

Appendix 4D - Half Year Report

31 December 2013

Lodged with the ASX under Listing Rule 4.2A

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Reporting Period

The reporting period is the Half-Year ended 31 December 2013 with the previous corresponding period being the Half-Year ended 31 December 2012.

BKI Investment Company Limited
Half Year ended 31 December 2013

Appendix 4D – Half Year Report

Results for Announcement to the Market

| | | % Change | | \$'000 |
|-------------------------------------------|------|----------|----|--------|
| Revenue Performance: | | | | |
| Dividend / distribution income - Ordinary | Up | 17.1% | to | 18,231 |
| Dividend / distribution income - Special | Down | 64.3% | to | 1,086 |
| Total revenue from ordinary activities | Up | 4.3% | to | 20,412 |

Profits:

| | | | | |
|----------------------------------------------------------------------------|------|-------|----|--------|
| Operating result after tax but before special dividend income | Up | 16.8% | to | 18,004 |
| Dividend income - Special | Down | 64.3% | to | 1,086 |
| Net profit from ordinary activities after tax attributable to shareholders | Up | 3.5% | to | 19,090 |
| Net profit attributable to shareholders | Up | 3.5% | to | 19,090 |

| | | % Change | | Cents |
|---------------------------------------------------------|------|----------|----|-------|
| Earnings per share: | | | | |
| Basic earnings per share before special dividend income | Up | 4.5% | to | 3.72 |
| Basic earnings per share after special dividend income | Down | 7.3% | to | 3.95 |

Dividends:

| | | | | |
|--------------------|----|------|----|------|
| Interim - Ordinary | Up | 6.2% | to | 3.45 |
|--------------------|----|------|----|------|

Appendix 4D – Half Year Report

Results for Announcement to the Market (continued)

Explanation of Operating Results

The reported operating result for the half-year ended 31 December 2013 excluding special dividend income was \$18,004,000, an increase of 16.8% over the previous corresponding period.

The net consolidated profit after tax for the half-year including special dividend income was \$19,090,000, an increase of 3.5% over the previous corresponding period.

NTA Backing

| | 31/12/2013 | 31/12/2012 |
|----------------------------------------------------------|--------------------|--------------------|
| Net tangible asset backing per ordinary share before tax | 163.5 cents | 145.0 cents |
| Net tangible asset backing per ordinary share after tax | 151.4 cents | 137.1 cents |

Additional Dividend Information

An interim dividend of 3.45 cents per share fully franked at the tax rate of 30% will be paid on 27 February 2014. The ex dividend date is 11 February 2014 with the record date for determining entitlements to the dividend to be 17 February 2014.

The Company has a Dividend Reinvestment Plan in operation offering shareholders the opportunity to receive additional shares in the Company instead of receiving cash dividends. The Dividend Reinvestment Plan will be offered at a nil discount. The last date for the receipt of an election notice to participate in the Dividend Reinvestment Plan is 18 February 2014.

Shareholders can update their election notices electronically by following the link on the Share Registry page of the BKI Investment Company Limited website.
(<http://www.bkilimited.com.au>)

ASX Announcement

30 January 2014

BKI Net Operating Result up 17%, Increases Ordinary Dividends by 6.2%

ASX and Media Release - Half Year Result to 31 December 2013

1H2014 Performance Highlights

- Ordinary dividend and distribution income increased 17.1% to \$18.2m.
- Net Operating Result before special dividend income increased 16.8% to \$18.0m.
- MER of 0.17% as at 31 December 2013.
- Basic Earnings per Share up 4.5% to 3.72cps from 3.56cps.
- Fully Franked Ordinary Dividend of 3.45cps, up from 3.25cps.

BKI Performance Overview

BKI Investment Company Limited ("BKI") today announced their Half Year Results to 31 December 2013. Net Operating Result before special dividend income increased 16.8% to \$18.0m.

