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	4.0%
8	APA Group	3.7%
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%
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	1.2%
25	Qube Holdings	1.1%
	Cash and cash equivalents	7.8%
	Total of Top 25 including cash and cash equivalents	86.5%

Dividend Yield

6.6%

*Grossed up, as at 30 June 2016

Market Cap

$946m

14,358 **Shareholders**

Management Expense Ratio

0.16%

As at 30 June 2016

Franking Credits

$25m

As at 30 June 2016

12Yr Total Shareholder Return#

11.3% pa

As at 30 June 2016

Low Portfolio Turnover

7.1%

Yearly average as at 30 June 2016

Experience

The Board and Management of BKI has 189 years of collective industry experience (average of 27 years)

BKI INVESTMENT COMPANY LIMITED

BKI Investment Company - Full Year Review

BKI Investment Company

30 June 2016

Performance Highlights

- Net Operating Result before Special Investment Revenue increased 1% to $41.2m.
- Total Full Year Fully Franked Dividend of 7.25cps, up from 7.20cps.
- Grossed up Dividend Yield of 6.6%*, as at 30 June 2016.
- MER of 0.16% as at 30 June 2016, down from 0.18% last year.
- BKI's 12 Year Total Shareholder Return (including the value of franking credits) was 11.3%* per annum as at 30 June 2016.

LISTED ON AUSTRALIAN STOCK EXCHANGE

* Based on a tax rate of 30% and shareholders being able to utilise all franking credits.

Performance Overview

BKI's Net Operating Result before special investment revenue increased 1% to $41.2m. while BKI's basic earnings per share before special dividend income for the full year was 7.16cps compared to 7.40cps last year, driven primarily by an increased average number of shares on issue. 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.

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.

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% based on the share price as at 30 June 2016 and a tax rate of 30%.

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 99% pay-out ratio on BKI's Net 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 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. 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.

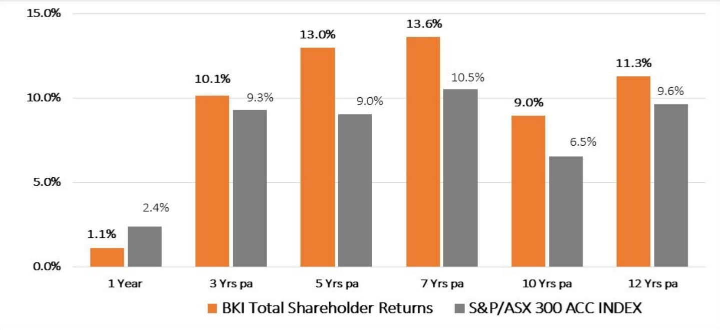
The same investment in a term deposit, based on the cash rate plus 0.50% would be only be earning $441pa, pre-tax and without the benefit of franking credits.

Management Expense Ratio (MER)

BKI's Board and Management are shareholders in BKI. We invest for the long term and do not charge large external portfolio management or any performance fees. We constantly focus on creating wealth for all shareholders by keeping costs low and aim to increase fully franked dividends and capital growth of BKI shares. BKI's MER continues to be extremely competitive within the funds management industry at 0.16%, as at 30 June 2016, which is down from 0.18% last year.

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



Portfolio Movements

Major long term investments during the year included; Challenger Limited, Commonwealth Bank, ANZ Banking Group, Macquarie Group, Qube Logistics, Telstra Corporation, Ramsay Healthcare, Caltex, 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. 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 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.