

*BKI Investment Company Limited*



## ASX APPENDIX 4E – PRELIMINARY FINAL REPORT

30 JUNE 2020

The reporting period is the year ended 30 June 2020 with the previous corresponding period being the year ended 30 June 2019

# BKI Investment Company Limited

YEAR ENDED 30 JUNE 2020

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## RESULTS FOR ANNOUNCEMENT TO THE MARKET

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	Change		Jun 2019 \$'000		Jun 2019 \$'000
<b>Revenue performance</b>					
Total income – ordinary	Down 13.9%	to	<b>46,732</b>	from	54,254
Special investment revenue	Down 74.3%	to	<b>7,182</b>	from	<u>27,977</u>
Total income from ordinary activities	Down 34.4%	To	<b>53,914</b>	from	82,231
<b>Profits</b>					
Operating result after tax - before special investment revenue net of applicable tax	Down 15.4%	To	<b>41,578</b>	from	49,150
Special investment revenue net of applicable tax	Down 72.4%	to	<b>7,044</b>	from	<u>25,550</u>
Net profit from ordinary activities after tax attributable to shareholders	Down 34.9%	to	<b>48,622</b>	from	74,700
Net profit attributable to shareholders	Down 34.9%	to	<b>48,622</b>	from	74,700
<b>Portfolio</b>					
Total portfolio value (including cash & receivables)	Down 12.1%	to	<b>1,084,667</b>	from	1,234,262
<b>Earnings per share</b>					
			<b>Cents</b>		<b>Cents</b>
Basic earnings per share <u>before</u> special investment revenue	Down 16.0%	to	<b>5.67</b>	from	6.75
Basic earnings per share <u>after</u> special investment revenue	Down 35.4%	to	<b>6.63</b>	from	10.26
<b>Dividends per share</b>					
Interim - ordinary	Steady	at	<b>3.625</b>	from	3.625
Interim – special	Down 100.0%	to	<b>nil</b>	from	1.500
Final – ordinary	Down 37.3%	To	<b>2.320</b>	from	3.700
Final – special	Steady	at	<b>1.000</b>	from	<u>1.000</u>
Full year total	Down 29.3%	to	<b>6.945</b>	From	9.825

# *BKI Investment Company Limited*

YEAR ENDED 30 JUNE 2020

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## RESULTS FOR ANNOUNCEMENT TO THE MARKET

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### Explanation of Operating Results

The first half of FY2020 saw an increase in concerns around global economic conditions and geopolitical events, even as most global share indices tracked upwards. However, the advent of the COVID-19 economic crisis created significant social and economic upheaval in the second half of the financial year, causing extreme economic uncertainty across all industries globally, and resulting in extreme fluctuations in global sharemarkets.

This disruption to the underlying economy, and subsequent impact on investment markets, means Australian equity investors have recently experienced a significant cut to dividends, with many companies deferring or even cancelling dividend payments altogether. BKI's income and profits were not immune

In an extremely difficult year, BKI's Total Ordinary Revenue from its Investment portfolio was down 13.3% to \$45.4 million, driving a 15.4% decrease in Net Operating Result before special investment revenue to \$41.6m from \$49.2m in 2019. Basic and diluted earnings per share before special dividend revenue was down 16.0% to 5.67 cents per share.

This result was negatively impacted by lower ordinary dividends received from Woodside Petroleum, AGL Energy, SEEK, Regis Healthcare, Transurban Group, New Hope Corporation, National Australia Bank and Macquarie Group. This was exacerbated in the second half of the year when Harvey Norman, Sydney Airport, ANZ Bank and Westpac Banking Corporation did not pay an ordinary dividend at all.

