–	–	–
Irrecoverable VAT thereon	55	162	217	49	316	365
	368	1,095	1,463	329	2,118	2,447

Details of the management agreement are disclosed in the Report of the Directors Performance-related fees are based on a calendar year No performance fee has been provided for the year ended 31 December 2007 The performance fee provision as at 30 September 2006 was £815,000 and the actual amount paid was £808,000 for the calendar year ended 31 December 2006 (31 December 2005 £1,214,000)

4 Expenses

	2007 REVENUE £'000	2006 REVENUE £'000
Directors' fees	77	68
Fees payable to the Company's auditor for audit of the annual financial statements	27	24
Fees payable to the Company's auditor and its associates for other services		
– review of half-yearly financial statements	–	14
– relating to taxation	5	4
Other expenses	205	185
	314	295

NOTES TO THE FINANCIAL STATEMENTS
continued

5 Finance costs

	2007 REVENUE £'000	2007 CAPITAL £'000	2007 TOTAL £'000	2006 REVENUE £'000	2006 CAPITAL £'000	2006 TOTAL £'000
Interest payable on borrowings repayable not by instalment						
Bank overdraft interest repayable in less than 1 year	1	2	3	–	–	–
Debentures stock repayable in less than 5 years	128	384	512	127	385	512
Debentures stock repayable after 5 years	632	1,893	2,525	632	1,893	2,525
	761	2,279	3,040	759	2,278	3,037
Dividends on preference shares	12	–	12	12	–	12
	773	2,279	3,052	771	2,278	3,049

6 Taxation

(a) Current tax charge

	2007 REVENUE £'000	2006 REVENUE £'000
Overseas tax	78	98

(b) Reconciliation of current tax charge

	2007 REVENUE £'000	2006 REVENUE £'000
Revenue on ordinary activities before taxation	5,644	5,082
UK Corporation Tax rate of 30% (2005 30%)	1,693	1,524
Effect of		
– UK dividends which are not taxable	(1,833)	(1,515)
– Excess expenses for the year carried forward	1,153	1,307
– Tax deductible expenses allocated to capital	(1,013)	(1,316)
– Overseas tax	78	98
Current tax charge for the period	78	98

(c) Factors that may affect future tax changes

The Company has excess expenses of £35,983,000 (2006 £32,234,000) that are available to offset future taxable revenue A deferred tax asset has not been recognised in respect of these expenses since the directors believe that there will be no taxable profits in the future against which the deferred tax assets can be offset

7 Dividends

	2007 £'000	2006 £'000
Dividends on equity shares paid in the year		
Final dividend for 2006 of 21 00p (2005 18 50p)	2,807	2,473
Interim dividend for 2007 of 15 00p (2006 14 00p)	2,005	1,872
	4,812	4,345

We set out below the total dividend payable in respect of the financial year, which is the basis on which the requirements of Section 842 Income and Corporation Taxes Act 1988 are considered

	2007 £'000	2006 £'000
Dividends on equity shares in respect of the year		
Interim paid 15 0p per ordinary share (2005 14 0p)	2,005	1,872
Final dividend of 25 0p per ordinary share (2006 21 0p)	3,342	2,807
	5,347	4,679

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 (2006 13,368,799) shares being the number of shares in issue throughout the year

9 Investments

(a) Analysis of investments by listing status

	2007 £'000	2006 £'000
Investments listed on recognised stock exchange	202,689	195,162
Unlisted Investments	1,200	-
	203,889	195,162

