

BKI Investment Company Limited



ASX APPENDIX 4E – PRELIMINARY FINAL REPORT
30 JUNE 2019

The reporting period is the year ended 30 June 2019 with the previous corresponding period being the year ended 30 June 2018

BKI Investment Company Limited

YEAR ENDED 30 JUNE 2019

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	Change		Jun 2019 \$'000		Jun 2018 \$'000
Revenue performance					
Total income – ordinary	Up 12.7%	to	54,254	from	48,128
Special investment income	Up	to	27,977	from	786
Total income from ordinary activities	Up 68.1%	To	82,231	from	48,914
Profits					
Operating result after tax - before special investment income net of applicable tax	Up 11.1%	to	49,150	from	44,224
Special investment income net of applicable tax	Up	to	25,550	from	786
Net profit from ordinary activities after tax attributable to shareholders	Up 66.0%	to	74,700	from	45,010
Net profit attributable to shareholders	Up 66.0%	to	74,700	from	45,010
Portfolio					
Total portfolio value (including cash & receivables)	Up 4.4%	to	1,234,262	from	1,182,036
Earnings per share					
			Cents		Cents
Basic earnings per share <u>before</u> special dividend income	Down 4.9%	to	6.75	from	7.10
Basic earnings per share <u>after</u> special dividend income	Up 41.9%	to	10.26	from	7.23
Dividends per share					
Interim - ordinary	Steady	at	3.625	from	3.625
Interim – special	Up	To	1.500	from	nil
Final – ordinary	Steady	at	3.700	from	3.700
Final – special	Up	to	1.000	from	nil
Full year total	Up 34.1%	to	9.825	from	7.325

BKI Investment Company Limited

YEAR ENDED 30 JUNE 2019

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Explanation of Operating Results

BKI's Total Ordinary Revenue from its investment portfolio was \$52.3m, 10.0% higher than 2018, driving a 11.1% increase in Net Operating Result before special investment revenue to \$49.2m from \$44.2m. Basic and diluted earnings per share before special dividend income was down 4.9% to 6.75cps.

Positive contributors to this result include increased dividends from Woodside Petroleum, New Hope Corporation, BHP Limited, Macquarie Group, Transurban Group, Sydney Airport and Lindsay Australia, while lower dividends from National Australia Bank, Telstra Corporation, Suncorp Group, Invocare Limited and LendLease Limited detracted from the result.

BKI received \$27.98m in Special Investment Income during 2019FY, compared to \$0.79m in 2018FY, including special dividends paid by Telstra Corporation, QUBE Logistics, IAG Insurance, Suncorp Group, Woolworths Group, BHP Limited, Wesfarmers Limited and Milton Corporation. This Special Investment Income also included amounts generated by participating in off market buy backs conducted by BHP Limited and Caltex Limited, and a non-cash Wesfarmers Demerger Dividend.

Total Shareholder Return including franking credits for the year to 30 June 2019 was 11.6%, compared to the S&P/ASX 300 Accumulation Index, which returned 13.5% over the same period. BKI's Total Shareholder Return including Franking Credits for 15 years was 10.4% per annum.

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 30 June 2019 was 9.4%.

NTA Backing

	30 June 2019	30 June 2018
Net Tangible Asset backing per ordinary share before tax	\$1.69	\$1.63
Net Tangible Asset backing per ordinary share after tax	\$1.58	\$1.54

Additional Dividend Information

The Directors have declared a final ordinary 2019FY dividend of 3.700 cents per share and a special dividend of 1.00 cents per share, both fully franked at the tax rate of 30%, which will be paid on 29 August 2019. The Record date for the dividend is 13 August 2019.

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. No discount will apply to the Dividend Reinvestment Plan. The last date for the receipt of an election notice to participate in the Dividend Reinvestment Plan is 13 August 2019.

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

Other Information

This report is based on audited accounts. A copy of the 2019 Annual Report, which includes the audited accounts, is attached to this Appendix 4E.



**BKI INVESTMENT
COMPANY LIMITED**

ABN 23 106 719 868

**ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2019**

BKI INVESTMENT COMPANY LIMITED

ABN: 23 106 719 868

CORPORATE DIRECTORY

Directors

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

Investment Manager

Contact Asset Management Pty Limited
Tom Millner – Portfolio Manager
Will Culbert – Portfolio Manager

Company Secretaries

Jaime Pinto
Larina Tcherkezian (Alternate)

Registered Office

Level 14
151 Clarence Street
Sydney NSW 2000
Telephone: (02) 9210 7000
Facsimile: (02) 9210 7099

Postal Address:
GPO Box 5015
Sydney, NSW 2001

Auditors

MGI Sydney Assurance Services Pty Ltd
5th Floor, 6 O'Connell Street
Sydney NSW 2000

Share Registry

Advanced Share Registry Services Limited
110 Stirling Highway
Nedlands, WA 6009
Telephone: (08) 9389 8033

Australian Stock Exchange Code

Ordinary Shares BKI

Website

www.bkilimited.com.au

BKI INVESTMENT COMPANY LIMITED

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BKI INVESTMENT COMPANY LIMITED

FINANCIAL HIGHLIGHTS

	Change		Jun 2019 \$'000		Jun 2018 \$'000
Revenue performance					
Total income – ordinary	up	12.7%	to 54,254	from	48,128
Special investment income	up		to 27,977	from	786
Total income from ordinary activities	up	68.1%	to 82,231	from	48,914
Profits					
Operating result after tax - before special investment income net of applicable tax	up	11.1%	to 49,150	from	44,224
Special investment income net of applicable tax	up		to 25,550	from	786
Net profit from ordinary activities after tax attributable to shareholders	up	66.0%	to 74,700	from	45,010
Net profit attributable to shareholders	up	66.0%	to 74,700	from	45,010
Portfolio					
Total portfolio value (including cash & receivables)	up	4.4%	to 1,234,262	from	1,182,036
Earnings per share (EPS)					
				Cents	Cents
Basic EPS before special investment income and applicable tax	down	4.9%	to 6.75	from	7.10
Basic EPS after special investment income and applicable tax	up	41.9%	to 10.26	from	7.23
Dividends					
Interim - Ordinary	steady		at 3.625	from	3.625
Interim - Special	up		to 1.500	from	0.000
Final – Ordinary	steady		at 3.700	from	3.700
Final – Special	up		to 1.000	from	0.000
Full Year Total	up	34.1%	to 9.825	from	7.325

10 Year Dividend History (cents per share):

30 June	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Interim	2.50	3.00	3.20	3.25	3.45	3.55	3.60	3.60	3.625	3.625
Final	2.75	3.00	3.20	3.40	3.50	3.65	3.65	3.70	3.700	3.700
Special	1.00	1.00	-	0.50	-	-	-	-	-	2.50
Total	6.25	7.00	6.40	7.15	6.95	7.20	7.25	7.30	7.325	9.825

All ordinary and special dividends paid by BKI Investment Company Limited (“BKI”) since listing on the Australian Stock Exchange have been fully franked.

10 Year Net Tangible Asset (NTA) History (\$ per share):

30 June	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
NTA before tax	1.32	1.42	1.30	1.52	1.63	1.65	1.55	1.61	1.63	1.69
NTA after tax	1.27	1.34	1.26	1.42	1.51	1.53	1.47	1.52	1.54	1.58

BKI INVESTMENT COMPANY LIMITED

FINANCIAL HIGHLIGHTS - Continued

List of Securities as at 30 June 2019

	Number of shares held	Market value \$'000	Portfolio weight %
Financials			
Commonwealth Bank	992,432	82,154	6.66
National Australia Bank	2,509,175	67,045	5.43
Macquarie Group	489,770	61,412	4.98
Westpac Banking Corporation	2,076,403	58,887	4.77
ANZ Banking Group	1,560,624	44,025	3.57
ASX Limited	397,750	32,763	2.65
IAG Limited	3,443,445	28,443	2.30
Magellan Financial Group Limited	383,500	19,559	1.58
Suncorp Group	1,196,094	16,111	1.31
Milton Corporation	2,103,640	9,908	0.80
Challenger Limited	1,485,000	9,860	0.80
Pendal Group	1,093,185	7,816	0.63
Platinum Asset Management	1,238,000	6,004	0.49
Equity Trustees	185,054	5,478	0.44
Evans Dixon	2,050,000	1,640	0.13
		451,105	36.54
Industrials			
Transurban Group	3,697,584	54,502	4.42
Sydney Airport	4,560,427	36,666	2.97
Seek Limited	537,500	11,374	0.92
Brambles Limited	500,576	6,447	0.52
Lindsay Australia	17,141,631	5,914	0.48
Reece Limited	488,835	4,771	0.39
Boral Limited	554,952	2,841	0.23
		122,515	9.93
Consumer Discretionary			
Wesfarmers Limited	1,129,102	40,828	3.31
Invocare Limited	1,638,974	26,207	2.12
ARB Corporation	945,447	17,207	1.39
Harvey Norman Holdings Limited	2,542,777	10,349	0.84
		94,591	7.66
Consumer Staples			
Woolworths Group	1,428,744	47,478	3.85
Coles Group	1,129,102	15,073	1.22
Amcor	500,250	8,099	0.66
Treasury Estate	451,844	6,742	0.55
Inghams Group	1,340,000	5,387	0.44
		82,779	6.72
Utilities			
APA Group	4,894,714	52,863	4.28
AGL Energy Limited	1,483,708	29,689	2.41
		82,552	6.69

BKI INVESTMENT COMPANY LIMITED

FINANCIAL HIGHLIGHTS - Continued

List of Securities as at 30 June 2019 (Continued)

	Number of shares held	Market value \$'000	Portfolio weight %
Energy			
New Hope Corporation	14,815,952	40,151	3.25
Woodside Petroleum Limited	1,010,802	36,753	2.98
Caltex Australia	131,824	3,263	0.26
		80,167	6.49
Health Care			
Sonic Healthcare	960,899	26,040	2.11
Ramsay Healthcare	514,000	37,131	3.01
Regis Healthcare	1,807,428	4,754	0.39
		67,925	5.51
Telecommunications			
Telstra Corporation	9,234,451	35,553	2.88
TPG Telecom	4,819,251	31,036	2.51
		66,589	5.39
Materials			
BHP Limited	1,342,481	55,257	4.48
Brickworks Limited	436,209	7,106	0.58
		62,363	5.06
Property Trusts			
Goodman Group Limited	945,000	14,203	1.15
Stockland	1,225,000	5,108	0.41
LendLease	513,535	6,676	0.54
		25,987	2.10
Total Portfolio		1,136,573	92.09
Investment portfolio			
Trading portfolio		-	-
Total Portfolio		1,136,573	92.09
Cash and dividends receivable		97,689	7.91
Total Investment Assets		1,234,262	100.00

The Group is a substantial shareholder in accordance with the Corporations Act 2001 of Lindsay Australia Limited, holding 5.83% of the issued capital as at 30 June 2019. The Group is not a substantial shareholder in any other investee corporation as each equity investment represents less than 5% of the issued capital of the investee corporation.

BKI INVESTMENT COMPANY LIMITED

GROUP PROFILE

BKI Investment Company Limited (“BKI” or “the Group”) is a Listed Investment Company on the Australian Stock Exchange. The Group invests in a diversified portfolio of Australian shares, trusts and interest bearing securities.

BKI shares were listed on the Australian Stock Exchange Limited commencing 12 December 2003.

Corporate Objectives

The Group aims to generate an increasing income stream for distribution to shareholders in the form of fully franked dividends to the extent of available imputation tax credits, through long-term investment in a portfolio of assets that are also able to deliver long term capital growth to shareholders.

Investment Strategy

The Group is a research driven, long term manager focusing on well managed companies, with a profitable history and that offer attractive dividend yields. Stock selection is bottom up, focusing on the merits of individual companies rather than market and economic trends.

Dividend Policy

Having respect to prudent business practices, and ensuring the business retains sufficient working capital to allow the achievement of the Group’s Corporate Objectives and Business Strategy, the Group will pay the maximum prudent amount of realised profits after tax for that year to shareholders as fully franked dividends to the extent permitted by the Corporations Act and the Income Tax Assessment Act.

Ordinary dividends will be declared by the Board of Directors out of the Company’s Net Operating Result, after tax but before special investment revenue.