BKI received \$7.2m in special investment revenue in FY2020, including special dividends from Telstra Corporation, Harvey Norman, Orora Limited, and TPG Australia. The special dividends from TPG Australia were declared following the receipt of final court approval for its merger with VHA (Vodafone Hutchinson Australia). Shareholders in TPG Australia were rewarded with a \$0.516 cps fully franked cash special dividend, generating \$3.0m special dividend revenue for BKI in FY2020. In addition, BKI has recognized a further \$1.9m fully franked special dividend in FY2020 as a result of an in-specie distribution of TUA shares.

BKI's Net Operating Profit After Tax, including special investment revenue for FY2020 was \$48.6 million, down 35% on the previous corresponding period, with basic earnings per share, including special investment revenue, decreasing 35% to 6.63 cents per share.

Total Shareholder Return including franking credits for the year to 30 June 2020 was negative 5.0%, compared to the S&P/ASX 300 Accumulation Index, which returned negative 6.0% over the same period. BKI's Total Shareholder Return including Franking Credits for 15 years was 8.9% per annum compared to the S&P/ASX 300 Accumulation Index, which returned 8.4%.

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 2020 was negative 8.2%.

### NTA Backing

	30 June 2020	30 June 2019
Net Tangible Asset backing per ordinary share before tax	\$1.47	\$1.69
Net Tangible Asset backing per ordinary share after tax	\$1.43	\$1.58

# *BKI Investment Company Limited*

YEAR ENDED 30 JUNE 2020

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## RESULTS FOR ANNOUNCEMENT TO THE MARKET

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### **Additional Dividend Information**

The Directors have declared a final ordinary 2020FY dividend of 2.32 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 27 August 2020. The Record date for the dividend is 10 August 2020.

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 11 August 2020.

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](http://www.bkilimited.com.au))

### **Other Information**

This report is based on audited accounts. A copy of the 2020 Annual Report, which includes the audited accounts, is attached to this Appendix 4E.

# Annual Report 2020

for year ended 30 June 2020



**BKI INVESTMENT  
COMPANY LIMITED**

ABN 23 106 719 868

# 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	
Thomas Charles Dobson Millner	Portfolio Manager
William Anthony Culbert	Portfolio Manager

### Company Secretaries

Jaime Perry 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  
5<sup>th</sup> 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
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### Website

[www.bkilimited.com.au](http://www.bkilimited.com.au)

# BKI INVESTMENT COMPANY LIMITED

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# BKI INVESTMENT COMPANY LIMITED

## FINANCIAL HIGHLIGHTS

				Jun 2020		Jun 2019
				\$'000		\$'000
<b>Revenue performance</b>						
Total income – ordinary	down	13.9%	to	<b>46,732</b>	from	<b>54,254</b>
Special investment revenue	down	74.3%	to	<b>7,182</b>	from	<b>27,977</b>
Total income from ordinary activities	down	34.4%	to	<b>53,914</b>	from	<b>82,231</b>
<b>Profits</b>						
Operating result after tax - before special investment revenue net of applicable tax	down	15.4%	to	<b>41,578</b>	from	<b>49,150</b>
Special investment revenue net of applicable tax	down	72.4%	to	<b>7,044</b>	from	<b>25,550</b>
Net profit from ordinary activities after tax attributable to shareholders	down	34.9%	to	<b>48,622</b>	from	<b>74,700</b>
Net profit attributable to shareholders	down	34.9%	to	<b>48,622</b>	from	<b>74,700</b>
<b>Portfolio</b>						
Total portfolio value (including cash & receivables)	down	12.1%	to	<b>1,084,667</b>	from	1,234,262
<b>Earnings per share (EPS)</b>						
				<b>Cents</b>		<b>Cents</b>
Basic EPS <b>before</b> special investment revenue and applicable tax	down	16.0%	to	<b>5.67</b>	from	6.75
Basic EPS <b>after</b> special investment revenue and applicable tax	down	35.4%	to	<b>6.63</b>	from	10.26
<b>Dividends</b>						
Interim - Ordinary	steady		at	<b>3.625</b>	from	<b>3.625</b>
Interim - Special	down	100%	to	<b>0.000</b>	from	<b>1.500</b>
Final – Ordinary	down	37.3%	at	<b>2.320</b>	from	<b>3.700</b>
Final – Special	steady		to	<b>1.000</b>	from	<b>1.000</b>
Full Year Total	down	29.3%	to	<b>6.945</b>	from	<b>9.825</b>