(b) Analysis of investments gains and losses

	£'000	£'000
Opening book cost	153,569	128,332
Opening unrealised appreciation	41,593	33,718
Opening valuation	195,162	162,050
Movements in year		
Purchases at cost	95,091	77,527
Sales – proceeds	(100,409)	(70,770)
– net realised gain on sales	28,155	18,480
Movement in unrealised appreciation	(14,110)	7,875
Closing valuation	203,889	195,162
Closing book cost	176,406	153,569
Closing unrealised appreciation	27,483	41,593
Closing valuation	203,889	195,162
Net realised gain based on historical cost	28,155	18,480
Amounts recognised as unrealised appreciation in the previous year	(18,363)	(4,671)
Realised gain based on carrying value at previous balance sheet date	9,792	13,809
Movement in unrealised appreciation in year	(14,110)	7,875
Amounts recognised in previous year	18,363	4,671
Net movement in unrealised appreciation	4,253	12,546
Gain on investments	14,045	26,355

9 Investments (continued)

(c) Transaction costs

Transaction costs on purchases of £609,000 (2006 £471,000) and on sales of £184,000 (2006 £132,000) are included within gains and losses on investments

10 Certificates of deposit

	2007 £'000	2006 £'000
Market value	5,004	9,970
Opening valuation	9,970	–
Movements in the year		
Purchases	10,000	39,998
Sales – proceeds	(14,988)	(30,001)
Sales – net realised (loss)/gain	(12)	3
Movements in unrealised appreciation/(depreciation)	34	(30)
Closing valuation	5,004	9,970
Closing book cost	5,000	10,000
Closing unrealised appreciation/(depreciation)	4	(30)
Closing valuation	5,004	9,970
Net realised (loss)/gain based on historical cost	(12)	3
Amounts recognised as unrealised appreciation in the previous year	30	–
Realised gain based on carrying value at previous balance sheet date	18	3
Movement in unrealised appreciation/(depreciation) in year	34	(30)
Amounts recognised in previous year	(30)	–
Net movement in unrealised appreciation/(depreciation)	4	(30)
Gain/(loss) on certificates of deposit	22	(27)

11 Debtors

	2007 £'000	2006 £'000
Amounts due from brokers	751	2,526
Unrealised profit on forward currency contracts	52	–
Taxation recoverable	17	17
Prepayments and accrued income	644	839
	1,464	3,382

12 Creditors amounts falling due within one year

	2007 £'000	2006 £'000
Amounts due to brokers	887	1,960
Unrealised loss on forward currency contracts	–	35
Accruals	1,187	1,131
	2,074	3,126

13 Creditors amounts falling due after more than one year

	2007 £'000	2006 £'000
Debenture Stock		
10 25% 2010 redeemable on 1 October 2010	5,000	5,000
11 375% 2010/2015 redeemable after 31 March 2010 and finally on 1 October 2015	3,000	3,000
7 75% 2020 redeemable on 1 October 2020	7,000	7,000
6 5% 2023 redeemable on 27 April 2023	25,000	25,000
	40,000	40,000
Discount and issue expenses on debenture stock	(451)	(466)
	39,549	39,534
5% Cumulative preference shares of £1 each	250	250
	39,799	39,784

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

14 Provisions

	2007 £'000	2006 £'000
Performance-related fee		
Opening provision	815	897
Utilised in the year	(808)	(1,214)
(Reversed)/charged in the year	(7)	1,132
Closing provision	–	815

The provision for performance-related fee as at 30 September 2007 relates to the calendar year 2007 (2006 related to the calendar year 2006) Details of the performance-related fee are given in the Report of the Directors

15 Share capital

	2007		2006	
	NUMBER	£'000	NUMBER	£'000
Authorised				
Ordinary shares of 50p each	20,000,000	10,000	20,000,000	10,000
Allotted, called-up and fully paid				
Ordinary shares of 50p each	13,368,799	6,685	13,368,799	6,685