In circumstances where the Group accumulates sufficient special investment revenue after ensuring the business retains sufficient working capital in accordance with its capital management objectives, the Board will consider declaring special fully franked dividends to the extent permitted by the Corporations Act and the Income Tax Assessment Act.

In circumstances where the Group generates sufficient qualifying capital gains, LIC Gains will be distributed to shareholders to the extent permitted by the Corporations Act and the Income Tax Assessment Act.

Management

The portfolio management and advisory function of BKI is performed by Contact Asset Management Pty Ltd (“Contact”). Contact is majority owned by Mr Tom Millner and Mr Will Culbert, the former CEO and Portfolio Manager respectively of BKI, with the remaining 20% owned by Washington H Soul Pattinson and Company Limited. The BKI Board of Directors and Investment Committee meet regularly to review the portfolio and set the investment strategy of BKI.

The Group also engages Corporate & Administrative Services Pty Ltd to provide accounting and group secretarial services. These services are overseen by the BKI Company Secretary, Mr Jaime Pinto.

BKI INVESTMENT COMPANY LIMITED

CHAIRMAN'S ADDRESS

Dear Shareholders,

I am pleased to enclose the 16th Annual Report of BKI Investment Company Limited (BKI) for the year to 30 June 2019.

During the year, BKI reached the milestone of trading on the ASX for 15 years, having listed in December 2003. Since that time, BKI's has:

- Grown its shareholder base from 7,832 in 2003 to almost 18,000;
- Increased Total Assets from \$171m to \$1.3b;
- Paid out over \$640m to shareholders in Dividends and Franking Credits;
- Distributed seven Fully Franked Special Dividends; and
- Reduced the MER from 0.69% in 2003 to 0.17% in 2019.

Result Highlights

Investors' chase for growth has continued, resulting in 2019 being a turbulent year for markets. The S&P/ASX 300 Accumulation Index increased by 11.4% over the year. However, it was a tale of two halves, with the market dropping 7.0% between July and December 2018, before rallying an incredible 19.8% between January and June 2019.

We have been able to deliver another solid result for our shareholders in a market dominated by volatility and uncertainty. Net Operating Result before special investment revenue increased from \$44.2m to \$49.2m, an increase of 11%. Basic Earnings per Share before special investment revenue was 6.75cps compared to 7.10cps last year, as the number of issued shares increased significantly following the 2018 entitlement offer.

Positive contributors to this result include increased dividends from Woodside Petroleum, New Hope Corporation, BHP Limited, Macquarie Group, Transurban Group, Sydney Airport and Lindsay Australia, while lower dividends from National Australia Bank, Telstra Corporation, Suncorp Group, Invocare Limited and LendLease Limited detracted from the result. Revenue from bank deposits continues to be low.

BKI received \$27.98m in Special Investment Income during 2019FY, compared to \$0.8m in 2018FY. BKI received \$4.35 million in special dividend income over the year from Telstra Corporation, QUBE Logistics, IAG Insurance, Suncorp Group, Woolworths Group, BHP Limited, Wesfarmers Limited and Milton Corporation, compared to \$0.79 million of special dividends received in 2018. BKI also received special investment income totalling \$15.54 million from off market buy-backs conducted by BHP Limited and Caltex Limited, and a further \$8.09 million from a non-cash demerger dividend from Wesfarmers. This demerger dividend wasn't paid in cash, but instead BKI was issued new shares in the newly listed Coles Group Limited.

Total Shareholder Return including franking credits for the year to 30 June 2019 was 11.6%, compared to the S&P/ASX 300 Accumulation Index, which returned 13.5% over the same period. BKI has delivered a Total Shareholder Return including Franking Credits of 10.4% per annum over a 15 year period compared to the S&P/ASX 300 Accumulation Index, which returned 10.6%.

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 30 June 2019 was positive 9.4%.

Dividends

In the lead up to the Federal Election, we were overwhelmed by the level of angst in the investment community regarding Labor's proposal to eliminate cash refunds of excess franking credits. In response to a possible change in franking credit policy, the Directors of BKI declared a Fully Franked Special Dividend of 1.50cps in the first half. The BKI Directors have also agreed to distribute to shareholders another Fully Franked Special Dividend of 1.00cps with the full year result.

Including the two Special Dividends, the BKI Board has declared total dividends of 9.825cps in FY2019, up from 7.325cps paid last year. Like all previous dividends paid to shareholders, all FY2019 dividends are fully franked.

BKI INVESTMENT COMPANY LIMITED

CHAIRMAN'S ADDRESS - Continued

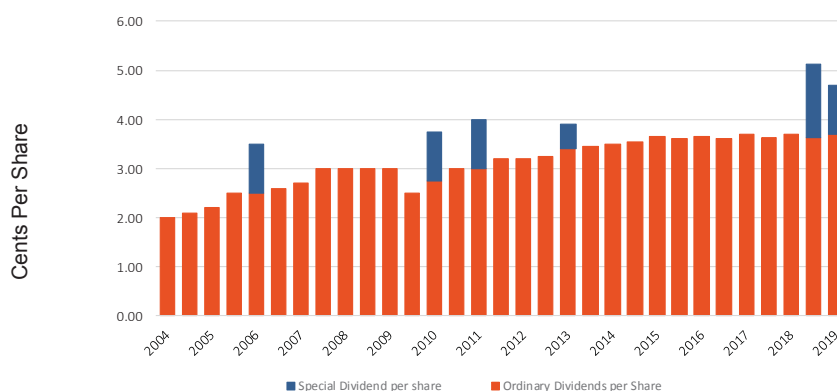
Following payment of the 2019 dividends, BKI will have approximately \$16.75m of imputation credits available for future dividends.

Dividend Key Dates

The last trading date to be eligible for the FY2019 Final Dividend is Thursday 8 August 2019. Key dates for the fully franked Final Dividend are as follows:

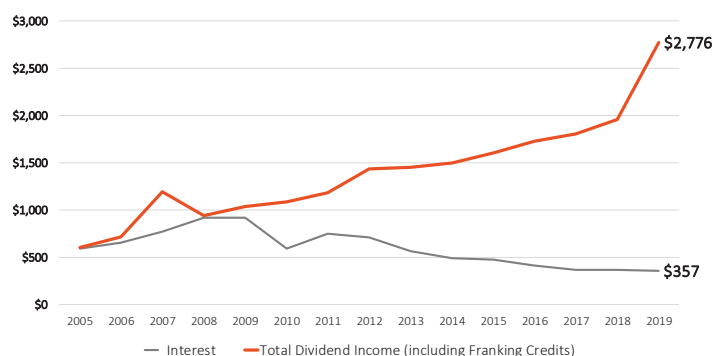
Event	Date
Last trading date to be eligible for the Final Dividend	Thursday 8 August 2019
Ex-Dividend Date	Friday 9 August 2019
Record Date	Monday 12 August 2019
DRP Nomination	Tuesday 13 August 2019
Payment Date	Thursday 29 August 2019

BKI's Dividend Reinvestment Plan (DRP) offers shareholders the opportunity to acquire further ordinary shares in BKI. The DRP will not be offered at a discount. To obtain access to a DRP form please use the following link: www.bkilimited.com.au/dividend-reinvestment-plan/



Above - Fully Franked Ordinary Dividends and Special Dividends declared by BKI (cents per share).

BKI focuses on investing for the long term in profitable, high yielding, well managed companies that ultimately deliver wealth for BKI shareholders, through an increasing fully franked dividend and capital growth. The chart below shows how powerful compounding can be by reinvesting the dividends that have been paid by BKI over the last 14 years.



Above - Dividends + Franking Credits received from a \$10,000 investment in BKI at IPO versus Bank Quarterly Interest.

BKI INVESTMENT COMPANY LIMITED

CHAIRMAN'S ADDRESS - Continued

In this example, an investor who spent the equivalent of \$10,000 to purchase BKI shares upon listing in December 2003 and reinvested those dividends, would have received fully franked dividends of \$1,943 in a rolling 12 month period. The franking credits enhance the income by a further \$833 (total income of \$2,776). The same investment in a term deposit (based on the cash rate + 0.50%) would be earning \$357pa with no franking credits.

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 (Monday 12 August 2019).

Management Expense Ratio (MER)

BKI's MER as at 30 June was 0.17%. The Board & Portfolio Managers are shareholders in BKI, we invest for the long term and do not charge excessive external portfolio management fees or any performance fees. We focus on creating wealth for all shareholders by keeping costs low and increasing fully franked dividends and capital growth.

Top 25 Investments

	Stock	% of Total Portfolio
1	Commonwealth Bank	6.7%
2	National Australia Bank	5.4%
3	Macquarie Group	5.0%
4	Westpac Banking Corp	4.8%
5	BHP Limited	4.5%
6	Transurban Group	4.4%
7	APA Group	4.3%
8	Woolworths Group	3.8%
9	ANZ Banking Group	3.6%
10	Wesfarmers Limited	3.3%
11	New Hope Corporation	3.3%
12	Ramsay Healthcare	3.0%
13	Woodside Petroleum	3.0%

	Stock	% of Total Portfolio
14	Sydney Airport	3.0%
15	Telstra Corporation	2.9%
16	ASX Limited	2.7%
17	TPG Telecom	2.5%
18	AGL Energy Limited	2.4%
19	IAG Limited	2.3%
20	Invocare Limited	2.1%
21	Sonic Healthcare	2.1%
22	Magellan Financial Group	1.6%
23	ARB Corporation	1.4%
24	Suncorp Group	1.3%
25	Coles Group	1.2%
Cash and cash equivalents		7.9%
Total of Top 25 including cash and cash equivalents		88.5%

Outlook

We believe the momentum in our equity market could continue to be driven by macro factors rather than company fundamentals. Yet these macro conditions are out of our control, and it is easy to get caught up in the negative. We expect there will be several periods of opportunity for long term investors in the year ahead and that patience will pay off.

The recent chase for growth is just one segment of the market. As we see continued pressure on the official cash rate, many investors who rely on income will now become reluctant to invest further into cash products. We believe that this situation will continue to encourage investors into equity markets and in particular into stocks that are offering attractive and sustainable dividend yields.

BKI is well placed to take advantage of this situation offering shareholders and potential future investors an attractive fully franked dividend yield. Using the 3.625cps interim dividend and 3.70cps final dividend, the BKI current dividend yield is 4.6%, grossed up to 6.5%, based on a tax rate of 30% and a share price of \$1.60. Including the 1.00cps special dividend declared today, the BKI dividend yield increases to 5.2%, grossed up to 7.4%, assumes a tax rate of 30% and a share price of \$1.60.

BKI INVESTMENT COMPANY LIMITED

CHAIRMAN'S ADDRESS - Continued

BKI is also well positioned with a portfolio of high quality dividend paying stocks. BKI's cash represents approximately 8% of the portfolio and we have no debt. We will continue to ensure BKI achieves its goals of investing for the long term in profitable, high yielding, well managed companies.

On behalf of my fellow Board members and the investment managers, I would like to thank you for your ongoing support of BKI and wish you all the very best for the year ahead.



Robert Millner
Chairman

BKI INVESTMENT COMPANY LIMITED

PORTFOLIO MANAGER'S REPORT

Dear Shareholders,

Contact Asset Management, as the Portfolio Manager of BKI Investment Company, is pleased to include our report for FY2019.

Market Commentary

The momentum in our equity market continued to be driven by macro factors rather than company fundamentals. Over the last year, we have seen the conclusion of the Royal Commission into the Australian banking system, a devaluation of Australian house prices and worries over a global trade war escalation. We have also experienced important and meaningful outcomes in both State and Federal elections.

In the last quarter of the financial year, concerns of a domestic and global growth slowdown are being confirmed with interest rate cuts. The Reserve Bank of Australia has now lowered the official cash rate to a new record low of 1.0%. It is the first back-to-back cut since 2012, aimed at underpinning employment growth and provide greater confidence to the consumer and the homeowner.

Overall it has been an exciting 12 months, with the S&P/ASX 300 Index again generating very strong returns.

The half-yearly reporting season ended with many good quality companies delivering stronger than expected results and company guidance that reflected more buoyant market conditions. Capital management initiatives were also front of mind, with many management teams having the confidence to focus on investing for the future. Announcements of share buybacks, acquisitions and general business investment have been driven by stronger balance sheets, strong cash flows and improved operational certainty. For long-term investors this is certainly a welcome change from achieving earnings growth simply through cost out programs.

