

SECURITIES AND EXCHANGE COMMISSION

FORM N-30D

Initial annual and semi-annual reports mailed to investment company shareholders pursuant to Rule 30e-1 (other than those required to be submitted as part of Form NCSR)

Filing Date: **1996-04-08** | Period of Report: **1996-02-29**
SEC Accession No. **0000950146-96-000520**

([HTML Version](#) on secdatabase.com)

FILER

KEYSTONE MID CAP GROWTH FUND S-3

CIK: **55626** | IRS No.: **042394426** | Fiscal Year End: **0831**
Type: **N-30D** | Act: **40** | File No.: **811-00100** | Film No.: **96545021**

Mailing Address
*200 BERKELEY STREET
BOSTON MA 02116*

Business Address
*200 BERKELEY STREET
BOSTON MA 02116
6173383200*

Keystone Mid-Cap Growth Fund (S-3)

Seeks capital appreciation from a diversified portfolio of growth-oriented companies.

Dear Shareholder:

We are writing to you to report on the activities of Keystone Mid-Cap Growth Fund (S-3) for the six-month period which ended February 29, 1996.

Performance

Your Fund returned 8.39% for the six-month period and 33.20% for the twelve-month period. The Standard & Poor's 400 MidCap Index (S&P 400), an unmanaged index of common stocks, returned 8.97% for the six-month period and 29.17% for the twelve-month period. Among its peers, your Fund's one-year returns slightly outperformed the Lipper Mid-Cap Stock Index of 32.48% for the same period. We believe your Fund's strong performance was the result of our careful selection of companies with attractive earnings growth rates and an excellent market environment.

For most of the period, several positive economic factors contributed to an attractive environment for stocks. Economic growth continued to slow, interest rates declined, and inflation remained under control. In addition, corporate earnings were generally strong. In this environment, prices of mid-cap stocks generated solid gains. Toward the end of the period, the market environment changed. Higher interest rates and concerns about the short-term prospects for corporate earnings caused stock prices to fluctuate broadly.

We believe your Fund benefitted from our thorough research and our careful selection of mid-cap stocks. We invested primarily in medium-sized (mid-cap) stocks with market capitalizations from \$750 million to \$3 billion. We concentrated on businesses in growing or changing industries that we believed had the following characteristics: accelerating earnings growth rates, innovative or leading products and services, strong finances, and superior management. This strategy resulted in an emphasis on a variety of industries, including the healthcare, technology and finance sectors.

Our outlook

We are optimistic about the economy and the stock market over the long term. We expect moderate economic growth, low inflation and positive corporate earnings. This should be favorable for mid-cap stocks. However, in the short term we are expecting some market unevenness as investors attempt to judge the strength of the economy.

Investors have already witnessed some stock price fluctuations since the close of the period. We believe this is a temporary condition in view of continued positive fundamentals we anticipate for stocks. We are not expecting a repeat of 1995's strong performance. However, we think many medium-sized companies have the flexibility to adapt quickly to a changing market and business environment. By emphasizing companies with strong earnings growth, we believe that the mid-cap stocks in which your Fund invests should provide attractive returns.

--continued--

Keystone Mid-Cap Growth Fund (S-3)

Thank you for your continued confidence in Keystone Mid-Cap Growth Fund (S-3). As always, we welcome your comments and letters.

Sincerely,

/s/ Albert H. Elfner, III

Albert H. Elfner, III
Chairman and President
Keystone Investments, Inc.

/s/ George S. Bissell

George S. Bissell
Chairman of the Board
Keystone Funds

April 1996

[photo of Albert H. Elfner, III]
Albert H. Elfner, III

[photo of George S. Bissell]
George S. Bissell

[Dalbar logo]

Dalbar Key Honors

Honoring Commitment to Excellence

Keystone was recently recognized by Dalbar, an independent mutual fund rating organization, for demonstrating a commitment to serving the needs of customers. The award is intended to distinguish companies who are committed to investors and have a proven ability to provide good service.

Keystone Introduces Investment Insight Line for Shareholders

Now you can keep up-to-date on your fund's current strategy and outlook by calling Keystone Investment Insight Line. You can hear Walter McCormick, head of Keystone's core equity team, discuss his latest strategy and outlook for Keystone equity funds. You can also listen to Keystone's overall market outlook from James McCall, chief investment officer. The service is available 24 hours a day, seven days a week and updated at least monthly.

Keystone Investment Insight Line 1-800-346-3858, Press 2

Keystone Equity Funds Update Press 6

2

A Discussion With
Your Fund's Manager

[photo Margery C. Parker]

Margery C. Parker is portfolio manager of Keystone Mid-Cap Growth Fund (S-3). Ms. Parker has more than 15 years of investment management experience. She holds a BA from Wellesley College and an MBA from Babson College. Together with senior portfolio manager Maureen Cullinane, head of Keystone's growth stock group, they select mid-cap stocks for your Fund.