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

NOTES TO THE FINANCIAL STATEMENTS
continued

16 Reserves

	SHARE PREMIUM ACCOUNT £'000	CAPITAL REDEMPTION RESERVE £'000	CAPITAL RESERVE REALISED £'000	CAPITAL RESERVE UNREALISED £'000	REVENUE RESERVE £'000
As at 1 October 2006	1,258	466	110,926	40,714	6,690
Net gains on disposals of investments	–	–	9,792	–	–
Increase in unrealised appreciation on investments	–	–	–	4,253	–
Net losses on disposals of certificates of deposit	–	–	(12)	–	–
Transfer on disposals of investments	–	–	18,363	(18,363)	–
Increase in unrealised appreciation on certificates of deposit	–	–	–	34	–
Management and performance fees charged to capital	–	–	(1,910)	815	–
Finance costs charged to capital	–	–	(2,279)	–	–
Exchange differences and currency hedge losses	–	–	924	87	–
Final dividend for 2006	–	–	–	–	(2,807)
Interim dividend for 2005	–	–	–	–	(2,005)
Revenue return for the year	–	–	–	–	5,566
At 30 September 2007	1,258	466	135,804	27,540	7,444

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 2007 pence	NET ASSET VALUE PER SHARE 2006 pence	NET ASSETS ATTRIBUTABLE 2007 £'000	NET ASSETS ATTRIBUTABLE 2006 £'000
Ordinary shares				
– Basic	1340 4p	1247 2p	179,197	166,739

Net asset value per ordinary share is based on net assets at the year end and on 13,368,799 (2006 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

	2007 £'000	2006 £'000
Total return before finance costs and taxation	20,400	30,816
Adjustment for gains on investments and certificates of deposit	(14,067)	(26,328)
Adjustment for exchange gains	(1,011)	(753)
Decrease/(increase) in debtors	194	(261)
Decrease in creditors and provisions	(759)	(682)
Tax on unfranked investment income	(78)	(98)
Net cash inflow from operating activities	4,679	2,694

18 Notes to the cash flow statement (continued)

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

	2007 £'000	2006 £'000
Servicing of finance		
Preference dividends paid	(12)	(12)
Bank interest paid	(2)	–
Interest paid on debenture stocks	(3,022)	(3,021)
Net cash outflow from servicing of finance	(3,036)	(3,033)
Capital expenditure and financial investment		
Purchase of investments	(96,164)	(75,991)
Sale of investments	102,184	68,247
Purchase of certificates of deposit	(10,000)	(39,998)
Sale of certificates of deposit	14,988	30,001
Net cash inflow/(outflow) from capital expenditure and financial investments	11,008	(17,741)
Management of liquid resources		
Cash (recalled)/placed on short-term deposit	(8,750)	21,717
Net cash (outflow)/inflow from management of liquid resources	(8,750)	21,717

(c) Analysis of changes in net debt

	1 OCTOBER 2006 £'000	CASH FLOW £'000	EXCHANGE MOVEMENTS £ 000	DEBENTURE STOCK NON CASH MOVEMENT £ 000	30 SEPTEMBER 2007 £'000
(Overdraft)/cash	–	(911)	924	–	13
Cash funds and short-term deposits	1,950	8,750	–	–	10,700
Debentures	(39,534)	–	–	(15)	(39,549)
5% Cumulative preference shares	(250)	–	–	–	(250)
Net debt	(37,834)	7,839	924	(15)	(29,086)

19 Risk management and financial instruments

Risk management

The Company's financial instruments, other than derivatives, comprise securities and other investments, certificates of deposit, cash balances, debtors and creditors that arise directly from its operations, for example, in respect of sales and purchases awaiting settlement and debtors for accrued income

The principal risks the Company faces in its portfolio management activities are

- market price risk i e movements in the value of investment holdings caused by factors other than interest rate and currency movements
- interest rate risk
- foreign currency risk

The Company has little exposure to credit and cash flow risk

The Investment Manager's policies for managing these risks are summarised below and have been applied throughout the year

19 Risk management and financial instruments (continued)

Policy

Market price risk
By the very nature of its activities, the Company's investments are exposed to market price fluctuations Further information on the investment portfolio and investment policy is set out in the Investment Manager's report

Interest rate risk
The Company holds positions in cash and cash funds which are subject to fluctuations in interest rates The interest rates on the debentures issued by the Company are fixed throughout their life to maturity

