

ASX Announcement

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BKI Net Operating Result up 8%, Increases Total Dividends by 12%

ASX and Media Release - Full Year Result to 30 June 2013

FY2013 Performance Highlights

- Ordinary dividend and distribution income increase 9.8% to \$30.3m.
- Net Operating Result before special dividend income increase 8.0% to \$29.9m.
- MER of 0.19% as at 30 June 2013.
- Basic Earnings per Share up 4.7% to 6.81cps from 6.51cps.
- Fully Franked Final Dividend of 3.40cps, up from 3.20cps.
- Special Dividend of 0.50cps, Fully Franked paid in the First Half.

BKI Performance Overview

BKI Investment Company Limited ("BKI") today announced their Full Year Results to 30 June 2013. Net Operating Result before special dividend income increased 8.0% to \$29.9m.

Basic Earnings per Share before special dividend income increased 4.7% to 6.81ps, while the Final Ordinary Dividend increased from 3.2cps to 3.4cps. Total dividends for FY2013 were up 11.7% on the previous corresponding period to 7.15cps, including a Fully Franked Special Dividend of 0.50cps paid in the first half.

BKI CEO Mr Tom Millner commented: "This is the 7th consecutive year of increasing the Net Operating Result for the shareholders of BKI. We are very pleased with this result, especially when you reflect on what share markets have gone through over this period. There have been some tough times as an investor; however, we've been able to take advantage of our closed end LIC structure and re-invest funds into the market without having to wait for inflows from retail investors, or be forced sellers due to redemptions."

The result also highlights the advantages of holding a long term, diversified portfolio of companies in varying sectors. "The BKI portfolio has a great mix of Industrials, Financials and Resources; all of which will perform at varying points in the cycle. We have positioned the portfolio to be able to perform well in any environment," Mr Millner said.

The Net Operating Result was boosted by additional income received from Commonwealth Bank, National Australia Bank, Westpac Bank, ANZ Bank, Wesfarmers, Invocare, APA Group, Insurance Australia, Woolworths and ALS Limited.

A decrease in ordinary income received from QBE Insurance, Seven West Media, Salmat Limited and GWA International were the main negatives.

BKI also received special dividend income from Woodside Petroleum, Coca Cola Amatil, Salmat Limited, Westpac Banking Corporation and Graincorp Limited during the year. These special dividends helped lift the Net Profit attributable to shareholders by 12.4% to \$33.7m.

Dividends

A further increase in the Net Operating Result enabled the Board to again meet one of BKI's core objectives - to provide an increasing income stream for the owners of the company; the shareholders. A Fully Franked Final Ordinary Dividend of 3.4cps was declared, up from 3.20cps in FY2013. Key dates for the Final Dividend are as follows:

Event	Date
Last trading date to be eligible for the Final Dividend	12 August 2013
Ex-Dividend Date	13 August 2013
Record Date	19 August 2013
Payment Date	29 August 2013

Based on a closing share price of \$1.56 on 23 July 2013, BKI's fully franked dividend yield was 4.6% (Includes FY2013 Interim Ordinary Dividend of 3.25cps, FY2013 Interim Special Dividend of 0.50cps and FY2013 Final Ordinary Dividend of 3.40cps).

BKI's grossed up yield as at 23 July 2013 was 6.5% (based on a tax rate of 30%).

BKI's Dividend Reinvestment 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 (19 August 2013).

Portfolio Movements

In October 2012 BKI successfully completed a Share Purchase Plan (SPP), raising \$19.1m. BKI deployed all of the funds raised in the SPP into the market during October/November 2012 with major investments including ANZ Banking Corporation, National Australia Bank, Westpac Banking Corporation, APA Group, Transurban Group and Metcash Limited. Yields on offer at this time were very compelling to the long term shareholder.