### 10 Year Dividend History (cents per share):

30 June	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Interim	3.00	3.20	3.25	3.45	3.55	3.60	3.60	3.625	3.625	3.625
Final	3.00	3.20	3.40	3.50	3.65	3.65	3.70	3.700	3.700	2.320
Special	1.00	-	0.50	-	-	-	-	-	2.500	1.000
<b>Total</b>	<b>7.00</b>	<b>6.40</b>	<b>7.15</b>	<b>6.95</b>	<b>7.20</b>	<b>7.25</b>	<b>7.30</b>	<b>7.325</b>	<b>9.825</b>	<b>6.945</b>

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
NTA before tax	1.42	1.30	1.52	1.63	1.65	1.55	1.61	1.63	1.69	1.47
NTA after tax	1.34	1.26	1.42	1.51	1.53	1.47	1.52	1.54	1.58	1.43



# BKI INVESTMENT COMPANY LIMITED

## FINANCIAL HIGHLIGHTS - Continued

### List of Securities as at 30 June 2020

	Number of shares held	Market value \$'000	Portfolio weight %
<b>Financials</b>			
Macquarie Group	655,172	77,703	7.16
Commonwealth Bank	1,030,023	71,504	6.59
National Australia Bank	2,146,120	39,102	3.61
ASX Limited	397,750	33,960	3.13
Westpac Banking Corporation	1,305,518	23,434	2.16
Magellan Financial Group Limited	383,500	22,247	2.05
IAG Limited	3,063,445	17,676	1.63
Suncorp Group	951,408	8,782	0.81
Milton Corporation	2,103,640	8,604	0.79
Pendal Group	1,093,185	6,526	0.60
Platinum Asset Management	1,738,000	6,483	0.60
Equity Trustees	195,054	4,828	0.45
Evans Dixon	5,674,572	3,036	0.28
		<b>323,885</b>	<b>29.86</b>
<b>Industrials</b>			
Transurban Group	4,031,534	56,966	5.25
Sydney Airport	5,127,677	29,074	2.68
Seek Limited	537,500	11,766	1.09
Lindsay Australia	17,141,631	6,000	0.55
Brambles Limited	500,576	5,441	0.50
Reece Limited	515,499	4,737	0.44
		<b>113,984</b>	<b>10.51</b>
<b>Consumer Discretionary</b>			
Wesfarmers Limited	1,129,102	50,618	4.67
Invocare Limited	1,638,974	17,176	1.58
ARB Corporation	945,447	16,971	1.56
Harvey Norman Holdings Limited	3,887,454	13,761	1.27
		<b>98,526</b>	<b>9.08</b>
<b>Materials</b>			
BHP Group Limited	1,925,000	68,954	6.36
Amcor	1,194,890	17,302	1.60
Brickworks Limited	436,209	6,905	0.64
Orora Limited	1,600,000	4,064	0.37
		<b>97,225</b>	<b>8.97</b>
<b>Consumer Staples</b>			
Woolworths Group	1,428,744	53,263	4.91
Coles Group	1,129,102	19,387	1.79
Treasury Estate	905,155	9,486	0.87
Inghams Group	1,978,355	6,331	0.58
		<b>88,467</b>	<b>8.15</b>