Q How did the economic environment affect the stock market during the six-month period?

A Positive economic fundamentals had a favorable effect on stocks overall. Slower economic growth, declining interest rates, moderate inflation, and solid corporate profits all contributed to strong performance for stocks. However, toward the end of the period, an increase in long-term interest rates and concerns that corporate earnings might slow, triggered a decline in stock prices. The pullback in stock prices was a short term event, and we believe it was a normal part of the investment cycle.

Q How did the Fund perform?

A We are very pleased with the Fund's performance. For the twelve-month period which ended February 29, 1996, the Fund outperformed its benchmark, the Standard & Poor's 400 MidCap Index. At the beginning of 1995, we modified the Fund's strategy to improve flexibility and increase the focus of the portfolio. We believe this revised strategy helped the Fund achieve impressive returns in a relatively short period of time.

Q How did you manage the Fund during the period?

A We emphasized well managed companies with market capitalizations primarily between \$750 million and \$3 billion. We selected companies that we believed had the following characteristics: the potential to grow at least 20%, superior management, solid balance sheets, and market leadership. This approach resulted in selected investments in technology, healthcare, finance, and other areas.

Q Technology stocks were an important contributor to performance during the period. In what types of technology companies did you invest?

A Technology stocks overall provided excellent performance to investors in 1995. At the end of the period, about 17% of net assets were invested in technology stocks. In September 1995 we had been emphasizing commodity technology companies--such as computer chip makers. As the period progressed, we began to shift the portfolio's emphasis toward content companies, or companies that provide value added software products. We continue to believe that technology companies should grow, contributing positively to Fund performance.

Q Were there any new themes in the portfolio?

A We increased the drug and healthcare sectors from 5% of net assets on August 31, 1995 to 17% by Feb-

Fund Profile

Objective: Seeks capital appreciation from a diversified portfolio of growth-oriented companies.

Commencement of investment operations: September 11, 1935

Net assets: \$304 million

Newspaper listing: "MidCapS3"

Keystone Mid-Cap Growth Fund (S-3)

Your Fund Invests In

- (bullet) Dynamic companies with earnings growth rates of 20% or more
- (bullet) Companies with strong management, a leading market position and solid balance sheets
- (bullet) Primarily medium-sized companies, with market capitalizations between \$750 million and \$3 billion
- (bullet) U.S. stocks and stocks of established foreign companies

ruary 29, 1996. Our holdings in these areas included biotechnology companies, medical device firms, and medical services businesses.

In the biotechnology area, we invested in companies that were close to receiving approval from the Food & Drug Administration (FDA) to market new drugs. We look for companies that are developing important new drugs which address unmet needs in the medical field. One company that met our criteria for investment was Gilead Sciences. Gilead has developed a compound that could have widespread applications in combatting viral diseases. If this formulation is approved by the FDA as we expect, the company should be able

to develop other formulations for approval. In Gilead's case, relatively modest profits from the first compound could lead to approval of several other more profitable compounds.

Q What were some of the medical device and medical services companies in which you invested?

A In the medical device sector, Boston Scientific continued to contribute to your Fund's performance. As a developer of medical instrumentation, Boston Scientific is particularly prominent in the cardiovascular area. The company has been acquiring medical device companies and broadening its product lines. IDEXX Laboratories, a company that sells medical instruments to veterinarians has done extremely well. IDEXX has been expanding internationally and has had a consistent 35% growth rate. We also added Medaphis, a medical services company, to the portfolio. Mediphis provides administrative services to physicians. In an effort to increase its productivity, Medaphis

Top 5 Industries
as of February 29, 1996

Industry	Percent of net assets
Healthcare services	9.4
Business services	9.2
Software services	9.2
Finance*	8.5
Drugs	7.1

* Includes common and preferred stock

has consolidated some of its operations, established cost cutting procedures, and is making greater use of computer technology.

Q You also focused on financial companies. Why were these attractive?

A On February 29, 1996, finance stocks accounted for 8.5% of net assets. Financial companies benefitted from the decline in interest rates and the trend toward consolidation in the building industry. The Fund's largest holding in the financial area was TCF Financial, a midwestern bank. TCF offers its customers a variety of products and services, including checking accounts, mortgages, and investment products. The bank has been expanding its geographic boundaries. We also invested in Bank of Boston. Recently, Bank of Boston purchased Bay Bank, and we believe when the sale is finalized, Bank of Boston's expanded business opportunities could increase its earnings growth rate.

Q What is your outlook?

A We have a positive outlook for the stock market. We expect moderate economic growth and low inflation, with interest rates staying in a narrow range. However, we are not expecting a repeat of 1995's returns and think investors should expect increased price volatility in 1996. In this environment, we believe earnings growth rates for mid-cap companies should be positive and this should help stock prices. We also believe that our careful selection of mid-cap stocks and the portfolio's focused approach should result in attractive returns for shareholders.

