

20 July 2016

ASX Announcement

ASX AND MEDIA RELEASE – FULL YEAR RESULT TO 30 JUNE 2016

BKI Full Year Dividend Up, MER down to 0.16%

FY2016 Performance Highlights

| | FY 2016 | FY 2015 | Growth |
|------------------------------------|---------|---------------------------|--------|
| Ordinary Investment Income | \$43.8m | \$44.6m | -2% |
| Net Operating Result* | \$41.2m | \$40.9m | +1% |
| Earnings Per Share* | 7.16cps | 7.40cps | -3% |
| Total Ordinary Dividends Per Share | 7.25cps | 7.20cps | +1% |
| Management Expense Ratio (MER) | 0.16% | Down from 0.18% at FY2015 | |

* Before special investment revenue

BKI Performance Overview

BKI Investment Company Limited (“BKI”) today announced its Full Year Results to 30 June 2016.

BKI’s Net Operating Result before special investment revenue increased 1% to \$41.2m. BKI’s basic earnings per share before special dividend income for the full year was 7.16cps compared to 7.40cps last year on an increased share capital base. 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 CEO Mr Tom Millner commented: “Many companies in the market have found it difficult to maintain an increase in dividend distributions. Earnings growth has slowed and payout ratios in many cases are historically high. On top of this many stocks are trading at valuations well above long term averages. So while we continue to like companies exposed to the finance, energy, infrastructure and healthcare segments, we have found it difficult recently to find good value. We will continue to be patient and invest further capital at the appropriate time into stocks which provide a sustainable and growing income stream. While we await the opportunity to invest further, our shareholders will benefit from the closed end company structure that an LIC provides and receive an increased fully franked dividend on last year that represents a grossed up yield of 6.6%.”

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 Limited, Woodside Petroleum, ANZ Banking Group and Suncorp Group reduced the result. Revenues from bank deposits and investments held for trading were also lower than the corresponding period.

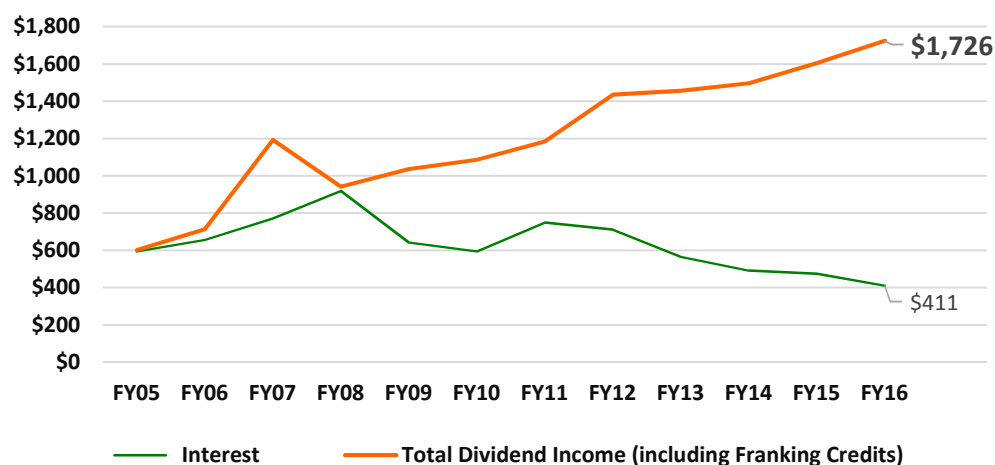
BKI received special dividend income for the year from New Hope Corporation, Milton Corporation, Suncorp Group and IAG Group. Total special dividend income received was \$1.1m compared to \$2.1m last year.

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 (based on a corporate tax rate of 30%) was 11.3% per annum as at 30 June 2016.

Dividends

The Directors have declared a fully franked Final Ordinary Dividend of 3.65cps, in line with the prior 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 fully franked yield of 4.6% (based on the 30 June 2016 share price of \$1.58) and a grossed up yield of 6.6% (based on a tax rate of 30%).

Mr Millner emphasised the focus the Board and Management has 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 now 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 have received a fully franked dividend in FY2016 of \$1,208pa. Franking credits enhance the income by a further \$518 based on the corporate tax rate of 30%, taking total income received 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 the benefit of franking credits."



The last trading date to be eligible for the Final Dividend is **Thursday 4 August 2016**.

Key dates for the Fully Franked Final Dividend are as follows:

| Event | Date |
|---|------------------------|
| Last trading date to be eligible for the Final Dividend | Thursday 4 August 2016 |
| Ex-Dividend Date | Friday 5 August 2016 |
| Record Date | Monday 8 August 2016 |
| Last date for DRP Nomination | Tuesday 9 August 2016 |
| Payment Date | Friday 26 August 2016 |

Dividend Reinvestment Plan (DRP)

BKI's 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**.

Management Expense Ratio (MER)

BKI's MER as at 30 June 2016 was 0.16%, down from 0.18% reported at the same time last year.



"BKI's management cost or MER is one of the lowest in the industry, with a recent broker report suggesting that even some LIC's charged shareholders an MER as high as 1.75% per annum. The report went on to say that average fees charged for retail managed funds were estimated to be between 1.50% and 3.00% per annum. The savings made by a shareholder investing in a LIC with a low MER over the long term is very large." Mr Millner said.

Portfolio Movements

BKI's total net investment over FY2016 was approximately \$76m, with major long term investments made in companies including; Challenger Limited, Commonwealth Bank, ANZ Banking Group, 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, Rio Tinto Limited and a partial disposal of BHP Billiton.

During the half 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 to four the number of transactions of this nature completed by BKI, 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.