However, there are areas of concern that may influence the market direction during the August reporting season. We are concerned around a global growth slowdown. Many stocks in our market are trading on very high multiples and may not be supported by earnings growth when they provide the market with full year results.

Portfolio Movements

BKI's total investments over FY2019 was approximately \$190.0m, with disposals of approximately \$76.6m.

Major long term investments included; BHP Limited, Macquarie Group, Woodside Petroleum, Ramsay Healthcare, Woolworths Limited, Transurban Group, AGL Energy and APA Group. New portfolio positions established by BKI during the year include Coles Group, Platinum Asset Management, Magellan Financial Group, Stockland Group, Treasury Wine Estates and Reece Group.

The main disposals from BKI's investment portfolio included Flight Centre, IOOF Holdings, Perpetual Limited, Pact Group, QUBE Holdings, NABPA Preference Shares, NABPC Preference Shares, Ansell Limited, WBCPF Preference Shares and CBAPG Preference Shares.

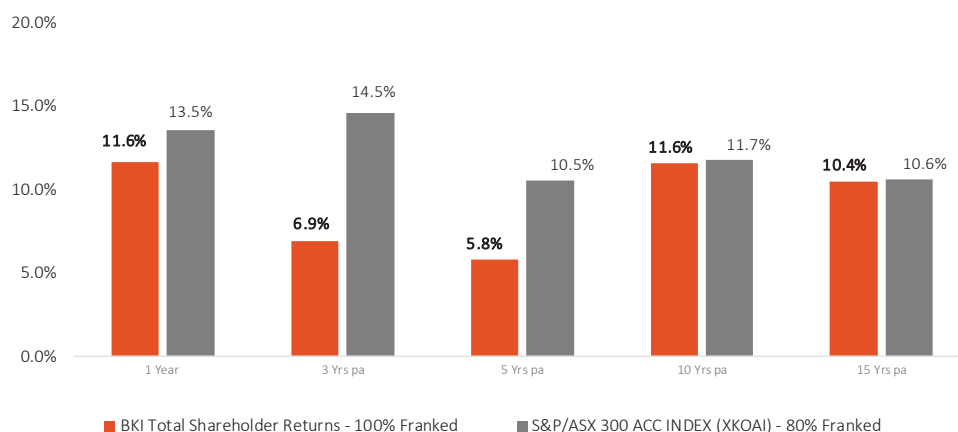
Performance

BKI's short-term performance has improved. Total Shareholder Return including franking credits for the year to 30 June 2019 was 11.6%, compared to the S&P/ASX 300 Accumulation Index, which returned 13.5% over the same period.

BKI's Total Shareholder Returns including Franking Credits for 15 years has delivered 10.4% per annum, compared to the S&P/ASX 300 Accumulation Index, which returned 10.6% over the same period.

BKI INVESTMENT COMPANY LIMITED

PORTFOLIO MANAGER'S REPORT - Continued



Above - BKI Total Shareholder Returns (TSR) Including Franking Credits as at 30 June 2019.

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 30 June 2019 was 9.4% compared to the S&P/ASX 300 Accumulation Index, which returned 11.4% over the same period.

There continues to be significant long-term value created by owning BKI shares. BKI focuses on investing for the long term in profitable, high yielding, well managed companies that ultimately deliver wealth for BKI shareholders, through an increasing fully franked dividend and capital growth. The chart below shows how powerful compounding can be by reinvesting the dividends that have been paid by BKI over the last 15 years.



Above – The Cumulative Value (TSR) of BKI shares since IPO in December 2003 (including franking credits and the reinvestment of dividends).

Investment Team

Contact continues to invest in the team for future growth and opportunities. During the year, Contact Asset Management added four new members to the team.

1. Mr Rodney Forrest Senior Investment Analyst
2. Mr Jared Tilley Investment Analyst
3. Mr Charlie Kingston Investment Analyst / Equities Dealer
4. Mr Rob Horne Investment Analyst

Mr Rodney Forrest - Prior to joining Contact, Rodney worked at Moelis Investment Bank on the Sales Trading desk. Rodney spent six years as Head of Finance at both Woolworths and Coles. Further experience has been the Principal Financial Analyst for NSW Treasury as well as roles at ALDI, Ernst & Young and the Australian Taxation Office. Rodney holds a Bachelor of Economics from the University of Sydney,

PORTFOLIO MANAGER'S REPORT - Continued

Masters of Economics from Macquarie University, Diploma in Taxation from the University of NSW and a Research Doctorate from the University of Vienna.

Mr Jared Tilley - Prior to joining Contact, Jared spent nine years at Colonial First State. Whilst at Colonial Jared had various roles across client services and distribution including Account Manager and Business Development Associate. Most recently, Jared was an Investment Specialist looking after the sales and marketing efforts for two managed funds. Jared holds a Bachelor of Commerce majoring in Accounting and Finance from Notre Dame, Sydney and is a CFA Charter Holder.

Mr Charlie Kingston - Prior to Contact, Charlie spent six years at Perpetual where most recently was a dealer for their Australian and Global equity teams. Prior to Perpetual Charlie worked at Pulse Markets as a Client Advisor and also AJ Lucas Group as a Business Analyst. Charlie holds a Bachelor of Commerce majoring in Finance and Commercial Law from the University of Sydney, a Bachelor of Business majoring in Finance and Accounting from the University of Technology, Sydney.

Mr Rob Horne - Prior to Contact, Rob had a successful professional Rugby career for over ten years. He represented NSW and Australia and also played professionally in the UK. Rob held Senior Leadership positions throughout his career. Rob works at Contact in conjunction with his role at Rugby Australia as Team Manager for the Australian Men's 7's Olympic Team. Rob holds a Graduate Certificate in Commerce from the University of Sydney, a Graduate Diploma in Commerce from Charles Sturt University and will complete a Master of Commerce in 2019.

This now brings the Contact Asset Management investment team to seven. We remain committed to investing for better outcomes for all BKI Shareholders, so as Contact's investment team grows it will provide attractive benefits for BKI shareholders.

Research and Ratings

During the year, BKI was once again well endorsed by various investment product research and ratings companies. BKI currently has a Recommended rating from LONSEC, a Recommended-Plus rating from Independent Investment Research (IIR), a Neutral rating from Morningstar and is on the Approved Product List for ThreeSixty.

These reports can be found on the BKI website at <https://bkilimited.com.au/research-reports/>

Tom Millner and Will Culbert
Contact Asset Management

BKI INVESTMENT COMPANY LIMITED

DIRECTORS' REPORT

The Directors of BKI Investment Company Limited (“the Company”, or “BKI”) present the following report on the Company and its controlled entities (“the Group”) for the year to 30 June 2019.

1. Directors

The following persons were Directors since the start of the financial year and up to the date of this report:

Robert Dobson Millner, FAICD – Non-Executive Director and Chairman

Mr Millner was appointed Non-executive Chairman upon the Company’s formation in October 2003. Mr Millner has over 30 years’ experience as a Company Director and extensive experience in the investment industry, and is currently a Director of the following ASX listed companies:

- Washington H Soul Pattinson and Company Limited (appointed 1984, Chairman since 1998)
- New Hope Corporation Limited (appointed 1995, Chairman since 1998)
- Brickworks Limited (appointed 1997, Chairman since 1999)
- Milton Corporation Limited (appointed 1998, Chairman since 2002)
- Apex Healthcare Berhad (Appointed 2000)
- Australian Pharmaceutical Industries Limited (Appointed 2000)
- TPG Telecom Limited (appointed 2000)

Former listed company directorships within the last three years:

- Hunter Hall Global Value Limited (appointed 2017, resigned 2017)

Special Responsibilities:

- Chairman of the Board
- Chairman of the Investment Committee
- Member of the Remuneration Committee
- Member of the Nomination Committee

David Capp Hall, AM, FCA, FAICD – Independent Non-Executive Director

Mr Hall was appointed a Non-executive Director and Chair of the Audit Committee upon the Company’s formation in October 2003. Mr Hall is a Chartered Accountant with experience in corporate management, finance and as a Company Director, holding Directorships in other companies for more than 30 years.

Special Responsibilities:

- Chairman of the Audit Committee
- Member of the Remuneration Committee
- Member of the Nomination Committee

Ian Thomas Huntley, BA – Independent Non-Executive Director

Mr Huntley joined the Board as a Non-executive Director in February 2009. After a career in financial journalism, Mr Huntley acquired “Your Money Weekly” newsletter in 1973. Over the following 33 years, Mr Huntley built the Your Money Weekly newsletter into one of Australia’s best known investment advisory publications. He and partners sold the business to Morningstar Inc of the USA in mid 2006.

Special Responsibilities:

- Member of the Investment Committee
- Member of the Remuneration Committee
- Member of the Audit Committee
- Member of the Nomination Committee

BKI INVESTMENT COMPANY LIMITED

DIRECTORS' REPORT - Continued

1. Directors (continued)

Alexander James Payne, B.Comm, Dip Cm, FCPA, FCIS, FCIM –Non-Executive Director

Mr Payne was appointed a Non-executive Director upon the Company's formation in October 2003, and has been a member of the Audit Committee since then. Mr Payne was Chief Financial Officer of Brickworks Limited for 13 years and has considerable experience in finance and investment.

Special Responsibilities:

- Member of the Audit Committee
- Member of the Investment Committee
- Chairman of the Remuneration Committee

2. Key Management Personnel

Jaime Pinto, BComm, CA - Company Secretary

Mr Pinto is a Chartered Accountant with extensive experience in both professional practice and in senior commercial roles across a broad range of industries. He is currently Company Secretary of Quickstep Holdings Limited (ASX:QHL), URB Investments Limited (ASX: URB), and Palla Pharma Limited (ASX: PAL) and is Company Secretary and CFO of a number of unlisted financial and industrial companies.

3. Meetings of Directors

Summarised below are the numbers of Board meetings and Committee meetings held during the year to 30 June 2019, and the numbers of meetings attended by each Director.

	Board ¹		Investment		Audit		Remuneration		Nomination ²	
	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend
RD Millner	8	8	14	14	-	-	2	2	-	-
AJ Payne	8	8	14	14	2	2	2	2	1	1
DC Hall	8	8	-	-	2	2	2	2	1	1
IT Huntley	7	8	14	14	1	2	1	2	-	-

1 The number of board meetings includes circular resolutions passed by the board during the year.

2 The sole meeting of the Nomination Committee was held in July 2018. Mr RD Millner & Mr IT Huntley were not members of the Committee at this time as they were scheduled for re-election as a Director under the Company's Director rotation policy. Subsequent to being re-elected as Directors at the 2018 AGM, Mr RD Millner and Mr IT Huntley were reappointed to the Nomination Committee, and Mr AJ Payne resigned from the Committee as he is due for re-election as a Director at the 2019 AGM.

4. Principal Activities

Principal activities of the Group are that of a Listed Investment Company (LIC) primarily focused on long term investment in ASX listed securities. There were no significant changes in the nature of those activities during the year.

5. Operating Results

BKI's Total Ordinary Revenue from its investment portfolio was \$52.3m, 10.0% higher than 2018, driving a 11.1% increase in Net Operating Result before special investment revenue to \$49.2m from \$44.2m in 2018. Basic and diluted earnings per share before special dividend income was down 4.9% to 6.75cps.

Positive contributors to this result include increased dividends from Woodside Petroleum, New Hope Corporation, BHP Limited, Macquarie Group, Transurban Group, Sydney Airport and Lindsay Australia, while lower dividends from National Australia Bank, Telstra Corporation, Suncorp Group, Invocare Limited and LendLease Limited detracted from the result. Despite a gradual decrease in rates being offered on cash

BKI INVESTMENT COMPANY LIMITED

DIRECTORS' REPORT - Continued

products, revenue from bank deposits was much higher than the previous year due to BKI's higher cash levels.

BKI received \$27.98m in Special Investment Income during 2019FY, compared to \$0.8m in 2018FY, including special dividends paid by Telstra Corporation, QUBE Logistics, IAG Insurance, Suncorp Group, Woolworths Group, BHP Limited, Wesfarmers Limited and Milton Corporation. This Special Investment Income also included amounts generated by participating in off market buy backs conducted by BHP Limited and Caltex Limited, and a non-cash Wesfarmers Demerger Dividend.