Basic Earnings per Share before special dividend income increased 4.5% to 3.72cps, while the Interim Ordinary Dividend increased from 3.25cps to 3.45cps.

BKI CEO Mr Tom Millner commented: "We are especially pleased with the lift in Earnings per Share for the first half, given the extra shares on issue following the successful Placement and Entitlement Offer."

BKI's improved result was driven by higher dividend distributions from Insurance Australia Group, National Australia Bank, Westpac Banking Corporation, ANZ Banking Corporation, Woodside Petroleum, Wesfarmers Limited, Bank of Queensland and Commonwealth Bank. Lower contributions from ALS Limited, Metcash Limited, QBE Insurance and UGL Limited dragged on BKI's results.

BKI also received special dividend income from Woodside Petroleum, Coca Cola Amatil, Salmat Limited, Westpac Banking Corporation and Graincorp Limited totaling \$1,086,000 (2013: \$3,039,000) during the period. These special dividends helped lift the Net Profit attributable to shareholders by 3.5% to \$19.1m.

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 Interim Ordinary Dividend of 3.45cps was declared, up from 3.25cps in 1H2013.

Key dates for the Interim Dividend are as follows:

| Event | Date |
|------------------------------------------------------------------|-------------------------|
| Last trading date to be eligible for the Interim Dividend | 10 February 2014 |
| Ex-Dividend Date | 11 February 2014 |
| Record Date | 17 February 2014 |
| Last Day for DRP Participation | 18 February 2014 |
| Payment Date | 27 February 2014 |

BKI's historical fully franked dividend yield as at 29 January 2014 was 4.3% (based on the rolling 12 Month Dividend and share price of \$1.59).

BKI's historical grossed up yield as at 29 January 2014 was 6.2% (based on a tax rate of 30%).

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 (17 February 2014).

The last day for shareholders to nominate their participation in the DRP is Tuesday 18th February.

10 Year Milestone

During the half, BKI reached a significant milestone by recording 10 years of being listed on the ASX. BKI has come a long way during this time with the Board and Management working hard at addressing those issues that come with being a smaller LIC. Some of those issues, and the progress achieved, include:

| Issue | Action |
|--------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Size and Liquidity | The shareholder base has grown from 7,832 in 2003 to 12,824 in 2014; whilst the Portfolio Valuation has increased from \$171m at listing to \$851m in 2014. |
| Cost and Structure | Internalised Management, MER reduced from 0.69% in 2003 to 0.17% in 2014. |
| Discount to NTA | BKI's discount to NTA has reduced from a peak of 20% in June 2008 to a premium in July 2013. |
| Dividend History | Interim Ordinary Dividend has grown by 62% from 1H2005. BKI has also paid 5 Fully Franked Special Dividends since listing. |
| Company Awareness and Profile | Lifted the company awareness and profile of BKI to Advisors, Brokers and SMSFs. Won the 2011 LIC of the Year Award. |

Capital Raising

In September 2013, BKI successfully completed a Placement to sophisticated and professional investors of 39.9m fully paid ordinary shares that saw the Company raise gross proceeds of approximately \$59m at \$1.48 per share. In October 2013, BKI offered eligible shareholders the opportunity to participate in a non-renounceable entitlement offer of 1 new share for every 15 existing shares at an issue price of \$1.48 per share. BKI also offered shareholders a Top-Up Facility. Applications for shares under the 1:15 Entitlement Offer and associated Top-Up Facility closed over-subscribed, raising a further \$48.1m.

Mr Millner said: "We were extremely pleased with the ongoing support from our shareholders with the recent capital raising and also welcome many new shareholders to the register. Whilst the \$107m raised has helped increase the liquidity of BKI Shares and reduce the MER, we are excited to be given the opportunity to invest shareholders funds using our investment strategy and aim to generate better returns than they would have otherwise earned by staying in cash.

