

Annual Report 2016

for year ended 30 June 2016



**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

Portfolio Manager

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

BKI INVESTMENT COMPANY LIMITED

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BKI INVESTMENT COMPANY LIMITED

FINANCIAL HIGHLIGHTS

	Change		Jun 2016 \$'000	Jun 2015 \$'000
Revenue performance				
Total income – ordinary	Down 1.6%	to	43,833	from 44,568
Total income - special	Down 48.4%	to	1,082	from 2,095
Total income from ordinary activities	Down 3.7%	to	44,915	from 46,663
Profits				
Net operating result before special dividend income	Up 0.7%	to	41,170	from 40,876
Special dividend income	Down 48.4%	to	1,082	from 2,095
Net profit from ordinary activities after tax attributable to shareholders	Down 1.7%	to	42,252	from 42,971
Net profit attributable to shareholders	Down 1.7%	to	42,252	from 42,971
Portfolio				
Total portfolio value (including cash & receivables)	Up 1.0%	to	926,993	from 918,264
Earnings per share (EPS)				
			Cents	Cents
Basic EPS before special dividend income	Down 3.2%	to	7.16	from 7.40
Basic EPS after special dividend income	Down 5.5%	to	7.35	from 7.78
Dividends				
Interim	Up 1.4%	to	3.60	from 3.55
Final	Steady	to	3.65	from 3.65
Full year total	Up 0.7%	to	7.25	from 7.20

Dividend History (cents per share):

	30 June	2004*	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Interim	-	-	2.10	2.50	2.60	3.00	3.00	2.50	3.00	3.20	3.25	3.45	3.55	3.60
Final	2.00	2.00	2.20	2.50	2.70	3.00	3.00	2.75	3.00	3.20	3.40	3.50	3.65	3.65
Special	-	-	-	1.00	-	-	-	1.00	1.00	-	0.50	-	-	-
Total	2.00	2.00	4.30	6.00	5.30	6.00	6.00	6.25	7.00	6.40	7.15	6.95	7.20	7.25

* 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 (\$ per share):

	30 June	2004*	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
NTA before tax	1.08	1.08	1.28	1.43	1.69	1.52	1.22	1.32	1.42	1.30	1.52	1.63	1.65	1.55
NTA after tax	1.06	1.06	1.20	1.32	1.51	1.41	1.19	1.27	1.34	1.26	1.42	1.51	1.53	1.47

BKI INVESTMENT COMPANY LIMITED

FINANCIAL HIGHLIGHTS - Continued

Securities Held and their Market value as at 30 June 2016

	Number of shares held	Market value \$'000	Portfolio weight %
Financials			
Commonwealth Bank	1,102,477	81,991	8.83
National Australia Bank	2,686,976	68,330	7.73
Westpac Banking Corporation	2,262,015	66,503	7.17
ANZ Banking Group	1,560,624	37,642	4.06
IAG Limited	3,157,370	17,208	1.86
ASX Limited	375,500	17,183	1.85
Suncorp Group	1,196,094	14,568	1.57
Macquarie Group	170,370	11,738	1.27
AMP Limited	1,872,946	9,664	1.04
Milton Corporation	2,103,640	9,004	0.97
Bank of Queensland	810,000	8,578	0.93
Challenger Limited	935,000	8,069	0.87
Perpetual Limited	181,751	7,474	0.81
IOOF Holdings	609,094	4,769	0.51
Equity Trustees	162,961	2,679	0.29
		365,401	39.40
Telecommunications			
TPG Telecom	4,420,000	52,598	5.67
Telstra Corporation	9,191,404	51,104	5.51
		103,702	11.18
Industrials			
Transurban Group	2,218,205	26,596	2.87
Sydney Airport	2,045,427	14,195	1.53
Brambles Limited	1,045,576	12,955	1.40
Qube Holdings	4,652,747	10,283	1.11
Seek Limited	537,500	8,175	0.88
Lindsay Australia	16,341,631	7,762	0.84
Programmed Maintenance Services	354,654	622	0.07
Salmat Limited	1,080,088	475	0.05
		81,064	8.74
Consumer Staples			
Wesfarmers Limited	1,002,753	40,210	4.34
Woolworths Limited	1,050,244	21,940	2.37
Coca Cola Limited	1,233,894	10,155	1.10
Graincorp Limited	93,444	806	0.09
Amcor	14,388	215	0.02
		73,326	7.91
Utilities			
APA Group	3,659,452	33,813	3.65
AGL Energy Limited	1,250,708	24,126	2.60
		57,939	6.25

BKI INVESTMENT COMPANY LIMITED

FINANCIAL HIGHLIGHTS - Continued

List of Securities (Continued)

	Number of shares held	Market value \$'000	Portfolio weight %
Consumer Discretionary			
Invocare Limited	1,358,474	17,850	1.93
ARB Corporation	945,447	15,827	1.71
Tatts Group Limited	2,489,000	9,508	1.03
Crown Resorts	155,584	1,962	0.21
Fairfax Media	2,100,000	1,953	0.21
		47,100	5.09
Health Care			
Ramsay Healthcare	264,500	18,981	2.06
Sonic Healthcare	572,031	12,327	1.33
Primary Healthcare	2,484,500	9,814	1.06
Regis Healthcare	650,428	3,051	0.33
Ansell Limited	87,130	1,583	0.17
		45,755	4.95
Energy			
New Hope Corporation	14,815,952	21,039	2.27
Woodside Petroleum Limited	455,802	12,234	1.32
Caltex Australia	151,950	4,847	0.52
Santos Limited	615,292	2,855	0.31
		40,975	4.42
Materials			
BHP Billiton	1,489,822	27,785	3.00
Brickworks Limited	436,209	6,264	0.68
Boral Limited	188,452	1,172	0.13
Alumina Limited	370,000	479	0.05
		35,700	3.86
Property Trusts			
Westfield Corporation	233,157	2,483	0.27
Scentre Group	290,514	1,429	0.15
Lend Lease	5,035	63	0.01
		3,976	0.43
Total portfolio		854,939	92.23
Investment portfolio		854,460	92.18
Trading portfolio		479	0.05
Total portfolio		854,939	92.23
Cash and dividends receivable		72,058	7.77
Total Investment Assets		926,997	100.00

The Group is a substantial shareholder in accordance with the Corporations Act 2001 of Lindsay Australia Limited, holding 5.64% of the issued capital as at 30 June 2016. 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.

BKI INVESTMENT COMPANY LIMITED

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

Having 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 Portfolio Manager, Mr Will 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.

BKI INVESTMENT COMPANY LIMITED

CHAIRMAN'S ADDRESS

Dear Shareholders,

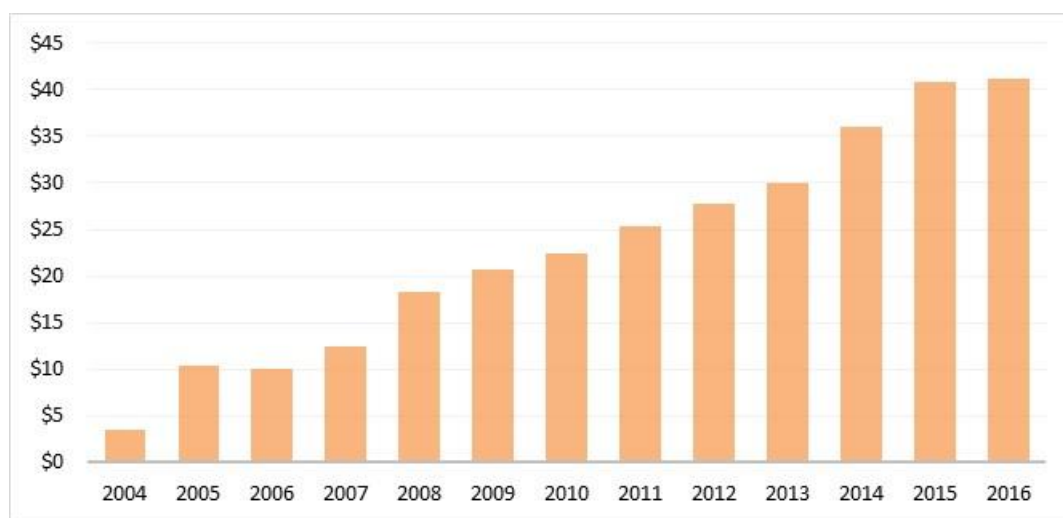
I am pleased to enclose the 13th Annual Report of BKI Investment Company Limited (BKI) for the year to 30 June 2016.

