

ASX Announcement

30 January 2013

BKI 1H Operating Profit up 9%, Total Interim Dividends up 17%

ASX and Media Release - Half Year Result to 31 December 2012

BKI Performance Highlights

- Ordinary dividend and distribution income increased 8.6% to \$15.5m.
- Net Operating Result before special dividend income increased 8.8% to \$15.4m.
- MER of 0.18% as at 31 December 2012.
- Basic Earnings per Share up 6.9% to 3.56cps from 3.33cps.
- Fully Franked Interim Dividend of 3.25cps, up from 3.20cps.
- Special Dividend of 0.50cps, Fully Franked

BKI Performance Overview

BKI Investment Company Limited ("BKI") today announced their Half Year Results to 31 December 2012. Net Operating Result before special dividend income for the period increased 8.8% to \$15.4m, while the Basic Earnings per Share before special dividend income increased 6.9% to 3.56cps.

BKI's Total Fully Franked Interim Dividends were 17.2% higher and is made up of an Ordinary Interim Dividend of 3.25cps, as well as a Special Dividend of 0.50cps. BKI CEO Mr Tom Millner commented: "By lifting the ordinary dividend and distributing the company's 5th fully franked special dividend, BKI have proven once again that shareholders interests always come first."

"BKI is an internally managed investment company, operating for the benefit of its shareholders at a very low cost of 18 basis points. We don't charge external portfolio management or performance fees. Our main aim is to constantly lift our dividend distributions and create wealth for the owners of this company, the shareholders," Mr Millner said.

The Operating Result was boosted by additional income from Metcash Limited which included both the Final 2012 dividend of 16.5cps declared in July and the Interim 2013 dividend of 11.5cps declared in December. The top 4 Australian Banks all increased their dividends, with Commonwealth Bank increasing the Final Dividend from 188cps to 197cps, National Australia Bank from 88cps to 90cps, Westpac from 80cps to 84cps and ANZ Banking Corporation from 76cps to 79cps. Other positive contributors to our result came from increased dividends from Wesfarmers, BHP Billiton, ALS Limited and IAG Limited.

A decrease in the Interim Dividend declared from QBE Insurance (40cps down from 60cps) and a cut in the Final Dividend from Perpetual Limited (40cps down from 90cps) were the main negative contributors to BKI's Operating Result for the period.

Dividends

The BKI Directors have declared an Interim Dividend of 3.25cps, up from 3.20cps declared last year. Directors have also declared a 0.50cps Special Dividend. Both dividends will be fully franked and will be paid on 28 February 2013. The ex-dividend date is 12 February 2013 with the record date 18 February 2013. The last trading day to be eligible for the Interim Dividend and Special Dividend is 11 February 2013.

BKI's historical fully franked dividend yield as at 29 January 2013 was 4.8% (based on dividends of 6.95cps and share price of \$1.45). Based on a tax rate of 30%, BKI's grossed up yield as at 29 January 2013 was 6.8%.

BKI's Dividend Reinvestment Plan (DRP) will be maintained, offering shareholders the opportunity to acquire further ordinary shares in BKI. The DRP will be offered at a nil 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 (18 February 2013).

Portfolio Movements

BKI made purchases totalling approximately \$20m during the first half of FY2013 with major investments including ANZ Banking Corporation, National Australia Bank, Westpac Banking Corporation, APA Group, Transurban Group and Metcash Limited. The Company's main divestment during the period included the balance of the Westpac Preference Shares (WBCPB).

