

Annual Report 2015

for year ended 30 June 2015



**BKI INVESTMENT
COMPANY LIMITED**

ABN 23 106 719 868

BKI INVESTMENT COMPANY LIMITED

ABN: 23 106 719 868

CORPORATE DIRECTORY

Directors

Robert Dobson Millner	Non-Executive Chairman
David Capp Hall AM	Independent Non-Executive Director
Alexander James Payne	Non-Executive Director
Ian Thomas Huntley	Independent Non-Executive Director

Chief Executive Officer

Thomas Charles Dobson Millner

Senior Investment Analyst

William Culbert

Company Secretaries

Jaime Pinto

Larina Tcherkezian (Alternate)

Registered Office

Level 2

160 Pitt Street Mall

Sydney NSW 2000

Telephone: (02) 9210 7000

Facsimile: (02) 9210 7099

Postal Address:

GPO Box 5015

Sydney 2001

Auditors

MGI Sydney Assurance Services Pty Ltd

5th Floor, 6 O'Connell Street

Sydney NSW 2000

Share Registry

Advanced Share Registry Services Limited

150 Stirling Highway

Nedlands, WA 6009

Telephone: (08) 9389 8033

Australian Stock Exchange Code

Ordinary Shares

BKI

Website

www.bkilimited.com.au

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FINANCIAL HIGHLIGHTS

	% Change			\$'000
Revenue Performance:				
Total Income - Ordinary	Up	15.6%	to	44,568
Total Income - Special	Up	39.8%	to	<u>2,095</u>
Total Revenue from Ordinary Activities	Up	16.5%	to	46,663
Profits:				
Net Operating Result before special dividend income	Up	13.7%	to	40,876
Dividend Income - Special	Up	39.8%	to	<u>2,095</u>
Net Profit from ordinary activities after tax attributable to shareholders	Up	14.8%	to	42,971
Net Profit attributable to shareholders	Up	14.8%	to	42,971
Portfolio:				
Total Portfolio Value (including cash & receivables)	Up	7.6%	to	918,264
Earnings Per Share:				Cents
Basic Earnings Per Share <u>before</u> special dividend income	Up	3.5%	to	7.40
Basic Earnings Per Share <u>after</u> special dividend income	Up	4.5%	to	7.78
Dividends:				
Interim - Ordinary	Up	2.9%	to	3.55
Final - Ordinary	Up	4.3%	to	<u>3.65</u>
Full Year Total - Ordinary	Up	3.6%		7.20

FINANCIAL HIGHLIGHTS - Continued
Dividend History (cents per share):

30 June	2004*	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Interim	-	2.10	2.50	2.60	3.00	3.00	2.50	3.00	3.20	3.25	3.45	3.55
Final	2.00	2.20	2.50	2.70	3.00	3.00	2.75	3.00	3.20	3.40	3.50	3.65
Special	-	-	1.00	-	-	-	1.00	1.00	-	0.50	-	-
Total	2.00	4.30	6.00	5.30	6.00	6.00	6.25	7.00	6.40	7.15	6.95	7.20

* The Company listed on the ASX on 12 December 2003, no interim dividend is applicable for this financial year.

All ordinary and special dividends paid by BKI Investment Company Limited ("BKI") since listing on the Australian Stock Exchange have been fully franked.

Net Tangible Asset (NTA) History:

30 June	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
NTA Before Tax	\$1.08	\$1.28	\$1.43	\$1.69	\$1.52	\$1.22	\$1.32	\$1.42	\$1.30	\$1.52	\$1.63	1.65
NTA After Tax	\$1.06	\$1.20	\$1.32	\$1.51	\$1.41	\$1.19	\$1.27	\$1.34	\$1.26	\$1.42	\$1.51	1.53

FINANCIAL HIGHLIGHTS - Continued

Securities Held and their Market value as at 30 June 2015

Stock	Shares Held	Market Value (\$'000)	Portfolio Weight %
Financials			
Commonwealth Bank	1,006,400	85,675	9.43%
National Australia Bank	2,538,540	84,559	9.31%
Westpac Banking Corporation	2,093,656	67,311	7.41%
ANZ Banking Group	1,326,500	42,713	4.70%
IAG Limited	3,157,370	17,618	1.94%
Suncorp Group	1,158,000	15,552	1.71%
Bendigo & Adelaide Bank	838,000	10,274	1.13%
Bank of Queensland	810,000	10,344	1.14%
Milton Corporation	2,055,810	9,251	1.02%
Perpetual Limited	179,310	8,671	0.95%
ASX Limited	325,500	12,987	1.43%
AMP Limited	1,614,813	9,721	1.07%
Macquarie Group	106,223	8,647	0.95%
IOOF Holdings	563,594	5,067	0.56%
Equity Trustees	162,961	3,323	0.37%
		391,713	43.12%
Energy			
New Hope Corporation	14,810,452	27,992	3.08%
Woodside Petroleum	432,084	14,790	1.63%
Caltex Australia	91,950	2,929	0.32%
Santos Limited	611,500	4,788	0.53%
		50,499	5.56%
Industrials			
Transurban Group	2,073,205	19,281	2.12%
Brambles Limited	1,045,576	11,083	1.22%
SEEK Limited	457,500	6,432	0.71%
Qube Holdings	3,400,000	7,990	0.88%
MaxiTRANS Industries	2,800,000	1,106	0.12%
Lindsay Australia	16,341,631	7,354	0.81%
Salmat Limited	1,089,951	785	0.09%
Sydney Airport	1,718,297	8,557	0.94%
Skilled Group	644,826	1,096	0.12%
		63,684	7.01%
Consumer Discretionary			
ARB Corporation	945,447	12,319	1.36%
Invocare Limited	1,358,474	16,438	1.81%
Tatts Group Limited	2,489,000	9,259	1.02%
Crown Resorts	150,574	1,837	0.20%
G8 Education Limited	234,263	764	0.08%
Fairfax Media	2,100,000	1,712	0.19%
		42,328	4.66%

FINANCIAL HIGHLIGHTS - Continued

List of Securities (Continued)

Stock	Shares Held	Market Value (\$'000)	Portfolio Weight %
Consumer Staples			
Wesfarmers Limited	974,480	38,034	4.19%
Woolworths Limited	971,000	26,178	2.88%
Coca-Cola Amatil	1,230,000	11,255	1.24%
GrainCorp Limited	93,444	798	0.09%
		76,265	8.40%
Health Care			
Ramsay HealthCare	228,000	14,015	1.54%
Sonic Healthcare	570,167	12,184	1.34%
Regis Healthcare	650,428	3,356	0.37%
Primary Health Care	2,474,500	12,471	1.37%
		42,027	4.63%
Materials			
BHP Billiton	1,459,443	39,478	4.35%
Brickworks Limited	436,209	6,020	0.66%
Rio Tinto Limited	49,562	2,664	0.29%
Alumina Limited	370,000	566	0.06%
		48,728	5.36%
Property Trusts			
Westfield Corporation	233,157	2,126	0.23%
Scentre Group	290,514	1,089	0.12%
		3,216	0.35%
Telecommunications Services			
Telstra Corporation	8,740,000	53,664	5.91%
TPG Telecom	4,420,000	39,647	4.36%
		93,311	10.27%
Utilities			
APA Group	3,414,452	28,135	3.10%
AGL Energy Limited	1,247,207	19,394	2.13%
Origin Energy Limited	12,000	144	0.02%
		47,673	5.25%
TOTAL PORTFOLIO		859,443	94.61%
Investment Portfolio		858,877	94.54%
Trading Portfolio		566	0.06%
		859,443	94.61%
Cash and dividends receivable		49,000	5.39%
TOTAL PORTFOLIO		908,443	100.00%

The Group is a substantial shareholder in accordance with the Corporations Act 2001 of Lindsay Australia Limited, holding 5.75% of the issued capital as at 30 June 2015. The Group is not a substantial shareholder in any other investee corporations as each equity investment represents less than 5% of the issued capital of the investee corporation.

GROUP PROFILE

BKI Investment Company Limited (“BKI” or “the Group”) is a Listed Investment Company on the Australian Stock Exchange. The Group invests in a diversified portfolio of Australian shares, trusts and interest bearing securities.

BKI shares were listed on the Australian Stock Exchange Limited commencing 12 December 2003.

Corporate Objectives

The Group aims to generate an increasing income stream for distribution to shareholders in the form of fully franked dividends to the extent of available imputation tax credits, through long-term investment in a portfolio of assets that are also able to deliver long term capital growth to shareholders.

Investment Strategy

The Group is a research driven, long term manager focusing on well managed companies, with a profitable history and that offer attractive dividend yields. Stock selection is bottom up, focusing on the merits of individual companies rather than market and economic trends.

Dividend Policy

With respect to prudent business practices, and ensuring the business retains sufficient working capital to allow the achievement of the Group’s Corporate Objectives and Business Strategy, the Group will pay the maximum amount of realised profits after tax for that year to shareholders as fully franked dividends to the extent permitted by the Corporations Act and the Income Tax Assessment Act.

Ordinary dividends will be declared by the Board of Directors out of the Company’s Net Operating Result, after tax but before special investment revenue.

In circumstances where the Group accumulates sufficient special investment revenue after ensuring the business retains sufficient working capital in accordance with its capital management objectives, the Board will consider declaring special fully franked dividends to the extent permitted by the Corporations Act and the Income Tax Assessment Act.

In circumstances where the Group generates sufficient qualifying capital gains, LIC Gains will be distributed to shareholders to the extent permitted by the Corporations Act and the Income Tax Assessment Act.

Management

The Group has an internal portfolio management function comprising the CEO, Mr Tom Millner and Senior Investment Analyst, Mr William Culbert.

The Group also engages Corporate & Administrative Services Pty Ltd to provide accounting and group secretarial services. These services are overseen by the BKI Company Secretary, Mr Jaime Pinto.

CHAIRMAN'S ADDRESS

Dear Shareholders,

I am pleased to enclose the 12th Annual Report of BKI Investment Company Limited (BKI) for the year to 30 June 2015.

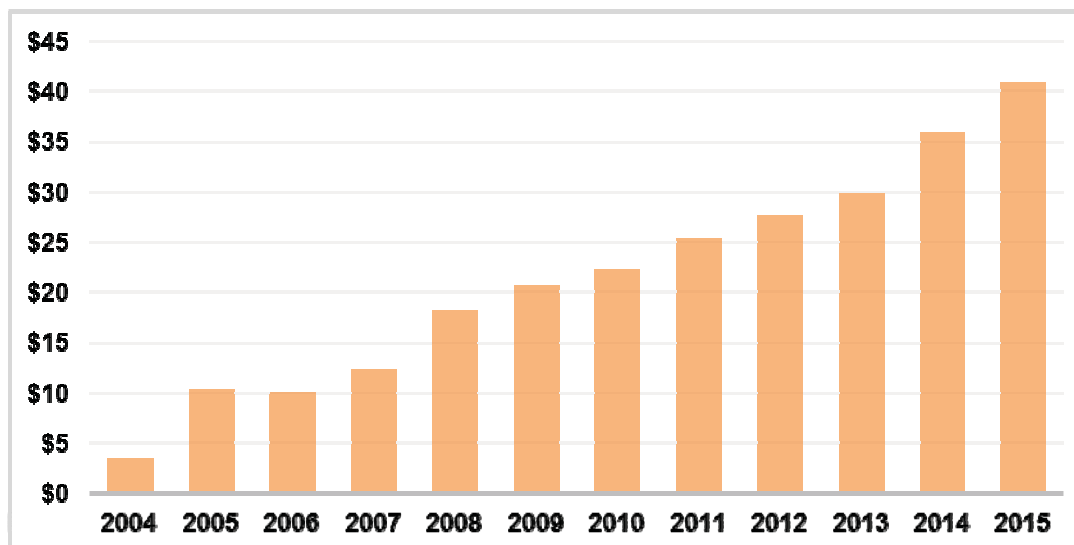
Result Highlights

We've been able to deliver another solid result for our shareholders in a market dominated by volatility and uncertainty. Net Operating Result before special dividend income increased 14% to \$40.9m, while Basic Earnings per Share before special dividend income increased 4% to 7.40cps. Special dividend income for the year totalled \$2.1m, taking Basic Earnings per Share after special dividend income to 7.78cps, up 5% from last year.