Result Highlights

BKI's Net Operating Result before special investment revenue increased 1% to \$41.2m, while the BKI Board has declared a Final Ordinary Dividend of 3.65cps, unchanged from the 2015 Final Dividend. BKI's Full Year Dividend totalled 7.25cps, a 1% increase on last year.

BKI's Net Operating Result of \$41.2m was mainly driven by higher dividends received from Transurban Limited, APA Group, Sydney Airports, Macquarie Group, TPG Telecom and Ramsay Healthcare. Lower dividends received from BHP Billiton, Woolworths, Woodside Petroleum, ANZ Banking Group and Suncorp Group impacted the result, while revenues from bank deposits and investments held for trading were also lower than the corresponding period. The resulting basic earnings per share decreased 3.3% to 7.16cps on an increased share capital base.

BKI also received special dividend income for the year from New Hope Corporation, Milton Corporation, Suncorp Group and IAG Group. Total special dividend income received was \$1.1m compared to \$2.1m last year, generating basic earnings per share after special dividend income of 7.35cps (2015: 7.78cps).



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

Dividends

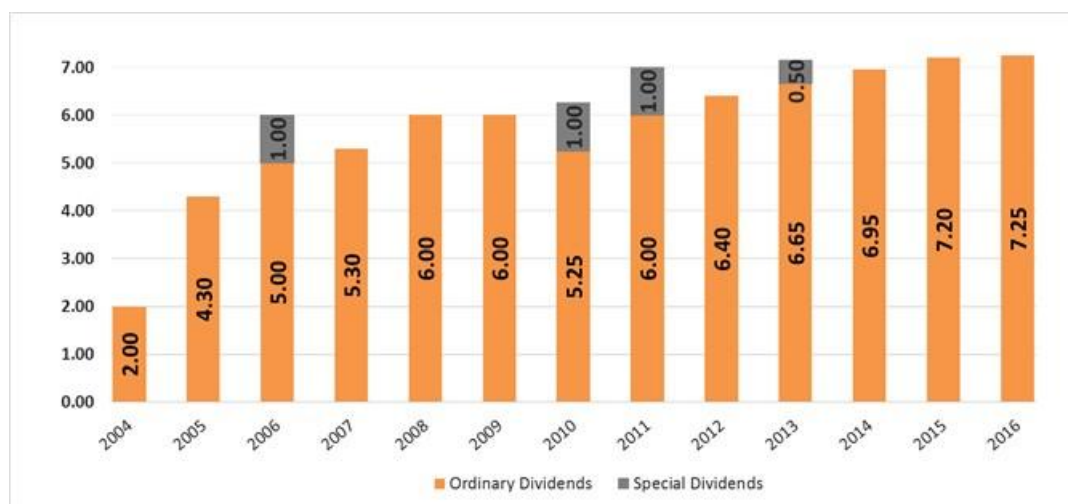
The Directors have declared a fully franked Final Ordinary Dividend of 3.65cps, in line with the prior year corresponding period. BKI's Total Full Year Dividend is 7.25cps, a 1% increase on last year. The full year dividend payment of 7.25cps represents a 99% pay-out ratio on BKI's Net Operating Profit. BKI's historical grossed up yield as at 30 June 2016 was 6.6%, based on the share price as at 30 June 2016 and a tax rate of 30%. BKI has ample franking credits to ensure dividends are fully franked into the future.

BKI's Dividend Re-investment plan (DRP) will be maintained, offering shareholders the opportunity to acquire further ordinary shares in BKI. 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 (Monday 8 August 2016).

The last day for shareholders to nominate for their participation in the DRP is Tuesday 9 August 2016.

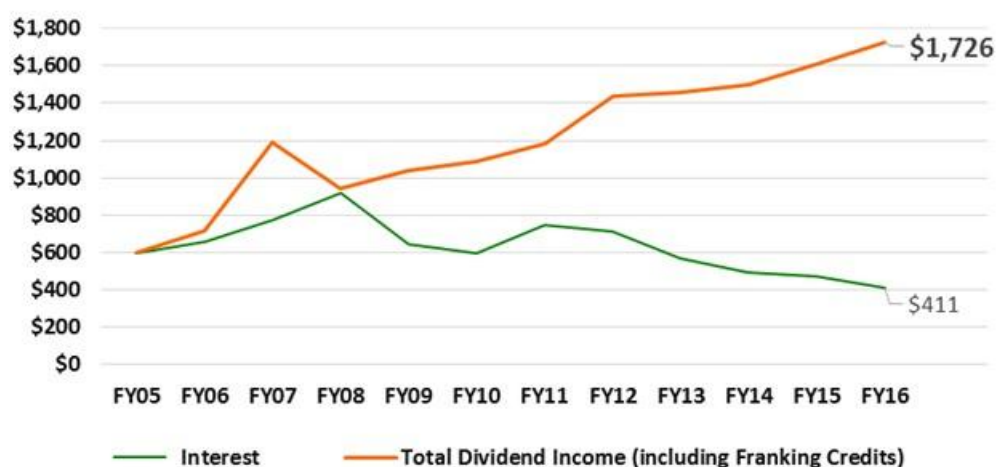
BKI INVESTMENT COMPANY LIMITED

CHAIRMAN'S ADDRESS - Continued



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

The Board and Management continue to focus on creating wealth for all shareholders by keeping costs low and increasing fully franked dividends and capital growth. BKI has been listed for 12.5 years and has been providing shareholders with an increasing income stream of fully franked dividends and capital growth throughout this time. As can be seen in the chart below, an investor who spent the equivalent of \$10,000 to purchase BKI shares upon listing in December 2003 and had reinvested dividends would now be receiving fully franked dividends of \$1,208pa. The franking credits enhance the income by a further \$518 (based on current corporate tax rate of 30%), taking total income received in FY2016 to \$1,726. The same investment in a term deposit, based on the cash rate plus 0.50% would only be earning \$441pa pre-tax and without benefit of franking credits.