Total Shareholder Return including franking credits for the year to 30 June 2019 was 11.6%, compared to the S&P/ASX 300 Accumulation Index, which returned 13.5% over the same period. BKI's Total Shareholder Return including Franking Credits for 15 years was 10.4% per annum compared to the S&P/ASX 300 Accumulation Index, which returned 10.6%.

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 30 June 2019 was 9.4%.

6. Review of Operations

Operating expenses of \$2.0m were higher than the previous year (2018: \$1.8m), with the company seeing a lift in professional costs in particular, including Director and Officer Insurance, ASIC fees and Share Registry fees. BKI's management fees have also increased as the Total Assets of the company grew. BKI's MER is 0.17% compared to 0.16% in 2018.

BKI's total investments over FY2019 was approximately \$190.0m, with disposals of approximately \$76.6m.

Major long term investments included; BHP Limited, Macquarie Group, Woodside Petroleum, Ramsay Healthcare, Woolworths Limited, Transurban Group, AGL Energy and APA Group. New portfolio positions established by BKI during the year include Coles Group, Platinum Asset Management, Magellan Financial Group, Stockland Group and Reece Group.

The main disposals from BKI's investment portfolio included Flight Centre, IOOF Holdings, Perpetual Limited, Pact Group, QUBE Holdings, NABPA Preference Shares, NABPC Preference Shares, Ansell Limited, WBCPF Preference Shares and CBAPG Preference Shares.

7. Financial Position

Net assets of the Group increased during the financial year to \$1,155.4m (2018: \$1,115.6m), primarily driven by a positive revaluation of the investment portfolio, even after distribution of a special dividend to BKI shareholders.

8. Employees

The Group had no employees as at 30 June 2019 (2018: nil).

9. Significant Changes in the State of Affairs

Other than as stated in this Directors' Report and in the accompanying Financial Report, there were no significant changes in the state of affairs of the Group during the reporting year.

10. Likely Developments and Expected Results

The operations of the Group will continue with planned long term investments in Australian equities and fixed interest securities. The Group will continue its strategy of investing for the long term in a portfolio of assets to deliver shareholders an increasing income stream and long term capital growth. The success of this strategy will be strongly influenced by the performance of the underlying investee companies, their share price movements, and capital management and income distribution policies.

BKI INVESTMENT COMPANY LIMITED

DIRECTORS' REPORT - Continued

The performance of these companies will be influenced by general economic and market conditions such as economic growth rates, interest rates and inflation. Performance could also be influenced by regulatory change. These external conditions are difficult to predict and not within the control of the Group, making it difficult to forecast the future results of the Group,

However, BKI is a research driven, long term manager focusing on investing in well managed, profitable companies. Stock selection is bottom up, focusing on the merits of individual companies rather than market and economic trends. The Group will continue to implement prudent business practice to allow the achievement of the Group's Corporate Objectives and Business Strategy.

11. Significant Events after Balance Date

The Directors are not aware of any matter or circumstance that has arisen since the end of the year to the date of this report that has significantly affected or may significantly affect:

- i. the operations of the Company and the entities that it controls;
- ii. the results of those operations; or
- iii. the state of affairs of the Group in subsequent years.

12. Dividends

There were two dividend payments made during the year to 30 June 2019:

- On 29 August 2018, a final total dividend of \$26,836,530 (ordinary dividend of 3.700 cents per share fully franked) was paid out of retained profits at 30 June 2018.
- On 28 February 2019, an interim total dividend of \$37,285,818 (ordinary dividend of 3.625 cents per share and special dividend of 1.500 cents per share, both fully franked) was paid out of retained profits at 31 December 2018.

In addition, the Directors declared a final ordinary dividend of 3.700 cents per share and a final special dividend of 1.000 cents per share, both fully franked at 30%, payable on 29 August 2019.

At 30 June 2019 there are \$14,690,735 of franking credits available to the Group (2018: \$15,676,205) after allowing for payment of the final, fully franked dividends.

13. Environmental Regulations

The Group's operations are not materially affected by environmental regulations.

14. Directors' and Officers' Indemnity

The Constitution of the Company provides indemnity against liability and legal costs incurred by Directors and Officers to the extent permitted by the *Corporations Act 2001*.

During the year to 30 June 2019, the Group paid premiums in respect of an insurance contract to insure each of the officers against all liabilities and expenses arising as a result of work performed in their respective capacities. The Directors have not included details of the nature of liabilities covered or the amount of premium paid in respect of the insurance contract as such disclosure is prohibited under the terms of the contract.

15. Proceedings on Behalf of the Group

No person has applied for leave of the Court to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings. The Group was not a party to any such proceedings during the year.

BKI INVESTMENT COMPANY LIMITED

DIRECTORS' REPORT - Continued

16. Non-audit Services

During the year to 30 June 2019 MGI Sydney did not provide any non-audit services to the Group, nor did the Group pay any fees for such services.

During the year ended 30 June 2018 the external auditor, MGI Sydney Assurance Services Pty Limited ("MGI Sydney"), provided the following non-audit services to the Group:

	Fees (ex GST) \$'000
Review services in relation to the Entitlement Offer conducted by the Group	7

The Board of Directors has considered the non-audit services provided during the previous financial year and is satisfied that the provision of those non-audit services by the auditor (or by another person or firm on the auditor's behalf) during the year is compatible with, and did not compromise, the audit independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Board to ensure they do not impact upon the impartiality and objectivity of the auditor; and
- the non-audit services do not undermine the general principles relating to auditor independence as set out in APES 110: Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

17. Auditor's Independence Declaration

The Auditor's Independence Declaration for the year to 30 June 2019 is on page 52.

18. Beneficial and Relevant Interest of Directors and Other Key Management Personnel in Shares

As at the date of this report, details of Directors and Other Key Management Personnel who hold shares for their own benefit or who have an interest in holdings through a third party and the total number of such shares held are listed as follows:

Name	Number of Shares
RD Millner	8,810,842
DC Hall	2,460,607
AJ Payne	414,056
IT Huntley	11,224,980
J Pinto	119,761

19. Corporate Governance Statement

BKI's Corporate Governance Statement can be found on the Company's website at the following address:
<http://bkilimited.com.au/about-us/corporate-governance/#cgs>

DIRECTORS' REPORT - Continued

20. Remuneration Report (Audited)

This remuneration report outlines the Director and Executive remuneration arrangements of the Group in accordance with the requirements of the *Corporations Act 2001* and its Regulations. For the purposes of this report, Key Management Personnel of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly.

The Company has externalised its investment management function to Contact Asset Management Pty Limited, and currently has no employees. In addition to the Directors, the only individual classified as Key Management Personnel is Mr Jaime Pinto, the Company Secretary, and there are no Other Key Executives.

Remuneration Policy

The Board is responsible for determining and reviewing remuneration arrangements, including performance incentives, for the Directors themselves and the Company Secretary. It is the Group's objective to provide maximum shareholder benefit from the retention of a high quality Board and Executive team by remunerating Directors and Key Management Personnel fairly and appropriately with reference to relevant employment market conditions, their performance, experience and expertise.

Elements of Director and Key Management Personnel (KMP) remuneration

The Board's policy for determining the nature and amount of remuneration for Key Management Personnel of the Group is as follows:

- The remuneration policy is developed by the Remuneration Committee and approved by the Board after professional advice is sought from independent external consultants.
- All Key Management Personnel are to receive a base fee, or salary and superannuation, combined with performance incentives.
- Performance incentives are only paid once predetermined key performance indicators have been met.
- Incentives paid in the form of shares are intended to align the interests of the Key Management Personnel with those of the shareholders.
- The Remuneration Committee reviews the remuneration packages of Key Management Personnel annually by reference to the Group's performance, KMP performance and comparable information from industry sectors.

The performance of Key Management Personnel is measured against relative market indices and financial and strategic goals approved by the Board and as agreed with each KMP. Performance is measured on an ongoing basis using management reporting tools. Performance for the assessment of incentives is performed annually, based predominantly on the growth of shareholder and portfolio returns. The Board may exercise discretion in relation to approving incentives and can recommend changes to the Committee's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of KMP and reward them for performance results leading to long-term growth in shareholder wealth.

All remuneration paid to Key Management Personnel is valued at the cost to the Group and expensed.

The Board's policy is to remunerate Non-Executive Directors at market rates for time, commitment and responsibilities. The Remuneration Committee determines payments to the Non-Executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by shareholders at the Annual General Meeting.

Performance-based Remuneration

BKI has previously established the BKI Incentive Scheme to form part of the remuneration packages of the Group's executive team.

The aims of the BKI Incentive Scheme are:

BKI INVESTMENT COMPANY LIMITED

DIRECTORS' REPORT - Continued

1. To promote superior performance at BKI over both the short and more importantly, long term.
2. To ensure remuneration is fair and reasonable market remuneration to reward staff.
3. To promote long term staff retention and alignment.

As at 1 July 2018 and as at the date of this report the only participant in the BKI Incentive Scheme was Mr Jaime Pinto.

To achieve the objectives of BKI, the BKI Incentive Scheme is required to include several components with separate measurement criteria.

Short Term Incentive

The Short Term Incentive is determined by reference to annual Total Portfolio Return compared to the S&P ASX 300 Accumulation Index. BKI's Total Portfolio Returns are measured by the change in pre tax NTA and are after all operating expenses, payment of both income and capital gains tax and the reinvestment of dividends.

The Short Term Incentive is paid by way of BKI shares purchased on market by the Company.

For the 2019FY the Short Term Incentive for the Company Secretary was set at 15,000 BKI shares.

100% of the Short Term Incentive is based on the Total Portfolio Returns as follows:

BKI Total Portfolio Return Compared to S&P/ASX 300 Acc Index	% of Eligible Bonus
Less than Index	0%
Equal to Index	100%
Plus 1%	110%
Plus 2%	120%
Plus 3%	130%
Plus 4%	140%
Plus 5% or more	150%

The Short Term Incentive is subject to discretionary Board adjustment for the achievement of improved Management Expense Ratio and promotion of BKI.

The following table summarises performance for the year to 30 June 2019 against the Short Term Incentive measurement criteria:

1 Year BKI Total Portfolio Return	S&P/ASX 300 Acc Index over 1 Year	Over / (Under) Performance	% Entitlement to Eligible Bonus
9.4%	11.4%	(2.0)%	Nil

The vesting criteria for the 2019 Financial Year Short Term Incentives were therefore not satisfied, and the Company did not award any short term incentives in respect of 2019 Financial Year Short Term incentives.

Long Term Incentive

The Long Term Incentive is determined by reference to annual Total Shareholder Returns; compared to the S&P/ASX 300 Accumulation Index. Total Shareholder Returns are based on the change in BKI Share Price and include the reinvestment of dividends.

For the year ended 30 June 2019, the Company Secretary's Long Term Incentive was set at 25,000 BKI shares. All outstanding Long Term Incentives granted are to be awarded to participants after 4 years provided that BKI's 4 year Total Shareholder Returns exceed the S&P/ASX 300 Accumulation Index over the same period. Should that test fail on the day, it is to be retested in Year 5.

The Long Term Incentive Scheme is to be paid by way of BKI shares purchased on market by the Company. The Company accrues as an expense the appropriate portion of the future cost of all Long Term Incentives

BKI INVESTMENT COMPANY LIMITED

DIRECTORS' REPORT - Continued

issued. Once an incentive has lapsed or it is probable that the incentive will not vest, the Company reverses prior year accruals previously recognised in respect of that Long Term Incentive. The net positive or negative expense is included in the disclosed remuneration of the Company Secretary.

During the 2019 Financial Year the following outstanding Long Term Incentives granted by the Company became eligible for vesting:

Incentive issue	Issue date	Number of rights granted	Value of initial grant	Initial vesting date	Expiry date	Number of rights vested	Number of rights yet to vest/ lapse
J Pinto 2016	01/07/2015	18,628	\$31,500	30/06/2019	30/06/2020	Nil	-

The table below summarises the performance for the relevant four year period against the Long Term Incentive measurement criteria:

Period	4 year BKI total shareholder return	S&P/ASX 300 accumulation index over 4 years	Over/ (Under) performance	% Entitlement to eligible bonus
1/07/2015 to 30/06/2019	3.3%	9.7%	(6.4)%	nil

Based on the above performance the vesting criteria for Long Term Incentives issued on 1 July 2015 were not satisfied. In accordance with the terms of the Long Term Incentive Scheme, these incentives will be retested as at 30 June 2020.