BKI's improved result was mainly driven by higher dividends received from BHP Billiton, Woodside Petroleum, APA Group, Commonwealth Bank, Transurban Limited, Suncorp Group, Westpac Bank, ANZ Bank, ASX Limited, Wesfarmers Limited and Macquarie Bank. Lower contributions were received from New Hope Corporation, ALS Limited, Salmat Limited and Coca Cola Amatil.

BKI also received special dividend income from ARB Corporation, Suncorp Group, New Hope Corporation, Wesfarmers Limited and Milton Corporation. These special dividends helped lift Net Profit attributable to shareholders by 15% to \$43.0m, against the previous year.

We'll continue to look through the short term noise and keep investing for the long term, through profitable dividend paying companies that we understand and are supported by a long term thematic. We will continue to invest our shareholders funds with a clear focus on generating an increasing income stream for distribution as fully franked dividends.



Above: Net Operating Result by financial year end 30 June (\$millions)

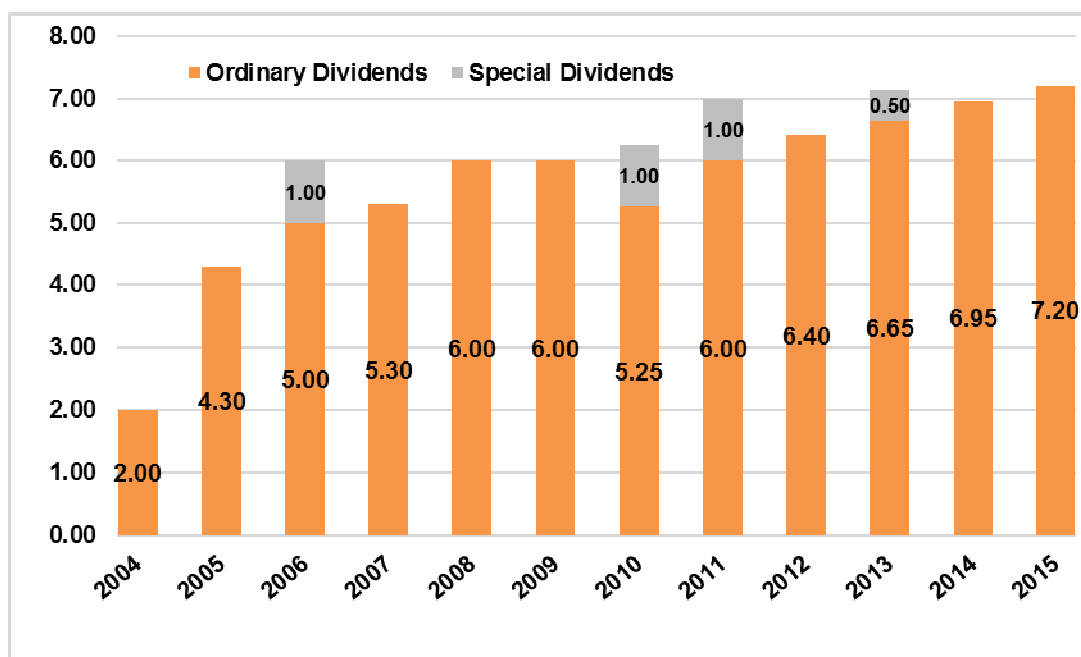
Dividends

Fully franked Final Ordinary Dividend was 3.65cps, up 4% from last year. Full Year Ordinary Dividends totalled 7.20cps, up from 6.95cps in FY2014.

BKI's Dividend Reinvestment Plan (DRP) will be maintained, offering shareholders the opportunity to acquire further ordinary shares. The DRP will not be offered at a discount. The DRP price will be calculated using the average of the daily volume weighted average sale price of BKI's shares sold in the ordinary course of trading on the ASX during the 5 trading days after, but not including, the Record Date (Friday 7 August 2015).

The last day for shareholders to nominate their participation in the DRP is Monday 10 August 2015.

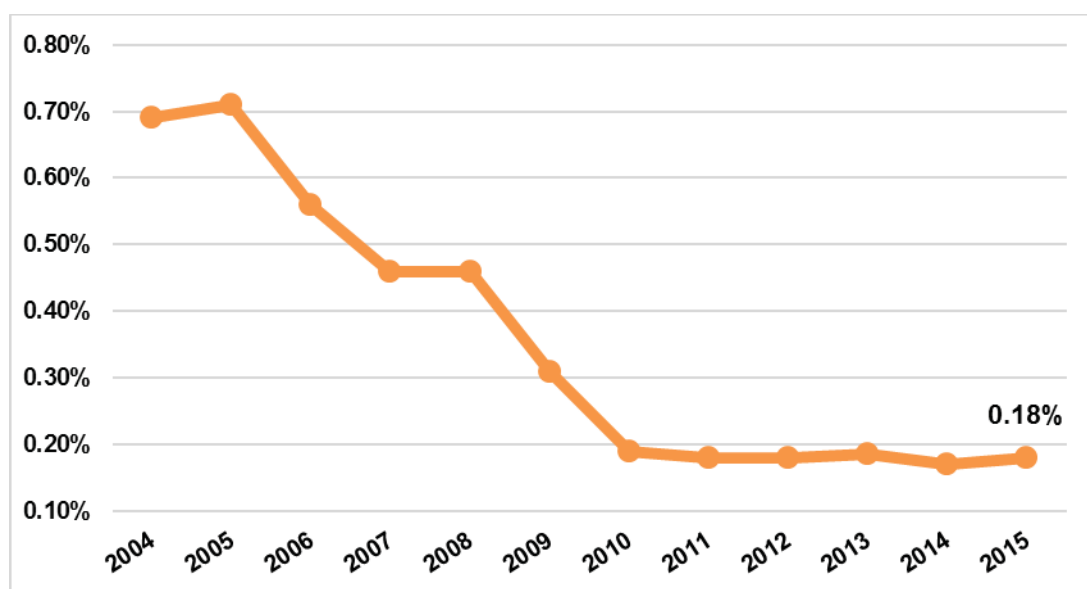
CHAIRMAN'S ADDRESS - Continued



Above: Fully franked Interim and Final dividends declared (cents per share)

MER

BKI's Board & Management are shareholders in BKI. We invest for the long term and do not charge external portfolio management or performance fees. We focus on creating wealth for all shareholders by keeping costs low and increasing fully franked dividends and capital growth. BKI has ample franking credits to ensure dividends are fully franked into the future.



Above: Historical MER achieved by BKI.

Performance

BKI's Total Shareholder Returns (including the reinvestment of dividends) for the year to 30 June 2015 was 5.4%, compared to the S&P/ASX 300 Accumulation Index which returned 5.6% over the same period. BKI's Total Shareholder Returns for 5 years and 10 years have outperformed the Index by 3.8% per annum and 2.6% per annum respectively.

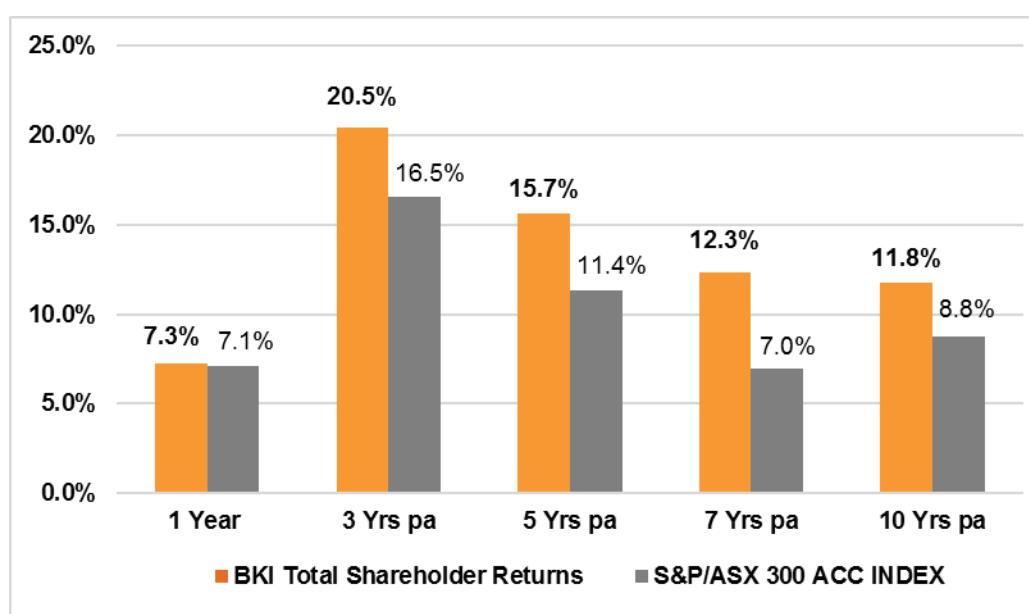
CHAIRMAN'S ADDRESS - Continued

BKI's Net Portfolio Return (after all operating expenses, provision and payment of both income and capital gains tax and the reinvestment of dividends) for the year to 30 June 2015 was 5.6%, in line with the S&P/ASX 300 Accumulation Index.

BKI Performance as at 30 June 2015	1 Year	3 Yrs (pa)	5 Yrs (pa)	7 Yrs (pa)	10 Yrs (pa)
S&P/ASX 300 ACC INDEX (XKOAI)	5.6%	14.7%	9.5%	5.1%	6.9%
BKI Total Shareholder Returns (TSR)	5.4%	18.2%	13.3%	10.0%	9.5%
BKI TSR Outperformance V's XKOAI	-0.2%	3.5%	3.8%	4.9%	2.6%
BKI Portfolio Performance	5.6%	13.0%	9.4%	5.9%	7.6%
BKI Portfolio Outperformance V's XKOAI	0.0%	-1.7%	-0.1%	0.8%	0.7%

The performance figures above exclude the value of franking credits passed on by BKI to shareholders. The following chart shows BKI's Total Shareholder Returns including Franking Credits. The S&P/ASX 300 Accumulation Index is franked to 80%.

BKI's Total Shareholder Returns for 5 years and 10 years have outperformed the Index by 4.3% per annum and 3.0% per annum respectively.



Above - BKI Total Shareholder Returns Including Franking Credits as at 30 June 2015

Portfolio Movements

BKI deployed approximately \$107m into the market over FY2015, offset by sales of approximately \$57m. Major investments during the year included National Australia Bank, APA Group, Sydney Airports, Transurban Group, Qube Logistics, Santos Limited, Wesfarmers Limited, Lindsay Australia and ASX Limited.

A new position in Regis Healthcare was also established during the year.

