

ASX Announcement

Office Level 2, 160 Pitt Street Mall
Sydney NSW 2000
Telephone +61 2 9210 7000
Fax +61 2 9210 7099
Web www.bkilimited.com.au
ABN 23 106 719 868

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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 totalling \$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 fully franked 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
DRP Nomination	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 for 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 Maxitran 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 both income and capital gains 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 a 5 year high.

With a more positive global backdrop and a change of Federal Government, the confidence of the Australian investor has grown considerably 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 stocks and major resources 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 17.0%, 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 SMSF's 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. With a listed 10 year history, 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
02 9238 0522 or 0408 754 180