Portfolio Movements

Income from cash products has again been under pressure. As a contrast there are still many companies in the local market offering a fully franked dividend yield over 5%. "The capital raising was a great opportunity to increase our exposure to the market and take advantage of dividend yield and franking credits on offer. A large portion of the funds raised in September and October last year have been invested as per our investment strategy." Mr Millner said.

Major investments during the half included ANZ Banking Corporation, Westpac Banking Corporation, APA Group, Insurance Australia Group, National Australia Bank and Bank of Queensland. New positions in Duet Group, Primary Health Care, Toll Holdings, IOOF Holdings and Maxitans Industries were established.

Disposals included Tabcorp Holdings and the balance of the QBE Insurance Group position.

Top 25 Investments

| Stock | % of Total Portfolio |
|-----------------------------------|----------------------|
| 1 National Australia Bank | 9.5% |
| 2 Commonwealth Bank | 9.2% |
| 3 Westpac Banking Corporation | 7.7% |
| 4 BHP Billiton Limited | 6.1% |
| 5 New Hope Corporation | 5.7% |
| 6 Telstra Corporation Limited | 5.0% |
| 7 ANZ Bank | 4.7% |
| 8 Wesfarmers Limited | 4.3% |
| 9 Woolworths Limited | 3.5% |
| 10 TPG Telecom Limited | 2.8% |
| 11 AGL Energy Limited | 2.2% |
| 12 ALS Limited | 2.0% |
| 13 APA Group | 2.0% |
| 14 Woodside Petroleum Limited | 2.0% |
| 15 Insurance Australia Group | 1.7% |
| 16 InvoCare Limited | 1.3% |
| 17 Coca Cola Amatil Limited | 1.2% |
| 18 Bendigo Bank Limited | 1.2% |
| 19 Bank of Queensland Limited | 1.2% |
| 20 ARB Corporation Limited | 1.2% |
| 21 Metcash Limited | 1.1% |
| 22 Milton Corporation Limited | 1.0% |
| 23 Perpetual Limited | 1.0% |
| 24 Transurban Limited | 1.0% |
| 25 Ramsay Healthcare Limited | 0.9% |
| Cash and cash equivalents | 7.8% |
| % of Total Portfolio Value | 87.2% |

Performance

BKI's Net Portfolio Return (after all operating expenses, provision and payment of income tax and the reinvestment of dividends) for the 12 months to 31 December 2013 was 17.9%, 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 12 months to 31 December 2013 was 19.7%, in line with the S&P/ASX 300 Accumulation Index.

10 year returns for BKI's Net Portfolio Return and Share Price Performance were achieved over the period. The returns outlined below are after all operating expenses, provision and payment of both income and capital gains tax and the reinvestment of dividends. These results also exclude the value of franking credits which have been passed on by BKI to its shareholders.

| BKI Performance as at 31 December 2013 | 1 Year | 3 Yrs (pa) | 5 Yrs (pa) | 7 Yrs (pa) | 10 Yrs (pa) |
|--------------------------------------------------|---------------|-----------------------|-----------------------|-----------------------|------------------------|
| S&P/ASX 300 ACC INDEX (XKOA1) | 19.7% | 8.5% | 12.3% | 3.5% | 9.5% |
| BKI Total Shareholder Returns | 19.7% | 13.6% | 16.4% | 5.6% | 9.9% |
| BKI Share Price Outperformance V's XKOA1 | 0.0% | 5.1% | 4.1% | 2.1% | 0.4% |
| BKI Portfolio Performance | 17.9% | 9.9% | 13.0% | 5.3% | 9.5% |
| BKI Portfolio Outperformance V's XKOA1 | -1.7% | 1.5% | 0.7% | 1.9% | 0.0% |

Outlook

We are encouraged by signs of a recovery in the global economy, particularly Europe and the United States. The US economic recovery continues to play out slowly. Tapering has commenced, however, the US economy may continue to be supported by the US Federal Reserve over the short term. The key focus from any reduced level of asset purchases by the Fed will be on changes to asset prices, commodity prices, the US Dollar and the equity market. Currently the Dow Jones and S&P 500 indices are both trading on 10 year highs, whilst the US Dollar continues to strengthen.