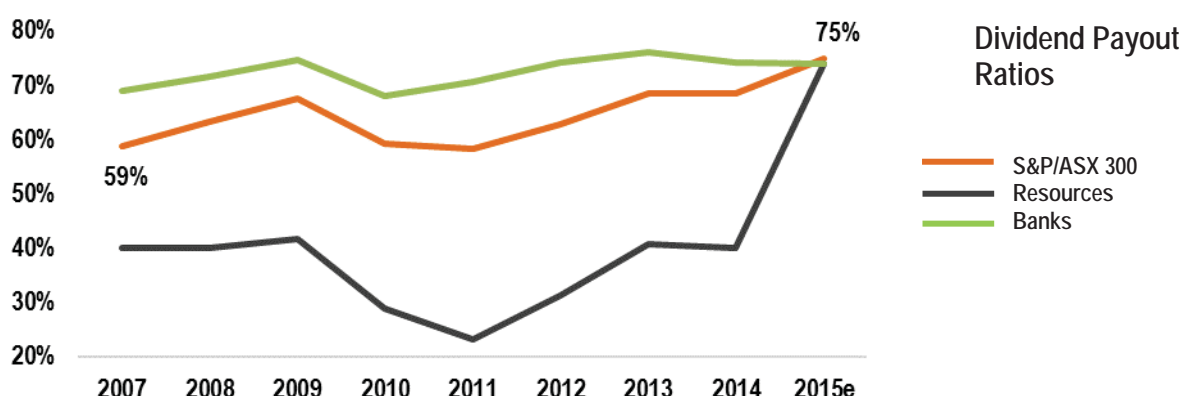
The main disposals included Toll Holdings, ALS Limited, DUET Group, GWA Group, South32 Limited, Healthscope Limited, Medibank Private, UGL Limited, Arrium Limited and Seven West Media.

CHAIRMAN'S ADDRESS - Continued

Outlook

Fiscal 2016 will be another interesting year for equity markets with the low interest rate environment in Australia expected to continue. Given this, the most sought-after equity investments are likely to be those companies offering quality dividend yields. Further opportunities exist to obtain sustainable income outside of cash and fixed interest with the dividend yield of the S&P/ASX300 Index alone forecast at 4.9% in FY2016. However, for many companies, the ability to continually offer this high income stream to yield motivated shareholders is becoming increasingly challenging.

In many sectors of the economy, company revenue growth has been flat for a number of years. Managers have been forced to focus on cutting expenses to ensure they deliver increased dividends. However, there has been a lack of growth in earnings in this period. To continually increase dividend distributions, payout ratios of the S&P/ASX300 Index have grown from 59% in FY2010 to an estimated 75% for FY2015.



This cost out strategy has been appropriate in recent years, but it's the next phase where investors need to be careful. BKI's strict investment process ensures we don't chase investments with high, unsustainable payout ratios or high gearing levels. We become concerned when companies are not reinvesting back into their business for future growth or can't afford to service their debt.

When companies need to address their lack of investment or high debt levels, something has to give and it's usually the dividend that goes first. With this in mind BKI will be taking a cautious approach to the next year. We will continue to invest as we always have done, with a focus on the companies which are well managed and profitable. We prefer to buy stocks that have strong dividend growth but we won't be chasing stocks offering high yields that we don't think are sustainable.

BKI remains in a strong financial position with no debt, and cash and cash equivalents (including dividends receivable) representing 5.4% of the total portfolio.

Yours sincerely,

Robert Millner
Chairman
Sydney, 4 August 2015

DIRECTORS' REPORT

The Directors of BKI Investment Company Limited ("the Company", or "BKI") present the following report on the Company and its controlled entities ("the Group") for the year to 30 June 2015.

1. Directors

The following persons were Directors since the start of the financial year and up to the date of this report:

Robert Dobson Millner, FAICD – Non-Executive Director and Chairman (appointed 17 October 2003)

Mr Millner was appointed Non-executive Chairman upon the Company's formation in October 2003. Mr Millner has over 30 years experience as a Company Director and extensive experience in the investment industry, and is currently a Director of the following ASX listed companies:

- Washington H Soul Pattinson and Company Limited (appointed 1984, Chairman since 1998)
- New Hope Corporation Limited (appointed 1995, Chairman since 1998)
- Brickworks Limited (appointed 1997, Chairman since 1999)
- Milton Corporation Limited (appointed 1998, Chairman since 2002)
- Apex Healthcare Berhad (Appointed 2000)
- Australian Pharmaceutical Industries Limited (Appointed 2000)
- TPG Telecom Limited (appointed 2000)

During the past three years Mr Millner has also served as a Director of the following ASX listed companies:

- Exco Resources Limited (company delisted January 2013)

Special Responsibilities:

- Chairman of the Board
- Chairman of the Investment Committee
- Member of the Remuneration Committee

David Capp Hall, AM, FCA, FAICD – Independent Non-Executive Director (appointed 17 October 2003)

Mr Hall was appointed a Non-executive Director and Chair of the Audit Committee upon the Company's formation in October 2003. Mr Hall is a Chartered Accountant with experience in corporate management, finance and as a Company Director, holding Directorships in other companies for more than 30 years.

Special Responsibilities:

- Chairman of the Audit Committee
- Member of the Remuneration Committee
- Member of the Nomination Committee

Alexander James Payne, B.Comm, Dip Cm, FCPA, FCIS, FCIM –Non-Executive Director (appointed 17 October 2003)

Mr Payne was appointed a Non-executive Director upon the Company's formation in October 2003, and has been a member of the Audit Committee since then. Mr Payne is Chief Financial Officer of Brickworks Limited and has considerable experience in finance and investment.

Special Responsibilities:

- Member of the Audit Committee
- Member of the Investment Committee
- Chairman of the Remuneration Committee
- Member of the Nomination Committee

DIRECTORS' REPORT - Continued

1. Directors (continued)

Ian Thomas Huntley, BA – Independent Non-Executive Director (appointed 10 February 2009)

Mr Huntley joined the Board as a Non-executive Director in February 2009. After a career in financial journalism Mr Huntley acquired "Your Money Weekly" newsletter in 1973. Over the following 33 years, Mr Huntley built the Your Money Weekly newsletter into one of Australia's best known investment advice publications. He and partners sold the business to Morningstar Inc of the USA in mid 2006.

Special Responsibilities:

- Member of the Investment Committee
- Member of the Remuneration Committee
- Member of the Audit Committee

2. Key Management Personnel

Thomas Charles Dobson Millner, B.Des (Industrial), GDipAppFin, F Fin, GAICD – Chief Executive Officer

Mr Millner joined the Company in December 2008 from Souls Funds Management (SFM). Mr Millner held various roles with SFM covering research, analysis and business development, and during this time was responsible for the Investment Portfolio of BKI Investment Company Limited. Prior to this Mr Millner was an investment analyst with Republic Securities Limited, manager of the Investment Portfolio of Pacific Strategic Investments. Mr Millner is also currently a director of Washington H Soul Pattinson and Company Limited and PM Capital Global Opportunities Fund Limited, providing him with additional insight into Australian and Global investment markets.

Special Responsibilities

- Member of the Investment Committee

Jaime Pinto, BComm, CA - Company Secretary

Mr Pinto is a Chartered Accountant with over 20 years experience in both professional practice and in senior commercial roles across a broad range of industries. Jaime is currently Company Secretary of Quickstep Holdings Limited (ASX:QHL), and is Company Secretary and CFO of a number of unlisted investment and industrial companies.

3. Meetings of Directors

The numbers of meetings of the Board of Directors and each Board Committee held during the year to 30 June 2015, and the numbers of meetings attended by each Director were:

	Board		Investment		Audit		Remuneration		Nomination*	
	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend
RD Millner	7	7	7	8	-	-	2	2	1	1
AJ Payne	7	7	8	8	3	3	2	2	1	1
DC Hall	7	7	-	-	3	3	2	2	-	-
IT Huntley	7	7	8	8	3	3	2	2	1	1

* The sole meeting of the Nomination Committee was held in July 2014. Mr DC Hall was not a member of the Committee at this time as he was scheduled for re-election as a Director under the Company's Director rotation policy. Subsequent to being re-elected as a Director at the 2014 AGM Mr DC Hall was reappointed to the Nomination Committee, and Mr RD Millner and Mr IT Huntley resigned from the Committee as they are due for re-election as Directors at the 2015 AGM.

DIRECTORS' REPORT - Continued

4. Principal Activities

Principal activities of the Group are that of a Listed Investment Company (LIC) primarily focused on long term investment in ASX listed securities. There were no significant changes in the nature of those activities during the year.

5. Operating Results

Net Operating Result before special dividend income increased 14% to \$40.9m, while Basic Earnings per Share before special dividend income increased 4% to 7.40cps. Special dividend income for the year totalled \$2.1m, taking Basic Earnings per Share after special dividend income to 7.78cps, up 5% from last year.

BKI's improved result was mainly driven by higher dividends from BHP Billiton, Woodside Petroleum, APA Group, Commonwealth Bank, Transurban Limited, Suncorp Group, Westpac Bank, ANZ Bank, ASX Limited, Wesfarmers and Macquarie Bank. Lower contributions were received from New Hope Corporation, ALS Limited, Salmat Limited and Coca Cola Amatil.

BKI also received special dividend income from ARB Corporation, Suncorp Group, New Hope Corporation, Wesfarmers Limited and Milton Corporation. These special dividends helped lift the Net Profit attributable to shareholders by 15% to \$43.0m (2014:\$37.4M).

6. Review of Operations

Operating expenses for the full year were \$1.61m, an increase of \$0.36m on FY2014. This, in combination with an 8% increase in the Total Portfolio Value from 30 June 2014, resulted in BKI's MER increasing to 0.18% (2014: 0.17%).

BKI's Total Shareholder Return (including the reinvestment of dividends) for the year to 30 June 2015 was 5.4%, underperforming the S&P/ASX 300 Accumulation Index by 0.2%. BKI's Total Shareholder Returns for 5 years and 10 years outperformed the Index by 3.8% per annum and 2.6% per annum respectively.

BKI's Net Portfolio Return (after all operating expenses, provision and payment of income and capital gains tax and the reinvestment of dividends) for the year to 30 June 2015 was 5.6%, compared to the S&P/ASX 300 Accumulation Index which returned 5.6% over the same period.

During the year BKI successfully completed a Share Purchase Plan (SPP), raising \$47.8m at \$1.655 per share.

BKI deployed funds of approximately \$107 into the market over FY2015, offset by sales of approximately \$57m. Major investments during the year included National Australia Bank, APA Group, Sydney Airports, Transurban Group, Qube Logistics, Santos Limited, Wesfarmers Limited, Lindsay Australia and ASX Limited. A new position in Regis Healthcare was also established.

Main disposals included Toll Holdings, ALS Limited, DUET Group, GWA Group, South32 Limited, Healthscope Limited, Medibank Private, UGL Limited, Arrium Limited and Seven West Media.

7. Financial Position

Net assets of the Group increased during the financial year by \$61.8 million to \$853.2 million. This movement was driven by the \$47.8 million raised in the SPP in August 2014.

8. Employees

The Group has two employees as at 30 June 2015 (2014: two).

DIRECTORS' REPORT - Continued

9. Significant Changes in the State of Affairs

Other than as stated above and in the accompanying Financial Report, there were no significant changes in the state of affairs of the Group during the reporting year.