Top 20 Investments

	Stock	% of Total Portfolio
1	New Hope Corporation	9.5%
2	Commonwealth Bank	9.1%
3	National Australia Bank	8.4%
4	BHP Billiton Limited	7.9%
5	Westpac Banking Corp	7.0%
6	Telstra Corporation	4.9%
7	Wesfarmers Limited	4.4%
8	ANZ Banking Group	3.5%
9	Woolworths Limited	3.4%
10	ALS Limited	3.2%
11	AGL Energy Limited	2.7%
12	Woodside Petroleum Limited	2.1%
13	Coca Cola Amatil Limited	1.8%
14	TPG Telecom Limited	1.7%
15	Metcash Limited	1.6%
16	ARB Corporation	1.4%
17	APA Group	1.3%
18	InvoCare Limited	1.3%
19	QBE Insurance Group	1.2%
20	Milton Corporation	1.1%
	Cash & cash equivalents	6.4%
	% of Total Portfolio Value	84.0%

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 year to 31 December 2012 was 15.3%, compared to the S&P/ASX 300 Accumulation Index which returned 19.7% over the same period.

BKI's Share Price Performance (including the reinvestment of dividends) for the year to 31 December 2012 was 25.5%, outperforming the S&P/ASX 300 Accumulation Index over the same period by 5.8%.

A combination of a slowdown in demand for commodities, a strong Australian dollar, high marginal costs of production and investors chasing defensive yield positions has seen the resource sector continue to underperform industrials. The S&P/ASX300 Resource Accumulation Index returned 0.1% over the last year compared to the S&P/ASX300 Industrials Accumulation Index which returned 28.0%. For the year to 31 December 2012, two of BKI's larger positions,

being New Hope Corporation and BHP Billiton Limited, returned negative 18.5% and positive 10.9% respectively.

“Despite the short term weakness in the New Hope share price, BKI received 31.00cps in fully franked dividends over the last 12 months which equates to a grossed up dividend yield of 10.5%. From an income point of view that is greater than many of the major local banks grossed up dividend yield,” Mr Millner said.

Share Purchase Plan

The Share Purchase Plan (SPP), which closed on 31 October 2012, raised \$19.1m. All BKI shareholders were given the opportunity to acquire up to \$15,000 worth of ordinary shares at \$1.29 without having to pay brokerage or other charges.

Mr Millner said: “The new shares issued under the SPP are entitled to the Interim Ordinary and Special Dividends and as at 29th January were worth \$1.45. Shareholders who took up shares in the SPP have seen an 12.4% capital return on their new shares while also being granted 3.75cps in fully franked dividends; all in the space of 3 months. The Board and Management of BKI are very pleased with this result.”

Outlook

Over the last 6 months, global economic activity was subdued. There were ongoing concerns throughout Europe as well as fears of a further decline in the US budget deficit possibly leading to a 2013 recession.

Higher energy costs, a slowdown in retail spending and a growing unemployment rate are all contributing to the ongoing economic uncertainty in Australia. Unfavourable exchange rates and higher costs of production continue to significantly impact our resource sector.

However, over the last couple of months investors have gained confidence in the economic outlook, with a resolution on further government spending appearing to have settled the short term fears of the US Fiscal Cliff. Further aid was also deployed to Greece from the International Monetary Fund and the European Central Bank appears to have become more proactive on sovereign debt issues in regards to Spain and Italy in particular.

On the Chinese economy, we have also seen some positive numbers released which suggests that economic growth is better than the market had expected. Improving industrial production and retail sales numbers in particular are showing that the economy is stabilising prior to their leadership handover.

The S&P/ASX 300 Accumulation Index has returned 16.1% over the last 6 months. Despite the improvement in the global economic backdrop, BKI believes that much of the appreciation in our local equity market has been driven by retail investors switching from term deposits and cash products to high yielding equity investments. Additional rate cuts could see a further flow of funds into the equity market with many retail investors chasing income through high dividend yielding stocks.

The last 6 months has seen the S&P/ASX300 Resource Accumulation Index return 10.9%. Despite underperforming the industrials, many investors are finding comfort in the growth rates of China’s economy and the fact that Australia is well placed to contribute from increasing demand for our commodities and energy products over the longer term. BKI’s portfolio exposure to Resources as at 31 December 2012 was 20.6%, while the portfolio exposure to Industrials was 73.0%.

BKI continues to be in a strong financial position with no debt and cash and cash equivalents representing 6.4% of the total portfolio. We are well positioned to take advantage of further investment opportunities when they arise.

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