Foreign currency risk
The income and capital value of the Company's investments and liabilities can be affected by exchange rate movements as some of the Company's assets and income are denominated in currencies other than Sterling which is the Company's reporting currency The key areas where foreign currency risk could impact the Company are

- movement in rates affect the value of investments and liabilities,
- movements in rates affect the income received, and
- movements in rates affect short-term timing differences

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 The risk is minimised by using only approved counterparties

Use of derivatives
It is not the Company's policy to enter into derivative contracts other than for the purposes of hedging against price or currency movements in the value of particular constituents of the portfolio or interest rate exposures The Company hedges that part of the Sterling value of investments that are priced in US Dollars

Financial assets and liabilities

The Company's financial assets and liabilities are primarily denominated in Sterling and US Dollars These are disclosed below

	2007 INTEREST RATE RISK				2006 INTEREST RATE RISK			
	CASH FLOW £'000	FAIR VALUE £'000	NON INTEREST BEARING £'000	TOTAL £'000	CASH FLOW £'000	FAIR VALUE £'000	NON INTEREST BEARING £'000	TOTAL £'000
Sterling								
Investments and cash	10,713	5,004	193,759	209,476	1,950	9,970	180,914	192,834
Forwards	–	–	10,125	10,125	–	–	14,355	14,355
Debentures	–	(39,549)	–	(39,549)	–	(39,534)	–	(39,534)
5% cumulative preference shares	–	(250)	–	(250)	–	(250)	–	(250)
Other net liabilities	–	–	(662)	(662)	–	–	(524)	(524)
Net Sterling	10,713	(34,795)	203 222	179,140	1,950	(29,814)	194,745	166,881
US Dollars								
Investments and cash	–	–	10,130	10,130	–	–	14,248	14,248
Forwards	–	–	(10,073)	(10,073)	–	–	(14,390)	(14,390)
Net Dollars	–	–	57	57	–	–	(142)	(142)
Total Currency	10,713	(34,795)	203,280	179,197	1,950	(29,814)	194,603	166,739

19 Risk management and financial instruments (continued)

Assets

The floating rate assets consist of cash, cash funds on short term deposits and investments in Short-Term Investments Company (Global Series) PLC ("STIC") The balance on STIC at the year end was £10,700,000 (2006 £1,950,000) and has been treated as cash at bank in the balance sheet Fixed rate financial assets comprise of certificates of deposits The non-interest bearing assets represent the equity element of the investment portfolio Financial assets are included in the balance sheet at market values which represent fair values

The certificates of deposit had a weighted average interest rate of 6 6% (2006 4 7%) and a weighted average life to maturity of 2 (2006 7) months

The Company uses forward currency contracts to reduce exposure to foreign currency investments as set out in note 1(f)

Liabilities

Details of the Company's financial liabilities in respect of debenture stocks and preference shares and the coupon rates thereon are set out in note 13 These liabilities are carried at their nominal value at maturity net of discounts on issue The Company is also obliged to provide a statement of fair value based upon present market interest rates for equivalent maturities The relevant fair values of the debenture stocks and preference shares are shown below

The debentures had a weighted average interest rate of 7 55% (2006 7 55%) and a weighted average life to maturity of 12 5 (2006 13 5) years The cumulative preference shares had a weighted average interest rate of 5% (2006 5%) and no maturity date

Sterling denominated

	BOOK VALUE 2007 £'000	FAIR VALUE 2007 £'000	BOOK VALUE 2006 £'000	FAIR VALUE 2006 £'000
Debentures repayable in less than 5 years				
10 25% Debenture Stock 2010	5,000	5,654	5,000	5,895
11 375% Debenture Stock 2010/2015	3,000	3,485	3,000	3,657
Debentures repayable in more than 5 years				
7 75% Debenture Stock 2020	7,000	8,325	7,000	8,623
6 5% Debenture Stock 2023	25,000	27,468	25,000	28,569
Discount on issue of debentures	(451)	–	(466)	-
	39,549	44,930	39,534	46,744
5% Cumulative preference shares of £1 each	250	195	250	196
	39,799	45,125	39,784	46,940