10. Likely Developments and Expected Results

The operations of the Group will continue with planned long term investments in Australian equities and fixed interest securities. Neither the expected results of those operations nor the strategy for particular investments have been included in this report as, in the opinion of the Directors, this information would prejudice the interests of the Group if included.

11. Significant Events after Balance Date

The Directors are not aware of any matter or circumstance that has arisen since the end of the year to the date of this report that has significantly affected or may significantly affect:

- i. the operations of the Company and the entities that it controls;
- ii. the results of those operations; or
- iii. the state of affairs of the Group in subsequent years.

12. Dividends

There were two dividend payments made during the year to 30 June 2015:

- On 28 August 2014, a final total dividend of \$19,359,186 (ordinary dividend of 3.50 cents per share fully franked) was paid out of retained profits at 30 June 2014.
- On 26 February 2015, an interim total dividend of \$19,698,078 (ordinary dividend of 3.55 cents per share, fully franked) was paid out of retained profits at 31 December 2014.

In addition, the Directors declared a final ordinary dividend of 3.65 cents per share fully franked payable on 27 August 2015.

At 30 June 2015 there are \$13,847,692 of franking credits available to the Group (2014: \$13,122,959) after allowing for payment of the final, fully franked ordinary dividend.

13. Environmental Regulations

The Group's operations are not materially affected by environmental regulations.

14. Directors' and Officers' Indemnity

The Constitution of the Company provides indemnity against liability and legal costs incurred by Directors and Officers to the extent permitted by the Corporations Act.

During the year to 30 June 2015, the Group paid a premium of \$30,000 in respect of an insurance contract to insure each of the officers against all liabilities and expenses arising as a result of work performed in their respective capacities.

DIRECTORS' REPORT - Continued

15. Proceedings on Behalf of the Group

No person has applied for leave of the Court to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings.

The Group was not a party to any such proceedings during the year.

16. Non-audit Services

No non-audit services were provided by and no fees for non-audit services were paid to the external auditor, MGI Sydney Assurance Services Pty Limited ("MGI Sydney"), during the year to 30 June 2015.

17. Auditor Rotation

In accordance with section 324DAA of the Corporations Act 2001 ("the Act") and the recommendation of the BKI Audit Committee, the Board of BKI has granted approval for Martin Boxce of MGI Sydney (formerly Ruwald + Evans) to play a significant role in the audit of BKI for an additional 2 successive financial years to 30 June 2015.

Approval is so granted as the BKI Board is satisfied that retaining MGI Sydney will maintain the quality of the audit provided to the company; and will not give rise to a conflict of interest situation (as defined in section 324CD of the Act). Reasons supporting this decision include:

- BKI will retain the right to reassess the appointment at any time;
- MGI Sydney has a number of independent registered auditors available to undertake the audit of BKI;
- MGI Sydney does not provide any services to BKI other than audit services;
- The existing independence and service metrics put in place by MGI Sydney and BKI are sufficient to ensure that auditor independence will not be diminished by such an extension.

18. Auditor's Independence Declaration

The Auditor's Independence Declaration for the year to 30 June 2015 is on page 48.

19. Beneficial and Relevant Interest of Directors and Other Key Management Personnel in Shares

As at the date of this report, details of Directors and Other Key Management Personnel who hold shares for their own benefit or who have an interest in holdings through a third party and the total number of such shares held are listed as follows:

SHAREHOLDINGS

	Number of Shares
RD Millner *	8,484,091
DC Hall	277,970
AJ Payne	286,194
IT Huntley	11,224,980
TCD Millner *	7,624,640
JP Pinto	50,802

* Common to RD Millner and TCD Millner are 7,231,771 shares (2014: 7,231,771) held in related companies and trusts in which both hold beneficial interests.

20. Corporate Governance Statement

BKI's Corporate Governance Statement can be found on the Company's website at the following address:
<http://bkilimited.com.au/about-us/corporate-governance/#statement>

DIRECTORS' REPORT - Continued

21. Remuneration Report (Audited)

This remuneration report outlines the Director and Executive remuneration arrangements of the Group in accordance with the requirements of the Corporations Act 2001 and its Regulations. For the purposes of this report, Key Management Personnel of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly.

Remuneration Policy

The Board is responsible for determining and reviewing remuneration arrangements, including performance incentives, for the Directors themselves, the Chief Executive Officer, the Senior Investment Analyst and the Company Secretary. It is the Group's objective to provide maximum shareholder benefit from the retention of a high quality Board and Executive team by remunerating Directors and Key Executives fairly and appropriately with reference to relevant employment market conditions, their performance, experience and expertise.

Elements of Director and Executive remuneration

The Board's policy for determining the nature and amount of remuneration for Key Management Personnel and other Key Executives of the Group is as follows:

- The remuneration policy is developed by the Remuneration Committee and approved by the Board after professional advice is sought from independent external consultants.
- All Key Management Personnel and other Key Executives receive a base salary or fee, superannuation and performance incentives.
- Performance incentives are only paid once predetermined key performance indicators have been met.
- Incentives paid in the form of shares are intended to align the interests of the Key Management Personnel and other Key Executives with those of the shareholders.
- The Remuneration Committee reviews the remuneration packages of Key Management Personnel and other Key Executives annually by reference to the Group's performance, Executive performance and comparable information from industry sectors.

The performance of Key Management Personnel and other Key Executives is measured against relative market indices and financial and strategic goals approved by the Board and as agreed with each Executive. Performance is measured on an ongoing basis using management reporting tools. Performance for the assessment of incentives is performed annually, based predominantly on the growth of shareholder and portfolio returns. The Board may exercise discretion in relation to approving incentives and can recommend changes to the Committee's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance results leading to long-term growth in shareholder wealth.

All remuneration paid to Key Management Personnel and other Key Executives is valued at the cost to the Group and expensed.

The Board's policy is to remunerate Non-Executive Directors at market rates for time, commitment and responsibilities. The Remuneration Committee determines payments to the Non-Executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by shareholders at the Annual General Meeting.

Performance-based Remuneration

BKI has established a Short Term and a Long Term Incentive Scheme. The participants in this scheme are the CEO, Mr Thomas Millner, the Senior Investment Analyst (SIA), Mr William Culbert, and the Company Secretary, Mr Jaime Pinto. Mr Thomas Millner and Mr Jaime Pinto are classified as Key Management Personnel, whereas Mr William Culbert is classified as an Other Key Executive.

DIRECTORS' REPORT - Continued

The aims of the BKI Incentive Scheme are:

1. To promote superior performance at BKI over both the short and more importantly, long term.
2. To ensure remuneration is fair and reasonable market remuneration to reward staff.
3. To promote long term staff retention and alignment.

To achieve the objectives of BKI, the Incentive Scheme is required to include several components with separate measurement criteria.

Short Term Incentive

The Short Term Incentive is determined by reference to annual Total Portfolio Return; compared to the S&P ASX 300 Accumulation Index. BKI's Total Portfolio Returns are measured by the change in pre tax NTA and are after all operating expenses, payment of both income and capital gains tax and the reinvestment of dividends.

The Short Term Incentive is paid by way of BKI shares purchased on market by the Company.

The value of the Short Term Incentive for the CEO is calculated as 15% of CEO Base Remuneration. The Short Term Incentive for the Company Secretary is set at 40% of the CEO Incentive. The value of the Short Term Incentive for the SIA is calculated as 10% of SIA Base Remuneration.

100% of the Short Term Incentive is based on the Total Portfolio Returns as follows:

BKI Total Portfolio Return Compared to S&P/ASX 300 Acc Index	% of Eligible Bonus
Less than Index	0%
Equal to Index	100%
Plus 1%	110%
Plus 2%	120%
Plus 3%	130%
Plus 4%	140%
Plus 5% or more	150%

The Short Term Incentive is subject to discretionary Board adjustment for the achievement of improved Management Expense Ratio and promotion of BKI.

The following table summarises performance for the year to 30 June 2015 against the Short Term Incentive measurement criteria:

1 Year BKI Total Portfolio Return	S&P/ASX 300 Acc Index over 1 Year	Over / (Under) Performance	% Entitlement to Eligible Bonus
5.6%	5.6%	Equal to Index	100%

Given the above performance, the vesting criteria for the 2015 Financial Year Short Term Incentives were satisfied, and subsequent to 30 June 2015 the Company purchased on market 51,577 shares on behalf of executives.

Long Term Incentive

The Long Term Incentive is determined by reference to annual Total Shareholder Returns; compared to the S&P/ASX 300 Accumulation Index. Total Shareholder Returns are based on the change in BKI Share Price and include the reinvestment of dividends.

For the CEO, all outstanding incentives granted are to be awarded to the CEO after 4 years, provided that BKI's 4 year Total Shareholder Returns exceed the S&P/ASX 300 Accumulation Index over the same period. Should that test fail on the day it is to be retested in Year 5.

DIRECTORS' REPORT - Continued

For the Company Secretary, the Long Term Incentive is to be set at 40% of the CEO Long Term Incentive and subject to the same vesting conditions.

For the SIA, the Long Term Incentive is calculated on 15% of the Base Remuneration of the SIA, and subject to the same vesting conditions as the CEO Long Term Incentive.

The Long Term Incentive Scheme is to be paid by way of BKI shares purchased on market by the Company should the incentive targets be met. The Company has accrued as an expense the appropriate portion of these future costs in the 2015FY, and has included these costs in the disclosed remuneration of the CEO and Company Secretary.

No outstanding Long Term Incentives granted by the Company became eligible for vesting as at 30 June 2015.

No outstanding Long Term Incentives granted by the Company became eligible for vesting between 1 July 2015 and the date of this report.

During the 2015 financial year the Company purchased on market 60,033 shares on behalf of executives in satisfaction of rights for the period to 30 June 2014 that satisfied the required performance criteria.

The following table summarises movements in Long Term Incentives granted by the Company that have not vested as at the date of this report:

Incentive Issue	Issue Date	Number of Rights Granted	Value of Initial Grant	Initial Vesting Date	Expiry Date	Number of Rights Vested/ Lapsed	Number of Rights Yet to Vest/ Lapse
J Pinto 2012 LTI	13/12/2011	18,010	\$21,450	12/12/2015	11/12/2016	-	18,010
T Millner 2013 LTI	1/07/2012	64,230	\$74,250	30/06/2016	30/06/2017	-	64,230
J Pinto 2013 LTI	1/07/2012	25,692	\$29,700	30/06/2016	30/06/2017	-	25,692
T Millner 2014 LTI	1/07/2013	54,996	\$76,500	30/06/2017	30/06/2018	-	54,996
J Pinto 2014 LTI	1/07/2013	21,998	\$30,600	30/06/2017	30/06/2018	-	21,998
W Culbert 2014 LTI	1/12/2013	12,847	\$20,075	30/11/2017	30/11/2018	-	12,847
T Millner 2015 LTI	1/07/2014	46,363	\$76,500	30/06/2018	30/06/2019	-	46,363
J Pinto 2015 LTI	1/07/2014	18,545	\$30,600	30/06/2018	30/06/2019	-	18,545
W Culbert 2015 LTI	1/07/2014	20,904	\$34,493	30/06/2018	30/06/2019	-	20,904

Rights granted under the Short Term and a Long Term Incentive Scheme do not carry an entitlement to receive dividends.

DIRECTORS' REPORT - Continued

Remuneration Details for the Year to 30 June 2015

The following disclosures detail the remuneration of the Directors and the highest remunerated Executives of the Group.