Growth of an Investment

*****[mountain chart]*****

Growth of an investment in
Keystone Mid-Cap Growth Fund (S-3)

\$ In Thousands

	Initial Investment	Reinvested Distributions
2/86	10000	10000
2/87	9834	12489
2/88	7277	11252
2/89	7952	12553
2/90	8680	14087
2/91	8909	15941
2/92	10156	19805
2/93	9647	20318
2/94	10000	22544
2/95	8732	21717
2/96	9366	28927

A \$10,000 investment in Keystone Mid-Cap Growth Fund (S-3) made on February 28, 1986 with all distributions reinvested was worth \$28,927 on February 29, 1996. Past performance is no guarantee of future results.

Top 10 Holdings
as of February 29, 1996

Company	Industry	Percentage of net assets
BMC Software	Software services	2.4
EMC	Office and business equipment	2.4
TCF Financial	Finance	2.2
CUC International	Consumer goods	2.2
America Online	Software services	2.2
Gilead Sciences	Drugs	2.2
Standard Federal Bancorp	Finance	2.1
Thermo Electron	Business services	2.0
Fastenal	Building materials	2.0
Medaphis	Healthcare services	1.9

Six-Month Performance as of February 29, 1996

Total return*		8.39%
Net asset value	8/31/95	\$ 9.22
	2/29/96	\$ 9.01
Dividends		None
Capital gains		\$ 0.92

* Before deduction of contingent deferred sales charge (CDSC).

Historical Record as of February 29, 1996

Cumulative total return	If you redeemed	If you did not redeem
1-year	30.20%	33.20%
5-year	81.46%	81.46%
10-year	189.27%	189.27%
Average annual total return		
1-year	30.20%	33.20%
5-year	12.66%	12.66%
10-year	11.21%	11.21%

The one-year return reflects the deduction of the 3% contingent deferred sales charge for those investors who sold Fund shares after one calendar year. Investors who retained their fund investment received the one-year

return reported in the second column of the table.

The investment return and principal value will fluctuate so that your shares, when redeemed, may be worth more or less than the original cost.

You may exchange your shares to another Keystone fund for a \$10 fee by contacting Keystone directly. The exchange fee is waived for individual investors who make an exchange using Keystone's Automated Response Line (KARL). The Fund reserves the right to change or terminate the exchange offer.

5

Keystone Mid-Cap Growth Fund (S-3)
 SCHEDULE OF INVESTMENTS--February 29, 1996
 (Unaudited)

	Shares	Market Value

COMMON STOCKS (94.0%)		
ADVERTISING & PUBLISHING (1.8%)		
Clear Channel Communications, Inc. (a)	108,800	\$ 5,508,000

AEROSPACE (0.4%)		
Rohr Industries, Inc. (a)	69,500	1,251,000

AIR TRANSPORTATION (0.6%)		
America West Airlines, Inc., Class B (a)	83,600	1,724,250

AMUSEMENTS (3.1%)		
Harrahs Entertainment, Inc. (a)	150,000	4,068,750
La Quinta Inns, Inc.	200,000	5,400,000

		9,468,750

AUTOMOTIVE (3.5%)		
Danaher Corp.	140,000	4,760,000
Lear Seating Corp. (a)	175,000	5,578,125
Volvo Atkiebolagct, ADR, Class B	9,700	206,731

		10,544,856

BUILDING MATERIALS (3.0%)		
Fastenal Co.	164,100	5,917,856
Oakwood Homes Corp.	72,900	3,253,163

		9,171,019

BUSINESS SERVICES (9.2%)		
G & K Services, Class A	200,500	5,313,250
Molten Metal Technology, Inc. (a)	149,900	5,396,400
Thermo Electron Corp.	108,900	5,962,275
US Filter Corp. (a)	200,000	5,650,000
USA Waste Services, Inc. (a)	260,000	5,557,500

		27,879,425

CAPITAL GOODS (2.1%)		
AGCO Corp.	131,000	3,553,375
Industrie Natuzzi SPA	58,300	2,915,000

		6,468,375

CHEMICALS (2.1%)		
Potash Corp. of Saskatchewan, Inc.	39,600	\$ 2,940,300
Praxair, Inc.	100,000	3,450,000

		6,390,300

CONSUMER GOODS (5.9%)		
CUC International, Inc. (a)	206,800	6,695,150
Estee Lauder Cos., Inc. (The)	155,400	5,691,525
Mohawk Industries, Inc. (a)	190,700	2,705,556
Players International, Inc. (a)	274,700	2,708,370