The fair value of the Company's debenture stock and preference shares represents the market value or estimate of the market value by reference to the prices contained in the London Stock Exchange Daily Official List Incorporating the fair values in the Company's Balance Sheet would result in a reduction of the net asset value per ordinary share to 1300 57p (2006 1193 70p)

The difference between the carrying value of the Company's debenture stocks and their present fair value together with material breakage costs would only result in a loss to shareholders in the event of the debentures being redeemed before their scheduled maturity dates

The Company has an overdraft facility of £2,000,000 (2006 £2,000,000), none of which was drawn-down at the year end (2006 none) Cash balances and any overdraft are held by the principal bankers and custodians and are subject to their variable credit and debit interest rates, based on their base rate, respectively

20 Contingencies, guarantees and financial commitments

In November 2007, HMRC announced that investment management services supplied to investment trusts are exempt from VAT The Board is in negotiations with the current and previous Managers of the Company in order to recover VAT suffered by the Company These negotiations are ongoing and as the amounts involved are uncertain no asset has been recognised in the financial statements

There were no other contingencies, guarantees or financial commitments of the Company at the year end (2006 £nil)

21 Related party transactions

Invesco Asset Management Limited ("IAML"), a wholly owned subsidiary of Invesco Plc, acts as Manager, Company Secretary and Administrator to the Company Details of IAML's services and fees are disclosed in the Report of the Directors Full details of Directors' interests are set out in the Report of the Directors on page 22 There are no other related party transactions

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS GIVEN that the Annual General Meeting of Keystone Investment Trust plc will be held at 30 Finsbury Square, London EC2A 1AG at 11 00 am on 20 December 2007 for the following purposes

Ordinary Business

1 To receive the Directors' Report and Accounts for the year ended 30 September 2007

2 To declare a final dividend as recommended

3 To approve the Directors' Remuneration Report

4 To re-elect Mr Richard Oldfield a Director of the Company

5 To re-elect Mr David Adams a Director of the Company

6 To re-elect Mrs Beatrice Hollond a Director of the Company

7 To re-elect Mr William Kendall a Director of the Company

8 To re-elect Mr Peter Readman a Director of the Company

9 To re-appoint Ernst & Young LLP as auditors to the Company and authorise the Directors to determine their remuneration

Special Business

To consider the following resolutions which will be proposed as Special Resolutions

10 That

(a) the Directors be generally and unconditionally authorised pursuant to and in accordance with Section 80 of the Companies Act 1985 ("the Act") to exercise for the period ending on the date of the next Annual General Meeting, all the powers of the Company to allot relevant securities up to an aggregate nominal amount of £334,219,

(b) pursuant to and during the period of the authority referred to in paragraph (a) above the Directors be empowered pursuant to Section 95 of the Act to allot equity securities wholly for cash, (i) in connection with a rights issue, and (ii) otherwise than in connection with a rights issue, up to an aggregate nominal amount of £334,219 as if Section 89(i) of the said Act, relating to pre-emption rights, did not apply to any such allotments,

(c) by such authority and power the Directors may during such period make offers or agreements which would or might require the making of allotments after the expiry of such period,

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

(e) for the purposes of this resolution, (i) "rights issue" means an offer of equity securities open for acceptance for a period fixed by the Directors to holders on the register on a fixed record date of ordinary shares in proportion to their respective holdings but subject 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 recognised regulatory body of any stock exchange in any territory, and (ii) the nominal amount of any securities shall be taken to be, in the case of rights to subscribe for or convert any securities into shares of the Company, the nominal amount of such shares which may be allotted pursuant to such rights

11 That

the Company be generally and subject as hereinafter appears unconditionally authorised in accordance with Section 166 of the Companies Act 1985 ("the Act") to make market purchases (within the meaning of Section 163 of the Act) of its issued ordinary shares of 50p each ("Shares")