The names and positions held of group Directors and Other Key Management Personnel in office at any time during the financial year are:

Name	Position
RD Millner	Non-Executive Chairman
DC Hall	Non-Executive Director
AJ Payne	Non-Executive Director
IT Huntley	Non-Executive Director
TCD Millner	Chief Executive Officer
JP Pinto ¹	Company Secretary ¹

¹ Services provided under contract through Corporate & Administrative Services Pty Limited

Mr William Culbert was appointed as Senior Investment Analyst in December 2013. Mr Culbert is not considered to be a member of Key Management Personnel.

Details of the nature and amount of each Non-Executive Director's and Other Key Management Personnel's emoluments from the Parent and its controlled entities in respect of the year to 30 June were:

Directors:

	Primary Fee \$	Super- annuation \$	Total \$
2014			
RD Millner	59,598	5,513	65,111
DC Hall	46,246	4,278	50,524
AJ Payne	37,908	3,507	41,415
IT Huntley	37,908	3,507	41,415
Total	181,660	16,805	198,465
2015			
RD Millner	62,100	5,900	68,000
DC Hall	48,173	4,576	52,750
AJ Payne	39,383	3,741	43,125
IT Huntley	39,383	3,741	43,125
Total	189,041	17,959	207,000

The combined annual payment to all Non-Executive Directors is capped at \$300,000 until shareholders, by ordinary resolution, approve some other fixed sum amount. This amount is to be divided among the Directors as they may determine.

DIRECTORS' REPORT - Continued
Other Key Management Personnel:

	Share based performance related remuneration				Total \$	Proportion of Remuneration Performance Related
	Salary \$	Super- annuation \$	STI \$	LTI \$		
2014						
TCD Millner	288,225	17,775	-	101,051	407,051	24.8%
JP Pinto	-	-	-	24,169	24,169	100.0%
Total	288,225	17,775	-	125,220	431,220	
2015						
TCD Millner	291,717	18,783	45,900	91,746	448,146	30.7%
JP Pinto	-	-	18,360	51,948	70,308	100.0%
Total	291,717	18,783	64,260	143,694	518,454	

The value included in the preceding table for share based performance related remuneration (STI and LTI) is the portion of the estimated value of the performance rights which has been allocated as an expense in each relevant reporting period.

There were no retirement allowances provided for the retirement of Non-Executive Directors or Other Key Management Personnel.

Contract of Employment

Mr TCD Millner is employed by the Company under a contract of employment. This is an open ended contract with a notice period of one month required to terminate employment. Base Remuneration is currently \$315,000 per annum inclusive of superannuation.

Remuneration is reviewed annually by the Remuneration Committee.

Mr JP Pinto provides Company Secretarial services under contract through Corporate & Administrative Services Pty Limited. This is an open ended contract with a notice period of one month required to terminate.

This report is made in accordance with a resolution of the Directors.

Robert D Millner
Director

Sydney
4 August 2015

**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2015**

	Note	2015 \$ '000	2014 \$ '000
Revenue from investment portfolio	2 (a)	40,815	36,539
Revenue from bank deposits	2 (c)	1,519	1,791
Other Income	2 (d)	8	-
Other Gains	2 (e)	2,226	232
Income from operating activities before special investment revenue		44,568	38,562
Operating Expenses	3	(1,607)	(1,251)
Expenses associated with acquisition of controlled entity		-	(75)
Operating Result before income tax expense and special investment revenue		42,961	37,236
Income Tax Expense	4	(2,085)	(1,296)
Net Operating Result before special investment revenue		40,876	35,940
Special Investment Revenue	2 (b)	2,095	1,499
Net Operating Profit		42,971	37,439
Profit for the year attributable to members of the Company		42,971	37,439
		2015 Cents	2014 Cents
Basic and diluted Earnings Per Share before special dividend income	19	7.40	7.15
Basic and diluted earnings per share after special dividend income	19	7.78	7.45

This Income Statement should be read in conjunction with the accompanying notes

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2015

	2015 \$ '000	2014 \$ '000
Profit for the year attributable to members of the Company	42,971	37,439
Other Comprehensive Income		
Unrealised gains on investment portfolio	3,671	73,069
Deferred tax expense on unrealised gains on investment portfolio	(1,101)	(21,921)
Realised gains/(losses) on investment portfolio	2,670	(15,694)
Tax (expense)/benefit relating to realised losses on investment portfolio	(802)	4,708
Total Other Comprehensive Income	<u>4,438</u>	<u>40,162</u>
Total Comprehensive Income	<u>47,409</u>	<u>77,601</u>

This Statement of Other Comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2015

	Note	2015 \$ '000	2014 \$ '000
Current Assets			
Cash and cash equivalents	6	41,133	40,960
Trade and other receivables	7	17,688	7,488
Trading portfolio	8	566	761
Prepayments		29	20
Total Current Assets		59,416	49,229
Non-Current Assets			
Investment portfolio	8	858,877	804,162
Property, plant & equipment	9	18	11
Deferred tax assets	10	9,375	10,352
Total Non-Current Assets		868,270	814,525
Total Assets		927,686	863,754
Current Liabilities			
Trade and other payables	11	486	291
Current tax liabilities	12	993	230
Employee benefits	13	19	18
Total Current Liabilities		1,498	539
Non-Current Liabilities			
Deferred tax liabilities	14	72,936	71,769
Employee benefits	13	16	-
Total Non-Current Liabilities		72,952	71,769
Total Liabilities		74,450	72,308
Net Assets		853,236	791,446
Equity			
Share capital	15	652,562	599,124
Revaluation reserve	16	167,216	164,646
Realised capital gains reserve	17	(10,369)	(12,237)
Retained profits	18	43,827	39,913
Total Equity		853,236	791,446

This Statement of Financial Position should be read in conjunction with the accompanying notes

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2015**

	Share Capital \$ '000	Revaluation Reserve \$ '000	Realised Capital Gains Reserve \$ '000	Retained Profits \$ '000	Total Equity \$ '000
Total equity at 1 July 2013	484,198	113,498	(1,251)	35,587	632,032
Issue of shares, net of cost	114,926	-	-	-	114,926
Dividends paid or provided for	-	-	-	(33,113)	(33,113)
Revaluation of investment portfolio	-	73,069	-	-	73,069
Provision for tax on unrealised gains on revaluation of investment portfolio	-	(21,921)	-	-	(21,921)
Net operating profit for the year	-	-	-	37,439	37,439
Net realised losses through other comprehensive income	-	-	(10,986)	-	(10,986)
Total equity at 30 June 2014	599,124	164,646	(12,237)	39,913	791,446
Total equity at 1 July 2014	599,124	164,646	(12,237)	39,913	791,446
Issue of shares, net of cost	53,438	-	-	-	53,438
Dividends paid or provided for	-	-	-	(39,057)	(39,057)
Revaluation of investment portfolio	-	3,671	-	-	3,671
Provision for tax on unrealised gains on revaluation of investment portfolio	-	(1,101)	-	-	(1,101)
Net operating profit for the year	-	-	-	42,971	42,971
Net realised gains through other comprehensive income	-	-	1,868	-	1,868
Total equity at 30 June 2015	652,562	167,216	(10,369)	43,827	853,236

This Statement of Changes in Equity should be read in conjunction with the accompanying notes

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2015

	Note	2015 \$ '000	2014 \$ '000
Cash flows from operating activities			
Payments to suppliers and employees		(1,409)	(1,352)
Other receipts in the course of operations		8	-
Dividends and distributions received		42,398	36,862
Payments for trading portfolio		(8,763)	(1,510)
Proceeds from sale of trading portfolio		10,629	2,577
Interest received		1,655	1,743
Interest paid		-	(3)
Income tax paid		(986)	(499)
Net cash inflow from operating activities	20(a)	43,532	37,818
Cash flows from investing activities			
Cash acquired on acquisition of controlled entity		-	702
Payments for investment portfolio		(92,833)	(132,324)
Proceeds from sale of investment portfolio		33,270	21,236
Capital returns received from investment portfolio		1,930	-
Payments for plant and equipment		(14)	(10)
Net cash outflow from investing activities		(57,647)	(110,396)
Cash flows from financing activities			
Proceeds from issues of ordinary shares less issue costs		47,482	105,190
Dividends paid	5(a)	(33,194)	(27,882)
Net cash inflow from financing activities		14,288	77,308
Net increase in cash held		173	4,730
Cash at the beginning of the year		40,960	36,230
Cash at the end of the year	6	41,133	40,960

This Cash Flow Statement should be read in conjunction with the accompanying notes

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

1. Summary of Significant Accounting Policies

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial report covers the parent entity of BKI Investment Company Limited and its controlled entities, with information relating to BKI Investment Company Limited as an individual parent entity summarised in Note 27. BKI Investment Company Limited is a listed public company, incorporated and domiciled in Australia.

The financial report complies with all International Financial Reporting Standards (IFRS) in their entirety.

The following is a summary of the material accounting policies adopted by the Group in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Basis of Preparation

The accounting policies set out below have been consistently applied to all years presented.

The Group has attempted to improve the transparency of its reporting by adopting 'plain English' where possible. Key 'plain English' phrases and their equivalent AASB terminology are as follows:

Phrase	AASB Terminology
Market Value	Fair Value for Actively Traded Securities
Cash	Cash and Cash Equivalents
Share Capital	Contributed Equity

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Accounting Policies

a. Principles of Consolidation

A controlled entity is any entity BKI Investment Company Limited has the power to control the financial and operating policies of so as to obtain benefits from its activities.

A list of controlled entities is contained in Note 24(i) to the financial statements. All controlled entities have a June financial year-end.

All inter-company balances and transactions between entities in the Group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Where controlled entities have entered or left the Group during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

Minority equity interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

1. Summary of Significant Accounting Policies (continued)**b. Income Tax**

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

BKI Investment Company Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. Each entity in the group recognises its own current and deferred tax liabilities, except for any deferred tax balances resulting from unused tax losses and tax credits, which are immediately assumed by the parent entity. The current tax liability of each group entity is then subsequently assumed by the parent entity. The group notified the Australian Tax Office that it had formed an income tax consolidated group to apply from 12 December 2003. The tax consolidated group has entered a tax sharing agreement whereby each entity in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

1. Summary of Significant Accounting Policies (continued)**c. Financial Instruments*****Recognition***

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

The Group has two portfolios of securities, the investment portfolio and the trading portfolio. The investment portfolio relates to holdings of securities which the Directors intend to retain on a long-term basis and the trading portfolio comprises securities held for short term trading purposes.

Securities within the investment portfolio are classified as 'financial assets measured at fair value through other comprehensive income', and are designated as such upon initial recognition. Securities held within the trading portfolio are classified as 'mandatorily measured at fair value through profit or loss in accordance with AASB 9'.

Valuation of investment portfolio

Listed securities are initially brought to account at market value, which is the cost of acquisition, and are re-valued to market values continuously. Movements in carrying values of securities are recognised as Other Comprehensive Income and taken to the Revaluation Reserve.

Where disposal of an investment occurs, any revaluation increment or decrement relating to it is transferred from the Revaluation Reserve to the Realised Capital Gains Reserve.

Valuation of trading portfolio

Listed securities are initially brought to account at market value, which is the cost of acquisition, and are re-valued to market values continuously.

Movements in carrying values of securities in the trading portfolio are taken to Profit or Loss through the Income Statement.