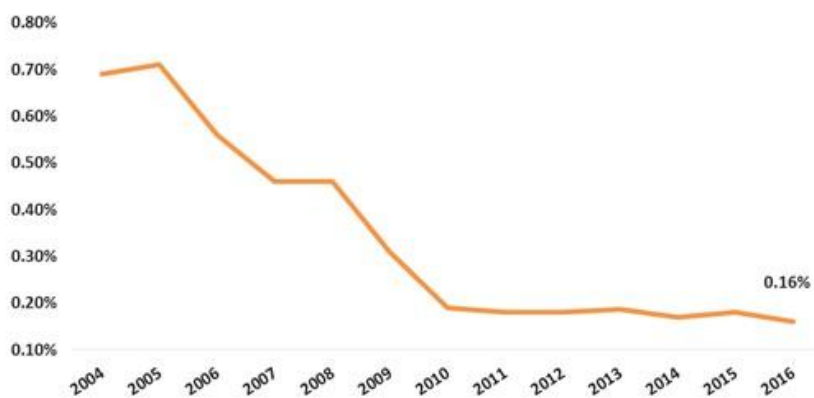
Above - Fully Franked dividends received on a \$10k investment in BKI at listing in 2003.

Management Expense Ratio

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 INVESTMENT COMPANY LIMITED

CHAIRMAN'S ADDRESS - Continued



Above: Historical MER achieved by BKI.

Performance

BKI's Total Shareholder Return (including the reinvestment of dividends) for the year to 30 June 2016 was negative 0.8%, compared to the S&P/ASX 300 Accumulation Index which returned positive 0.9% over the same period. BKI's Total Shareholder Return for 5 years, 10 years and 12 years outperformed the Index by 3.5% per annum, 2.0% per annum and 1.2% per annum respectively.

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 2016 was negative 1.4%.

BKI Performance as at 30 June 2016	1 Year	3 Yrs (pa)	5 Yrs (pa)	7 Yrs (pa)	10 Yrs (pa)	12 Yrs (pa)
<i>S&P/ASX 300 ACC INDEX (XKOA1)</i>	0.9%	7.7%	7.2%	8.7%	4.8%	7.9%
<i>BKI Total Shareholder Return (TSR)</i>	(0.8%)	8.2%	10.7%	11.3%	6.7%	9.1%
BKI TSR Outperformance V's XKOA1	(1.7%)	0.5%	3.5%	2.6%	2.0%	1.2%
<i>BKI Portfolio Performance</i>	(1.4%)	5.2%	6.6%	8.3%	5.7%	7.6%
BKI Portfolio Outperformance V's XKOA1	(2.3%)	(2.5%)	(0.6%)	(0.4%)	0.9%	(0.3%)

BKI Performance Including Franking Credits	1 Year	3 Yrs (pa)	5 Yrs (pa)	7 Yrs (pa)	10 Yrs (pa)	12 Yrs (pa)
<i>S&P/ASX 300 ACC INDEX (XKOA1) - 80% Franked</i>	2.4%	9.3%	9.0%	10.5%	6.5%	9.6%
BKI Total Shareholder Return - 100% Franked	1.1%	10.1%	13.0%	13.6%	9.0%	11.3%

The following chart shows BKI's Total Shareholder Return including Franking Credits. The S&P/ASX 300 Accumulation Index has been franked at approximately 80% over this period.



Above - BKI Total Shareholder Return Including Franking Credits as at 30 June 2016

BKI INVESTMENT COMPANY LIMITED

CHAIRMAN'S ADDRESS - Continued

BKI's Total Shareholder Return including Franking Credits for 5 years, 10 years and 12 years outperformed the Index by 4.0% per annum, 2.5% per annum and 1.7% per annum respectively.

Portfolio Movements

BKI's net investment over FY2016 was approximately \$76m, with major long term investments made in companies including; Commonwealth Bank, ANZ Banking Group, Westpac Banking Corporation, National Australia Bank, Macquarie Group, Qube Logistics, Telstra Corporation, Ramsay Healthcare, Caltex Australia, APA Group and Sydney Airports. The main disposals from BKI's investment portfolio included Bendigo and Adelaide Bank, Clydesdale Bank, RioTinto Limited and the partial sell-down of our position in BHP Billiton.

During the year BKI completed the acquisition of all the issued capital of three unlisted investment companies with net assets of approximately \$32m. The private companies acquired were a good fit with BKI's existing portfolio. An investment in BKI provides the vendors with administration simplicity as well as access to a low cost diversified equity portfolio, increasing fully franked dividend distributions and capital growth. This brings the number of transactions of this nature completed by BKI to four, which will benefit existing BKI shareholders by increasing the size of BKI's portfolio in a cost-effective manner. The BKI Board looks forward to engaging in similar transactions in the future.

Outlook

Twelve months ago, we said that we expected fiscal 2016 to be an interesting year for equity markets. While the broad market return was flat, there was significant volatility in equities. This has created a sense of uncertainty.

Investor sentiment is downbeat and much of the news flow is focused on the negative. Slowing consumption and manufacturing growth rates in Asia continue to impact sentiment as does the uncertain political landscape in many major economies. The Australian Dollar traded sideways in fiscal 2016, which impacted a number of our export facing industries. Many Australian resources companies continue to be challenged by the imbalance between supply and demand of commodities.

Last year we lamented that many Australian listed companies were focused on cost out strategies rather than growth initiatives. The benign Australian economy has seen that behaviour continue. The subdued investor sentiment is yet to translate into a broad based sell-off of the market. We do not necessarily expect one. There is little incentive for investors to transition into cash. Australia's historically low interest rate environment continues to drive investors to chase yield. Well managed companies offering quality and sustainable dividend yields continue to trade at lofty multiples. We remain cautious on those companies trading on high earnings multiples that will struggle to deliver sustainable growth. We also remain cautious on companies with unsustainable dividend payout ratios.

While we recognise the challenges in the economy, we believe the BKI portfolio is well placed for the long-term. We think there is cause for optimism. As long-term investors, we welcome periods of volatility where we can add to the holdings of those businesses that we deem to be superior. We continually look for businesses that are managed by capable executives, are appropriately geared, have a favourable outlook and are appropriately priced. A sustainable income stream remains a core tenet of our disciplined investment criteria.

BKI remains in a strong financial position with no debt, and cash and cash equivalents representing approximately 8% of the portfolio.

Yours sincerely,



Robert Millner
Chairman
Sydney, 19 July 2016

BKI INVESTMENT COMPANY LIMITED

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 2016.

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

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)

Special Responsibilities:

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

David Capp Hall, AM, FCA, FAICD – Independent Non-Executive Director

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

Ian Thomas Huntley, BA – Independent Non-Executive Director

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 advisory 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
- Member of the Nomination Committee

BKI INVESTMENT COMPANY LIMITED

DIRECTORS' REPORT - Continued

1. Directors (continued)

Alexander James Payne, B.Comm, Dip Cm, FCPA, FCIS, FCIM –Non-Executive Director

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

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, New Hope Corporation 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 Clover Corporation Limited (ASX: CLV), and is Company Secretary and CFO of a number of unlisted investment and industrial companies.

3. Meetings of Directors

Summarised below are the numbers of Board meetings and Committee meetings held during the year to 30 June 2016, and the numbers of meetings attended by each Director.

	Board ¹		Investment		Audit		Remuneration		Nomination ²	
	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend
RD Millner	11	11	11	13	-	-	2	2	-	-
AJ Payne	11	11	13	13	2	2	2	2	1	1
DC Hall	11	11	-	-	2	2	2	2	1	1
IT Huntley	10	11	12	13	2	2	2	2	-	-

1 The number of board meetings includes circular resolutions passed by the board during the year.

2 The sole meeting of the Nomination Committee was held in July 2015. Mr RD Millner and Mr IT Huntley were not members of the Committee at this time as they were scheduled for re-election as Directors under the Company's Director rotation policy. Subsequent to being re-elected as Directors at the 2015 AGM Mr RD Millner and Mr IT Huntley were reappointed to the Nomination Committee, and Mr AJ Payne resigned from the Committee as he is due for re-election as a Director at the 2016 AGM

BKI INVESTMENT COMPANY LIMITED

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

BKI's Net Operating Result before special investment revenue increased 1% to \$41.2m (2015: \$40.9m), supported by higher dividends received from Transurban Limited, APA Group, Sydney Airports, Macquarie Group, TPG Telecom and Ramsay Healthcare. Lower dividends received from BHP Billiton, Woolworths, Woodside Petroleum, ANZ Banking Group and Suncorp Group reduced the result, while revenues from bank deposits and investments held for trading were also lower than the previous year. The resulting basic earnings per share decreased 3.3% to 7.16cps on an increased share capital base.