Improvements in the Eurozone have been encouraging, although these have been modest and from country to country somewhat unbalanced. UK and German growth prospects are sound, supported by stronger business confidence. This has been reflected in the FTSE 100 and DAX 30 trading at record 10 year highs.

Throughout Asia, many emerging markets have continued their positive growth trajectory. In particular, the Chinese economy is expected to grow between 7.5% - 8.0% in FY2014. More mature economies such as Japan have an improved outlook with growth rates of above 2.0% following aggressive stimulus incentives introduced by the Bank of Japan. The NIKKEI, as a result, is currently trading at 5 year highs.

With a more positive global backdrop and a change of local Government, the confidence of the Australian investor has grown considerably over the last 12 months, particularly in the lead up into Christmas. The Australian share market has performed very well with the S&P/ASX 300 Accumulation Index gaining 19.7% to 31 December 2013.

Most industrial and major resource stocks saw a significant re-rating post the August-September 2013 reporting season. Financial Year 2014 earnings per share consensus forecasts for the industrial sector have been lifted by as much as 17%, with upgrades to better quality companies being based on continued cost savings, balance sheet strength and higher earnings expectations. This should ultimately convert to increased dividend distributions and capital management incentives.

With the low interest rate environment and higher than expected unemployment figures set to continue; we believe that the retail investor and SMSFs will continue the search for reliable, fully franked, dividend paying stocks. Whilst further confidence could emerge if the US Dollar strengthens against the Australian Dollar, earnings valuations for many companies are starting to look stretched. We do remain confident that long term stock picking opportunities will continue to emerge.

We note the importance of the SMSF industry, with this particular segment now reportedly representing over 15% of the Australian equity market. As a Listed Investment Company, BKI can offer investors capital growth and a reliable growing fully franked dividend, through a diversified portfolio of Australian shares, trusts and interest bearing securities. After 10 years of being listed BKI has proven it can deliver sound long term returns to shareholders whilst not charging external management fees or a performance fee. BKI continues to be in a strong financial position with no debt, and cash and cash equivalents representing 7.8% of the total portfolio.

For further information contact: Tom Millner
Chief Executive Officer
61-2-9238-0522 or 61-408-754-180



**BKI INVESTMENT
COMPANY LIMITED**

ABN 23 106 719 868

**INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2013**

BKI INVESTMENT COMPANY LIMITED

ABN: 23 106 719 868

CORPORATE DIRECTORY

Directors

| | |
|-----------------------|-------------------------------------|
| Robert Dobson Millner | Non-Executive Director and Chairman |
| David Capp Hall | Non-Executive Director |
| Alexander James Payne | Non-Executive Director |
| Ian Thomas Huntley | Non-Executive Director |

Chief Executive Officer

Thomas Charles Dobson Millner

Company Secretary

Jaime Pinto

Registered Office

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Sydney NSW 2000

Telephone: (02) 9210 7000

Facsimile: (02) 9210 7099

Postal Address:

GPO Box 5015
Sydney 2001

Auditors

Ruwald & Evans
Level 1
276 Pitt Street
SYDNEY NSW 2000

Share Registry

Advanced Share Registry Services Limited
150 Stirling Highway
Nedlands WA 6009

Australian Stock Exchange Code

Ordinary Shares BKI

Website

www.bkilimited.com.au

DIRECTORS' REPORT

The Directors of BKI Investment Company Limited (the Company) present the following report for the six months to 31 December 2013.

1. Directors

The following persons were Directors of the Company during the half-year to the date of this report:

Robert Dobson Millner, Chairman
David Capp Hall, Non Executive Director
Alexander James Payne, Non Executive Director
Ian Thomas Huntley, Non Executive Director

2. Review of the Company's operations and results

Corporate Objectives

The Company aims to generate a positive income stream for distribution to its shareholders in the form of franked dividends, through long-term investment in a portfolio of assets that are also able to deliver long term capital growth to shareholders.