Fair value

Fair value is determined based on last sale price for all quoted investments. In previous years fair value was determined based on current bid prices.

d. Employee Benefits***(i) Wages, salaries and annual leave***

Liabilities for wages and salaries, including annual leave, expected to be settled within 12 months of balance date are recognised as current provisions in respect of employees' services up to balance date and are measured at the amounts expected to be paid when the liabilities are settled.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

1. Summary of Significant Accounting Policies (continued)**d. Employee benefits (continued)***(ii) Long service leave*

In calculating the value of long service leave, consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at balance date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Share incentives

Share incentives are provided under the Short and Long Term Incentive Plans.

The Short Term Incentive Plan is settled in shares, but based on a cash amount. A provision for the amount payable under the Short Term Incentive plan is recognised on the Balance Sheet.

For the Long Term Incentive Plan, the incentives are based on the performance of the Group over a minimum three year period. The incentives are settled in shares (but based on a cash amount). Expenses are recognised over the assessment period based on the amount expected to be payable under this plan, resulting in a provision for incentive payable being built up on the balance sheet over the assessment period.

In the event that the executive does not complete the period of service, the cumulative expense is reversed.

e. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of 12 months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

f. Revenue

Sale of investments occurs when the control of the right to equity has passed to the buyer.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Dividend revenue is recognised when the right to receive a dividend has been established.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

All revenue is stated net of the amount of goods and services tax (GST).

g. Plant and Equipment

Plant and equipment represents the costs of furniture and computer equipment and is depreciated over its useful life, a period of between 3 and 5 years.

h. Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

1. Summary of Significant Accounting Policies (continued)**i. Segment Reporting**

Operating segments are reported in a manner consistent with the internal reporting used by the chief operating decision-maker. The Board has been identified as the chief operating decision-maker, as it is responsible for allocating resources and assessing performance of the operating segments.

j. Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year. Where a retrospective restatement of items in the statement of financial position has occurred, presentation of the statement as at the beginning of the earliest comparative period has been included.

k. Rounding of Amounts

The parent has applied the relief available to it under ASIC Class Order 98/100 and accordingly, amounts in the financial report and Directors' report have been rounded off to the nearest \$1,000.

l. Critical Accounting Estimates and Judgments**Deferred Tax Balances**

The preparation of this financial report requires the use of certain critical estimates based on historical knowledge and best available current information. This requires the Directors and management to exercise their judgement in the process of applying the Group's accounting policies.

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. In accordance with AASB 112: Income Taxes deferred tax liabilities have been recognised for Capital Gains Tax on unrealised gains in the investment portfolio at the current tax rate of 30%.

As the Group does not intend to dispose of the portfolio, this tax liability may not be crystallised at the amount disclosed in Note 14. In addition, the tax liability that arises on disposal of those securities may be impacted by changes in tax legislation relating to treatment of capital gains and the rate of taxation applicable to such gains at the time of disposal.

Apart from this, there are no other key assumptions or sources of estimation uncertainty that have a risk of causing a material adjustment to the carrying amount of certain assets and liabilities within the next reporting period.

m. Australian Accounting Standards not yet effective

The Group has not applied any Australian Accounting Standards or UIG interpretations that have been issued as at balance date but are not yet operative for the year ended 30 June 2015 ("the inoperative standards"). The impact of the inoperative standards has been assessed and the impact has been identified as not being material. The Group only intends to adopt inoperative standards at the date at which their adoption becomes mandatory.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	2015 \$ '000	2014 \$ '000
2. Revenues		
(a) Revenue from investment portfolio		
Fully franked dividends	36,785	33,176
Unfranked dividends	1,034	1,285
Trust Distributions	2,996	2,078
Total ordinary revenue from investment portfolio	40,815	36,539
(b) Special investment revenue		
Fully franked dividends	2,095	1,114
Unfranked dividends	-	385
Total special revenue from investment portfolio	2,095	1,499
(c) Revenue from bank deposits		
Interest received	1,519	1,791
(d) Other income		
Other revenue	8	-
(e) Other gains		
Net realised gain on sale of investments held for trading	2,163	234
Net unrealised gain/(loss) on investments held for trading	63	(2)
Total other gains	2,226	232
Total Income	46,663	40,061
3. Operating Expenses		
Administration expenses	352	371
Occupancy costs	13	11
Employment expenses	1,075	707
Professional fees	160	156
Depreciation	7	3
Interest Expense	-	3
Total operating expenses	1,607	1,251

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	2015	2014
	\$ '000	\$ '000

4. Tax Expense

The aggregated amount of income tax expense attributable to the year differs from the amounts prima facie payable on profits from ordinary activities. The difference is reconciled as follows:

(a) Operating profit before income tax expense and net gains on investment portfolio

45,056	38,735
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Tax calculated at 30% (2014:30%)	13,517	11,621
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Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
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- Franked dividends and distributions received	(11,664)	(10,287)
- Accounting distributions not taxable	-	(91)
- Costs associated with acquisition of subsidiary	-	23
- Under provision in prior year	232	30

Net tax expense on operating profit before net gains on investments	2,085	1,296
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Net realised gains (losses) on investment portfolio	2,670	(15,694)
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Tax calculated at 30% (2014: 30%)	802	(4,708)
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Total tax expense

2,887	(3,412)
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(b) The components of tax expense comprise:

Current tax	1,531	1,122
Deferred tax	1,124	(4,564)
Under provision in prior year	232	30
	2,887	(3,412)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	2015 \$ '000	2014 \$ '000
5. Dividends		
(a) Dividends paid during the year		
Final dividend for the year ended 30 June 2014 of 3.50 cents per share (2013 final: 3.40 cents per share) fully franked at the tax rate of 30%, paid on 28 August 2014	19,359	15,169
Interim dividend for the year ended 30 June 2015 of 3.55 cents per share (2014 interim: 3.45 cents per share) fully franked at the tax rate 30%, paid on 26 February 2015	19,698	17,944
Total	39,057	33,113
Dividends paid in cash or invested in shares under the dividend reinvestment plan ("DRP")		
Paid in cash	33,194	27,882
Reinvested in shares via DRP	5,863	5,231
Total	39,057	33,113
Franking Account Balance		
Balance of the franking account after allowing for tax payable in respect of the current year's profits and the receipt of dividends recognised as receivables	22,554	20,987
Estimated impact on the franking account of dividends declared but not recognised as a liability at the end of the financial year	(8,825)	(7,864)
Net available	13,729	13,123

(b) Dividends declared after balance date

Since the end of the year the Directors have declared a final ordinary dividend for the year ended 30 June 2015 of 3.65 cents per share fully franked at the tax rate of 30% (2014: final ordinary dividend of 3.50 cents per share fully franked at the tax rate of 30%), payable on 27 August 2015, but not recognised as a liability at the year end.

6. Cash and Cash Equivalents

Cash at bank	2,633	460
Short term bank deposits	38,500	40,500
	41,133	40,960

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	2015 \$ '000	2014 \$ '000
7. Trade and Other Receivables		
Dividends and distributions receivable	7,537	6,901
Interest receivable	321	458
Outstanding settlements	9,821	-
Other receivable	9	129
	<u>17,688</u>	<u>7,488</u>

8. Financial Assets - Investment Portfolio**Trading Portfolio - Current**

Listed securities at fair value held for trading	<u>566</u>	<u>761</u>
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Investment Portfolio - Non-Current

Listed securities at fair value available for sale	<u>858,877</u>	<u>804,162</u>
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Total Investment Portfolio	<u>859,443</u>	<u>804,923</u>
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9. Property, plant and equipment

Office equipment, furniture & fittings at cost	43	29
Accumulated depreciation	(25)	(18)
Total	<u>18</u>	<u>11</u>

Reconciliation of the carrying amounts of each class of asset at the beginning and end of the financial year:

Office equipment, furniture & fittings at cost

Carrying value at 1 July	11	4
Additions	14	10
Depreciation expense	(7)	(3)
Carrying value at 30 June	<u>18</u>	<u>11</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

2015 2014
\$ '000 \$ '000

10. Deferred Tax Assets

The deferred tax asset balance comprises the following timing differences and unused tax losses:

Transaction costs on equity issues	444	499
Accrued expenses	119	56
Realised capital tax losses	8,812	9,797
	9,375	10,352

Movements in deferred tax assets

	Opening Balance \$ '000	Credited/ (Charged) to Statement of Comprehensive Income \$ '000	Credited/ (Charged) to Equity \$ '000	Closing Balance \$ '000
Transaction costs on equity issues	62	(137)	574	499
Accrued expenses	87	(31)	-	56
Tax losses	4,817	4,980	-	9,797
Balance as at 30 June 2014	4,966	4,812	574	10,352
Transaction costs on equity issues	499	(147)	92	444
Accrued expenses	56	63	-	119
Tax losses	9,797	(985)	-	8,812
Balance as at 30 June 2015	10,352	(1,069)	92	9,375

2015 2014
\$ '000 \$ '000

11. Trade and Other Payables**Current Liabilities**

Creditors and accruals	486	291
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12. Current Tax Liabilities

Provision for income tax	993	230
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	2015 \$ '000	2014 \$ '000
13. Employee Benefits		
Aggregate employee benefits	35	18
Analysis of provisions:		
Current	19	18
Non current	16	-
	35	18

14. Deferred Tax Liabilities

The deferred tax liability balance comprises the following timing differences:

Revaluation of investments held	72,308	71,196
Non rebateable dividends receivable and interest receivable	628	573
	72,936	71,769

Movements in deferred tax liabilities

	Opening Balance \$ '000	(Credited)/ Charged to Statement of Comprehensive Income \$ '000	(Credited)/ Charged to Equity \$ '000	Closing Balance \$ '000
Revaluation of investment portfolio	48,961	-	22,235	71,196
Non rebateable dividends receivable and interest receivable	325	248	-	573
Balance as at 30 June 2014	49,286	248	22,235	71,769
Revaluation of investment portfolio	71,196		1,112	72,308
Non rebateable dividends receivable and interest receivable	573	55		628
Balance as at 30 June 2015	71,769	55	1,112	72,936

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

15. Share Capital

	2015 \$ '000	2014 \$ '000		
(a) Issued and paid-up capital				
556,560,509 ordinary shares fully paid (2014: 524,240,486)	652,562	599,124		
(b) Movement in ordinary shares				
	2015 Number of Shares	\$'000	2014 Number of Shares	\$'000
Beginning of the financial year	524,240,486	599,124	446,139,639	484,198
Issued during the year:				
- dividend reinvestment plan	3,440,622	5,864	3,298,704	5,231
- share purchase plan	28,879,401	47,790	-	-
- placement	-	-	39,900,000	59,052
- rights issue	-	-	32,468,378	48,053
- acquisition of controlled entity	-	-	2,433,765	3,931
Gross funds raised during year		53,654		116,267
- less net transaction costs		(216)		(1,341)
End of the financial year	556,560,509	652,562	524,240,486	599,124

The Parent does not have an authorised share capital and the ordinary shares on issue have no par value.

Holders of ordinary shares participate in dividends and the proceeds on a winding up of the parent entity in proportion to the number of shares held.

At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

(c) Capital Management

The Group's objective in managing capital is to continue to provide shareholders with attractive investment returns through access to a steady stream of fully-franked dividends and enhancement of capital invested, with goals of paying an enhanced level of dividends and providing attractive total returns over the medium to long term.

The Group recognises that its capital will fluctuate in accordance with market conditions and in order to maintain or adjust the capital structure, may adjust the amount of dividends paid, issue new shares from time-to-time or return capital to shareholders.