During the 2019 Financial Year the following outstanding Long Term Incentives granted by the Company became eligible for retesting:

Incentive issue	Issue date	Number of rights granted	Value of initial grant	Initial vesting date	Expiry date	Number of rights vested	Number of rights yet to vest/ lapse
J Pinto 2015	01/07/2014	18,545	\$30,600	30/06/2018	30/06/2019	Nil	-

The table below summarises the performance for the relevant five year period against the Long Term Incentive measurement criteria:

Period	5 year BKI total shareholder return	S&P/ASX 300 accumulation index over 5 years	Over/ (Under) performance	% Entitlement to eligible bonus
1/07/2014 to 30/06/2015	3.7%	8.9%	(5.2)%	nil

Based on the above performance the vesting criteria for Long Term Incentives issued on 1 July 2014 were not satisfied. In accordance with the terms of the Long Term Incentive Scheme, these incentives lapsed as at 30 June 2019.

No outstanding Long Term Incentives granted by the Company became eligible for vesting between 1 July 2019 and the date of this report.

The following table summarises movements in Long Term Incentives granted by the Company that have not vested or lapsed as at the date of this report:

Incentive issue	Issue date	Number of rights granted	Value of initial grant	Initial vesting date	Expiry date	Number of rights vested/ lapsed	Number of rights yet to vest/ lapse
J Pinto 2016	01/07/2015	18,628	\$31,500	30/06/2019	30/06/2020	-	18,628

BKI INVESTMENT COMPANY LIMITED

DIRECTORS' REPORT - Continued

J Pinto 2017	01/07/2016	24,030	\$37,800	30/06/2020	30/06/2021	-	24,030
J Pinto 2018	01/07/2017	25,000	\$41,385	30/06/2021	30/06/2022	-	25,000
J Pinto 2019	01/07/2018	25,000	\$38,040	30/06/2022	30/06/2023	-	25,000

Rights granted under the Short Term and a Long Term Incentive Scheme do not carry an entitlement to receive dividends.

Remuneration Details for the Year to 30 June 2019

The following disclosures detail the remuneration of the Directors and the highest remunerated Executives of the Group.

The names and positions held of group Directors and Other Key Management Personnel in office at any time during the financial year are:

Name	Position
RD Millner	Non-Executive Chairman
DC Hall AM	Non-Executive Director
AJ Payne	Non-Executive Director
IT Huntley	Non-Executive Director
JP Pinto ¹	Company Secretary ¹

¹ Services provided under contract through Corporate & Administrative Services Pty Limited

Details of the nature and amount of each Non-Executive Director's and Other Key Management Personnel's emoluments from the Parent and its controlled entities in respect of the year to 30 June are as follows:

Directors:

	Primary fee	Superannuation	Total
	\$	\$	\$
2018			
RD Millner	66,690	6,335	73,025
DC Hall	51,553	4,897	56,450
AJ Payne ¹	22,100	24,000	46,100
IT Huntley	42,100	4,000	46,100
Total	182,443	39,232	221,675
2019			
RD Millner	68,196	6,479	74,675
DC Hall	52,717	5,008	57,725
AJ Payne ¹	29,080	18,044	47,124
IT Huntley	43,037	4,088	47,125
Total	193,030	33,619	226,649

¹ – Includes salary sacrifice superannuation contributions

The combined annual payment to all Non-Executive Directors is capped at \$300,000 until shareholders, by ordinary resolution, approve some other fixed sum amount. This amount is to be divided among the Directors as they may determine.

BKI INVESTMENT COMPANY LIMITED

DIRECTORS' REPORT - Continued

Other Key Management Personnel:

	Fixed remuneration		Total	Share based performance related remuneration			Total Remuneration
	Salary	Super-annuation		STI	LTI	Total	
2018							
J Pinto	-	-	-	-	30,456	30,456	30,456
Total	-	-	-	-	30,456	30,456	30,456
2019							
J Pinto	-	-	-	-	8,442	8,442	8,442
Total	-	-	-	-	8,442	8,442	8,442

The value included in the preceding table for share based performance related remuneration (STI and LTI) is the portion of the estimated value of the performance rights which has been allocated as an expense in each relevant reporting period. It does not reflect the value of rights to BKI shares (if any) vested during that period.

The relative proportions of Total Remuneration that are fixed or linked to performance are as follows:

	Fixed remuneration		Performance-related - STI		Performance-related - LTI	
	2019	2018	2019	2018	2019	2018
J Pinto	0%	0%	0%	0%	100%	100%

There were no retirement allowances provided for the retirement of Non-Executive Directors or Other Key Management Personnel.

Contract of Employment

Mr J Pinto provides Company Secretarial services under contract through Corporate & Administrative Services Pty Limited. This is an open ended contract with a notice period of one month required to terminate.

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



Robert D Millner
Director

Sydney
17 July 2019

BKI INVESTMENT COMPANY LIMITED

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2019

	<i>Note</i>	2019 \$'000	2018 \$'000
Ordinary revenue from investment portfolio	2(a)	52,310	47,134
Revenue from bank deposits	2(c)	1,944	908
Other gains	2(d)	-	86
Income from operating activities before special investment revenue		54,254	48,128
Operating expenses	3	(2,047)	(1,818)
Operating result before income tax expense and special investment revenue		52,207	46,310
Special investment revenue	2(b)	27,977	786
Operating result before income tax expense		80,184	47,096
Income tax expense	4(a)	(5,484)	(2,086)
Net operating profit		74,700	45,010
Profit for the year attributable to members of the Company		74,700	45,010

	<i>Note</i>	2019 Cents	2018 Cents
Basic and diluted earnings per share before special dividend income (net of applicable tax)	6	6.75	7.10
Basic and diluted earnings per share after special dividend income (net of applicable tax)	6	10.26	7.23

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

BKI INVESTMENT COMPANY LIMITED

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2019

	2019	2018
	\$'000	\$'000
Profit for the year attributable to members of the Company	74,700	45,010
Other comprehensive income		
Unrealised gains on investment portfolio	43,504	28,304
Deferred tax expense on unrealised gains on investment portfolio	(13,051)	(8,491)
Realised losses on investment portfolio	(13,474)	(3,199)
Tax benefit relating to realised losses on investment portfolio	4,042	960
Total other comprehensive income	21,021	17,574
Total comprehensive income	95,721	62,584

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

BKI INVESTMENT COMPANY LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

	<i>Note</i>	2019 \$'000	2018 \$'000
Current assets			
Cash and cash equivalents	7	88,856	177,570
Trade and other receivables	8	9,165	10,562
Prepayments		23	16
Total current assets		98,044	188,148
Non-current assets			
Investment portfolio	9	1,136,573	994,277
Deferred tax assets	10	20,230	17,232
Total non-current assets		1,156,803	1,011,509
Total assets		1,254,847	1,199,657
Current liabilities			
Trade and other payables		307	1,386
Current tax liabilities	11	1,272	409
Total current liabilities		1,579	1,795
Non-current liabilities			
Deferred tax liabilities	12	97,840	82,247
Total non-current liabilities		97,840	82,247
Total liabilities		99,419	84,042
Net Assets		1,155,428	1,115,615
Equity			
Share capital	13	916,233	908,015
Revaluation reserve	14	220,494	190,041
Realised capital gains reserve	15	(38,902)	(29,467)
Retained profits	16	57,603	47,025
Total Equity		1,155,428	1,115,615

This Statement of Financial Position should be read in conjunction with the accompanying notes

BKI INVESTMENT COMPANY LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2019

	Share capital \$'000	Revaluation reserve \$'000	Realised capital gains reserve \$'000	Retained profits \$'000	Total equity \$'000
Total equity at 1 July 2017	749,967	170,228	(27,228)	47,388	940,355
Issue of shares, net of issue costs	158,048	-	-	-	158,048
Dividends paid or provided for	-	-	-	(45,373)	(45,373)
Unrealised gain on revaluation of investment portfolio	-	28,304	-	-	28,304
Provision for tax on unrealised gain on revaluation of investment portfolio	-	(8,491)	-	-	(8,491)
Net operating profit for the year	-	-	-	45,010	45,010
Net realised loss through other comprehensive income	-	-	(2,239)	-	(2,239)
Total equity at 30 June 2018	908,015	190,041	(29,467)	47,025	1,115,615
Total equity at 1 July 2018	908,015	190,041	(29,467)	47,025	1,115,615
Issue of shares, net of issue costs	8,218	-	-	-	8,218
Dividends paid or provided for	-	-	-	(64,122)	(64,122)
Unrealised gain on revaluation of investment portfolio	-	43,504	-	-	43,504
Provision for tax on unrealised gain on revaluation of investment portfolio	-	(13,051)	-	-	(13,051)
Realised gains transferred on deregistration of subsidiaries	-	-	(3)	-	(3)
Net operating profit for the year	-	-	-	74,700	74,700
Net realised loss through other comprehensive income	-	-	(9,432)	-	(9,432)
Total equity at 30 June 2019	916,223	220,494	(38,902)	57,603	1,155,428

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

BKI INVESTMENT COMPANY LIMITED

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2019

	2019	2018
<i>Note</i>	\$'000	\$'000
Cash flows from operating activities		
Dividends and distributions received	73,551	46,561
Payments to suppliers and employees	(2,893)	(1,084)
Proceeds from sale of trading portfolio	-	2,660
Payments for trading portfolio	-	(40)
Interest received	1,870	898
Income tax paid	(1,154)	(873)
Net cash inflow from operating activities	17(a) 71,374	48,122
Cash flows from investing activities		
Proceeds from sale of investment portfolio	76,633	79,543
Payments for investment portfolio	(181,937)	(102,544)
Capital returns received from investment portfolio	1,130	21
Net cash outflow from investing activities	(104,174)	(22,980)
Cash flows from financing activities		
Proceeds from issues of ordinary shares less issue costs	(31)	150,392
Dividends paid	5(b) (55,883)	(38,937)
Net cash (outflow)/ inflow from financing activities	(55,914)	111,455
Net (decrease)/ increase in cash held	(88,714)	136,597
Cash at the beginning of the year	177,570	40,973
Cash at the end of the year	7 88,856	177,570

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

BKI INVESTMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

1. Summary of Significant Accounting Policies

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial report covers the parent entity of BKI Investment Company Limited and its controlled entities, with information relating to BKI Investment Company Limited as an individual parent entity summarised in Note 22. BKI Investment Company Limited is a listed public company, incorporated and domiciled in Australia.

The financial report complies with all International Financial Reporting Standards (IFRS) in their entirety.

The following is a summary of the material accounting policies adopted by the Group in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Basis of Preparation

The accounting policies set out below have been consistently applied to all years presented.

The Group has attempted to improve the transparency of its reporting by adopting 'plain English' where possible. Key 'plain English' phrases and their equivalent AASB terminology are as follows:

Phrase	AASB Terminology
Market Value	Fair Value for Actively Traded Securities
Cash	Cash and Cash Equivalents
Share Capital	Contributed Equity

Reporting Basis and Conventions

The 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.

Accounting Policies

a. Principles of Consolidation

A controlled entity is any entity BKI Investment Company Limited has the power to control the financial and operating policies of so as to obtain benefits from its activities.

A list of controlled entities is contained in Note 21(i) to the financial statements. All controlled entities have a June financial year-end.

All inter-company balances and transactions between entities in the Group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Where controlled entities have entered or left the Group during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

Minority equity interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

1. Summary of Significant Accounting Policies (continued)

b. Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

BKI Investment Company Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. Each entity in the group recognises its own current and deferred tax liabilities, except for any deferred tax balances resulting from unused tax losses and tax credits, which are immediately assumed by the parent entity. The current tax liability of each group entity is then subsequently assumed by the parent entity. The group notified the Australian Tax Office that it had formed an income tax consolidated group to apply from 12 December 2003. The tax consolidated group has entered a tax sharing agreement whereby each entity in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

c. Financial Instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

The Group has two portfolios of securities, the investment portfolio and the trading portfolio. The investment portfolio relates to holdings of securities which the Directors intend to retain on a long-term basis and the trading portfolio comprises securities held for short term trading purposes.