Top 25 Investments

| | Stock | % of Total Portfolio |
|----|-------------------------|----------------------|
| 1 | Commonwealth Bank | 8.8% |
| 2 | National Australia Bank | 7.4% |
| 3 | Westpac Bank | 7.2% |
| 4 | TPG Telecom | 5.7% |
| 5 | Telstra Corporation | 5.5% |
| 6 | Wesfarmers Limited | 4.3% |
| 7 | ANZ Banking Corporation | 4.1% |
| 8 | APA Group | 3.6% |
| 9 | BHP Billiton | 3.0% |
| 10 | Transurban Group | 2.9% |
| 11 | AGL Energy Limited | 2.6% |
| 12 | Woolworths Limited | 2.4% |
| 13 | New Hope Corporation | 2.3% |

| | Stock | % of Total Portfolio |
|----|--|----------------------|
| 14 | Ramsay Healthcare | 2.0% |
| 15 | Invocare Limited | 1.9% |
| 16 | IAG Limited | 1.9% |
| 17 | ASX Limited | 1.9% |
| 18 | ARB Corporation | 1.7% |
| 19 | Suncorp Group | 1.6% |
| 20 | Sydney Airport | 1.5% |
| 21 | Brambles Limited | 1.4% |
| 22 | Sonic Healthcare | 1.3% |
| 23 | Woodside Petroleum | 1.3% |
| 24 | Macquarie Group | 1.3% |
| 25 | Qube Holdings | 1.1% |
| | Cash and cash equivalents | 7.8% |
| | Total of Top 25 including cash and cash equivalents | 86.5% |

Performance

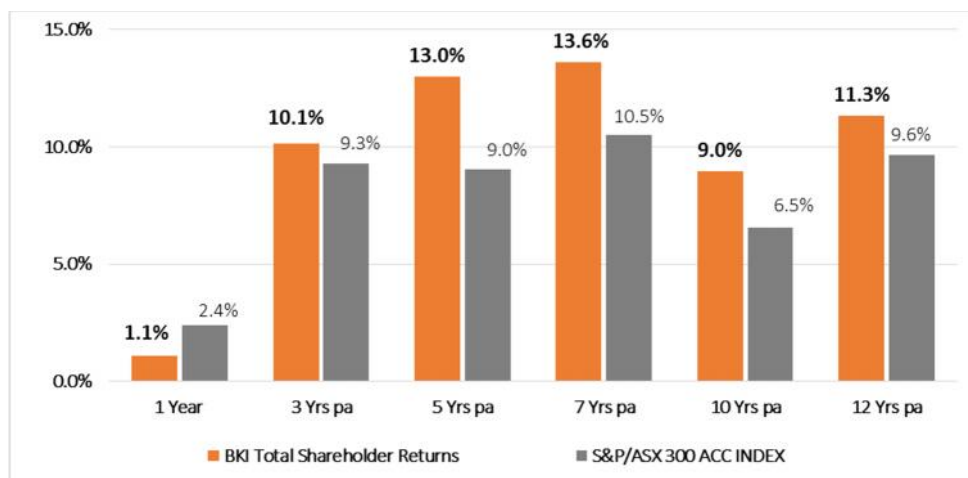
BKI's Total Shareholder Return (including the reinvestment of dividends) for the year to 30 June 2016 was negative 0.8%, compared to the S&P/ASX 300 Accumulation Index which returned positive 0.9% over the same period. BKI's Total Shareholder Return for 5 years, 10 years and 12 years outperformed the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

| | | | | | | |
|--|---------------|--------------|--------------|--------------|---------------|---------------|
| <i>BKI Performance as at 30 June 2016</i> | <i>1 Year</i> | <i>3 Yrs</i> | <i>5 Yrs</i> | <i>7 Yrs</i> | <i>10 Yrs</i> | <i>12 Yrs</i> |
| | | <i>(pa)</i> | <i>(pa)</i> | <i>(pa)</i> | <i>(pa)</i> | <i>(pa)</i> |
| <i>S&P/ASX 300 ACC INDEX (XKOAI)</i> | 0.9% | 7.7% | 7.2% | 8.7% | 4.8% | 7.9% |
| <i>BKI Total Shareholder Returns (TSR)</i> | -0.8% | 8.2% | 10.7% | 11.3% | 6.7% | 9.1% |
| <i>BKI TSR Outperformance V's XKOAI</i> | -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% |
| <i>BKI Portfolio Outperformance V's XKOAI</i> | -2.3% | -2.5% | -0.6% | -0.4% | 0.9% | -0.3% |
| <i>BKI Performance Including Franking Credits</i> | <i>1 Year</i> | <i>3 Yrs</i> | <i>5 Yrs</i> | <i>7 Yrs</i> | <i>10 Yrs</i> | <i>12 Yrs</i> |
| | | <i>(pa)</i> | <i>(pa)</i> | <i>(pa)</i> | <i>(pa)</i> | <i>(pa)</i> |
| <i>S&P/ASX 300 ACC INDEX (XKOAI) - 80% Franked</i> | 2.4% | 9.3% | 9.0% | 10.5% | 6.5% | 9.6% |
| <i>BKI Total Shareholder Returns - 100% Franked</i> | 1.1% | 10.1% | 13.0% | 13.6% | 9.0% | 11.3% |

BKI's Total Shareholder Returns including Franking Credits.

The following chart shows BKI's Total Shareholder Return including Franking Credits (based on a corporate tax rate of 30%). The S&P/ASX 300 Accumulation Index has been franked at approximately 80% over this period.



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 resource-related 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 continued to drive investors to chase yield for longer. 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 well managed, are appropriately geared, have a favourable earnings 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.

For further information contact:

Tom Millner - Chief Executive Officer
02 9238 0522
0408 754 180

Will Culbert - Portfolio Manager
02 9238 0522
0410 627 378