The Group's capital consists of shareholders equity plus net debt. The movement in equity is shown in the Consolidated Statement of Changes in Equity. At 30 June 2015 net debt was \$Nil (2014: \$Nil).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	2015 \$ '000	2014 \$ '000
16. Revaluation Reserve		
The Revaluation reserve is used to record increments and decrements on the revaluation of the investment portfolio.		
Balance at the beginning of the year	164,646	113,498
Revaluation of investment portfolio	2,570	51,148
Balance at the end of the year	167,216	164,646
17. Realised Capital Gains Reserve		
The realised capital gains reserve records net gains and losses after applicable taxation arising from the disposal of securities in the investment portfolio.		
Balance at the beginning of the year	(12,237)	(1,251)
Net gains/(losses) on investment portfolio transferred from Statement of Comprehensive Income	1,868	(10,986)
Balance at the end of the year	(10,369)	(12,237)
18. Retained Profits		
Retained profits at the beginning of the year	39,913	35,587
Net profit attributable to members of the company	42,971	37,439
Dividends provided for or paid	(39,057)	(33,113)
Retained profits at the end of the year	43,827	39,913
19. Earnings per Share		
Net Operating Profit	42,971	37,439
Earnings used in calculating basic and diluted earnings per share <u>before</u> special dividend income	40,876	35,940
Earnings used in calculating basic and diluted earnings per share <u>after</u> special dividend income	42,971	37,439
	2015 No. ('000)	2014 No. ('000)
Weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share	552,158	502,728
Basic and diluted earnings per share <u>before</u> special dividend income (cents)	7.40	7.15
Basic and diluted earnings per share <u>after</u> special dividend income (cents)	7.78	7.45

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	2015	2014
	\$ '000	\$ '000
20. Reconciliation of Cash Flow		
(a) Reconciliation of cash flow from operating activities to operating profit		
Net Profit from ordinary activities	42,971	37,439
Non cash item :		
- expenses associated with acquisition of subsidiary	-	75
- depreciation expense	7	3
- unrealised loss on trading investments	(63)	2
Change in assets and liabilities, net of effects from consolidation of subsidiary:		
(Increase) / decrease in trade and other receivables	(3,131)	(1,246)
(Increase) / decrease in held for trading investments	2,448	834
(Increase) / decrease in prepayments	(9)	5
(Increase) / decrease in current tax assets	-	138
(Increase) / decrease in deferred tax assets	241	168
(Decrease) increase in payables	194	(94)
(Decrease) increase in provisions	17	3
(Decrease) increase in current tax liabilities	763	230
(Decrease) increase in deferred tax liabilities	94	261
Net cash inflow from operating activities	43,532	37,818

(b) Non-cash financing and investing activities**(i) Dividend reinvestment plan**

Under the terms of the dividend reinvestment plan, \$5,864,000 (2014: \$5,231,000) of dividends were paid via the issue of 3,440,622 shares (2014: 3,298,704).

(ii) Acquisition of controlled entity

During the 2014FY the Company Group acquired shares in an unlisted investment company via the issue of 2,433,765 new shares in BKI (refer below).

(c) Acquisition of controlled entities

During the 2015FY no acquisitions were made.

During the 2014FY the Company acquired 100% of the shares of an unlisted investment company for a consideration of 2,433,765 new shares in BKI Investment Company Limited (2013FY: No acquisitions were made). Based on an issue price of \$1.615 per share, the consideration for the acquisition had a fair value of \$3,930,530.

21. Auditors' Remuneration

Remuneration of the auditor of the parent entity for:

Auditing the financial report of the Parent and the controlled entities

23	24
23	24

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

22. Key Management Personnel Remuneration

The names and positions held of Group Directors and Other Key Management Personnel in office at any time during the financial year are:

Name	Position
RD Millner	Non-Executive Chairman
DC Hall	Non-Executive Director
AJ Payne	Non-Executive Director
IT Huntley	Non-Executive Director
TCD Millner	Chief Executive Officer
JP Pinto	Company Secretary ¹

¹ Services provided under contract through Corporate & Administrative Services Pty Limited

Mr William Culbert was appointed as Senior Investment Analyst in December 2013. Mr Culbert is not considered to be a member of Key Management Personnel.

Details of the nature and amount of each Non-Executive Director's and Other Key Management Personnel's emoluments from the Group in respect of the year to 30 June 2015 have been included in the Remuneration Report section of the Directors' Report.

The combined annual payment to all Non-Executive Directors is capped at \$300,000 until shareholders, by ordinary resolution, approve some other fixed sum amount. This amount is to be divided amongst the Directors as the Board may determine. These fees exclude any additional fee for any service based agreement which may be agreed from time to time and the reimbursement of out of pocket expenses. No such payments were made in 2015FY (2014: nil).

23. Superannuation Commitments

The Group contributes superannuation payments on behalf of Directors and employees in accordance with relevant legislation. Superannuation funds are nominated by the individual Directors and employees and are independent of the Group.

24. Related Party Transactions

Related parties of the Group fall into the following categories:

(i) Controlled Entities

At 30 June 2015, subsidiaries of the Parent were:

	Country of incorporation	Percentage Owned (%)	
		2015	2014
Brickworks Securities Pty Limited	Australia	100	100
Huntley Investment Company Pty Limited	Australia	100	100
R Love Investments Pty Limited	Australia	100	100
Pacific Strategic Investments Pty Limited	Australia	100	100

Transactions between the Parent and controlled entities consist of transfers of investment holdings from subsidiaries to the parent entity. In addition, there are loan balances due from the Parent to controlled entities. No interest is charged on the loan balance by the controlled entities and no repayment period is fixed for the loan.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

24. Related Party Transactions (continued)**(ii) Directors/Officers Related Entities**

Persons who were Directors/Officers of BKI Investment Company Limited for part or all of the year ended 30 June 2015 were:

Directors: RD Millner
DC Hall AM
AJ Payne
IT Huntley

Chief Executive Officer: TCD Millner

Company Secretary: JP Pinto¹

¹ Services provided under contract through Corporate & Administrative Services Pty Limited

During the 2014FY the company conducted a non-renounceable entitlement offer, which was partially underwritten by three of BKI's directors. This underwriting facility was not called upon.

In September 2013 the Company entered into a short term revolving loan agreement with Washington H. Soul Pattinson and Company Limited, a major shareholder in BKI. The facility was established to achieve more efficient use of the funds raised in the placement completed by the Company in September 2013. The terms and conditions of the facility were as follows;

- Facility Limit: \$10,000,000
- Interest: 5.0% per annum compounded daily
- Term: 14 days

The first draw-down on the facility was on 9 September 2013 and repayment was made in full on 12 September 2013. Total interest paid on the facility was \$2,891.

Corporate & Administrative Services Pty Limited

The Group has appointed Corporate & Administrative Services Pty Limited (CAS), an entity in which Mr RD Millner and Mr TCD Millner have an indirect interest, to provide the Group with administration, company secretarial and accounting services, including preparation of all financial accounts.

Fees paid to CAS for services provided to the Parent and controlled entities for the year to 30 June 2015 were \$122,100 (2014: \$122,100, including GST) and are at standard market rates. No fees were owed by the Group to CAS as at 30 June 2015.

(iii) Transactions in securities**Share Holdings**

Aggregate number of listed securities of the Company held by Key Management Personnel (KMP) or their related entities:

2015	Balance at 1/07/14	Granted as compensation	Net Change Other	Balance at 30/6/15	Net Movements Post Balance Date	Balance at date of Annual Report
RD Millner ¹	8,167,659	-	316,432	8,484,091	-	8,484,091
DC Hall	268,906	-	9,064	277,970	-	277,970
AJ Payne	277,130	-	9,064	286,194	-	286,194
IT Huntley	11,224,980	-	-	11,224,980	-	11,224,980
TCD Millner ¹	7,236,094	60,033	301,365	7,597,492	27,148	7,624,640
JP Pinto	32,296	-	7,647	39,943	10,859	50,802
Total	27,207,065	60,033	643,572	27,910,670	38,007	27,948,677

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

24. Related Party Transactions (continued)**(iii) Transactions in securities (continued)****Share Holdings (continued)**

2014	Balance at 1/07/13	Granted as compensation	Net Change Other	Balance at 30/6/14	Net Movements Post Balance Date	Balance at date of Annual Report
RD Millner ¹	7,364,206	-	803,453	8,167,659	304,384	8,472,043
DC Hall	252,101	-	16,805	268,906	9,064	277,970
AJ Payne	259,810	-	17,320	277,130	9,064	286,194
IT Huntley	11,063,445	-	161,535	11,224,980		11,224,980
TCD Millner ¹	6,431,309	92,415	712,370	7,236,094	361,398	7,597,492
JP Pinto	15,813	13,198	3,285	32,296	6,044	38,340
Total	25,386,684	105,613	1,714,768	27,207,065	689,954	27,897,019

¹ Common to RD Millner and TCD Millner are the following shares held in related companies and trusts in which both hold beneficial interests:

- 7,231,771 (2014: 6,954,579) as at 30 June 2015.
- 7,231,771 (2014: 7,231,771) as at date of Annual Report

Directors acquired shares through the Dividend Reinvestment Plan, the 2013 Entitlement Offer, the 2014 Share Purchase Plan or on-market purchase.

There have been no other changes to Directors' shareholdings during the years ended 30 June 2015 or 30 June 2014.

Other Key Management Personnel acquired shares through the Dividend Reinvestment Plan, the 2013 Entitlement Offer, the 2014 Share Purchase Plan, on-market purchase, or purchases by the company on behalf of the KMP in satisfaction of vested performance rights.

All Key Management Personnel or their associated entities, being shareholders, are entitled to receive dividends.

25. Financial Reporting by Segments

The Group operates solely in the securities industry in Australia and has no reportable segments.

26. Management of Financial Risk

The risks associated with the holding of financial instruments such as investments, cash, bank bills and borrowings include market risk, credit risk and liquidity risk. The Board has approved the policies and procedures that have been established to manage these risks. The effectiveness of these policies and procedures is reviewed by the Audit Committee.

a. Financial instruments' terms, conditions and accounting policies

The Group's accounting policies are included in note 1, while the terms and conditions of each class of financial asset, financial liability and equity instrument, both recognised and unrecognised at the balance date, are included under the appropriate note for that instrument.

b. Net fair values

The carrying amounts of financial instruments in the balance sheets approximate their net fair value determined in accordance with the accounting policies disclosed in note 1 to the accounts.

c. Credit risk

The risk that a financial loss will occur because counterparty to a financial instrument fails to discharge an obligation is known as credit risk.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

26. Management of Financial Risk (continued)**c. Credit risk (continued)**

The credit risk on the Group's financial assets, excluding investments, is the carrying amount of those assets. The Group's principal credit risk exposures arise from the investment in liquid assets, such as cash and bank bills, and income receivable.

The spread of cash and bank bills between banks is reviewed monthly by the Board to determine if it is within agreed limits. Income receivable is comprised of accrued interest and dividends and distributions which were brought to account on the date the shares or units traded ex-dividend.

There are no financial instruments overdue or considered to be impaired.

d. Market risk

Market risk is the risk that changes in market prices will affect the fair value of a financial instrument.

The Group is a long term investor in companies and trusts and is therefore exposed to market risk through the movement of the share/unit prices of the companies and trusts in which it is invested.

The market value of the portfolio changes continuously because the market value of individual companies within the portfolio fluctuates throughout the day. The change in the market value of the portfolio is recognised through the Revaluation Reserve. Listed Investments represent 93% (2014: 93%) of total assets.