BKI also received special dividend income for the year from New Hope Corporation, Milton Corporation, Suncorp Group and IAG Group. Total special dividend income received was \$1.1m compared to \$2.1m in 2015FY, resulting in a basic earnings per share after special dividend income of 7.35cps (2015: 7.78cps).

BKI's Total Shareholder Return for the year to 30 June 2016 was negative 0.8%, compared to the S&P/ASX 300 Accumulation Index which returned positive 0.9% over the same period. BKI's 12 year Total Shareholder Return including the benefit of franking credits was 11.3% pa as at 30 June 2016.

6. Review of Operations

Operating expenses decreased \$0.13m to \$1.48m (2015: \$1.61m). This, combined with an increase in the average Total Portfolio Value during the year, lowered BKI's MER to 0.16% (2015: 0.18%).

BKI's net investment over FY2016 was approximately \$76m, with major long term investments made in companies including; Commonwealth Bank, ANZ Banking Group, Westpac Banking Corporation, National Australia Bank, Macquarie Group, Qube Logistics, Telstra Corporation, Ramsay Healthcare, Caltex Australia, APA Group and Sydney Airports. The main disposals from BKI's investment portfolio included Bendigo and Adelaide Bank, Clydesdale Bank, RioTinto Limited and a partial disposal of BHP Billiton.

During the year BKI completed the acquisition of three unlisted investment companies with net assets of approximately \$32m. The private companies acquired were a strong fit with BKI's existing portfolio. This brings the number of transactions of this nature completed by BKI to four, which benefit existing BKI shareholders by increasing the size of BKI's portfolio in a cost-effective manner.

7. Financial Position

Net assets of the Group increased during the financial year by \$26.7m to \$880.0m. Acquisitions of unlisted investment entities increased assets by a combined \$32m during the year and the SPP in May 2016 increased funds by an additional \$28.2m. This was affected by a net decrease of \$33.9m in the market value of the investment portfolio.

8. Employees

The Group has two employees as at 30 June 2016 (2015: 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 2016:

- On 27 August 2015, a final total dividend of \$20,314,465 (ordinary dividend of 3.65 cents per share fully franked) was paid out of retained profits at 30 June 2015.
- On 26 February 2016, an interim total dividend of \$20,473,202 (ordinary dividend of 3.60 cents per share, fully franked) was paid out of retained profits at 31 December 2015.

In addition, the Directors declared a final ordinary dividend of 3.65 cents per share fully franked payable on 26 August 2016.

At 30 June 2016 there are \$15,714,362 of franking credits available to the Group (2015: \$13,847,692) 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 2016, the Group paid premiums 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. The Directors have not included details of the nature of liabilities covered or the amount of premium paid in respect of the insurance contract as such disclosure is prohibited under the terms of the contract.

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

The external auditor, MGI Sydney Assurance Services Pty Limited ("MGI Sydney"), did not provide any non-audit services to the Group during the year to 30 June 2016, nor did the Group pay any fees for such services.

18. Auditor's Independence Declaration

The Auditor's Independence Declaration for the year to 30 June 2016 is on page 46.

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:

Name	Number of Shares
RD Millner*	8,555,552
DC Hall	297,326
AJ Payne	295,872
IT Huntley	11,224,980
TCD Millner*	7,660,745
J Pinto	77,937

* Common to RD Millner and TCD Millner are 7,260,805 shares (2015: 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/#cgs>

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 Portfolio Manager, 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.

BKI INVESTMENT COMPANY LIMITED

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.

For financial years up to and including the year ended 30 June 2016, the value of the Short Term Incentive for the CEO was calculated as 15% of CEO Base Remuneration. For future financial years, commencing 1 July 2016, the value of the Short Term Incentive for the CEO will be calculated as 20% of CEO Base Remuneration.

For financial years up to and including the year ended 30 June 2016, the value of the Short Term Incentive for the Portfolio Manager was calculated as 10% of Portfolio Manager Base Remuneration. For financial years, commencing 1 July 2016, the value of the Short Term Incentive for the Portfolio Manager will be calculated as 15% of Portfolio Manager Base Remuneration.

The Short Term Incentive for the Company Secretary is set at 40% of the CEO Incentive.

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 2016 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
(1.4%)	0.9%	(2.3%)	Nil

The vesting criteria for the 2016 Financial Year Short Term Incentives were therefore not satisfied, and the Company did not award any short term incentives in respect of 2016 Financial Year Short Term incentives. However, as noted in the 2015 Annual Report, in July 2015 the Company purchased 51,577 shares in satisfaction of 2015 Financial Year Short Term Incentives.

BKI INVESTMENT COMPANY LIMITED

DIRECTORS' REPORT - Continued

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 financial years up to and including the year ended 30 June 2016, the CEO's Long Term Incentive was calculated on 25% of the Base Remuneration of the CEO. For future financial years, commencing 1 July 2016, the Long Term Incentive for the CEO will be calculated as 30% of CEO Base Remuneration.

For financial years up to and including the year ended 30 June 2016, the Portfolio Manager's Long Term Incentive was calculated on 15% of the Base Remuneration of the Portfolio Manager. For future financial years commencing 1 July 2016, the Long Term Incentive for the Portfolio Manager will be calculated as 20% of Portfolio Manager Base Remuneration.

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.

All outstanding incentives granted are to be awarded to the above executives 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.

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 2016 financial year, and has included these costs in the disclosed remuneration of the CEO and Company Secretary.

During the 2016 Financial Year the following outstanding Long Term Incentives granted by the Company became eligible for vesting:

Incentive issue	Issue date	Number of rights granted	Value of initial grant	Initial vesting date	Expiry date	Number of rights vested	Number of rights yet to vest/lapse
J Pinto 2012	13/12/2011	18,010	\$21,450	12/12/2015	11/12/2016	18,010	-
T Millner 2013	01/07/2012	64,230	\$74,250	30/06/2016	30/06/2017	64,230	-
J Pinto 2013	01/07/2012	25,692	\$29,700	30/06/2016	30/06/2017	25,692	-

The table below summarises the performance for each relevant four year period against the Long Term Incentive measurement criteria:

Period	4 year BKI total shareholder return	S&P/ASX 300 accumulation index over 4 years	Over/ (Under) performance	% Entitlement to eligible bonus
13/12/2011 to 12/12/2015	14.6%	9.2%	5.3%	100%
1/07/2012 to 30/06/2016	13.1%	11.1%	2.0%	100%

Based on the above performance:

- the vesting criteria for Long Term incentives issued on 13 December 2011 were satisfied, and during the 30 June 2016 Financial Year the Company purchased on market 18,010 shares on behalf of executives.
- The vesting criteria for Long Term Incentives issued on 1 July 2012 were satisfied, and subsequent to 30 June 2016 the Company will purchase on market 89,922 shares on behalf of executives.