Investment Strategy

The Company is a long-term investor in companies, trusts and interest bearing securities with a focus on Australian entities. It primarily seeks to invest in well-managed businesses with a profitable history and with the expectation of sound dividend and distribution growth.

Financial Performance

The consolidated profit for the half year ending 31 December 2013 was \$19,090,000 (2012: \$18,452,000).

There was solid growth in operating result after tax but before special investment revenue, other gains and realised gains on investment portfolio - this was up by 16.8% to \$18,004,000 (2012: \$15,413,000). Special investment revenue was down 64.3% to \$1,086,000 (2012: \$3,039,000).

3. Significant changes in the state of affairs

Other than as stated above and in the Financial Report, there were no significant changes in the state of affairs of the Company during the reporting period.

DIRECTORS' REPORT (continued)

4. Auditor's Independence declaration

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 24.

5. Rounding

The amounts contained in this report and in the half-year financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

This report is made in accordance with a resolution of the Directors.



Robert D Millner
Director

Sydney
30 January 2014

CONSOLIDATED INCOME STATEMENT FOR THE HALF YEAR TO 31 DECEMBER 2013

| | Note | Dec-13 \$ '000 | Dec-12 \$ '000 |
|--------------------------------------------------------------------------------------------|-------|-------------------|-------------------|
| Revenue from investment portfolio | 3 (a) | 18,231 | 15,564 |
| Revenue from bank deposits | 3 (c) | 958 | 706 |
| Other gains | 3 (e) | 137 | 253 |
| Income from operating activities before special investment revenue | | 19,326 | 16,523 |
| Operating expenses | 4 | (710) | (584) |
| Operating result before income tax expense and special investment revenue | | 18,616 | 15,939 |
| Income tax expense | | (612) | (526) |
| Net operating result before special investment revenue | | 18,004 | 15,413 |
| Special investment revenue | 3 (b) | 1,086 | 3,039 |
| Net operating profit for the half year | | 19,090 | 18,452 |
| Profit for the half year attributable to members of the Company | | 19,090 | 18,452 |
| | | Cents | Cents |
| Basic and diluted earnings per share on operating profit before special investment revenue | 5 | 3.72 | 3.56 |
| Basic and diluted earnings per share including special investment revenue | 5 | 3.95 | 4.26 |

This Income Statement should be read in conjunction with the accompanying notes.

**STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE HALF YEAR TO 31 DECEMBER 2013**

| | Dec-13 | Dec-12 |
|---------------------------------------------------------------------------------------|----------------------|---------------|
| | \$ '000 | \$ '000 |
| Profit for the half year attributable to members of the Company | 19,090 | 18,452 |
| Other Comprehensive Income | | |
| Realised gains / (losses) on the investment portfolio | (9,674) | (2,531) |
| Tax (expense) / credit on net realised gains / (losses) on investment portfolio | 2,902 | 759 |
| Unrealised gains / (losses) on investment portfolio | 71,884 | 64,480 |
| Deferred tax (expense) / credit on unrealised gain / (losses) on investment portfolio | (21,565) | (19,344) |
| Total Other Comprehensive Income / (Loss) | <u>43,547</u> | <u>43,364</u> |
| Total Comprehensive Income | <u>62,637</u> | <u>61,816</u> |