PROVIDED ALWAYS THAT

(a) the maximum number of Shares hereby authorised to be purchased shall be 2,003,982,

(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 Annual General Meeting of the Company or, if earlier, on 20 June 2009,

(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 such a contract

12 THAT

the amendments to the Articles of Association of the Company in the form produced to the Meeting and, for the purpose of identification, initialled by the Chairman and as described in the Report of the Directors on pages 20 and 21 be approved

To consider the following resolution which will be proposed as an Ordinary Resolution

13 THAT

the following Objective, Investment Policy and Risk, and Investment Limits be approved

Objective

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

Investment policy and risk

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

The Manager controls stock-specific and sector risk by ensuring that portfolios are always appropriately diversified In-depth, continual analysis of the fundamentals of investee companies allows the portfolio managers to assess the financial risks associated with any particular stock The portfolio is typically made up of 50-80 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 limits on the investment policy, among which are the following

- 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 £4 million in bonds, with a maximum of £1 5 million in any issue,
- the Company will not invest more than £5 million in unquoted investments, and
- gearing may be used by the Company within limits determined by the Board

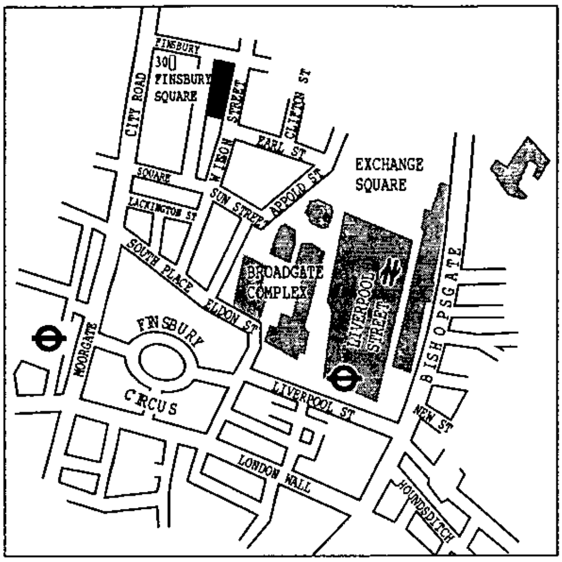
For an explanation of all Resolutions presented under Special Business please refer to the Chairman's Statement on page 6 and to the Report of the Directors on pages 19 to 21

Dated this 20 November 2007

By order of the Board
Invesco Asset Management Limited
Company Secretary

The Manager will be giving a presentation following the Annual General Meeting

Map of venue



Notes

1 A member entitled to attend and vote at the AGM is entitled to appoint one or more proxies to attend and, on a poll, to vote in his stead In order to be valid an appointment of proxy must be returned by one of the following methods

- In hard copy form by post, by courier or by hand to the Company's registrars, Capita Registrars, Proxies Department, PO Box 25, Beckenham, Kent BR3 4BR, 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

NOTICE OF ANNUAL GENERAL MEETING
continued

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 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 (Proxies Department), PO Box 25, Beckenham, Kent BR3 4BR, by not later than 11 00 a m on 18 December 2007

4 A person entered on the Register of Members at close of business on 18 December 2007 ('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 Terms of Reference of the Audit Committee and the Letters of Appointment for Directors will be available for inspection at the Company's AGM

6 A copy of the current Articles of Association and a draft of the proposed amended Articles are available for inspection at the Registered Office of the Company during normal business hours on any business day (excluding public holidays) until the close of the Annual General Meeting and will also be available at the Annual General Meeting for at least 15 minutes prior and during the meeting

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 and supply for 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 trusts with different dividend policies Any dividends (after tax) received by a shareholder are assumed to have been reinvested in either additional shares (to give share price total return) or the Trust's assets (to give NAV total return)