Securities within the investment portfolio are classified as 'financial assets measured at fair value through other comprehensive income', and are designated as such upon initial recognition. Securities held within the trading portfolio are classified as 'mandatorily measured at fair value through profit or loss' in accordance with AASB 9.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019**

1. Summary of Significant Accounting Policies (continued)

c. Financial Instruments (continued)

Valuation of investment portfolio

Listed securities are initially brought to account at market value, which is the cost of acquisition, and are re-valued to market values continuously. Movements in carrying values of securities are recognised as Other Comprehensive Income and taken to the Revaluation Reserve.

Where disposal of an investment occurs, any revaluation increment or decrement relating to it is transferred from the Revaluation Reserve to the Realised Capital Gains Reserve.

Valuation of trading portfolio

Listed securities are initially brought to account at market value, which is the cost of acquisition, and are re-valued to market values continuously.

Movements in carrying values of securities in the trading portfolio are taken to Profit or Loss through the Income Statement.

Fair value

Fair value is determined based on last sale price for all quoted investments.

d. Employee Benefits

Share incentives

Share incentives are provided under the Short and Long Term Incentive Plans (the Plans). The incentives awarded under the Plans are based on the performance of the Group over differing periods specified within the rules of the Plans. The Plans are settled in shares, but based on a cash amount.

Expenses are recognised over the assessment period based on the amount expected to be payable under the Plans, resulting in a provision for incentive payable being built up on the balance sheet over the assessment period. In the event that the executive does not complete the period of service, or the vesting criteria are not satisfied within the required period, the cumulative expense is reversed.

e. Revenue

Sale of investments occurs when the control of the right to equity has passed to the buyer.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Dividend and distribution revenue is recognised when the right to receive a dividend or distribution has been established.

All revenue is stated net of the amount of goods and services tax (GST).

f. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of 12 months or less, and bank overdrafts.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

1. Summary of Significant Accounting Policies (continued)

g. Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

h. Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting used by the chief operating decision-maker. The Board has been identified as the chief operating decision-maker, as it is responsible for allocating resources and assessing performance of the operating segments. The Group operates solely in the securities industry in Australia and has no reportable segments.

i. Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year. Where a retrospective restatement of items in the statement of financial position has occurred, presentation of the statement as at the beginning of the earliest comparative period has been included.

j. Rounding of Amounts

The parent has applied the relief available to it under ASIC Corporations Instrument (Rounding in Financial / Directors' Reports) 2016/191 and accordingly, amounts in the financial report and Directors' report have been rounded off to the nearest \$1,000.

k. Critical Accounting Estimates and Judgments

Deferred Tax Balances

The preparation of this financial report requires the use of certain critical estimates based on historical knowledge and best available current information. This requires the Directors and management to exercise their judgement in the process of applying the Group's accounting policies.

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. In accordance with AASB 112: Income Taxes deferred tax liabilities have been recognised for Capital Gains Tax on unrealised gains in the investment portfolio at the current tax rate of 30%.

As the Group does not intend to dispose of the portfolio, this tax liability may not be crystallised at the amount disclosed in Note 12. In addition, the tax liability that arises on disposal of those securities may be impacted by changes in tax legislation relating to treatment of capital gains and the rate of taxation applicable to such gains at the time of disposal.

Apart from this, there are no other key assumptions or sources of estimation uncertainty that have a risk of causing a material adjustment to the carrying amount of certain assets and liabilities within the next reporting period.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019**

1. Summary of Significant Accounting Policies (continued)

I. New or amended Accounting Standards and Interpretations adopted

The Company has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

The following new Accounting Standards and Interpretations issued by the AASB have become effective in the current accounting period.

AASB 9 Financial Instruments and associated Amending Standards

The new AASB 9: Financial Instruments and its associated amending standards replaces all versions of AASB 9 and completes the project to replace AASB 139 – Financial Instruments Recognition and Measurement.

The standard introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognised in a business combination) in other comprehensive income ('OCI'). Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch.

For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch).

New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

AASB 15: Revenue from Contracts with Customers

AASB 15 Revenue from contracts with customers establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The Group currently does not have any revenue to which AASB 15 is applicable.

The adoption of these Accounting Standards has not had, and is not expected to have, a material impact on the financial performance and position of the Group and consequently, no further disclosures have been included in this report.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019**

1. Summary of Significant Accounting Policies (continued)

m. Australian Accounting Standards not yet effective

The Group has not applied any Australian Accounting Standards or UIG interpretations that have been issued as at balance date but are not yet operative for the year ended 30 June 2019 (“the inoperative standards”). The Group only intends to adopt the inoperative standards at the date at which their adoption becomes mandatory. The impact of the inoperative standards has been assessed and the impact has been identified as not being material. The most relevant standards are discussed in further detail below.

AASB 16 Leases

AASB 16 Leases will supersede the existing lease accounting requirements in AASB 117: Leases and the related Interpretations. It introduces a single lessee accounting model by eliminating the current requirement to distinguish leases as either operating leases or finance leases depending on the transfer of risks and rewards of ownership.

The Standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The adoption of this standard is not expected to have an impact on the financial performance and position of the Group.

BKI INVESTMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 \$'000	2018 \$'000
2. Revenues		
(a) Ordinary revenue from investment portfolio		
Fully franked dividends	41,878	39,326
Unfranked dividends	3,679	2,801
Trust distributions	6,753	5,007
Total ordinary revenue from investment portfolio	52,310	47,134
(b) Special investment revenue		
Fully franked dividends	19,886	786
Unfranked dividends	8,091	-
Total special investment revenue	27,977	786
(c) Revenue from bank deposits		
Interest received	1,944	908
(d) Other gains		
Net realised gain on sale of investments held for trading	-	250
Net unrealised (loss)/ gain on investments held for trading	-	(164)
Total other gains	-	86
Total income	82,231	48,914
3. Operating expenses		
Administration expenses	459	366
Employment expenses	235	254
Investment Management	1,194	1,038
Professional fees	159	160
Total operating expenses	2,047	1,818

BKI INVESTMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 \$'000	2018 \$'000
4. Tax expense		
(a) Reconciliation of income tax expense		
The aggregated amount of income tax expense attributable to the year differs from the amounts prima facie payable on profits from ordinary activities. The difference is reconciled as follows:		
Operating result before income tax expense, including special investment revenue	80,184	47,096
Tax calculated at 30% (2018: 30%)	24,055	14,129
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
- Franked dividends and distributions received	(18,520)	(12,034)
- Prior year over provision	(51)	(9)
Net income tax expense on operating profit before net gains on investments	<u>5,484</u>	<u>2,086</u>
Net realised losses on investment portfolio	(13,474)	(3,199)
Tax calculated at 30% (2018: 30%)	<u>(4,042)</u>	<u>(960)</u>
Total tax expense	<u>1,442</u>	<u>1,126</u>
(b) The components of tax expense comprise:		
Current tax	4,161	1,311
Deferred tax	(2,668)	(176)
Prior year over provision	(51)	(9)
Total tax expense	<u>1,442</u>	<u>1,126</u>
5. Dividends		
(a) Dividends paid during the year		
Final dividend for the year ended 30 June 2018 of 3.70 cents per share (2017 final: 3.70 cents per share) fully franked at the tax rate of 30%, paid on 29 August 2018	26,837	22,883
Interim ordinary dividend for the year ended 30 June 2019 of 3.625 cents per share (2018 interim: 3.625 cents per share) fully franked at the tax rate of 30%, paid on 28 February 2019	26,372	22,490
Interim special dividend of 1.50 cents per share (2018: nil), fully franked at the tax rate of 30%, paid on 28 February 2019	10,913	
Total dividends paid	<u>64,122</u>	<u>45,373</u>

BKI INVESTMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019	2018
	\$'000	\$'000
5. Dividends (continued)		
(b) Reconciliation of total dividends paid to dividends paid in cash:		
Total dividends paid	64,122	45,373
Less: Dividends reinvested in shares via DRP	<u>(8,239)</u>	<u>(6,436)</u>
Dividends paid in cash	<u>55,883</u>	<u>38,937</u>
(c) Franking account balance		
Balance of the franking account after allowing for tax payable in respect of the current year's profits and the receipt of dividends recognised as receivables	29,409	28,220
Estimated impact on the franking account of dividends declared but not recognised as a liability at the end of the financial year (refer below)	<u>(14,718)</u>	<u>(11,501)</u>
Net imputation credits available for future dividends	<u>14,691</u>	<u>16,719</u>
Maximum fully franked dividends payable from available franking credits at the tax rate of 30% (2018: 30%)	<u>34,278</u>	<u>39,010</u>
(d) Dividends declared after balance date		
<p>Since the end of the year the Directors have declared a final ordinary dividend for the year ended 30 June 2019 of 3.70 cents per share and a special dividend of 1.00 cents per share, both fully franked at the tax rate of 30% (2018: final ordinary dividend of 3.70 cents per share fully franked at the tax rate of 30%), payable on 29 August 2019, but not recognised as a liability at the year end.</p>		
6. Earnings per share		
Net operating profit	74,700	45,010
Earnings used in calculating basic and diluted earnings per share <i>after</i> special dividend income	74,700	45,010
Less: Special investment revenue	(27,977)	(786)
Add: Tax expense attributable to special investment revenue	2,427	-
Earnings used in calculating basic and diluted earnings per share <i>before</i> special dividend income	49,150	44,224
	2019	2018
	No. '000	No. '000
Weighted average number of ordinary shares used in calculating basic and diluted earnings per share	728,234	622,799
	2019	2018
	Cents	Cents
Basic and diluted earnings per share <i>before</i> special dividend income	6.75	7.10
Basic and diluted earnings per share <i>after</i> special dividend income	10.26	7.23

BKI INVESTMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 \$'000	2018 \$'000
7. Cash and cash equivalents		
Cash at bank	65,856	57,570
Short term bank deposits	23,000	120,000
	88,856	177,570

8. Trade and other receivables		
Dividends and distributions receivable	8,833	10,189
Interest receivable	116	42
Other	216	331
	9,165	10,562

9. Financial Assets – Equity Portfolio

Investment portfolio – non-current

Listed securities at fair value available for sale	1,136,573	994,277
Total investment portfolio	1,136,573	994,277

Fair Value Measurement

BKI measures the fair value of its trading portfolio and investment portfolio with reference to the following fair value measurement hierarchy mandated by accounting standards:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and

Level 3: inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

Both the trading portfolio and investment portfolio are classified as Level 1, and are measured in accordance with the policy outlined in Note 1.c.

10. Deferred tax assets

The deferred tax asset balance comprises the following timing differences and unused tax losses:

Transaction costs on equity issues	778	1,064
Accrued expenses	32	29
Realised capital tax losses	19,420	16,139
Total	20,230	17,232

BKI INVESTMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

10. Deferred tax assets (continued)

Movements in deferred tax assets

	Opening balance \$'000	Credited/ (charged) to statement of comprehensive income \$'000	Credited/ (charged) to equity \$'000	Closing balance \$'000
Transaction costs on equity issues	252	(407)	1,218	1,063
Accrued expenses	21	8	-	29
Realised capital tax losses	15,231	909	-	16,140
Balance as at 30 June 2018	15,504	510	1,218	17,232
Transaction costs on equity issues	1,063	(294)	9	778
Accrued expenses	29	3	-	32
Realised capital tax losses	16,140	3,280	-	19,420
Balance as at 30 June 2019	17,232	2,989	9	20,230

2019 2018
\$'000 \$'000

11 Current tax liabilities

Provision for income tax	1,272	409
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12. Deferred tax liabilities

The deferred tax asset balance comprises the following timing differences:

Revaluation of investments held	96,463	81,191
Unfranked dividends receivable and interest receivable	1,377	1,056
Total	97,840	82,247

Movements in deferred tax liabilities

	Opening balance \$'000	(Credited)/ charged to statement of comprehensive income \$'000	(Credited)/ charged to equity \$'000	Closing balance \$'000
Revaluation of investment portfolio	72,576	-	8,615	81,191
Unfranked dividends receivable and interest receivable	722	334	-	1,056
Balance as at 30 June 2018	73,298	334	8,615	82,247
Revaluation of investment portfolio	81,191	-	15,272	96,463
Unfranked dividends receivable and interest receivable	1,056	321	-	1,377
Balance as at 30 June 2019	82,247	321	15,272	97,840

BKI INVESTMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019		2018	
	\$'000		\$'000	
13. Share Capital				
(a) Issued and paid-up capital				
730,688,257 ordinary shares fully paid (2018: 725,311,402)	916,233		908,015	
(b) Movement in ordinary shares				
	2019		2018	
	Number of shares	\$'000	Number of shares	\$'000
Beginning of financial year	725,311,402	908,015	618,463,068	749,967
Issued during the year:				
- dividend reinvestment plan	5,376,855	8,239	3,878,164	6,436
- entitlement offer	-	-	102,970,170	154,455
Gross funds raised		8,239		160,891
- less net transaction costs		(21)		(2,843)
End of financial year	730,688,257	916,233	725,311,402	908,015

The Parent does not have an authorised share capital and the ordinary shares on issue have no par value.