This Statement of Other Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2013

| | Note | Dec-13 \$ '000 | Jun-13 \$ '000 |
|--------------------------------------|------|-------------------|-------------------|
| Current Assets | | | |
| Cash and cash equivalents | | 64,573 | 36,230 |
| Trade and other receivables | | 1,715 | 6,232 |
| Prepayments | | 65 | 25 |
| Current tax assets | | - | 138 |
| Total Current Assets | | 66,353 | 42,625 |
| Non-Current Assets | | | |
| Investment Portfolio | 6 | 784,712 | 634,123 |
| Property, Plant & Equipment | | 9 | 4 |
| Deferred tax assets | | 8,590 | 4,966 |
| Total Non-Current Assets | | 793,311 | 639,093 |
| Total Assets | | 859,664 | 681,718 |
| Current Liabilities | | | |
| Trade and other payables | | 416 | 385 |
| Current tax liabilities | | 122 | - |
| Employee Benefits | | 16 | 15 |
| Total Current Liabilities | | 554 | 400 |
| Non-Current Liabilities | | | |
| Deferred tax liabilities | | 71,266 | 49,286 |
| Total Non-Current Liabilities | | 71,266 | 49,286 |
| Total Liabilities | | 71,820 | 49,686 |
| Net Assets | | 787,844 | 632,032 |
| Equity | | | |
| Share capital | 7 | 592,542 | 484,198 |
| Revaluation reserve | | 163,817 | 113,498 |
| Realised capital gains reserve | | (8,023) | (1,251) |
| Retained profits | | 39,508 | 35,587 |
| Total Equity | | 787,844 | 632,032 |

This Balance Sheet should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR TO 31 DECEMBER 2013

| CONSOLIDATED ENTITY | Share Capital \$ '000 | Revaluation Reserve \$ '000 | Realised Capital Gains Reserve \$ '000 | Retained Profits \$ '000 | Total Equity \$ '000 |
|----------------------------------------------------------------|-----------------------------|-----------------------------------|----------------------------------------------------|--------------------------------|----------------------------|
| Total equity at 1 July 2012 | 460,080 | 46,721 | 525 | 32,313 | 539,639 |
| Issue of shares, net of cost | 21,301 | - | - | - | 21,301 |
| Dividends paid or provided for | - | - | - | (13,680) | (13,680) |
| Revaluation of investment portfolio | - | 64,480 | - | - | 64,480 |
| Provision for tax on unrealised losses | - | (19,344) | - | - | (19,344) |
| Profit / (Loss) for the year | - | - | - | 18,452 | 18,452 |
| Net realised gains/(losses) through other comprehensive income | - | - | (1,772) | - | (1,772) |
| Total equity at 31 December 2012 | 481,381 | 91,857 | (1,247) | 37,085 | 609,076 |
| Total equity at 1 July 2013 | 484,198 | 113,498 | (1,251) | 35,587 | 632,032 |
| Issue of shares, net of cost | 108,344 | - | - | - | 108,344 |
| Dividends paid or provided for | - | - | - | (15,169) | (15,169) |
| Revaluation of investment portfolio | - | 71,884 | - | - | 71,884 |
| Provision for tax on unrealised losses | - | (21,565) | - | - | (21,565) |
| Profit / (Loss) for the year | - | - | - | 19,090 | 19,090 |
| Net realised gains/(losses) through other comprehensive income | - | - | (6,772) | - | (6,772) |
| Total equity at 31 December 2013 | 592,542 | 163,817 | (8,023) | 39,508 | 787,844 |

This Statement of Changes in Equity should be read in conjunction with the accompanying notes.

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE HALF YEAR TO 31 DECEMBER 2013**