BKI INVESTMENT COMPANY LIMITED

DIRECTORS' REPORT - Continued

No outstanding Long Term Incentives granted by the Company became eligible for vesting between 1 July 2016 and the date of this report.

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
T Millner 2014	01/07/2013	54,996	\$76,500	30/06/2017	30/06/2018	-	54,996
J Pinto 2014	01/07/2013	21,998	\$30,600	30/06/2017	30/06/2018	-	21,998
W Culbert 2014	01/12/2013	12,847	\$20,075	30/11/2017	30/11/2018	-	12,847
T Millner 2015	01/07/2014	46,363	\$76,500	30/06/2018	30/06/2019	-	46,363
J Pinto 2015	01/07/2014	18,545	\$30,600	30/06/2018	30/06/2019	-	18,545
W Culbert 2015	01/07/2014	20,904	\$34,493	30/06/2018	30/06/2019	-	20,904
T Millner 2016	01/07/2015	46,570	\$78,750	30/06/2019	30/06/2020	-	46,570
J Pinto 2016	01/07/2015	18,628	\$31,500	30/06/2019	30/06/2020	-	18,628
W Culbert 2016	01/07/2015	22,176	\$37,500	30/06/2019	30/06/2020	-	22,176
T Millner 2016	01/07/2016	60,076	\$94,500	30/06/2020	30/06/2021	-	60,076
J Pinto 2016	01/07/2016	24,030	\$37,800	30/06/2020	30/06/2021	-	24,030
W Culbert 2016	01/07/2016	33,375	\$52,500	30/06/2020	30/06/2021	-	33,375

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

Remuneration Details for the Year to 30 June 2016

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 AM	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

BKI INVESTMENT COMPANY LIMITED

DIRECTORS' REPORT - Continued

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 are as follows:

Directors:

	Primary fee \$	Superannuation \$	Total \$
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
2016			
RD Millner	63,699	6,051	69,750
DC Hall	49,315	4,685	54,000
AJ Payne	40,297	3,828	44,125
IT Huntley	40,297	3,828	44,125
Total	193,608	18,392	212,000

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.

Other Key Management Personnel:

	Fixed remuneration			Share based performance related remuneration			Total Remuneration
	Salary	Super-annuation	Total	STI	LTI	Total	
2015							
TCD Millner	291,717	18,783	310,500	45,900	91,746	137,646	448,146
J Pinto	-	-	-	18,360	51,948	70,308	70,308
Total	291,717	18,783	310,500	64,260	143,694	207,954	518,454
2016							
TCD Millner	295,692	19,308	315,000	-	75,132	75,132	390,132
J Pinto	-	-	-	-	31,178	31,178	31,178
Total	295,692	19,308	315,000	-	106,310	106,310	421,310

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.

The relative proportions of Total Remuneration that are fixed or linked to performance are as follows:

	Fixed remuneration		Performance-related - STI		Performance-related - LTI	
	2016	2015	2016	2015	2016	2015
TCD Millner	80.7%	69.3%	0%	10.2%	19.3%	20.5%
J Pinto	0%	0%	0%	26.1%	100%	73.9%

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

BKI INVESTMENT COMPANY LIMITED

DIRECTORS' REPORT - Continued

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
19 July 2016

BKI INVESTMENT COMPANY LIMITED

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 \$'000	2015 \$'000
Ordinary revenue from investment portfolio	2(a)	41,738	40,815
Revenue from bank deposits	2(c)	1,155	1,519
Other income	2(d)	-	8
Other gains	2(e)	940	2,226
Income from operating activities before special investment revenue		43,833	44,568
Operating expenses	3	(1,479)	(1,607)
Discount on acquisition of controlled entities, net of expenses		114	-
Operating result before income tax expense and special investment revenue		42,468	42,961
Income tax expense	4(a)	(1,298)	(2,085)
Net operating result before special investment revenue		41,170	40,876
Special investment revenue	2(b)	1,082	2,095
Net operating profit		42,252	42,971
Profit for the year attributable to members of the Company		42,252	42,971

	Note	2016 Cents	2015 Cents
Basic and diluted earnings per share before special dividend income	6	7.16	7.40
Basic and diluted earnings per share after special dividend income	6	7.35	7.78

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

BKI INVESTMENT COMPANY LIMITED

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 \$'000	2015 \$'000
Profit for the year attributable to members of the Company		42,252	42,971
Other comprehensive income			
Unrealised gains/ (losses) on investment portfolio		(48,470)	3,671
Deferred tax expense on unrealised gains / (losses) on investment portfolio		14,541	(1,101)
Realised gains/ (losses) on investment portfolio		(9,244)	2,670
Tax (expense)/ benefit relating to realised gains/losses on investment portfolio	4(a)	2,773	(802)
Total other comprehensive income		(40,400)	4,438
Total comprehensive income		1,852	47,409

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

BKI INVESTMENT COMPANY LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2016

		2016	2015
	Note	\$'000	\$'000
Current assets			
Cash and cash equivalents	7	63,740	41,133
Trade and other receivables	8	8,315	17,688
Trading portfolio	9	479	566
Prepayments		24	29
Total current assets		72,558	59,416
Non-current assets			
Investment portfolio	9	854,460	858,877
Property, plant and equipment		21	18
Deferred tax assets	10	12,129	9,375
Total non-current assets		866,610	868,270
Total assets		939,168	927,686
Current liabilities			
Trade and other payables		484	486
Current tax liabilities	11	381	993
Employee benefits		16	19
Total current liabilities		881	1498
Non-current liabilities			
Deferred tax liabilities	12	58,308	72,936
Employee benefits		19	16
Total non-current liabilities		58,327	72,952
Total liabilities		59,208	74,450
Net Assets		879,960	853,236
Equity			
Share capital	13	718,221	652,562
Revaluation reserve	14	133,287	167,216
Realised capital gains reserve	15	(16,840)	(10,369)
Retained profits	16	45,292	43,827
Total Equity		879,960	853,236

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

BKI INVESTMENT COMPANY LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2016

	Share capital \$'000	Revaluation reserve \$'000	Realised capital gains reserve \$'000	Retained profits \$'000	Total equity \$'000
Total equity at 1 July 2014	599,124	164,646	(12,237)	39,913	791,446
Issue of shares, net of issue costs	53,438	-	-	-	53,438
Dividends paid or provided for	-	-	-	(39,057)	(39,057)
Unrealised gain on revaluation of investment portfolio	-	3,671	-	-	3,671
Provision for tax on unrealised gain 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
Total equity at 1 July 2015	652,562	167,216	(10,369)	43,827	853,236
Issue of shares, net of issue costs	65,659	-	-	-	65,659
Dividends paid or provided for	-	-	-	(40,787)	(40,787)
Unrealised loss on revaluation of investment portfolio	-	(48,470)	-	-	(48,470)
Provision for tax on unrealised loss on revaluation of investment portfolio	-	14,541	-	-	14,541
Net operating profit for the year	-	-	-	42,252	42,252
Net realised loss through other comprehensive income	-	-	(6,471)	-	(6,471)
Total equity at 30 June 2016	718,221	133,287	(16,840)	45,292	879,960

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

BKI INVESTMENT COMPANY LIMITED

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 \$'000	2015 \$'000
Cash flows from operating activities			
Dividends and distributions received		42,242	42,398
Other receipts in the course of operations		-	8
Payments to suppliers and employees		(1,474)	(1,409)
Proceeds from sale of trading portfolio		2,748	10,629
Payments for trading portfolio		-	(8,763)
Interest received		1,292	1,655
Income tax paid		(1,881)	(986)
Net cash inflow from operating activities	17(a)	42,927	43,532
Cash flows from investing activities			
Cash acquired on acquisition of controlled entities		137	-
Proceeds from sale of investment portfolio		29,886	33,270
Capital returns received from investment portfolio		-	1,930
Payments for investment portfolio		(43,451)	(92,833)
Payments for plant and equipment		(9)	(14)
Net cash outflow from investing activities		(13,437)	(57,647)
Cash flows from financing activities			
Proceeds from issues of ordinary shares less issue costs		27,883	47,482
Dividends paid	5(b)	(34,766)	(33,194)
Net cash inflow/ (outflow) from financing activities		(6,883)	14,288
Net increase in cash held		22,607	173
Cash at the beginning of the year		41,133	40,960
Cash at the end of the year	7	63,740	41,133

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

BKI INVESTMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

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 21(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 2016

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.