Effective Gearing

The figures for equity exposure and for exposure including fixed interest securities are calculated as a % of net assets attributable to ordinary shareholders and show the extent to which the Company has made use of its long-term borrowings for investment purposes To the extent not used for investment purposes in equities and fixed interest securities, the proceeds of these borrowings have been held in cash deposits, certificates of deposit or their equivalent

Total Expense Ratio

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

SPECIALIST FUNDS MANAGED BY INVESCO PERPETUAL

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

Perpetual Income and Growth Investment Trust plc
Aims to generate capital growth with a higher than average income from investment primarily in the UK equity market It is intended that the Company will provide shareholders with real dividend growth over the medium-term by investing mainly in above-average yield equities. However investments are also made in companies with lower initial yields which are considered to have good potential for income growth The Trust is geared by a debenture stock and bank debt

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

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

Invesco Perpetual Select Trust plc – UK Equity Share 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 Perpetual Select Trust plc – Managed Liquidity Share Portfolio
Aims to generate a high level of income from a variety of fixed income instruments combined with a high degree of security

Invesco Property Income Trust Limited
The Company is a closed-ended investment company with limited liability incorporated in Jersey The objective is to provide ordinary shareholders with an attractive level of income together with the prospect of income and capital growth from investing in commercial properties in the UK and Continental Europe The Trust is geared by bank debt

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

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

Invesco Perpetual Recovery Trust 2011 plc
A split-capital investment trust with ordinary income shares, zero dividend preference shares and units (a combination of the two) Aims to meet the capital entitlements of the zero dividend preference shares and to maximise the capital and income returns of the ordinary income shares by investing primarily in equities but also debt securities which are considered to offer recovery prospects. Returns to ordinary income shareholders are geared by the prior charge of the zero shares The Trust has an initial life projected to end in 2011

Investing in Smaller Companies

Invesco English and International Trust plc
Invests mainly in UK-quoted and unquoted smaller companies AIM stocks and in US smaller companies It pursues a relatively risk-averse stock selection strategy holding a well-diversified portfolio and seeks to invest in companies offering particular value The Trust has adopted a flexible gearing policy and a quarterly redemption/creation mechanism

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

Investing Internationally

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

Perpetual Japanese Investment Trust plc
Aims to achieve long-term capital growth by investing in a diversified portfolio of quoted Japanese securities The Trust is geared by bank debt

Invesco Perpetual Select Trust plc – Global Equity Share Portfolio
Aims to produce long-term capital growth from a sensibly diversified portfolio of international equities (including the UK) The portfolio comprises the best ideas of a number of Invesco Perpetual's investment managers The portfolio is geared by bank debt

Investing for Absolute Returns

Invesco Perpetual European Absolute Return Trust plc
Aims to achieve absolute total returns through investment principally in equity fixed interest and cash securities within continental Europe (ex UK) Seeks to achieve returns in excess of sterling LIBOR

Invesco Perpetual Select Trust plc – Hedge Fund Share Portfolio
Aims to achieve absolute return of 3-month sterling LIBOR plus 6% per annum over a rolling 5-year period, coupled with low volatility Capital preservation is a priority

Investing in Multiple Asset Classes

Invesco Perpetual Select Trust plc
- UK Equity Share Portfolio
- Global Equity Share Portfolio
- Managed Liquidity Share Portfolio
- Hedge Fund Share Portfolio

A choice of asset classes within one investment trust with the freedom to switch between them twice a year, free from capital gains tax liability

Other

Invesco Perpetual Aim VCT plc
The Company was launched in August 2004 Its objective is to provide a tax-free dividend return to shareholders invested at launch primarily through the realisation of capital gains from a portfolio of investments in AIM Qualifying Companies while maintaining the capital value of shares

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

Invesco Perpetual

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

Invesco Plc* is one of the largest independent global investment management firms, with funds under management in excess of £248 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

*Invesco Plc is a company listed in the UK and the US whose subsidiaries include Invesco Asset Management Limited, which is authorised and regulated by the Financial Services Authority

**Funds under management as at 30 September 2007