



**BKI INVESTMENT
COMPANY LIMITED**

Company Overview

March 2011

Key Corporate Directory

Directors

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

Chief Executive Officer

Thomas Charles Dobson Millner

Secretary

Richard James Pillinger

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 NSW 2001

Auditors

Ruwald & Evans
Level 1, 276 Pitt 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

Key Dates

Event

2011 Half Year Results Announcement
2011 Half Year Dividend Record Date
2011 Half Year Dividend Payment Date
2011 Full Year Results Announcement
2011 Full Year Dividend Record Date
2011 Full Year Dividend Payment Date
2011 Annual General Meeting

Proposed date

31 January 2011
21 February 2011
7 March 2011
27 July 2011
17 August 2011
31 August 2011
2 November 2011 - to be held at the Wesley Centre, 220
Pitt Street, Sydney, commencing at 11.30am.

BKI Investment Company Limited

Increasing income stream through long term investment

BKI History

BKI was formed on the 17th October 2003 to take over and manage the investment portfolio of Brickworks Limited (BKW). BKW established the core portfolio during the 1980's with the objective to generate an increasing income stream through long term investment in a portfolio of securities that would grow over time.

Today, some 25 years since the inception of the core portfolio, BKI continues to invest in well-managed businesses with a profitable history and with the expectation of sound dividend and distribution growth.

The BKI Portfolio Valuation has grown from \$171m as at listing on 12 Dec 2003 to \$599m as at 28 Feb 2011.

2003

BKI acquires the BKW Share Portfolio and lists on the ASX

2004

BKI merges with Pacific Strategic Investments Limited

2007

Renounceable Rights Issue raises \$57.0m

Share Placement raises \$49.3m

2008

External management agreement expires and BKI becomes internally managed

BKI takes over Huntley Investment Company Limited

2009

BKI Share Purchase Plan raises \$24.1m

BKI Investment Strategy

BKI's key objective is to generate an increasing income stream for distribution to its shareholders in the form of fully franked dividends. An investment in BKI gives shareholders access to a high quality diversified investment portfolio through BKI shares listed on the ASX ([BKI.ASX](#)).

Board and Management

Robert Dobson Millner - FAICD – Non-Executive Director and Chairman, Chairman of Investment Committee. Robert has over 26 years experience as a Company Director and has been directly involved with the management and construction of the BKI portfolio since inception in the mid 80's. Robert is also Chairman of Washington H Soul Pattinson, Brickworks, New Hope Corporation, Milton Corporation and Souls Private Equity. He is also a Director of Australian Pharmaceutical Industries and TPG Telecom.

Alexander James Payne - B.Comm, Dip Cm, FCPA, FCIS, FCIM - Non-Executive Director, Member of the Investment Committee, Chairman of the Remuneration Committee. Alex is the Chief Financial Officer of Brickworks Limited and has considerable experience in finance and investment and is a member of the Audit Committee. Alex has been directly involved with the management and investment strategy of the BKI portfolio whilst owned by Brickworks Limited.

David Capp Hall - David Capp Hall, FCA, FAICD – Independent Non-Executive Director. David is a Chartered Accountant with experience in corporate management and finance. He holds Directorships in other companies and is the Chairman of the BKI Audit Committee.

Ian Thomas Huntley - BA – Independent Non-Executive Director, Member of the Investment Committee. After a career in financial journalism Ian acquired "Your Money Weekly" newsletter in 1973. Over the following 33 years, Mr Huntley built the Your Money Weekly newsletter into one of Australia's best known investment advice publications. He and partners sold the business to Morningstar Inc of the USA in mid 2006. Ian continues an active role as Editor, Huntley's Your Money Weekly.

Thomas Charles Dobson Millner - B.Des (Industrial), GDipAppFin (Finsia), F Fin – Chief Executive Officer, Member of the Investment Committee. Tom joined the Company in December 2008. He was previously with Souls Funds Management (SFM) and held various roles covering research, analysis and business development. Whilst at SFM Tom was responsible for the Investment Portfolio of BKI. Prior to this he was an investment analyst with Republic Securities Limited, manager of the Investment Portfolio of Pacific Strategic Investments. Tom is also a Director of Washington H Soul Pattinson.

Richard James Pillinger - Mr Pillinger is a Chartered Accountant with over 15 years experience in public practice and commercial financial roles. Richard is also Company Secretary of CBD Energy Limited and Souls Private Equity Limited.

BKI Investment Company Limited

Increasing income stream through long term investment

Washington H Soul Pattinson

On the 17th February 2009 WHSP increased their shareholding in BKI to become the largest shareholder. WHSP's current holding in BKI is at 13.6%.