| | Note | Dec-13 \$ '000 | Dec-12 \$ '000 |
|----------------------------------------------------------|-------|-------------------|-------------------|
| Cash flows from operating activities | | | |
| Payments to suppliers and employees | | (718) | (790) |
| Dividends and distributions received | | 23,792 | 23,908 |
| Payments for held for trading financial assets | | - | (246) |
| Proceeds from sale of held for trading financial assets | | 137 | 274 |
| Interest received | | 1,001 | 622 |
| Income tax paid | | (110) | (502) |
| Net cash inflows from operating activities | | 24,102 | 23,266 |
| Cash flows from investing activities | | | |
| Purchases for investment portfolio | | (99,688) | (20,238) |
| Sales from investment portfolio | | 10,888 | 4,852 |
| Capital returns on investment portfolio | | 421 | - |
| Payments for plant and equipment | | (6) | - |
| Net cash outflow from investing activities | | (88,385) | (15,386) |
| Cash flows from financing activities | | | |
| Proceeds from issues of ordinary shares less issue costs | 7 (b) | 105,275 | 18,905 |
| Dividends paid | | (12,649) | (11,338) |
| Net cash inflow from financing activities | | 92,626 | 7,567 |
| Net increase in cash held | | 28,343 | 15,447 |
| Cash at the beginning of the period | | 36,230 | 24,996 |
| Cash at the end of the period | | 64,573 | 40,443 |

This Cash Flow Statement should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR TO 31 DECEMBER 2013

1. BASIS OF PREPARATION

The half-year consolidated financial statements are a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standard AASB 134: Interim Financial reporting, Urgent Issues Group Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2013 and any public announcements made by BKI Investment Company Limited and its controlled entities during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

The half-year report does not include full disclosures of the type normally included in an annual financial report.

The accounting policies are consistent with those applied in the 30 June 2013 Annual Report.

Reporting Basis and Conventions

This financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

2. FINANCIAL REPORTING BY SEGMENTS

The Company operates predominately in the securities industry in Australia and has no reportable segments.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR TO 31 DECEMBER 2013 (continued)**

| | Dec-13 \$ '000 | Dec-12 \$ '000 |
|-----------------------------------------------------------|-------------------|-------------------|
| 3. REVENUES | | |
| (a) Revenue from investment portfolio | | |
| Fully Franked dividends - ordinary | 16,705 | 14,450 |
| Unfranked dividends - ordinary | 676 | 792 |
| Trust Distributions - ordinary | 850 | 322 |
| | <u>18,231</u> | <u>15,564</u> |
| (b) Special investment revenue | | |
| Fully Franked dividends - special | 1,065 | 3,039 |
| Unfranked dividends - special | 21 | - |
| | <u>1,086</u> | <u>3,039</u> |
| (c) Revenue from bank deposits | | |
| Interest received | <u>958</u> | <u>706</u> |
| (d) Other gains / losses | | |
| Net realised gain on sale of investments held for trading | 137 | 28 |
| Net unrealised gain on investments held for trading | - | 225 |
| | <u>137</u> | <u>253</u> |
| Total Income | <u>20,412</u> | <u>19,562</u> |
| 4. OPERATING EXPENSES | | |
| Administration expenses | 232 | 166 |
| Occupancy Costs | 4 | 4 |
| Employee and Directors expense | 387 | 319 |
| Professional fees | 83 | 95 |
| Interest expense | 3 | - |
| Depreciation | 1 | - |
| Total Expenditure | <u>710</u> | <u>584</u> |

| | Dec-13 Shares | Dec-12 Shares |
|------------------------------------------------------------------------------------------------------------|--------------------|--------------------|
| 5. EARNINGS PER SHARE | | |
| Weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share | <u>483,482,689</u> | <u>433,141,302</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR TO 31 DECEMBER 2013 (continued)

| | Dec-13 \$ '000 | Jun-13 \$ '000 |
|--|-------------------|-------------------|
|--|-------------------|-------------------|

6. FINANCIAL ASSETS - INVESTMENT PORTFOLIO

Non-Current Investment Portfolio

Listed securities at fair value available for sale:

| | | |
|-------------------------------------|---------|---------|
| - Shares in ASX-Listed corporations | 784,712 | 634,123 |
| Total Investment Portfolio | 784,712 | 634,123 |

7. SHARE CAPITAL

| | | |
|--------------------------------|---------|---------|
| (a) Issued and paid-up capital | 592,542 | 484,198 |
|--------------------------------|---------|---------|