		17,800,601

DRUGS (7.1%)		
Amgen, Inc. (a)	80,000	4,775,000
Amylin Pharmaceuticals, Inc. (a)	300,000	3,337,500
Centocor, Inc. (a)	78,600	2,284,313
Genzyme Corp. (a)	24,300	1,679,738
Gilead Sciences, Inc. (a)	183,900	6,574,425
Magainin Pharmaceuticals, Inc. (a)	225,000	2,896,875

		21,547,851

ELECTRONICS PRODUCTS (4.6%)		
Altera Corp. (a)	72,400	4,737,675
Analog Devices, Inc. (a)	150,000	4,031,250
Maxim Integrated Products, Inc. (a)	146,900	5,334,306

		14,103,231

FINANCE (7.7%)		
Bank of Boston Corp.	119,600	5,815,550
Standard Federal Bancorp., Inc.	155,000	6,413,125
TCF Financial Corp.	179,300	6,746,163
Washington Mutual, Inc.	150,000	4,518,750

		23,493,588

FOODS (0.4%)		
PanAmerican Beverages, Inc.	27,900	1,129,950

6

SCHEDULE OF INVESTMENTS--February 29, 1996
(Unaudited)

	Shares	Market Value

HEALTHCARE SERVICES (9.4%)		
Boston Scientific Corp. (a)	115,000	\$ 5,520,000
Heartstream, Inc. (a)	140,300	2,104,500
IDEXX Laboratories, Inc. (a)	116,500	5,577,438
Lifecore Biomedical, Inc. (a)	185,000	3,353,125
Medaphis Corp. (a)	150,000	5,859,375
St. Jude Medical, Inc. (a)	83,500	3,131,250
Ventritex, Inc. (a)	170,000	3,070,625

		28,616,313

INSURANCE (4.0%)		
Ace, Ltd.	60,000	2,805,000
American Re Corp.	110,000	4,221,250
Progressive Corp.	110,000	5,060,000

		12,086,250

NATURAL GAS (2.5%)		
Anadarko Petroleum Corp.	56,400	3,073,800
Louisiana Land & Exploration Co.	105,000	4,383,750

		7,457,550

OFFICE & BUSINESS EQUIPMENT (4.0%)		
EMC Corp. (a)	325,000	7,150,000
Synopsys, Inc. (a)	150,000	4,950,000

		12,100,000

RESTAURANTS (0.3%)		
The Cheesecake Factory (a)	36,400	900,900

RETAIL (3.7%)		
Nautica Enterprises, Inc. (a)	80,900	3,327,013
Mossimo, Inc. (a)	26,700	654,150
Petsmart, Inc. (a)	60,300	2,102,963
Staples, Inc. (a)	202,500	5,252,344

		11,336,470

SOFTWARE SERVICES (9.2%)		
America Online, Inc. (a)	135,000	\$ 6,657,188
BMC Software, Inc. (a)	130,000	7,263,750
Cognex Corp. (a)	210,000	4,777,500
Parametric Technology Corp. (a)	65,000	4,834,375
System Software Association, Inc. (a)	202,500	4,277,813

		27,810,626

TELECOMMUNICATIONS (2.8%)		
NewBridge Networks Corp. (a)	75,000	3,665,625
Winstar Communications, Inc. (a)	279,700	4,719,938

		8,385,563

UTILITIES (6.6%)		
Allegheny Power Systems, Inc.	120,000	3,495,000
Boston Edison Co.	140,000	3,867,500
Cinergy Corp.	93,861	2,804,097
Compania Bolivia de Energia	70,000	2,493,750
Hawaiian Electric Industries, Inc.	65,000	2,461,875
Teco Energy, Inc.	200,000	5,000,000

		20,122,222

TOTAL COMMON STOCKS		
(COST--\$249,216,305)		285,297,090

PREFERRED STOCK (0.8%)		
FINANCE (0.8%)		
Banco Bradesco S.A. (a)	170,900,000	1,934,942
Banco Itau S.A. (a)	1,769,400	659,393

TOTAL PREFERRED STOCK		
(COST--\$2,634,577)		\$ 2,594,335

Keystone Mid-Cap Growth Fund (S-3)
 SCHEDULE OF INVESTMENTS--February 29, 1996
 (Unaudited)

<TABLE>
 <CAPTION>

	Maturity Value	Market Value
<S>	<C>	<C>
SHORT-TERM INVESTMENTS (4.3%)		
REPURCHASE AGREEMENTS (4.3%)		
Investments in repurchase agreements, in a joint trading account purchased 2/29/96, 5.4155%, maturing 3/01/96 (b)	\$12,980,952	\$ 12,979,000
TOTAL SHORT-TERM INVESTMENTS (COST--\$12,979,000)		12,979,000
TOTAL INVESTMENTS (COST--\$264,829,882)		300,870,425
OTHER ASSETS AND LIABILITIES--NET (0.9%)		2,786,092
NET ASSETS (100%)		\$303,656,517

</TABLE>

(a) Non-income-producing security.