Holders of ordinary shares participate in dividends and the proceeds on a winding up of the parent entity in proportion to the number of shares held.

At shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

(c) Capital Management

The Group's objective in managing capital is to provide shareholders with attractive investment returns through access to a steady stream of fully franked dividends and enhancement of capital invested, with goals of paying an enhanced level of fully franked dividends and providing attractive total returns over the medium to long term.

The Group recognises that its capital will fluctuate in accordance with market conditions, and in order to maintain or adjust the capital structure the Group may adjust the amount of dividends paid, issue new shares from time-to-time or return capital to shareholders.

The Group's capital consists of shareholders' equity plus net debt. The movement in equity is shown in the Consolidated Statement of Changes in Equity. At 30 June 2019 net debt was \$Nil (2018: \$Nil).

(d) Acquisition of controlled entities

The Company did not acquire shares in any unlisted investment companies during the 2018FY or 2019FY.

BKI INVESTMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019 \$'000	2018 \$'000
14. Revaluation reserve		
The revaluation reserve is used to record increments and decrements on the revaluation of the investment portfolio, net of applicable income tax.		
Balance at the beginning of the year	190,041	170,228
Gross revaluation of investment portfolio	43,504	28,305
Deferred provision for tax on unrealised gains/losses	(13,051)	(8,492)
Balance at the end of the year	220,494	190,041
15. Realised capital gains reserve		
The realised capital gains reserve records net gains and losses after applicable income tax arising from the disposal of securities in the investment portfolio.		
Balance at the beginning of the year	(29,467)	(27,228)
Net losses on investment portfolio transferred from statement of Comprehensive income	(9,432)	(2,239)
Realised gains transferred to retained earnings on deregistration of subsidiaries	(3)	-
Balance at the end of the year	(38,902)	(29,467)
16. Retained profits		
Balance at the beginning of the year	47,025	47,388
Net profit attributable to members of the Company	74,700	45,010
Dividends provided for or paid	(64,122)	(45,373)
Balance at the end of the year	57,603	47,025
17. Notes to the statement of cash flows		
(a) Reconciliation of cash flow from operating activities to net operating profit		
Net operating profit	74,700	45,010
Non cash items:		
- Non-cash dividend income	(8,091)	-
- Unrealised loss/(gain) on trading investments	-	164
Changes in assets and liabilities, net of effects from consolidation of subsidiaries:		
- Decrease/ (increase) in trade and other receivables	1,397	(1,641)
- Decrease in held for trading investments	-	2,370
- Increase in prepayments	(7)	-
- Decrease in deferred tax assets	435	402
- (Decrease)/ increase in payables	(1,083)	950
- Increase in current tax liabilities	863	362
- Increase in deferred tax liabilities	3,160	505
Net cash inflow from operating activities	71,374	48,122

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019**

17. Notes to the statement of cash flows (continued)

(b) Non-cash financing and investing activities

(i) Dividend reinvestment plan

Under the terms of the dividend reinvestment plan, \$8,240,000 (2018: \$6,436,000) of dividends were paid via the issue of 5,376,855 shares (2018: 3,878,164).

18. Management of Financial Risk

The risks associated with the holding of financial instruments such as investments, cash, bank bills and borrowings include market risk, credit risk and liquidity risk. The Board has approved the policies and procedures that have been established to manage these risks. The effectiveness of these policies and procedures is reviewed by the Audit Committee.

a. Financial instruments' terms, conditions and accounting policies

The Group's accounting policies are included in Note 1, while the terms and conditions of each class of financial asset, financial liability and equity instrument, both recognised and unrecognised at the balance date, are included under the appropriate note for that instrument.

b. Net fair values

The carrying amounts of financial instruments in the balance sheets approximate their net fair value determined in accordance with the accounting policies disclosed in Note 1 to the accounts.

c. Credit risk

The risk that a financial loss will occur because a counterparty to a financial instrument fails to discharge an obligation is known as credit risk.

The credit risk on the Group's financial assets, excluding investments, is the carrying amount of those assets. The Group's principal credit risk exposures arise from the investment in liquid assets, such as cash and bank bills, and income receivable.

Cash and bank bills are reviewed monthly by the Board to ensure cash is only placed with pre-approved financial institutions with low risk profiles (primarily "Big 4" banks) and that the spread of cash and bank bills between banks is within agreed limits. Income receivable is comprised of accrued interest and dividends and distributions which were brought to account on the date the shares or units traded ex-dividend.

There are no financial instruments overdue or considered to be impaired.

d. Market risk

Market risk is the risk that changes in market prices will affect the fair value of a financial instrument.

The Group is a long term investor in companies and trusts and is therefore exposed to market risk through the movement of the share/unit prices of the companies and trusts in which it is invested.

The market value of the portfolio changes continuously because the market value of individual companies within the portfolio fluctuates throughout the day. The change in the market value of the portfolio is recognised through the Revaluation Reserve. Listed Investments represent 91% (2018: 83%) of total assets.

BKI INVESTMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

18. Management of Financial Risk (continued)

d. Market risk (continued)

As at 30 June 2019, a 5% movement in the market value of the BKI portfolio would result in:

- a 5% movement in the net assets of BKI before provision for tax on unrealised capital gains (2018: 4%); and
- A movement of 7.8 cents per share in the net asset backing before provision for tax on unrealised capital gains (2018: 6.9 cents).

The performance of the companies within the portfolio, both individually and as a whole, is monitored by the Investment Committee and the Board.

BKI seeks to reduce market risk at the investment portfolio level by ensuring that it is not, in the opinion of the Investment Committee, overly exposed to one Group or one sector of the market.

At 30 June 2019 and 30 June 2018, the spread of investments was in the following sectors:

	Percentage of total investment (%)		Amount (\$'000)	
	2019	2018	2019	2018
Financials	36.54	37.31	451,105	440,719
Industrials	9.93	8.69	122,515	102,792
Consumer discretionary	7.66	5.51	94,591	65,156
Consumer staples	6.72	7.41	82,779	87,587
Utilities	6.69	6.04	82,552	71,404
Energy	6.49	5.95	80,167	70,283
Health care	5.51	3.82	67,925	45,115
Telecommunications services	5.39	4.16	66,589	49,110
Materials	5.06	3.75	62,363	44,303
Property trusts	2.10	1.51	25,987	17,808
Total investments	92.09	84.15	1,136,573	994,277
Cash and dividends receivable	7.91	15.85	97,689	187,759
Total portfolio	100.00	100.00	1,234,262	1,182,036

Securities representing over 5% of the investment portfolio at 30 June 2019 or 30 June 2018 were:

	Percentage of total investment (%)		Amount (\$'000)	
	2019	2018	2019	2018
Commonwealth Bank	6.7	5.7	82,154	67,436
National Australia Bank	5.4	6.4	67,045	76,003
Westpac Banking Corporation	4.8	5.8	58,887	68,079

The relative weightings of the individual securities and relevant market sectors are reviewed at each meeting of the Investment Committee and the Board, and risk can be managed by reducing exposure where necessary. There are no set parameters as to a minimum or maximum amount of the portfolio that can be invested in a single company or sector.

BKI INVESTMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

18. Management of Financial Risk (continued)

e. Interest Rate Risk

The Group is not materially exposed to interest rate risk. All cash investments are short term (up to 1 year) for a fixed rate, except for cash in operating bank accounts which are at-call and attract variable rates.

The Group has no financial liability as at 30 June 2019 (2018: Nil).

f. Foreign Currency Risk

The Group is not exposed to foreign currency risk as all investments are quoted in Australian dollars.

g. Liquidity risk

Liquidity risk is the risk that the Group is unable to meet financial obligations as they fall due.

The Group has no borrowings, and sufficient cash reserves to fund core operations at current levels for more than 10 years.

The Group's other major cash outflows are the purchase of securities and dividends paid to shareholders and the level of both of these is fully controllable by the Board.

Furthermore, the majority of the assets of the Group are in the form of readily tradeable securities which can be sold on-market if necessary.

h. Capital risk management

The Group invests its equity in a diversified portfolio of assets that aim to generate a growing income stream for distribution to shareholders in the form of fully franked dividends.

The capital base is managed to ensure there are funds available for investment as opportunities arise. Capital is increased annually through the issue of shares under the Dividend Reinvestment Plan. Other means of increasing capital include Rights Issues, Share Placements and Share Purchase Plans.

19. Key Management Personnel Remuneration

The names and positions held of Group Directors and Other Key Management Personnel in office at any time during the financial year are:

Name	Position
RD Millner	Non-Executive Chairman
DC Hall AM	Non-Executive Director
AJ Payne	Non-Executive Director
IT Huntley	Non-Executive Director
JP Pinto	Company Secretary ¹

¹ Services provided under contract through Corporate & Administrative Services Pty Limited

Details of the nature and amount of each Non-Executive Director's and Other Key Management Personnel's emoluments from the Group in respect of the year to 30 June 2019 have been included in the Remuneration Report section of the Directors' Report.

The combined annual payment to all Non-Executive Directors is capped at \$300,000 until shareholders, by ordinary resolution, approve some other fixed sum amount. This amount is to be divided amongst the Directors as the Board may determine. These fees exclude any additional fee for any service based agreement which may be agreed from time to time and the reimbursement of out of pocket expenses. No such payments were made in 2019FY (2018: nil).

BKI INVESTMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

20. Superannuation Commitments

The Group contributes superannuation payments on behalf of Directors and employees in accordance with relevant legislation. Superannuation funds are nominated by the individual Directors and employees and are independent of the Group.

21. Related Party Transactions

Related parties of the Group fall into the following categories:

(i) Controlled Entities

At 30 June 2019, subsidiaries of the Parent were:

	Country of incorporation	Percentage Owned (%)	
		2019	2018
Brickworks Securities Pty Limited	Australia	100	100
Huntley Investment Company Pty Limited	Australia	100	100
BKI Sub Pty Limited	Australia	100	100
Pacific Strategic Investments Pty Limited	Australia	100	100
George Meller Pty Limited ¹	Australia	nil	100
Bryn Cwar Holdings Pty Limited ¹	Australia	nil	100
WWM Pty Limited ¹	Australia	nil	100
Auburn Pty Limited ¹	Australia	nil	100

¹ During the financial year the Group completed the voluntary deregistration of four subsidiaries.

Transactions between the Parent and controlled entities consist of transfers of investment holdings from subsidiaries to the parent entity. In addition, there are loan balances due from the Parent to controlled entities. No interest is charged on the loan balance by the controlled entities and no repayment period is fixed for the loan.

(ii) Directors/Officers Related Entities

Persons who were Directors/Officers of BKI Investment Company Limited for the year ended 30 June 2019 were:

Directors: RD Millner
DC Hall, AM
AJ Payne
IT Huntley

Company Secretary: JP Pinto¹

¹ Services provided under contract through Corporate & Administrative Services Pty Limited

Corporate & Administrative Services Pty Limited

Corporate & Administrative Services Pty Limited (**CAS**), an entity in which Mr RD Millner has an indirect interest, provides the Group with administration, company secretarial and accounting services, including preparation of all financial accounts.

Fees paid to CAS for services provided to the Parent and controlled entities for the year to 30 June 2019 were \$122,100 (2018: \$122,100, including GST) and are at standard market rates. As at 30 June 2019 the Group owed \$nil to CAS (2018: \$10,175).