(b) Movement in ordinary shares

| | Dec-13 Number of Shares | \$'000 |
|---------------------------------------|-------------------------------|---------|
| Beginning of the period | 446,139,639 | 484,198 |
| Issued during the half year: | | |
| - dividend reinvestment plan | 1,615,225 | 2,520 |
| - Placement | 39,900,000 | 59,052 |
| - Rights Issue | 32,468,378 | 48,053 |
| - less transaction costs (net of tax) | | (1,281) |
| End of the period | 520,123,242 | 592,542 |

Transaction costs include gross transaction costs less tax effect of eligible tax deduction for current and prior year.

| | Dec-13 \$ '000 | Dec-12 \$ '000 |
|--|-------------------|-------------------|
|--|-------------------|-------------------|

8. DIVIDENDS

(a) Dividends paid

Final ordinary dividend for the year ended 30 June 2013 of 3.40 cents per share (2012: 3.20 cents per share) fully franked at the tax rate of 30%

| | | |
|----------------------|--------|--------|
| | 15,169 | 13,680 |
| Total dividends paid | 15,169 | 13,680 |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF YEAR TO 31 DECEMBER 2013 (continued)**

(b) Dividends declared after balance date

Since the end of the half year the Directors have declared an interim ordinary dividend for the 2014 financial year of 3.45 cents per share, fully franked at the tax rate of 30%. This dividend will be payable on 27 February 2014, but has not been recognised as a liability at the half year.

9. ACQUISITION OF CONTROLLED ENTITIES

During the half year ended 31 December 2013 the Company did not acquire any controlled entities (2012: None).

10. RELATED PARTY TRANSACTIONS

During the period the company conducted a non-renounceable entitlement offer, which was partially underwritten by three of BKI's directors. This underwriting facility was not called upon.

In September 2013 the Company entered into a short term revolving loan agreement with Washington H. Soul Pattinson and Company Limited, a major shareholder in BKI. The facility was established to allow more efficient use of the funds raised in placement completed by the Company in September 2013. The terms and conditions of the facility were as follows;

- Facility Limit: \$10,000,000
- Interest: 5.0% per annum compounded daily
- Term: 14 days

The first draw-down on the facility was on 9 September 2013 and repayment was made in full on 12 September 2013. Total interest paid on the facility was \$2,891.

Other arrangements with related parties continue to be in place. For details on these arrangements, refer to the 30 June 2013 annual financial report.

11. CONTINGENT LIABILITIES

The Company has no contingent liabilities at 31 December 2013.

12. EVENTS SUBSEQUENT TO BALANCE DATE

Since 31 December 2013 to the date of this report there has been no event of which the Directors are aware which has had a material effect on the Company or its financial position.

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of BKI Investment Company Limited, I state that:

In the opinion of the Directors:

- (a) the financial statements and notes of the consolidated entity as set out on pages 12 to 20 are in accordance with the Corporations Act 2001, including:
 - i giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half year ended on that date; and
 - ii complying with Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
 - iii complying with International Financial Reporting Standards; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.



Robert D Millner
Director

Sydney
30 January 2013

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF BKI INVESTMENT COMPANY LIMITED

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of BKI Investment Company Limited, which comprises the balance sheet as at 31 December 2013, income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the half-year ended on that date, selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the entity's financial position as at 31 December 2013 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of BKI Investment Company Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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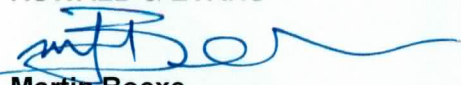
Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of BKI Investment Company Limited and its controlled entities is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Ruwald & Evans

RUWALD & EVANS



Martin Bocxe
Partner

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30 January, 2014

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Auditors' Independence Declaration

As lead auditor for the review of BKI Investment Company Limited and its controlled entities for the half-year ended 31 December 2013, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of BKI Investment Company Limited and its controlled entities during the period.

Ruwald & Evans

RUWALD & EVANS



Martin Bocxe
Partner

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30 January 2014

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