(b) The repurchase agreements are fully collateralized by U.S. government
and/or agency obligations based on market prices at February 29, 1996.

Legend of Portfolio Abbreviations:

ADR--American Depository Receipt

FINANCIAL HIGHLIGHTS

(For a share outstanding throughout the period)

<TABLE>
 <CAPTION>

	Six Months Ended	Year Ended August 31,	
	February 29, 1996	1995	1994
<S>	(Unaudited) <C>	<C>	<C>
Net asset value beginning of period	\$9.22	\$9.38	\$9.92
Income from investment operations			
Net investment income (loss)	(0.09)	0.04	0.02
Net gain on investments	0.80	1.72	0.09
Total income from investment operations	0.71	1.76	0.11
Less distributions from			
Net investment income	0.00	(0.04)	(0.02)
In excess of net investment income	0.00	(0.02)	(0.01)
Net realized gain on investments	(0.92)	(1.72)	(0.57)
In excess of net realized gains	0.00	(0.14)	0.00
Tax basis return of capital	0.00	0.00	(0.05)

Total distributions	(0.92)	(1.92)	(0.65)
Net asset value end of period	\$9.01	\$9.22	\$9.38
Total Return (a)	8.39%	21.42%	1.21%
Ratios/supplemental data			
Ratios to average net assets			
Total expenses	1.91% (b)	1.32%	1.35%
Net investment income	(0.93%)	0.43%	0.16%
Portfolio turnover rate	85%	172%	58%
Average commission rate paid	\$ 0.0635	N/A	N/A
Net assets end of period (thousands)	\$303,657	\$276,034	\$252,351

</TABLE>

<TABLE>

<CAPTION>

	Year Ended August 31,		
	1993	1992	1991
Net asset value beginning of period	\$8.98	\$9.66	\$7.87
Income from investment operations			
Net investment income (loss)	(0.02)	(0.01)	0.05
Net gain on investments	1.69	0.10	2.23
Total income from investment operations	1.67	0.09	2.28
Less distributions from			
Net investment income	0.00	(0.03)	(0.08)
In excess of net investment income	0.00	(0.05)	0.00
Net realized gain on investments	(0.73)	(0.69)	(0.41)
In excess of net realized gains	0.00	0.00	0.00
Tax basis return of capital	0.00	0.00	0.00
Total distributions	(0.73)	(0.77)	(0.49)
Net asset value end of period	\$9.92	\$8.98	\$9.66
Total Return (a)	19.31%	1.31%	31.42%
Ratios/supplemental data			
Ratios to average net assets			
Total expenses	1.74%	1.69%	1.47%
Net investment income	(0.21%)	(0.12%)	0.74%
Portfolio turnover rate	69%	99%	66%
Average commission rate paid	N/A	N/A	N/A
Net assets end of period (thousands)	\$292,965	\$262,696	\$256,070

</TABLE>

(a) Excluding applicable sales charges.

(b) The annualized expense ratio includes indirectly paid expenses for the six months ended February 29, 1996. Excluding indirectly paid expenses, the expense ratio would have been 1.90%.

See Notes to Financial Statements.

Assets		
Investments at market value (identified cost-- \$264,829,882) (Note 1)		\$300,870,425
Cash		102
Receivable for:		
Investments sold	5,067,124	
Dividends and interest	126,034	
Fund shares sold	982,625	
Prepaid expenses and other assets	26,258	

Total assets		307,072,568

Liabilities (Notes 2, 4 and 5)		
Payable for:		
Investments purchased	3,219,554	
Fund shares redeemed	130,730	
Due to related parties	7,947	
Other accrued expenses	57,820	

Total liabilities		3,416,051

Net assets		\$303,656,517
=====		
Net assets represented by (Note 1)		
Paid-in capital	\$245,616,100	
Net undistributed investment income	12,659,040	
Accumulated net realized gain (loss) on investments and foreign currency related transactions	9,340,851	
Net unrealized appreciation (depreciation) on investments and foreign currency related transactions	36,040,526	

Total net assets		\$303,656,517
=====		
Net Asset Value per share (Note 2)		
Net asset value of \$303,656,517 / 33,711,744 outstanding shares of beneficial interest		\$ 9.01
=====		

See Notes to Financial Statements.