BKI INVESTMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

21. Related Party Transactions (continued)

(ii) Directors/Officers Related Entities (continued)

Pitt Capital Partners Limited

The Group appointed Pitt Capital Partners Limited (**PCP**), an entity in which Mr RD Millner has an indirect interest, to act as Financial Advisor for the 2018 Entitlement Offer.

There were nil fees paid to PCP for services provided to the Parent and controlled entities for the year to 30 June 2019 (2018: \$594,653, including GST, which were at standard market rates). As at 30 June 2019 the Group did not have any unpaid amounts due to PCP (2018: \$594,653).

Contact Asset Management Pty Limited

Contact Asset Management Pty Limited (**Contact**) is the Investment Manager of the Group. Contact is an entity in which Mr RD Millner has an indirect interest.

Fees payable to Contact for services provided to the Parent and controlled entities for the year to 30 June 2019 were \$1,193,956 including GST (2018: \$1,114,278) and are at standard market rates. As at 30 June 2019 the Group owed \$113,174 to Contact (2018: \$108,389).

(iii) Transactions in securities

Share Holdings

Aggregate number of listed securities of the Company held by Key Management Personnel (KMP) or their related entities:

	Balance as at 1 July	Granted as compensation	Net other changes	Balance as at 30 June	Net movements post balance date	Balance as at date of Annual Report
2019						
RD Millner	8,488,231	-	322,611	8,810,842	-	8,810,842
DC Hall	2,460,607	-	-	2,460,607	-	2,460,607
AJ Payne	379,056	-	35,000	414,056	-	414,056
IT Huntley	11,224,980	-	-	11,224,980	-	11,224,980
J Pinto	113,154	-	6,607	119,761	-	119,761
Total	22,666,028	-	364,218	23,030,246	-	23,030,246
2018						
RD Millner	8,224,934	-	263,297	8,488,231	-	8,488,231
DC Hall	2,306,820	-	153,787	2,460,607	-	2,460,607
AJ Payne	355,366	-	23,690	379,056	-	379,056
IT Huntley	11,224,980	-	-	11,224,980	-	11,224,980
J Pinto	108,320	-	4,834	113,154	-	113,154
Total	22,220,420	-	445,608	22,666,028	-	22,666,028

Directors acquired shares through the Dividend Reinvestment Plan, the 2018 Entitlement Offer, and/ or on-market purchase. Mr RD Millner disposed of shares through the making of in-specie distributions as Trustee of a deceased estate.

Other Key Management Personnel acquired shares through the Dividend Reinvestment Plan.

All KMP or their associated entities, being shareholders, are entitled to receive dividends.

BKI INVESTMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

	2019	2018
	\$'000	\$'000
22. Parent company information		
Information relating to the parent entity of the Group, BKI Investment Company Limited:		
Current assets	98,044	188,148
Non-current assets	1,358,155	1,248,859
Total assets	1,456,199	1,437,007
Current liabilities	1,499	1,718
Non-current liabilities	307,232	328,106
Total liabilities	308,731	329,824
Issued capital	916,233	908,015
Reserves	231,236	199,167
Total shareholders' equity	1,147,469	1,107,182
Net operating profit	75,169	45,010
Total other comprehensive income	21,021	17,575

The parent company has no contingent liabilities as at 30 June 2019.

23. Capital and Leasing Commitments

The Group has no capital and leasing commitments as at 30 June 2019.

24. Auditors' Remuneration

During the financial year the following fees were paid or payable for services provided to the Group by the auditor of the Group.

Auditing the financial report of the Parent and the controlled entities	26	25
Total remuneration for audit and other assurance services	26	25
Providing review services in respect of the Entitlement Offer conducted by the Company	-	7
Total remuneration of the auditor of the Group	26	32

25. Contingent Liabilities

The Group has no contingent liabilities as at 30 June 2019.

26. Authorisation

The financial report was authorised for issue on 17 July 2019 by the Board of Directors.

BKI INVESTMENT COMPANY LIMITED

DIRECTORS' DECLARATION

The Directors of BKI Investment Company Limited declare that:

1. the financial statements and notes, as set out on pages 23 to 46, are in accordance with the *Corporations Act 2001* and:
 - a. comply with Accounting Standards and the Corporations Regulations; and
 - b. comply with International Financial Reporting Standards, as stated in note 1 to the financial statements
 - c. give a true and fair view of the financial position as at 30 June 2019 and of the performance for the year ended on that date of the consolidated entity;
2. in the Directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
3. this declaration has been made after receiving the declaration required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ending 30 June 2019.

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



Robert D Millner
Director

Sydney
17 July 2019



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

Report on the Audit of the Financial Report

Opinion

We have audited the accompanying financial report of BKI Investment Company Limited and Controlled Entities (the consolidated entity), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated income statement, consolidated statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and the directors' declaration of the consolidated entity comprising BKI Investment Company Limited and the entities it controlled at the year's end or from time to time during the year.

In our opinion, the accompanying financial report of BKI Investment Company Limited and its Controlled Entities, is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2019 and of its performance for the year ended on that date; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- c) the financial report also complies with the *International Financial Reporting Standards* as disclosed in Note 1.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of BKI Investment Company Limited in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of BKI Investment Company Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How Our Audit Addressed the Key Audit Matter
<p><i>Valuation and Existence of Investments</i></p> <p>The investment portfolio at 30 June 2019 comprised of listed equity investments of \$1,136.57 million.</p> <p>We focused on the valuation and existence of investments because investments represent the principal element of the net asset value disclosed on the Consolidated Statement of Financial Position in the financial report.</p>	<p>We tested the valuation of a representative sample of listed investments by vouching the share prices to external market information to ensure they are fairly stated.</p> <p>We agreed the existence of a representative sample of listed investments by confirming shareholdings with share registries.</p> <p>No material differences were identified.</p>
<p><i>Revenue from Investments</i></p> <p>ASAs presume there are risks of fraud in revenue recognition unless rebutted.</p> <p>We focused on the cut-off, accuracy and completeness of dividend revenue and dividend receivables</p>	<p>We assessed the accounting policy for revenue recognition for compliance with the accounting standards and performed testing to ensure that revenue had been accounted for in accordance with the accounting policy.</p> <p>We found that the accounting policies implemented were in accordance with the accounting standards, and that revenue has been accounted for in accordance with the accounting policy.</p> <p>We tested the accuracy and completeness of dividend revenue by agreeing the dividends and distributions of a representative sample of investments to supporting documentation obtained from share registries.</p> <p>We tested the cut-off and completeness of dividend revenue and dividend receivables by checking the dividend details of a representative sample of investments from external market information and ensured that dividends that were declared before, but payable after, the reporting date were recorded.</p> <p>No material differences were identified.</p>



Other Information

The directors of BKI Investment Company Limited are responsible for the other information. The other information comprises the information in the annual report for the year ended 30 June 2019, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard

Responsibilities of the Directors for the Financial Report

The directors of BKI Investment Company Limited are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, the financial statements comply with *International Financial Reporting Standards*.

In preparing the financial report, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report. s

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Opinion on the Remuneration Report

We have audited the Remuneration Report included on pages 18 to 22 of the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of BKI Investment Company Limited for the year ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.



Responsibilities

The directors of BKI Investment Company Limited are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report of BKI Investment Company Limited and Controlled Entities for the year ended 30 June 2019 included on BKI Investment Company Limited's web site. The directors of the Company are responsible for the integrity of BKI Investment Company Limited's web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

MGI Sydney Assurance Services

MGI Sydney Assurance Services Pty Limited
Chartered Accountants

A handwritten signature in black ink, appearing to read 'Clayton Lawrence', is written over a circular stamp or seal.

Clayton Lawrence
Director

Sydney, 17 July 2019



**BKI INVESTMENT COMPANY LIMITED AND CONTROLLED ENTITIES
ABN: 23 106 719 868**

**AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF
THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF BKI INVESTMENT COMPANY
LIMITED AND CONTROLLED ENTITIES**

As lead auditor for the audit of BKI Investment Company Ltd and Controlled Entities for the year ended 30 June 2019, I declare that, to the best of my knowledge and belief, there have been:


- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Name of Firm:

MGI Sydney Assurance Services
MGI Sydney Assurance Services Pty Limited

Chartered Accountants

Name of Auditor:



Clayton Lawrence
Director

Address:

Level 5, 6 O'Connell Street, Sydney NSW 2000

Dated this

17th day of July 2019

BKI INVESTMENT COMPANY LIMITED

ASX ADDITIONAL INFORMATION

1) Equity Holders

At 30 June 2019 there were 17,604 holders of ordinary shares in the capital of the Parent. These holders were distributed as follow:

Number of shares held

1 – 1,000	1,244
1,001 – 5,000	2,491
5,001 – 10,000	2,655
10,001 – 100,000	10,058
100,001 and over	1,156
Total	17,604

Holding less than a marketable parcel of 318 shares 614

The 20 largest holdings of the Parent's share as at 30 June 2019 are listed below:

Name	Number of share held	%
Washington H Soul Pattinson and Company Limited	62,405,057	8.54
Huntley Group Investments Pty Ltd	8,523,274	1.17
J S Millner Holdings Pty Limited	5,566,300	0.76
HSBC Custody Nominees (Australia) Limited	5,096,636	0.70
Jeanneau Cloud Nine Pty Limited	4,169,612	0.57
GM Pty Limited	3,365,124	0.46
I R McDonald Pty Limited	3,000,000	0.41
John E Gill Trading Pty Limited	2,284,877	0.31
Nibot Pty Limited	2,251,845	0.31
Nulis Nominees (Australia) Limited	2,182,068	0.30
Estate of Francis Albert Robertson	2,136,110	0.29
Donald Cant Pty Limited	1,848,698	0.25
K C Perks Investments Pty Ltd	1,844,233	0.25
Fennybentley Pty Limited	1,658,178	0.23
Stuart Llewellyn Gwyn Morgan + Margaret Patricia Morgan	1,626,089	0.22
Snow Foundation Limited	1,604,100	0.22
Navigator Australia Limited	1,594,335	0.22
Farjoy Pty Limited	1,550,800	0.21
T N Phillips Investments Pty Limited	1,548,794	0.21
Mr Timothy Frank Robertson	1,460,102	0.20

BKI INVESTMENT COMPANY LIMITED

ASX ADDITIONAL INFORMATION

Votes of Members

Article 5.12 of the Company's Constitution provides

- a) Subject to this Constitution and any rights or restrictions attached to a class of Shares, on a show of hands at a meeting of Members, every Eligible Member present has one vote.
- b) Subject to this Constitution and any rights or restrictions attached to a class of Shares, on a poll at a meeting of Members, every Eligible Member present has:
 - (i) one vote for each fully paid up Share (whether the issue price of the Share was paid up or credited or both) that the Eligible Member holds; and
 - (ii) a fraction of one vote for each partly paid up Share that the Eligible Member holds. The fraction is equal to the proportion which the amount paid up on that Share (excluding amounts credited) is to the total amounts paid up and payable (excluding amounts credited) on that Share.

2) Substantial Shareholders

As at 30 June 2019 the name and holding of each substantial shareholder as disclosed in a notice received by the Parent is:

Substantial Shareholder	Shares Held	%
Washington H Soul Pattinson & Company Limited ¹	62,405,057	8.60%
Brickworks Limited ²	62,405,057	8.60%

¹ Details included on substantial shareholder notice dated 26 June 2018.

² Details included on substantial shareholder notice dated 27 June 2018. Shares held by Brickworks Limited represent a technical relevant interest as a result of Brickworks Limited's shareholding in Washington H Soul Pattinson & Company Limited.

3) Other Information:

- There is no current on-market buy-back in place.
- There were 322 (2018: 141) transactions in securities undertaken by the Group and the total brokerage paid or accrued during the year was \$577,354 (2018: \$396,363)

4) Management Expense Ratio:

The Management Expense Ratio ("MER") is the operating expenses of the Group for the financial year, as shown in the income statement, expressed as a percentage of the average total assets of the Group for the financial year. The table below summarises the MER for each financial year ended 30 June.

2004	2005	2006	2007	2008	2009	2010	2011
0.69	0.71	0.56	0.46	0.46	0.31	0.19	0.18
2012	2013	2014	2015	2016	2017	2018	2019
0.18	0.19	0.17	0.18	0.16	0.15	0.16	0.17