WHSP, currently in its 139th year of operation began as a pharmacy in Pitt Street, Sydney. WHSP later listed on the Australian Securities Exchange and is currently the second oldest publically listed company. From the 1960s WHSP steadily developed into today's investment group with its major controlling shareholdings being in New Hope Corporation, Brickworks Limited, Australian Pharmaceuticals Industries, Ruralco Holdings and TPG Telecom. Surplus funds were always invested in Australian equities and today WHSP has large shareholdings in two of the larger Australian LIC's – Milton Corporation, and BKI Investment Company Limited.

As an investment group WHSP has a window on the business world through the operating companies it controls and the investment companies where it has board representation. It is one of the very few family controlled Australian companies – currently in the fifth generation – so it has a strong alignment with its investors, as it invests alongside them.



Listed in 1903, WHSP is the second oldest listed company on the Australian Stock Exchange and holds investments worth in excess of \$4.1bn.

WHSP's long term, patient investment philosophy is dispersed across many sectors including, Building Products, Coal, Telecommunications, Financial Services, Pharmaceuticals and Agriculture.



BKI Investment Company Limited

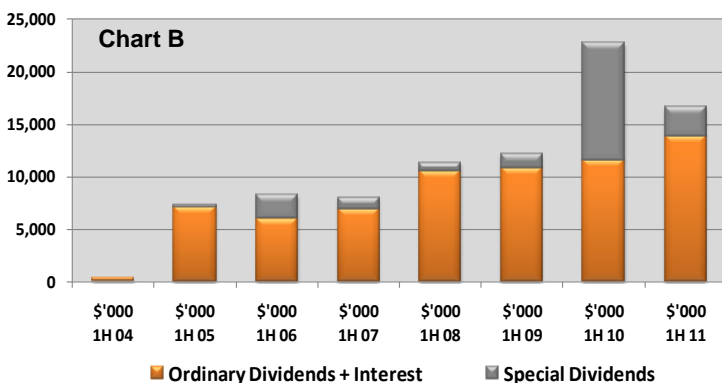
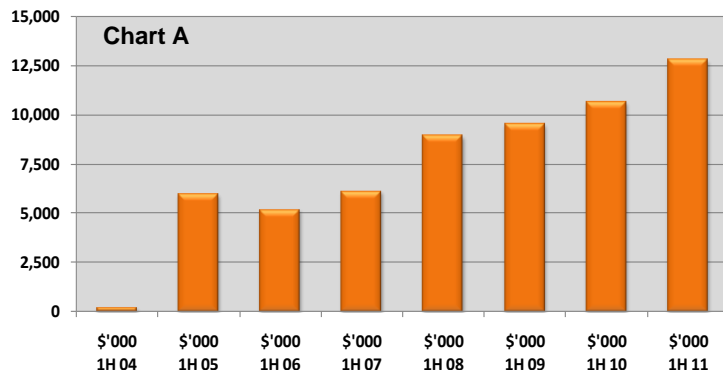
Increasing income stream through long term investment

BKI Performance Overview

On 31 January 2011 BKI announced their First Half FY2011 results. Net Operating Profit before special dividend income increased 20% to \$12.8m.

Chart A shows BKI's first half Net Operating Profits since inception. The continued upward trajectory is very pleasing considering the difficult market environment experienced during the 2008-2010 period.

It is important to note that this profit figure is used by the Board of Directors to determine the level of ordinary dividends to be declared by BKI.



BKI's share portfolio is again in a strong position with income from ordinary dividends and distributions increasing 26% over the previous corresponding period, as can be seen in Chart B.

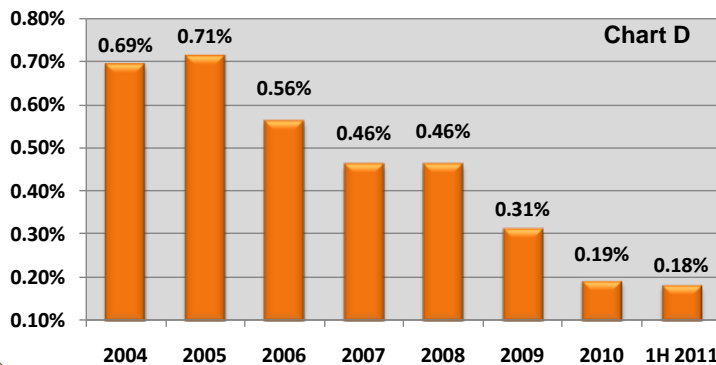
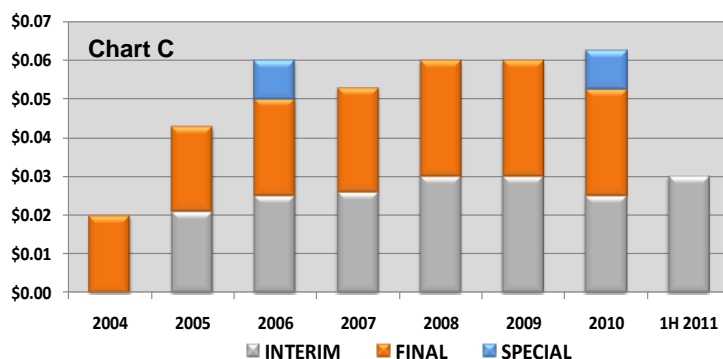
BKI have also benefited from New Hope paying a 14cps fully franked special dividend to shareholders in November 2010. This was New Hope's 6th special dividend since listing in 2003.