STATEMENT OF OPERATIONS

Six Months Ended February 29, 1996 (Unaudited)

Investment income (Note 1)		
Dividends (net of foreign withholding taxes of \$8,182)		\$ 949,877
Interest		431,516

Total income		1,381,393

Expenses (Notes 2 and 4)		
Management fee	\$ 933,197	
Transfer agent fees	342,048	
Accounting	12,241	
Auditing, printing and legal fees	20,350	
Custodian fees	99,905	
Trustees' fees and expenses	6,075	
Distribution Plan expenses	1,270,513	
Registration fees	29,628	
Miscellaneous expenses	7,319	

Total expenses	2,721,276	
Less: Expenses paid indirectly (Note 4)	(13,205)	

Net expenses		2,708,071

Net investment loss (Note 1)	(1,326,678)
Net realized and unrealized gain (loss) on investments and foreign currency related transactions (Notes 1 and 3)	
Net realized gain on investments and foreign currency related transactions	28,448,738
Net change in unrealized appreciation on investments and foreign currency related transactions	(4,150,600)
Net realized and unrealized gain on investments	24,298,138
Net increase in net assets resulting from operations	\$22,971,460

10

STATEMENTS OF CHANGES IN NET ASSETS

<TABLE>
<CAPTION>

	Six Months Ended February 29, 1996	Year Ended August 31, 1995
	(Unaudited)	
	<C>	<C>
<S>		
Operations (Notes 1 and 3)		
Net investment income (loss)	\$ (1,326,678)	\$ 1,042,062
Net realized gain on investments	28,448,738	52,906,920
Net change in unrealized depreciation on investments	(4,150,600)	(3,702,097)
Net increase in net assets resulting from operations	22,971,460	50,246,885
Distributions to shareholders from (Notes 1 and 5)		
Net investment income	0	(1,042,062)
In excess of net investment income	0	(525,125)
Net realized gain on investments	(27,721,799)	(49,683,115)
Total distributions to shareholders	(27,721,799)	(51,250,302)
Capital share transactions (Note 2)		
Proceeds from shares sold	31,240,649	27,462,149
Payments for shares redeemed	(23,705,490)	(47,931,858)
Net asset value of shares issued in reinvestment of dividends and distributions	24,837,685	45,156,148
Net increase in net assets resulting from capital share transactions	32,372,844	24,686,439
Total increase in net assets	27,622,505	23,683,022
Net assets		
Beginning of period	276,034,012	252,350,990
End of period [Including undistributed net investment income as follows: 1996--\$12,659,040 and 1995--\$13,985,718] (Note 1)	\$303,656,517	\$276,034,012

</TABLE>

See Notes to Financial Statements.

Keystone Mid-Cap Growth Fund (S-3)

NOTES TO FINANCIAL STATEMENTS
(Unaudited)

(1.) Significant Accounting Policies

Keystone Mid-Cap Growth Fund (S-3) (formerly Keystone Custodian Fund, Series S-3) (the "Fund") is a common law trust for which Keystone Management, Inc. ("KMI") is the Investment Manager and Keystone Investment Management Company (formerly Keystone Custodian Funds, Inc.) ("Keystone") is the Investment Adviser. The Fund is registered under the Investment Company Act of 1940 as a diversified open-end investment company. The Fund's investment objective is to provide shareholders with growth of capital.

Keystone is a wholly-owned subsidiary of Keystone Investments, Inc. ("KII") (formerly Keystone Group, Inc.), a Delaware corporation. KII is a private corporation predominately owned by current and former members of management of Keystone and its affiliates. KMI is a wholly-owned subsidiary of Keystone. Keystone Investor Resource Center, Inc. ("KIRC"), a wholly-owned subsidiary of Keystone, is the Fund's transfer agent.

The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. The policies are in conformity with generally accepted accounting principles which requires management to make estimates and assumptions that affect amounts reported herein. Although actual results could differ from these estimates, any such differences are expected to be immaterial to the net assets of the Fund.

A. Investments are usually valued at the closing sales price, or in the absence of sales and for over-the-counter securities, the mean of bid and asked quotations. Management values the following securities at prices it deems in good faith to be fair by or under the direction of the Board of Trustees: (a) securities (including restricted securities) for which complete quotations are not readily available and (b) listed securities if, in the opinion of management, the last sales price does not reflect a current value, or if no sale occurred. Short-term investments maturing in sixty days or less, are valued at amortized cost (original purchase cost as adjusted for amortization of premium or accretion of discount) which when combined with accrued interest approximates market. Short-term investments maturing in more than sixty days for which market quotations are readily available are valued at current market value. Short-term investments maturing in more than sixty days when purchased which are held on the sixtieth day prior to maturity are valued at amortized cost (market value on the sixtieth day adjusted for amortization of premium or accretion of discount) which when combined with accrued interest approximates market. Investments denominated in a foreign currency are adjusted daily to reflect changes in exchange rates. Market quotations are not considered to be readily available for long-term corporate bonds and notes; such investments are stated at fair value on the basis of valuations furnished by a pricing service, approved by the Trustees, which determines valuations for normal, institutional-size trading units of such securities using methods based on market transactions for comparable securities and various relationships between securities which are generally recognized by institutional traders.