As at 30 June 2015, a 5% movement in the market value of the BKI portfolio would result in:

- a 5% movement in the net assets of BKI before provision for tax on unrealised capital gains (2014: 5%) ; and
- A movement of 7.7 cents per share in the net asset backing before provision for tax on unrealised capital gains (2014: 7.7 cents).

The performance of the companies within the portfolio, both individually and as a whole, is monitored by the Investment Committee and the Board.

BKI seeks to reduce market risk at the investment portfolio level by ensuring that it is not, in the opinion of the Investment Committee, overly exposed to one Group or one sector of the market.

At 30 June 2015, the spread of investments is in the following sectors:

Sector	Percentage of total investment		Amount	
	2015 %	2014 %	2015 \$'000	2014 \$'000
Financials	43.12%	41.96%	391,713	358,104
Consumer Staples	8.40%	9.27%	76,265	79,087
Energy	5.56%	7.14%	50,499	60,888
Materials	5.36%	7.19%	48,728	61,330
Telecommunications Services	10.27%	8.19%	93,311	69,889
Industrials	7.01%	8.16%	63,684	69,647
Consumer Discretionary	4.66%	3.76%	42,328	32,076
Utilities	5.25%	5.56%	47,673	47,443
Health Care	4.63%	2.80%	42,027	23,865
Property Trusts	0.35%	0.30%	3,216	2,594
Total Investments	94.61%	94.32%	859,443	804,923
Cash and dividends receivable	5.39%	5.68%	49,000	48,447
Total Portfolio	100.00%	100.00%	908,443	853,370

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

26. Management of Financial Risk (continued)**d. Market risk (continued)**

Securities representing over 5% of the investment portfolio at 30 June 2015 or 30 June 2014 were:

Company	Percentage of total investment		Amount	
	2015 %	2014 %	2015 \$'000	2014 \$'000
Commonwealth Bank	9.4%	9.5%	85,675	81,398
National Australia Bank	9.3%	8.9%	84,559	76,050
Westpac Banking Corporation	7.4%	8.1%	67,311	68,880
BHP Billiton	4.3%	6.0%	39,478	51,303
Telstra Corporation	5.9%	5.3%	53,664	45,535
	36.4%	37.9%	330,686	323,166

The relative weightings of the individual securities and relevant market sectors are reviewed at each meeting of the Investment Committee and the Board, and risk can be managed by reducing exposure where necessary. There are no set parameters as to a minimum or maximum amount of the portfolio that can be invested in a single company or sector.

e. Interest Rate Risk

The Group is not materially exposed to interest rate risk as all its cash investments, excluding cash in operating bank accounts, are short term (up to 1 year) for a fixed rate.

During the 2014FY the Group entered into a short term revolving facility (refer Note 24(ii)). Given the facility was fixed rate in nature, any movement in market interest rates would not have affected the value of the underlying financial liability nor would it have affected the Group's operating result. This facility was closed with no liability existing as at 30 June 2014.

f. Foreign Currency Risk

The Group is not exposed to foreign currency risk as all investments are quoted in Australian dollars. The fair value of the Group's other financial instruments is unlikely to be materially affected by a movement in interest rates as they generally have short dated maturities and fixed interest rates.

g. Liquidity risk

Liquidity risk is the risk that the Group is unable to meet financial obligations as they fall due.

The Group has a zero level of gearing, and sufficient cash reserves to meet operating cash requirements at current levels for more than 5 years.

The Group's other major cash outflows are the purchase of securities and dividends paid to shareholders and the level of both of these is fully controllable by the Board.

Furthermore, the majority of the assets of the Group are in the form of readily tradeable securities which can be sold on-market if necessary.

h. Capital risk management

The Group invests its equity in a diversified portfolio of assets that aim to generate a growing income stream for distribution to shareholders in the form of fully franked dividends.

The capital base is managed to ensure there are funds available for investment as opportunities arise. Capital is increased annually through the issue of shares under the Dividend Reinvestment Plan. Other means of increasing capital include Rights Issues, Share Placements and Share Purchase Plans.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

27. Parent Company Information

	2015	2014
	\$ '000	\$ '000
Information relating to the parent entity of the Group, BKI Investment Company Limited:		
Current assets	59,409	49,149
Non-current assets	1,069,620	1,013,789
Total assets	1,129,029	1,062,938
Current liabilities	1,416	429
Non-current liabilities	282,338	279,028
Total liabilities	283,754	279,457
Issued capital	652,562	599,124
Reserves	192,713	184,289
Total shareholders' equity	845,275	783,413
Profit or loss	42,973	37,452
Total Other Comprehensive Income / (Loss)	4,439	40,163

The parent company has no contingent liabilities as at 30 June 2015.

28. Capital and Leasing Commitments

The Group has no capital and leasing commitments as at 30 June 2015.

29. Contingent Liabilities

The Group has no contingent liabilities as at 30 June 2015.

30. Authorisation

The financial report was authorised for issue on 4 August 2015 by the Board of Directors.

DIRECTORS' DECLARATION

The Directors of BKI Investment Company Limited declare that:

1. the financial statements and notes, as set out on pages 20 to 44, are in accordance with the *Corporations Act 2001* and:
 - a. comply with Accounting Standards and the Corporations Regulations; and
 - b. comply with International Financial Reporting Standards, as stated in note 1 to the financial statements
 - c. give a true and fair view of the financial position as at 30 June 2015 and of the performance for the year ended on that date of the consolidated entity;
2. in the Directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
3. this declaration has been made after receiving the declaration required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ending 30 June 2015.

This declaration is made in accordance with a resolution of the Board of Directors.

Robert D Millner
Director

Sydney
4 August 2015

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BKI INVESTMENT COMPANY LIMITED

Report on the Financial Report

We have audited the accompanying financial report of BKI Investment Company Limited and Controlled Entities (the consolidated entity), which comprises the consolidated statement of financial position as at 30 June 2015, the consolidated income statement, consolidated statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising BKI Investment Company Limited and the entities it controlled at the year's end or from time to time during the year.

Directors' Responsibility for the Financial Report

The directors of BKI Investment Company Limited are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's Opinion

In our opinion, the financial report of BKI Investment Company Limited and its Controlled Entities is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view consolidated group's financial position as at 30 June 2015 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

Report on the Remuneration Report

We have audited the Remuneration Report included on pages 15 to 19 of the directors' report for the year ended 30 June 2015. The directors of BKI Investment Company Limited are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the remuneration report of BKI Investment Company Limited for the year ended 30 June 2015, complies with section 300A of the *Corporations Act 2001*.

Name of Firm: MGI Sydney Assurance Services Pty Ltd
Chartered Accountants

Name of Auditor:



Martin Bocxe

Address: Level 5, 6 O'Connell Street, Sydney NSW 2000

Dated this 4th day of August

BKI INVESTMENT COMPANY LIMITED AND CONTROLLED ENTITIES
ABN: 23 106 719 868
AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF
THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF BKI INVESTMENT COMPANY
LIMITED AND CONTROLLED ENTITIES

We declare that, to the best of our knowledge and belief, during the year ended 30 June 2015 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Name of Firm MGI SYDNEY ASSURANCE SERVICES PTY LTD

Name of Director


Martin Bocxe

Date 4th August 2015

Address Level 5, 6 O'Connell Street, Sydney NSW 2000

ASX ADDITIONAL INFORMATION

1) Equity Holders

At 30 June 2015 there were 13,594 holders of ordinary shares in the capital of the Parent. These holders were distributed as follow:

No. of Shares held	No. of Shareholders
1 – 1,000	932
1,001 – 5,000	1,836
5,001 – 10,000	1,885
10,001 – 100,000	8,101
100,001 and over	840
Total	13,594

Holding less than a marketable parcel of 301 shares **534**

Votes of Members

Article 5.12 of the Company's Constitution provides

- a) Subject to this Constitution and any rights or restrictions attached to a class of Shares, on a show of hands at a meeting of Members, every Eligible Member present has one vote.
- b) Subject to this Constitution and any rights or restrictions attached to a class of Shares, on a poll at a meeting of Members, every Eligible Member present has :
 - (i) one vote for each fully paid up Share (whether the issue price of the Share was paid up or credited or both) that the Eligible Member holds; and
 - (ii) a fraction of one vote for each partly paid up Share that the Eligible Member holds. The fraction is equal to the proportion which the amount paid up on that Share (excluding amounts credited) is to the total amounts paid up and payable (excluding amounts credited on that Share).

The 20 largest holdings of the Parent's share as at 30 June 2015 are listed below:

Name	Shares Held	%
Washington H Soul Pattinson and Company Limited	61,749,705	11.09
Huntley Group Investments Pty Ltd <Huntley Group Investments AC>	8,523,274	1.53
J S Millner Holdings Pty Limited	5,199,235	0.93
UBS Wealth Management Australia Nominees Pty Ltd	3,575,028	0.64
I R McDonald Pty Limited	3,000,000	0.54
Nulis Nominees (Australia) Limited	2,498,454	0.45
Navigator Australia Ltd	2,034,753	0.37
Huntley Group Investments Pty Ltd <Ian Huntley Super Fund A/C>	1,630,711	0.29
Farjoy Pty Limited	1,450,800	0.26
Fennybentley Pty Limited	1,400,000	0.25
T N Phillips Investments Pty Limited	1,357,129	0.24
Trevin Ronald Love	1,352,092	0.24
Netwealth Investments Limited	1,331,919	0.24
T G Millner Holdings Pty Limited	1,251,805	0.22
Lunicash Super Pty Ltd	1,250,000	0.22
K C Perks Investments Pty Ltd	1,242,816	0.22
Milton Corporation Limited	1,223,866	0.22
Mr Timothy Frank Robertson	1,133,892	0.20
Donald Cant Pty Limited	1,128,358	0.20
The Miller Foundation Ltd	1,100,000	0.20

ASX ADDITIONAL INFORMATION (Cont'd)

2) Substantial Shareholders

As at 30 June 2015 the name and holding of each substantial shareholder as disclosed in a notice received by the Parent is:

<u>Substantial Shareholder</u>	<u>Shares Held</u>	<u>%</u>
Washington H Soul Pattinson & Company Limited ¹	61,740,641	11.87%
Brickworks Limited ²	61,740,641	11.87%

1 Details included on substantial shareholder notice dated 18 November 2013 lodged by Brickworks Limited. This does not agree to the holding of Washington H. Soul Pattinson & Company Limited as at 30 June 2015

2 Details included on substantial shareholder notice dated 18 November 2013. Shares held by Brickworks Limited represent a technical relevant interest as a result of Brickworks Limited's shareholding in Washington H Soul Pattinson & Company Limited.

3) Other Information:

- There is no current on-market buy-back in place.
- There were 164 (2014: 226) transactions in securities undertaken by the Group and the total brokerage paid or accrued during the year was \$256,093 (2014: \$497,746)

4) Management Expense Ratio:

The Management Expense Ratio ("MER") is the total expenses of the Group for the financial year, as shown in the income statement, expressed as a percentage of the average total assets of the Group for the financial year.

30/06/04	30/06/05	30/06/06	30/06/07	30/06/08	30/06/09	30/06/10	30/06/11	30/06/12	30/06/13	30/06/14	30/06/15
0.69%	0.71%	0.56%	0.46%	0.46%	0.31%	0.19%	0.18%	0.18%	0.19%	0.17%	0.18%