During the July - December 2010 reporting period, over 90% of the companies held within the BKI Portfolio either maintained or lifted their dividend year on year. This trend has continued into the current reporting period.

BKI's Interim Dividend paid was 3.0cps, fully franked (ordinary dividend up 20% on the previous corresponding period). Chart C shows total dividends paid by BKI since inception.

As at 28 February 2011, BKI is currently trading on a fully franked dividend yield of 5.1% and a grossed up yield of 7.2%. As at 31 December 2010, BKI had a franking account balance worth approximately \$18m.

BKI's key objective is to generate an increasing income stream for distribution to its shareholders in the form of fully franked dividends.



Operating Expenses for half year 2011 were \$0.5m.

BKI's Management Expense Ratio (MER) has decreased from 0.46% to 0.18% since internalising management in December 2008, as can be seen in Chart D.

BKI is internally managed and does not charge shareholders external management fees or a performance fee.

BKI Investment Company Limited

Increasing income stream through long term investment

Stock Selection Criteria

BKI 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. BKI is focused on investing in stocks using the 5 basic fundamentals below as part of the stock selection process.

1. **Income** - Dividend Yields, Franking Credits, Pay Out Ratios
2. **Principal Activity** - Sustainable Business Model, Competitive Advantage
3. **Debt Levels**, Gearing Ratios, Net Interest Coverage
4. **Management and Board**, Share Ownership, Board Meeting Attendance, History of Creating Shareholder Wealth
5. **Earnings and Valuations** - Earnings Profiles, PE Multiples, EV/EBITDA Multiples

BKI Performance

BKI Performance

as at 28 February 2011

	6 Mths	1 Year	3 Years (pa)	5 Years (pa)	7 Years (pa)
S&P/ASX 300 ACC INDEX (XKOAI)	12.3%	9.0%	-0.3%	4.0%	10.0%
BKI Total Shareholder Returns	9.0%	2.7%	3.0%	3.3%	8.3%
BKI Share Price Outperformance V's XKOAI	-3.3%	-6.3%	3.3%	-0.7%	-1.7%
BKI Portfolio Performance	9.8%	7.8%	4.1%	4.6%	9.2%
BKI Portfolio Outperformance V's XKOAI	-2.5%	-1.2%	4.4%	0.6%	-0.8%

Source: BKI Investment Company Limited, IRESS. Portfolio Returns are measured by change in pre tax NTA and are after all operating expenses, provision and payment of both income and capital gains tax and the reinvestment of dividends. Total Shareholder Returns include reinvestment of dividends. Past performance is not indicative of future performance.

BKI Portfolio Returns are measured after all operating expenses, provision and payment of income and capital gains tax.

BKI's **Net** Portfolio Return for the medium term (3 Years -5 Years) to 28 February 2011 shows solid outperformance and highlights the quality of the BKI portfolio and its ability to deliver sound returns in both a positive and negative environment. If these numbers included the benefits of distributed franking credits returns would be even more attractive.

There has been much talk recently regarding the industry's method of reporting returns. It is important to note that BKI (like most older more established LIC's) reports returns on a Pre-Tax NTA basis. Many investors believe that the Pre-Tax component only relates to the provision of tax on unrealised capital gains within the investment portfolio. This measure also includes the **total operating expenses** and **income tax expense** of the Company and shows no benefit of **franking credits**.

The Index which BKI is benchmarked against does not take into account any of these additional expenses. Also many managed funds report performance numbers without deducting tax expenses, management fees and performance fees. Research papers written recently on this topic suggest that performance figures under the LIC reporting methodology could be understated by up to 3% per annum when compared against these alternative measurement criteria.

Benefits of Investing in BKI

Dividends - Strong dividend payout ability with abundant franking credits (historical fully franked dividend yield of 5.1%, grossed up yield 7.2%)*.

Diversification - Access to a high quality diversified investment portfolio through BKI shares listed on the ASX (BKI.ASX).

Management - Experienced Board and conservative investment team delivering sound returns with low investment risk.

Low Costs - Competitive MER of 0.18%** . No external portfolio management fees or performance fees.

Value - Opportunity for investment at a discount to the Pre Tax NTA. Ideal for long term passive shareholders and SMSF's.

*As at 28 February **As at 31 December 2010



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Low Cost

Low Risk

High Yield...

...all through BKI.ASX

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