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'.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

1. Summary of Significant Accounting Policies (continued)

c. Financial Instruments (continued)

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.

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.

(ii) Long service leave

In calculating the value of long service leave, where the total long service leave liability becomes material, consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. In such circumstances, expected future payments are discounted using market yields at balance date on long term corporate 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 four year period. The incentives are settled in shares. 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. 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 and distribution revenue is recognised when the right to receive a dividend or distribution has been established.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

1. Summary of Significant Accounting Policies (continued)

f. **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.

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.

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. The Group operates solely in the securities industry in Australia and has no reportable 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 Corporations Instrument (Rounding in Financial / Directors' Reports) 2016/191 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 12. 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.

BKI INVESTMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

1. Summary of Significant Accounting Policies (continued)

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 2016 ("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.

2016	2015
\$'000	\$'000

2. Revenues

(a) Ordinary revenue from investment portfolio

Fully franked dividends	37,220	36,785
Unfranked dividends	1,431	1,034
Trust distributions	3,087	2,996
Total ordinary revenue from investment portfolio	41,738	40,815

(b) Special investment revenue

Fully franked dividends	1,082	2,095
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(c) Revenue from bank deposits

Interest received	1,155	1,519
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(d) Other income

Other revenue	-	8
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(e) Other gains

Net realised gain on sale of investment held for trading	1,027	2,163
Net unrealised gain/ (loss) on investments held for trading	(87)	63
Total other gains	940	2,226

Total income	44,915	46,663
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3. Operating expenses

Administration expenses	376	352
Occupancy expenses	13	13
Employment expenses	930	1,075
Professional fees	153	160
Depreciation	7	7
Total operating expenses	1,479	1,607

BKI INVESTMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

	2016 \$'000	2015 \$'000
4. Tax expense		
(a) Reconciliation of income 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:		
Operating profit before income tax expense, including gross gains on investment portfolio	43,550	45,056
Tax calculated at 30% (2015: 30%)	13,065	13,517
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
- Franked dividends and distributions received	(11,491)	(11,664)
- Permanent difference to reset tax cost base of investments acquired on acquisition of subsidiaries	(195)	-
- Discount on acquisition of subsidiaries, net of expenses	(34)	-
- Prior year (over)/ under provision	(47)	232
Net income tax expense on operating profit before net gains on investments	1,298	2,085
Net realised gains/(losses) on investment portfolio	(9,244)	2,670
Tax calculated at 30% (2015: 30%)	(2,773)	802
Total tax expense/ (benefit)	(1,474)	2,887
(b) The components of tax expense comprise:		
Current tax	1,264	1,531
Deferred tax	(2,692)	1,124
Prior year (over)/ under provision	(47)	232
Total tax expense/ (benefit)	(1,474)	2,887
5. Dividends		
(a) Dividends paid during the year		
Final dividend for the year ended 30 June 2015 of 3.65 cents per share (2014 final: 3.50 cents per share) fully franked at the tax rate of 30%, paid on 27 August 2015	20,314	19,359
Interim dividend for the year ended 30 June 2016 of 3.60 cents per share (2015 interim: 3.55 cents per share) fully franked at the tax rate of 30%, paid on 26 February 2016	20,473	19,698
Total dividends paid	40,787	39,057

BKI INVESTMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

	2016 \$'000	2015 \$'000
5. Dividends (continued)		
(b) Reconciliation of total dividends paid to dividends paid in cash:		
Total dividends paid	40,787	39,057
Less: Dividends reinvested in shares via DRP	(6,021)	(5,863)
Dividends paid in cash	34,766	33,194
(c) 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	24,703	22,554
Estimated impact on the franking account of dividends declared but not recognised as a liability at the end of the financial year (refer below)	(8,989)	(8,076)
Net imputation credits available for future dividends	15,714	13,848
Maximum fully franked dividends payable from available franking credits at the tax rate of 30% (2015: 30%)	36,667	32,311
(d) 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 2016 of 3.65 cents per share fully franked at the tax rate of 30% (2015: final ordinary dividend of 3.65 cents per share fully franked at the tax rate of 30%), payable on 26 August 2016, but not recognised as a liability at the year end.		
6. Earnings per share		
Net operating profit	42,252	42,971
Earnings used in calculating basic and diluted earnings per share before special dividend income	41,170	40,876
Earnings used in calculating basic and diluted earnings per share after special dividend income	42,252	42,971
	2016 No. ('000)	2015 No. ('000)
Weighted average number of ordinary shares used in calculating basic and diluted earnings per share	574,631	552,158
	2016 Cents	2015 Cents
Basic and diluted earnings per share before special dividend income	7.16	7.40
Basic and diluted earnings per share after special dividend income	7.35	7.78

BKI INVESTMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

	2016 \$'000	2015 \$'000
7. Cash and cash equivalents		
Cash at bank	15,740	2,633
Short term bank deposits	48,000	38,500
	63,740	41,133

8. Trade and other receivables

Dividends and distributions receivable	8,091	7,537
Interest receivable	184	321
Outstanding settlements	(3)	9,821
Other	43	9
	8,315	17,688

9. Financial Assets – Investment Portfolio

Trading portfolio – current

Listed securities at fair value held for trading	479	566
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Investment portfolio – non-current

Listed securities at fair value available for sale	854,460	858,877
Total investment portfolio	854,939	859,443

Fair Value Measurement

BKI measures the fair value of its trading portfolio and investment portfolio with reference to the following fair value measurement hierarchy mandated by accounting standards:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and

Level 3: inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

Both the trading portfolio and investment portfolio are classified as Level 1, and are measured in accordance with the policy outlined in Note 1.c.

10. Deferred tax assets

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

Transaction costs on equity issues	371	444
Accrued expenses	121	119
Realised capital tax losses	11,637	8,812
Total	12,129	9,375

BKI INVESTMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

10. Deferred tax assets (continued)

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	499	(147)	92	444
Accrued expenses	56	63	-	119
Realised capital tax losses	9,797	(985)	-	8,812
Balance as at 30 June 2015	10,352	(1,069)	92	9,375
Transaction costs on equity issues	444	(165)	92	371
Accrued expenses	119	2	-	121
Realised capital tax losses	8,812	2,825	-	11,637
Balance as at 30 June 2016	9,375	2,662	92	12,129

2016
\$'000

2015
\$'000

11 Current tax liabilities

Provision for income tax	381	993
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12. Deferred tax liabilities

The deferred tax asset balance comprises the following timing differences:

Revaluation of investments held	57,710	72,308
Non rebateable dividends receivable and interest receivable	598	628
Total	58,308	72,936

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	71,196	-	1,112	72,308
Unfranked dividends receivable and interest receivable	573	55	-	628
Balance as at 30 June 2015	71,769	55	1,112	72,936
Revaluation of investment portfolio	72,308	-	(14,598)	57,710
Unfranked dividends receivable and interest receivable	628	(30)	-	598
Balance as at 30 June 2016	72,936	(30)	(14,598)	58,308

BKI INVESTMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

	2016		2015	
	\$'000		\$'000	
13. Share Capital				
(a) Issued and paid-up capital				
598,420,148 ordinary shares fully paid (2015: 556,560,509)	718,221		652,562	
(b) Movement in ordinary shares				
	2016		2015	
	Number of shares	\$'000	Number of shares	\$'000
Beginning of financial year	556,560,509	652,562	524,240,486	599,124
Issued during the year:				
- dividend reinvestment plan	3,663,370	6,021	3,440,622	5,864
- share purchase plan	18,189,797	28,192	28,879,401	47,790
- acquisition of controlled entities	20,006,472	31,662	-	-
Gross funds raised				53,654
- less net transaction costs		(216)		(216)
End of financial year	598,420,148	718,221	556,560,509	652,562

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 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 2016 net debt was \$Nil (2015: \$Nil).