As income from cash products began to decline, investors were forced to re-enter the market looking for additional income and franking credits. This created a significant push for dividend yield in the Australian share market over the last 6 months, with many labelling it a "Yield Bubble". While many companies were still offering a fully franked dividend yield well in excess of the cash rate, the BKI Investment Committee took the view that the share market in general was trading at fair value, and accordingly BKI invested only \$2.2m during the second half of FY2013.

The Company's main divestments from the investment portfolio during FY2013 were: the balance of the Westpac Preference Shares, Clover Corporation and Ten Network Holdings. Divestments from the trading portfolio were Entitlements from Seven West Media and Ten Network Holdings, Renounceable Rights from ASX Limited and shares in SCA Property Group, issued as an In-Specie Capital Return from Woolworths Limited.

Top 20 Investments

	Stock	% of Total Portfolio
1	Commonwealth Bank	9.7%
2	National Australia Bank	9.5%
3	New Hope Corporation	7.8%
4	Westpac Banking Corp	7.4%
5	BHP Billiton Limited	6.3%
6	Telstra Corporation	5.2%
7	Wesfarmers Limited	4.5%
8	ANZ Banking Group	3.8%
9	Woolworths Limited	3.6%
10	ALS Limited	2.8%
11	AGL Energy Limited	2.4%
12	TPG Telecom Limited	2.3%
13	Woodside Petroleum Limited	2.0%
14	QBE Insurance Group	1.6%
15	InvoCare Limited	1.6%
16	Metcash Limited	1.6%
17	Coca Cola Amatil Limited	1.6%
18	ARB Corporation	1.4%
19	APA Group	1.4%
20	Milton Corporation	1.1%
	Cash & Cash Equivalents	6.3%
	% of Total Portfolio Value	83.9%

(Including Cash & Cash Equivalents)

Performance

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 12 months to 30 June 2013 was 22.2%, compared to the S&P/ASX 300 Accumulation Index which returned 21.9% over the same period.

BKI's Share Price Performance (including the reinvestment of dividends) for the 12 months to 30 June 2013 was 29.4%, outperforming the S&P/ASX 300 Accumulation Index over the same period by 7.5%.

Outlook

Although there has been a minor improvement, global economic activity has continued to be subdued. The US economic recovery is playing out slowly and European economies remain under pressure. Many Asian economies (with a particular focus on China) have stabilised, however the Japanese economic situation remains a concern.

Locally, our share market has performed well over the last 12 months with the S&P/ASX 300 Accumulation Index gaining 21.9% to 30 June 2013, driven by investors chasing dividend yield and defensive industrial stocks. However, our broader economy appears to be stalling, with employment, business confidence and retail spending all on the decline. A high Australian Dollar has also been a catalyst for the Reserve Bank to reduce the cash rate to encourage spending and support non-resource related sectors.

Investors are facing a changing dynamic within the resource sector, especially those companies in exploration and development phase. Spending has deteriorated substantially due to continual pressure on mining and drilling costs as well as lower commodity prices. However, the better quality resource companies; those with a diversified portfolio of assets, strong balance sheet and exposure to multiple commodities have seen some of the pressure ease with a recent fall in the Australian dollar and lower costs associated with labour.

The upcoming reporting season will give investors an insight into the financial health of many companies and sectors within our market. BKI will focus on the following topics during the upcoming reporting season:

- Dividend Yield - A company's ability to deliver a sustainable and growing dividend stream.
- Franking Credits – Current balance and impact of offshore earnings.
- Sustainable Business Model and Competitive advantage.
- Reduced Costs - Management's ongoing ability to control costs.
- Balance Sheet - Financial strength; capacity to grow business through acquisition; ability to return surplus funds to shareholders.
- Australian Dollar - Impact on earnings from a falling Australian Dollar or rising US Dollar.
- Valuation and Growth Rates - The earnings outlook for FY14 and FY15.

BKI continues to be in a strong financial position with no debt, and cash and cash equivalents representing 6.3% of the total portfolio. With this in mind, BKI will continue to take advantage of investment opportunities when they arise.

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