

Top 25 Investments

Stock	% of Total Portfolio
1 Commonwealth Bank	9.7%
2 National Australia Bank	8.8%
3 Westpac Bank	7.7%
4 Telstra Corporation	5.4%
5 TPG Telecom	4.8%
6 ANZ Banking Corporation	4.6%
7 Wesfarmers Limited	4.5%
8 APA Group	3.5%
9 New Hope Corporation	3.0%
10 BHP Billiton	2.9%
11 Woolworths Limited	2.7%
12 Transurban Group	2.5%
13 AGL Energy Limited	2.5%
14 IAG Limited	1.9%
15 Invocare Limited	1.8%
16 Ramsay Healthcare	1.7%
17 ARB Corporation	1.7%
18 Suncorp Group	1.5%
19 ASX Limited	1.5%
20 Sydney Airport	1.4%
21 Woodside Petroleum	1.4%
22 Brambles Limited	1.3%
23 Coca-Cola Amatil	1.2%
24 Bank of Queensland	1.2%
25 Tatts Group	1.2%
Cash and cash equivalents	5.5%
Total of Top 25 including cash and cash equivalents	85.9%



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BKI Investment Company

31 December 2015

Performance Highlights

- Total Ordinary Investment Revenue increased 7% to \$21.7m.
- Net Operating Result before Special Investment Revenue increased 3% to \$21.4m.
- Fully Franked Interim Dividend of 3.60cps, up from 3.55cps.
- MER of 0.17%.
- BKI's Total Shareholder Return (including the value of franking credits) for the year to 31 Dec 2015 was 12.8%* compared to the S&P/ASX 300 Accumulation Index which returned 4.4%^x over the same period.

BKI Investment Company - Half Year Review



* Performance numbers are based on a tax rate of 30% and shareholders being able to utilise all franking credits.
^x Index has been franked to 80%

Performance Overview

Markets have remained volatile. Over the last six months we've seen a great deal of uncertainty emerge from companies within the materials, resources and energy sectors. Dividend growth from stocks within these sectors may be subdued for some time to come. The BKI portfolio is underweight this sector as we believed that the slowdown in the resource space would have to eventually translate to a reduction of profits and therefore dividend distributions. The portfolio's total exposure to resources is currently less than 10%, while industrials is 85% and cash accounts for 5%.

BKI's Net Operating Result before special investment revenue increased 2.6% to \$21.4m, while Earnings per Share before special investment revenue was broadly in line with last year, down 0.5% to 3.78cps. The BKI Board has declared a fully franked Interim Ordinary Dividend of 3.60cps, up from 3.55cps last year.

BKI's Net Operating Result increase was mainly driven by higher dividends received from Transurban Limited, APA Group, Tatts Group, Commonwealth Bank, AMP Limited, Sydney Airports and Westpac Bank. Lower dividends received from Maxitran Industries, IAG Limited, Woodside Petroleum, Salmat Limited and Suncorp Group impacted the result, while revenues from bank deposits and investments held for trading were also lower than the corresponding period.

BKI also received special dividend income from New Hope Corporation, Milton Corporation and Suncorp Group, however, total special dividend income received was only \$0.8m compared to \$2.1m last year. While the payment of special dividends from our portfolio of investments are infrequent, it should be pointed out that over the last 10 years BKI has received 10 fully franked special dividends from New Hope Corporation, 6 special dividends from Milton and 4 special dividends from Suncorp.

BKI's Total Shareholder Returns for the year to 31 December 2015 was 10.9%, compared to the S&P/ASX 300 Accumulation Index which returned 2.8% over the same period.

Dividends

A fully franked Interim Ordinary Dividend of 3.60cps was declared, up 1.4% from last year. BKI's historical grossed up yield as at 19 January 2016 was 6.5%*.

The last trading date to be eligible for the Interim Dividend is Wednesday 3 February 2016.

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

Management Expense Ratio (MER)

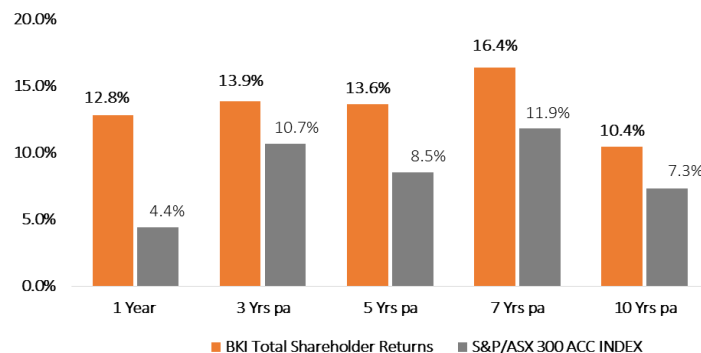
BKI's Board and Management are shareholders in BKI. We invest for the long term and do not charge external portfolio management or performance fees. We constantly focus on creating wealth for all shareholders by keeping costs low and increasing fully franked dividends and capital growth.

BKI's Management Expense Ratio (MER) continues to be competitive within the funds management industry at 0.17% which is down from 0.18% at the full year.

Performance

BKI's Total Shareholder Returns (including the reinvestment of dividends) for the year to 31 December 2015 was 10.9%, compared to the S&P/ASX 300 Accumulation Index which returned 2.8% over the same period. BKI's Total Shareholder Returns for 5 years, 7 years and 10 years have outperformed the Index by 4.6% per annum, 4.1% per annum and 2.7% per annum respectively.

The following chart shows BKI's Total Shareholder Returns including Franking Credits. The S&P/ASX 300 Accumulation Index has been franked to 80%.



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 31 December 2015 was 3.0%.

Portfolio Movements

BKI's net investment over the first half of FY2016 was approximately \$30m. Major investments during this period included ANZ Banking

Group, National Australia Bank, Commonwealth Bank, APA Group, Sydney Airports, Woolworths Limited and Transurban Group. The main disposals included MaxiTrans Industries, G8 Education Limited and Origin Energy. The Company's investment in Skilled Group was transferred into an investment in Programmed Maintenance Services following a merger between the two companies.

Outlook

2016 is expected to be an interesting yet challenging year for equity markets. The negative sentiment surrounding slowing consumption and manufacturing growth rates in Asia is expected to continue in the short-term, which will continue to put pressure on Resources sector earnings. This negativity has spread throughout global economies resulting in a broad market sell down, which could continue in the short-term. We remain cautious on a number of companies that are trading on high earnings multiples but which may struggle to deliver sustainable growth.

The Resources sector has underperformed materially, largely on concerns on the outlook for growth in China. On a longer-term view, which is where BKI operates, we are confident that major Australian resources companies exposed to commodities such as oil, coal and copper in particular will rebound as the imbalance between supply and demand is adjusted and the Australian Dollar declines further.

In periods of volatility, it is easy to get caught up in excessive pessimism. However, a number of global economies continue to slowly improve, which will provide a more positive backdrop for equity markets. We expect the low interest rate environment in Australia to continue for some time. Once again, the most sought after equity investments are likely to be those companies offering quality and sustainable dividend yields, with robust balance sheets and that are well managed. Long-term investors should expect several investment opportunities in 2016.

BKI remains in a strong financial position with no debt, and cash and cash equivalents representing 5.5% of the portfolio. We maintain a diversified portfolio and remain well placed to take advantage of investment opportunities in companies that meet our disciplined investment criteria.