(d) Acquisition of controlled entities

During the 2016FY the Company acquired 100% of the shares of three unlisted investment companies (2015FY: No acquisitions were made). The Company issued 20,006,472 new shares in BKI Investment Company Limited in total as consideration for the three acquisitions, having a combined fair value of \$32M. These acquisitions benefit BKI shareholders by increasing the size of BKI's portfolio in a cost-effective manner, and at the same time reducing the per share cost of managing the portfolio.

The acquisitions resulted in BKI achieving a discount on acquisition, which is not allocated against assets of the companies purchased because only financial assets were purchased. The discount has therefore been included in "Discount on acquisition of controlled entities, net of expenses" in the "Consolidated Income Statement".

BKI INVESTMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

	2016 \$'000	2015 \$'000
14. Revaluation reserve		
The revaluation reserve is used to record increments and decrements on the revaluation of the investment portfolio, net of applicable income tax.		
Balance at the beginning of the year	167,216	164,646
Gross revaluation of investment portfolio	(48,470)	3,671
Deferred provision for tax on unrealised gains	14,541	(1,101)
Balance at the end of the year	133,287	167,216
15. Realised capital gains reserve		
The realised capital gains reserve records net gains and losses after applicable income tax arising from the disposal of securities in the investment portfolio.		
Balance at the beginning of the year	(10,369)	(12,237)
Net gains/ (losses) on investment portfolio transferred from statement of Comprehensive income	(6,471)	1,868
Balance at the end of the year	(16,840)	(10,369)
16. Retained profits		
Balance at the beginning of the year	43,827	39,913
Net profit attributable to members of the Company	42,252	42,971
Dividends provided for or paid	(40,787)	(39,057)
Balance at the end of the year	45,292	43,827
17. Notes to the statement of cash flows		
(a) Reconciliation of cash flow from operating activities to net operating profit		
Net operating profit	42,252	42,971
Non cash items:		
- Expenses associated with acquisition of subsidiary	(114)	-
- Non-cash purchases of held for trading investments	1,721	-
- Depreciation expense	7	7
- Unrealised loss/ (gain) on trading investments	87	(63)
Changes in assets and liabilities, net of effects from consolidation of subsidiaries:		
- (Increase)/ decrease in trade and other receivables	(445)	(3,131)
- (Increase)/ decrease in held for trading investments	-	2,448
- (Increase)/ decrease in prepayments	5	(9)
- (Increase)/ decrease in deferred tax assets	164	241
- (decrease)/ increase in payables	(2)	194
- (decrease)/ increase in provisions	(1)	17
- (decrease)/ increase in current tax liabilities	(607)	763
- (decrease)/ increase in deferred tax liabilities	(140)	94
Net cash inflow from operating activities	42,927	43,532

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

17. Notes to the statement of cash flows (continued)

(b) Non-cash financing and investing activities

(i) Dividend reinvestment plan

Under the terms of the dividend reinvestment plan, \$6,021,000 (2015: \$5,864,000) of dividends were paid via the issue of 3,663,370 shares (2015: 3,440,622).

(ii) Acquisition of controlled entities

During the year the Company Group acquired shares in three unlisted investment companies via the issue of 20,006,472 new shares in BKI (refer Note 13 (d)).

18. 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.

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.

Cash and bank bills are reviewed monthly by the Board to ensure cash is only placed with pre-approved financial institutions with low risk profiles (primarily "Big 4" banks) and that the spread of cash and bank bills between banks 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 91% (2015: 93%) of total assets.

BKI INVESTMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

18. Management of Financial Risk (continued)

d. Market risk (continued)

As at 30 June 2016, 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 (2015: 5%); and
- A movement of 7.1 cents per share in the net asset backing before provision for tax on unrealised capital gains (2015: 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 2016, the spread of investments is in the following sectors:

	Percentage of total investment (%)		Amount (\$'000)	
	2016	2015	2016	2015
Financials	39.40	43.12	365,401	391,713
Telecommunications Services	11.18	10.27	103,702	93,311
Industrials	8.74	7.01	81,064	63,684
Consumer staples	7.91	8.40	73,326	76,265
Utilities	6.25	5.25	57,939	47,673
Consumer discretionary	5.09	4.66	47,100	42,328
Health care	4.95	4.63	45,755	42,027
Energy	4.42	5.56	40,975	50,499
Materials	3.86	5.36	35,700	48,728
Property trusts	0.43	0.35	3,976	3,216
Total investments	92.23	94.61	854,939	859,443
Cash and dividends receivable	7.77	5.39	72,058	49,000
Total portfolio	100.00	100.00	926,997	908,443

Securities representing over 5% of the investment portfolio at 30 June 2016 or 30 June 2015 were:

	Percentage of total investment (%)		Amount (\$'000)	
	2016	2015	2016	2015
Commonwealth Bank	8.8	9.4	81,991	85,675
National Australia Bank	7.4	9.3	68,330	84,559
Westpac Banking Corporation	7.2	7.4	66,503	67,311
TPG Telecom	5.7	4.4	52,598	39,647
Telstra Corporation	5.5	5.9	51,104	53,664

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

18. Management of Financial Risk (continued)

e. Interest Rate Risk

The Group is not materially exposed to interest rate risk. All cash investments are short term (up to 1 year) for a fixed rate, except for cash in operating bank accounts which are at-call and attract variable rates.

The Group has no financial liability as at 30 June 2016 (2015: Nil).

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 no borrowings, and sufficient cash reserves to fund core operations at current levels for more than 10 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.

19. 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 AM	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

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 2016 have been included in the Remuneration Report section of the Directors' Report.

BKI INVESTMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

19. Key Management Personnel Remuneration (continued)

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 2016FY (2015: nil).

20. 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.

21. Related Party Transactions

Related parties of the Group fall into the following categories:

(i) Controlled Entities

At 30 June 2016, subsidiaries of the Parent were:

	Country of incorporation	Percentage Owned (%)	
		2016	2015
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
George Meller Pty Limited	Australia	100	-
Bryn Cwar Holdings Pty Limited	Australia	100	-
WWM Pty Limited	Australia	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.

(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 2016 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

BKI INVESTMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

21. Related Party Transactions (continued)

(ii) Directors/Officers Related Entities (continued)

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 2016 were \$122,100 (2015: \$122,100, including GST) and are at standard market rates. No fees were owed by the Group to CAS as at 30 June 2016.