The Fund enters into currency and other financial futures contracts as a hedge against changes in interest or currency exchange rates. A futures contract is an agreement between two parties to buy and sell a specific amount of a commodity, security, financial instrument, or in the case of a stock index, cash at a set price on a future date. Upon entering into a futures contract, the Fund is required to deposit with a broker an amount ("initial margin") equal to a certain percentage of the purchase price indicated in the futures

contract. Subsequent payments ("variation margin") are made or received by the Fund each day, as the value of the underlying instrument or index fluctuates, and are recorded for book purposes as unrealized gains or losses by the Fund. For federal tax purposes, any futures contracts which remain open at fiscal year-end are marked-to-market and the resultant net gain or loss is included in federal taxable income.

Foreign currency amounts are translated into United States dollars as follows: market value of investments, assets and liabilities at the daily rate of exchange, purchases and sales of investments, income and expenses at the rate of exchange prevailing on the respective dates of such transactions. Net unrealized foreign exchange gains/losses are a component of unrealized appreciation/depreciation of investments. In addition to the market risk, the Fund is subject to the credit risk that the other party will not be able to complete the obligations of the contract.

B. Securities transactions are accounted for no later than one business day after the trade date. Realized gains and losses are computed on the identified cost basis. Interest income is recorded on the accrual basis and dividend income is recorded on the ex-dividend date. Distributions to the shareholders are recorded by the Fund at the close of business on the ex-dividend date.

C. The Fund has qualified, and intends to qualify in the future, as a regulated investment company under the Internal Revenue Code of 1986, as amended ("Internal Revenue Code"). Thus, the Fund is relieved of any federal income or excise tax liability by distributing all of its net taxable investment income and net taxable capital gains, if any, to its shareholders. The Fund intends to avoid any excise tax liability by making the required distributions under the Internal Revenue Code.

D. When the Fund enters into a repurchase agreement (a purchase of securities whereby the seller agrees to repurchase the securities at a mutually agreed upon date and price) the repurchase price of the securities will generally equal the amount paid by the Fund plus a negotiated interest amount. The seller under the repurchase agreement will be required to provide securities ("collateral") to the Fund whose value will be maintained at an amount not less than the repurchase price, which generally will be maintained at 101% of the repurchase price. The Fund monitors the value of collateral on a daily basis, and if the value of the collateral falls below required levels, the Fund intends to seek additional collateral from the seller or terminate the repurchase agreement. If the seller defaults, the Fund would suffer a loss to the extent that the proceeds from the sale of the underlying securities were less than the repurchase price. Any such loss would be increased by any cost incurred on disposing of such securities. If bankruptcy proceedings are commenced against the seller under the repurchase agreement, the realization on the collateral may be delayed or limited. Repurchase agreements entered into by the Fund will be limited to transactions with dealers or domestic banks believed to present minimal credit risks, and the Fund will take constructive receipt of all securities underlying repurchase agreements until such agreements expire.

Pursuant to an exemptive order issued by the Securities and Exchange Commission, the Fund, along with certain other Keystone funds, may transfer uninvested cash balances into a joint trading account. These balances are invested in one or more repurchase agreements that are fully collateralized by U.S. Treasury and/or Federal Agency Obligations.

E. The Fund intends to distribute net investment income and net capital gains, if any, annually. Distri-

Keystone Mid-Cap Growth Fund (S-3)

butions are determined in accordance with income tax regulations. Distributions from taxable net investment income and net capital gains can exceed book basis net income and net capital gains. The significant differences between financial statement amounts available for distribution and distributions made in accordance with income tax regulations are primarily due to differing treatment of 12b-1 expenses prior to April 1995.

(2.) Capital Share Transactions

The Trust Agreement authorizes the issuance of an unlimited number of shares of beneficial interest with a par value of \$1.00. Transactions in shares of the Fund were as follows:

	Six Months Ended February 29, 1996	Year Ended August 31, 1995
-----	-----	-----
Sales	3,464,861	3,189,451
Redemptions	(2,628,177)	(5,383,518)
Reinvestment of dividends and distributions	2,946,345	5,233,815
-----	-----	-----
Net increase	3,783,029	3,039,748
=====	=====	=====

The Fund bears some of the costs of selling its shares under a Distribution Plan adopted pursuant to Rule 12b-1 under the Investment Company Act of 1940. Under the Distribution Plan, the Fund pays Keystone Investment Distributors Company (formerly Keystone Distributors, Inc.) ("KIDCO"), the principal underwriter and a wholly-owned subsidiary of Keystone, amounts which in total may not exceed the Distribution Plan maximum.

In connection with the Distribution Plan and subject to the limitations discussed below, Fund shares are offered for sale at net asset value without any initial sales charge. From the amounts received by KIDCO in connection with the Distribution Plan, and subject to the limitations discussed below, KIDCO generally pays brokers or others a commission equal to 4.0% of the price paid to the Fund for each sale of Fund shares, as well as a shareholder service fee at a rate of 0.25% per annum of the net asset value of shares maintained by such recipients outstanding on the books of the Fund for specified periods.

