

BKI's Top 20 Holdings at 30 June 2012

Company Name	Portfolio Weight %
1 New Hope Corporation	10.6
2 Commonwealth Bank	9.0
3 National Aust Bank	8.5
4 BHP Billiton Limited	7.7
5 Westpac Banking Corp	6.0
6 Telstra Corporation	4.8
7 Wesfarmers Limited	4.1
8 Campbell Brothers	3.8
9 Woolworths Limited	3.6
10 AGL Energy Limited	3.0
11 ANZ Banking Group	2.6
12 Woodside Petroleum	2.2
13 Coca Cola Amatil	2.0
14 QBE Insurance Group	1.8
15 Metcash Limited	1.7
16 TPG Telecom	1.4
17 ARB Corporation	1.4
18 Invocare Limited	1.4
19 ASX Limited	1.2
20 Milton Corporation	1.1
Cash and Cash Equivalents	5.5
Total of Top 20 (Including Cash and Cash Equivalents)	83.4

Outlook

European, US, and Asian economic activity has seen a further decline over the past quarter, prompting additional easing from the world's major central banks. On the back of this poor data, the Australian share market has again been subdued for the financial year just ended.

The global economic outlook remains challenging, and until appropriate financial reforms are implemented to resolve sovereign debt issues in Europe, economic data from the US improves and

investor confidence within Asian markets lift we could see our local sharemarket continue to drift sideways.

Domestically, our multi speed economy still appears to be making it difficult for the Reserve Bank to implement a high conviction monetary policy. Despite four interest rate cuts since November 2011, parts of our economy continue to be challenged. Consumer confidence and discretionary spending by mainstream Australia is being weighed down by job security concerns and a higher cost of living.

Whilst the official cash rate is 1.25% lower than 12 months ago, we haven't seen a meaningful turnaround in consumer confidence as yet nor have we seen investors switching from term deposits and cash products to high yielding investments within the equities market.

We are expecting further rate cuts over the next 3 – 6 months which should encourage retail spending, mortgage and building applications, as well as a lift in sharemarket participation. Many fixed interest products are currently offering pre tax rates of less than 5.0%, whilst shareholders in BKI are currently receiving a grossed up yield of 7.9%.

BKI continues to be in a strong financial position with no debt and cash and cash equivalents representing 5.5% of the total portfolio. We are confident that our current equity portfolio is well positioned for the long term. It is aimed at generating an increasing income stream from dividends received, which in turn, should enable us to continue to distribute attractive fully franked dividends to BKI shareholders.

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Full Year Review 30 June 2012

Performance Highlights

Total Ordinary Dividend and Distribution Income up 8.0% to \$29.8m

Net Operating Result before special dividend income increased 9.4% to \$27.7m.

MER of 0.18% as at 30 June 2012

Net Portfolio Return for the year to 30 June 2012 outperformed the S&P/ASX 300 Acc Index by 3.9%.

Earnings per Share up 8.2% to 6.51cps from 6.02cps.

The Final Ordinary Dividend declared is 3.2cps, fully franked, up 6.7%.

Results for Half Year 2012

Revenue Performance:

Total Ordinary Income Up 8.0% to \$29.8m

Profits:

Operating Result After Tax* Up 9.4% to \$27.7m

Portfolio:

Total Portfolio Value Down 7.1% to \$556.7m

*Before special dividend income.

Earnings Per Share:

Earnings per share before special dividend income was up 8.2% to 6.51 cents per share.

Earnings per share after special dividend income was down 0.8% to 7.04 cents per share.

Commentary for Full Year 2012

BKI is pleased to deliver this positive result given the mixed economic environment we continue to be experiencing.

Investing for the long term has again seen the Operating Result increase which has enabled us to increase the ordinary dividend paid to BKI shareholders.

Dividends

The Final Ordinary Dividend declared is 3.2 cents per share fully franked. BKI is currently trading on a fully franked dividend yield of 5.5% and a grossed up yield of 7.9% (based on the share price as at 30 June 2012 of \$1.155).

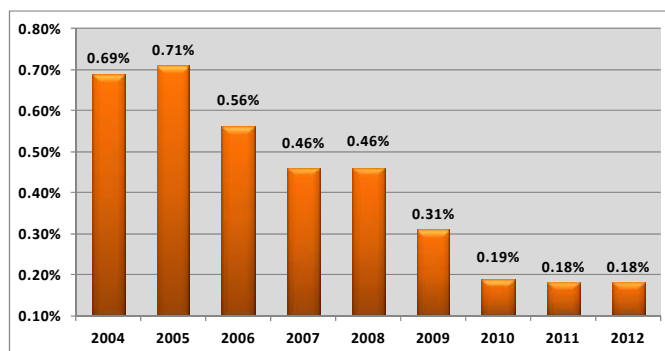
BKI's Dividend Reinvestment Plan has been maintained.

Operating Expenses

Operating expenses for the Full Year were \$1.0m, flat on the previous corresponding period. As can be seen from Chart 1 below, BKI's Management Expense Ratio (MER) as at 30 June 2012 was 0.18%, steady from 30 June 2011.

BKI is internally managed and does not charge shareholders external portfolio management fees or performance fees.

Chart 1 – BKI MER (FY2004 – FY2012)



Performance

BKI's Net Portfolio Return for the year to 30 June 2012 was negative 3.1%, outperforming the S&P/ASX 300 Accumulation Index by 3.9%, which decreased by 7.0% over the same period.

BKI's Share Price Performance for the year to 30 June 2012 was positive 1.5%, outperforming the S&P/ASX 300 Accumulation Index over the same period by 8.5%.

BKI's "Net" performance numbers include all operating expenses, provision and payment of both income and capital gains tax and include the reinvestment of dividends. Performance numbers don't capture the benefit of franking credits to shareholders.

Fund Manager of the Year



BKI Investment Company Limited
Winner 2011
Listed Investment Company Award

As previously announced, BKI received the 2011 Listed Investment Company of the Year award in November 2011. BKI believes that the future prospects of the LIC sector remain strong.

Through a company structure, LIC's can offer shareholders:

- Reliable fully franked dividends,
- A diversified investment portfolio,
- A competitive cost structure,
- Strong Board and Management teams,
- High levels of transparency and compliance by being listed on the ASX,
- A closed end investment structure,
- Solid after tax performance.

Portfolio Movements

BKI made purchases totalling approximately \$26.5m during FY2012 with major investments including Westpac Banking Corporation, National Australia Bank, Commonwealth Bank, Wesfarmers Limited and Fleetwood Corporation.

The Company also divested a number of holdings during the period, including BlueScope Steel, Echo Entertainment, Transfield Services, Suncorp Metway Preference Shares, Westpac Preference Shares (WBCPA) and half of the position in Westpac Preference Shares (WBCPB). Also during the year Orica Step-up Preference Shares were redeemed by Orica Limited.