(iii) Transactions in securities

Share Holdings

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

	Balance as at	Granted as	Net other	Balance as at	Net movements	Balance
	1 Jul 2015	compensation	changes	30 Jun 2016	post balance date	as at date of Annual Report
2016						
RD Millner ¹	8,484,091	-	71,461	8,555,552	-	8,555,552
DC Hall	277,970	-	19,356	297,326	-	297,326
AJ Payne	286,194	-	9,678	295,872	-	295,872
IT Huntley	11,224,980	-	-	11,224,980	-	11,224,980
TCD Millner ¹	7,597,492	27,148	36,105	7,660,745	-	7,660,745
J Pinto	39,943	28,869	9,125	77,937	-	77,937
Total	27,910,670	56,017	145,725	28,112,412	-	28,112,412

	Balance as at	Granted as	Net other	Balance as at	Net movements	Balance
	1 Jul 2014	compensation	changes	30 Jun 2015	post balance date	as at date of Annual Report
2015						
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
J 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

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

- 7,260,805 (2015: 7,231,771) as at 30 June 2016.
- 7,260,805 (2015: 7,231,771) as at date of Annual Report

Directors acquired shares through the Dividend Reinvestment Plan, the July 2014 Share Purchase Plan, the 2016 Share Purchase Plan and/ or on-market purchase.

There have been no other changes to Directors' shareholdings during the years ended 30 June 2016 or 30 June 2015.

Other Key Management Personnel acquired shares through the Dividend Reinvestment Plan, the July 2014 Share Purchase Plan, the 2016 Share Purchase Plan, on-market purchase, and/ 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.

BKI INVESTMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

	2016 \$'000	2015 \$'000
22. Parent company information		
Information relating to the parent entity of the Group, BKI Investment Company Limited:		
Current assets	72,335	59,409
Non-current assets	1,099,808	1,069,620
Total assets	1,172,143	1,129,029
Current liabilities	803	1,416
Non-current liabilities	299,629	282,338
Total liabilities	300,432	283,754
Issued capital	718,221	652,562
Reserves	153,510	192,713
Total shareholders' equity	871,712	845,275
Net operating profit	41,968	42,973
Total other comprehensive income	(40,402)	4,439

The parent company has no contingent liabilities as at 30 June 2016.

23. Capital and Leasing Commitments

The Group has no capital and leasing commitments as at 30 June 2016.

24. Auditors' Remuneration

Remuneration of the auditor of the parent entity for auditing the financial report of the Parent and the controlled entities

24	23
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25. Contingent Liabilities

The Group has no contingent liabilities as at 30 June 2016.

26. Authorisation

The financial report was authorised for issue on 19 July 2016 by the Board of Directors.

BKI INVESTMENT COMPANY LIMITED

DIRECTORS' DECLARATION

DIRECTORS' DECLARATION

The Directors of BKI Investment Company Limited declare that:

1. the financial statements and notes, as set out on pages 21 to 42, 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 2016 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 2016.

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



Robert D Millner
Director

Sydney
19 July 2016

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

Report on the Financial Report

We have audited the accompanying financial report, being a general purpose financial report of BKI Investment Company Limited and Controlled Entities, which comprises the consolidated statement of financial position as at 30 June 2016, and the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 30 June 2016, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the company 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 controls as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with the 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 have 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 judgment, 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 control 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 control. 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 *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of BKI Investment Company Limited and Controlled Entities, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

- (a) the financial report of BKI Investment Company Limited and Controlled Entities is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards to the extent described in Note 1 and the *Corporations Regulations 2001*; and
- (b) The consolidated financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2016. The directors of the company 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.

Opinion

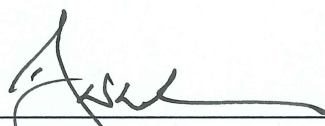
In our opinion, the Remuneration Report of BKI Investment Company Limited and Controlled Entities for the year ended 30 June 2016, complies with section 300A of the *Corporations Act 2001*.

Name of Firm:

MGI Sydney Assurance Services Pty Limited
MGI Sydney Assurance Services Pty Limited

Chartered Accountants

Name of Auditor:



Brian Wheeler
Director

Address:

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

Dated this

19th day of *July* *2016*

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

As lead auditor for the audit of BKI Investment Company Ltd and Controlled Entities for the year ended 30 June 2016. I declare that, to the best of my knowledge and belief, 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 Limited
MGI Sydney Assurance Services Pty Limited

Chartered Accountants

Name of Auditor:



Brian Wheeler
Director

Address:

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

Dated this

19th day of *July* *2016*.

BKI INVESTMENT COMPANY LIMITED

ASX ADDITIONAL INFORMATION

1) Equity Holders

At 30 June 2016 there were 14,358 holders of ordinary shares in the capital of the Parent. These holders were distributed as follow:

Number of shares held	Number of shareholders
1 – 1,000	947
1,001 – 5,000	1,957
5,001 – 10,000	2,116
10,001 – 100,000	8,438
100,001 and over	900
Total	14,358

Holding less than a marketable parcel of 316 shares	521
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The 20 largest holdings of the Parent's share as at 30 June 2016 are listed below:

Name	Number of share held	%
Washington H Soul Pattinson and Company Limited	61,759,383	10.32
Huntley Group Investments Pty Ltd <Huntley Group Investments AC>	8,523,274	1.42
J S Millner Holdings Pty Limited	5,208,913	0.87
Jeanneau Cloud Nine Pty Limited	4,909,012	0.82
GM Pty Limited (GM Family A/C>	3,785,690	0.63
I R McDonald Pty Limited	3,000,000	0.50
Nulis Nominees (Australia) Limited	2,499,965	0.42
Navigator Australia Limited	1,842,704	0.31
Stuart Llewellyn Gwyn Morgan + Margaret Patricia Morgan	1,646,089	0.28
Huntley Group Investments Pty Ltd <Ian Huntley Super Fund A/c>	1,630,711	0.27
Fennybentley Pty Limited	1,554,678	0.26
Farjoy Pty Limited	1,450,800	0.24
Stuart Llewellyn Gwyn Morgan	1,399,588	0.23
HSBC Custody Nominees (Australia) Limited	1,377,299	0.23
T N Phillips Investments Pty Limited	1,366,807	0.23
K C Perks Investments Pty Ltd <Kym Perks S/F A/C>	1,332,494	0.22
Mr Mark Southwell-Keely	1,281,720	0.21
Mr Warwick Douglas Moppett	1,281,720	0.21
Mr Peter Graydon Moppett	1,281,720	0.21
T G Millner Holdings Pty Limited	1,261,483	0.21

ASX ADDITIONAL INFORMATION

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).

2) Substantial Shareholders

As at 30 June 2016 the name and holding of each substantial shareholder as disclosed in a notice received by the Parent is:

Substantial Shareholder	Shares Held	%
Washington H Soul Pattinson & Company Limited ¹	61,749,705	10.86%
Brickworks Limited ²	61,749,705	10.86%

¹ Details included on substantial shareholder notice dated 30 September 2015. This does not agree to the holding of Washington H. Soul Pattinson & Company Limited as at 30 June 2016

² Details included on substantial shareholder notice dated 9 October 2015. 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 121 (2015: 164) transactions in securities undertaken by the Group and the total brokerage paid or accrued during the year was \$174,744 (2015: \$256,093)

4) Management Expense Ratio:

The Management Expense Ratio ("MER") is the operating 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. The table below summarises the MER for each financial year ended 30 June.

2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
0.69	0.71	0.56	0.46	0.46	0.31	0.19	0.18	0.18	0.19	0.17	0.18	0.16