The Distribution Plan provides that the Fund may expend up to 0.3125% quarterly (approximately 1.25% annually) of the Fund's average daily net assets to pay distribution costs for sale of its shares and to pay shareholder service fees. Rules adopted by the National Association of Securities Dealers, Inc. ("NASD") limit the annual expenditures that the Fund may incur under the Distribution Plan to 1.00% of the Fund's average daily net asset value of which 0.75% may be used to pay such distribution costs and 0.25% may be used to pay shareholder service fees. NASD rules also will limit the aggregate amount which the Fund may pay for such distribution costs to 6.25% of gross share sales since the inception of the Fund's Distribution Plan, plus interest at the prime rate plus 1.00% per annum on unpaid amounts thereof (less any contingent deferred sales charges paid by the shareholders to KIDCO) remaining unpaid from time to time.

KIDCO intends, but is not obligated, to continue to pay or accrue distribution costs and service fees which exceed annual maximum payments permitted to be received by KIDCO from the Fund. KIDCO intends to seek full payment of such amounts from the Fund (together with annual interest thereon at the prime rate plus 1.0%) at such time in the future as, and to the extent that, payment thereof by the Fund would be within permitted limits. KIDCO

currently intends to seek payment of interest only on such

14

amounts paid or accrued by KIDCO subsequent to January 1, 1992.

Since July 8, 1992, contingent deferred sales charges applicable to shares of the Fund issued after January 1, 1992 have, to the extent permitted by the NASD rule, been paid to KIDCO rather than to the Fund.

During the six months ended February 29, 1996, the Fund recovered \$14,066 in deferred sales charges. During the six months ended February 29, 1996, the Fund paid KIDCO \$1,284,579 under its Distribution Plan. The amount paid by the Fund under its Distribution Plan, net of deferred sales charges, was \$1,270,513 (0.44% of the Fund's average daily net asset value during the six month period). During the six months ended February 29, 1996, KIDCO received \$291,043 after payments of commissions on new sales to dealers and others of \$979,470. Under the NASD rule, the maximum uncollected amount for which KIDCO may seek payment from the Fund under its Distribution Plan is \$124,656 (0.04% of the Fund's net assets at February 29, 1996).

(3.) Securities Transactions

Cost of purchases and proceeds from sales of investment securities excluding short-term securities during the six months ended February 29, 1996 were \$235,308,831 and \$240,991,115, respectively.

(4.) Investment Management and Transactions with Affiliates

Under the terms of the Investment Management Agreement between KMI and the Fund, KMI provides investment management and administrative services to the Fund. In return, KMI is paid a management fee computed and paid daily. The management fee is calculated by applying percentage rates, which start at 0.70% and decline, as net assets increase, to 0.35% per annum, to the net asset value of the Fund. KMI has entered into an Investment Advisory Agreement with Keystone, under which Keystone provides investment advisory and management services to the Fund and receives for its services an annual fee representing 85% of the management fee received by KMI.

During the six months ended February 29, 1996 the Fund paid or accrued to KMI investment management and administrative service fees of \$933,197 which represent 0.65% of the Fund's average daily net asset value during the period. Of such amount paid to KMI, \$793,217 was paid to Keystone for its services to the Fund.

During the six months ended February 29, 1996, the Fund paid or accrued to KII and KIRC \$29,642 for certain accounting and printing services and \$342,048 for transfer agent fees.

The Fund has entered into an expense offset arrangement with its custodian. For the six months ended February 29, 1996 the Fund paid custody fees in the amount of \$86,700 and received a credit of \$13,205 pursuant to the expense offset arrangement resulting in a total expense of \$99,905. The assets deposited with the custodian under the expense offset arrangement could have been invested in income-producing assets.

15

[back cover]

KEYSTONE
FAMILY OF FUNDS

[diamond]

Balanced Fund (K-1)
Diversified Bond Fund (B-2)
Growth and Income Fund (S-1)
High Income Bond Fund (B-4)
International Fund Inc.
Liquid Trust
Mid-Cap Growth Fund (S-3)
Precious Metals Holdings, Inc.
Quality Bond Fund (B-1)
Small Company Growth Fund (S-4)
Strategic Growth Fund (K-2)
Tax Free Fund

This report was prepared primarily for the information of the Fund's shareholders. It is authorized for distribution if preceded or accompanied by the Fund's current prospectus. The prospectus contains important information about the Fund including fees and expenses. Read it carefully before you invest or send money. For a free prospectus on other Keystone funds, contact your financial adviser or call Keystone.

[Keystone logo] KEYSTONE
INVESTMENTS

P.O. Box 2121
Boston, Massachusetts 02106-2121

MCG-SAR-4/96
19.5M

[recycle logo]

KEYSTONE

[picture of tree]

MID-CAP GROWTH FUND (S-3)

[Keystone logo]

SEMIANNUAL REPORT
FEBRUARY 29, 1996