# BKI INVESTMENT COMPANY LIMITED

## FINANCIAL HIGHLIGHTS - Continued

### List of Securities as at 30 June 2020 (Continued)

	Number of shares held	Market value \$'000	Portfolio weight %
<b>Utilities</b>			
APA Group	5,770,434	64,225	5.92
AGL Energy Limited	1,233,708	21,035	1.94
		<b>85,260</b>	<b>7.86</b>
<b>Telecommunications</b>			
TPG Telecom	5,748,362	49,514	4.56
Telstra Corporation	8,524,451	26,682	2.46
		<b>76,196</b>	<b>7.02</b>
<b>Health Care</b>			
Ramsay Healthcare	515,070	34,262	3.16
Sonic Healthcare	960,899	29,240	2.70
Regis Healthcare	1,807,428	2,548	0.23
		<b>66,050</b>	<b>6.09</b>
<b>Energy</b>			
Woodside Petroleum Limited	1,175,876	25,458	2.36
New Hope Corporation	17,950,950	24,503	2.26
		<b>49,961</b>	<b>4.62</b>
<b>Property</b>			
Goodman Group Limited	945,000	14,033	1.29
LendLease	633,178	7,832	0.72
Stockland	1,225,000	4,055	0.37
		<b>25,920</b>	<b>2.38</b>
<b>Total Portfolio</b>		<b>1,025,474</b>	<b>94.54</b>
Investment portfolio		<b>1,025,474</b>	<b>94.54</b>
Trading portfolio		-	-
<b>Total Portfolio</b>		<b>1,025,474</b>	<b>94.54</b>
Cash and dividends receivable		<b>59,193</b>	<b>5.46</b>
<b>Total Investment Assets</b>		<b>1,084,667</b>	<b>100.00</b>

The Group is a substantial shareholder in accordance with the Corporations Act 2001 of Lindsay Australia Limited, holding 5.73% of the issued capital as at 30 June 2020. 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

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## **GROUP PROFILE**

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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 Limited (“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

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## CHAIRMAN'S ADDRESS

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Dear Shareholders,

I am pleased to enclose the 17th Annual Report of BKI Investment Company Limited (BKI) for the year to 30 June 2020.

The first half of FY2020 saw an increase in concerns around global economic conditions and geopolitical events, even as most global share indices tracked upwards. However, the advent of the COVID-19 economic crisis created significant social and economic upheaval in the second half of the financial year, causing extreme economic uncertainty across all industries globally, and resulting in extreme fluctuations in global sharemarkets.

### Result Highlights

This disruption to the underlying economy and subsequent impact on investment markets means Australian equity investors have recently experienced a significant cut to dividends, with many companies deferring or even cancelling dividend payments altogether. BKI's income and profits were not immune. In an extremely difficult year, BKI's Ordinary Revenue from Investment portfolio was down 13% to \$45.4 million.

This result was negatively impacted by lower ordinary dividends received from Woodside Petroleum, AGL Energy, SEEK, Regis Healthcare, Transurban Group, New Hope Corporation, National Australia Bank and Macquarie Group. This was exacerbated in the second half of the year when Harvey Norman, Sydney Airport, ANZ Bank and Westpac Banking Corporation did not pay an ordinary dividend at all.

BKI realised \$0.7 million from the trading portfolio, after participating in the National Australia Bank and Lend Lease Limited capital raisings. BKI's interest received was \$0.6 million, down 68% on FY2019.

The fallout from the COVID-19 economic crisis has been significant. BKI's Net Operating Profit After Tax, before special investment revenue, was \$41.6 million, a decrease of 15% over the previous corresponding period. BKI's basic earnings per share before special investment revenue decreased 16% to 5.67 cents per share.

Special Dividend Revenue was again a feature with BKI receiving \$7.2 million in Special Dividend Revenue over the year. Special Dividends were received from Telstra Corporation, Harvey Norman and Orora Limited.

Also, during the period TPG Australia received the final court approval which will now see TPG Australia merge with VHA (Vodafone Hutchinson Australia). As part of the merger, TPG Australia spun-off Tuas Limited (TUA), who will now be the owner of the TPG Singapore business. As an existing shareholder of TPG Australia, in July BKI received one share in Tuas Limited via an In-Specie Dividend of Tuas shares for every two TPG Australia shares. BKI has recognized a \$1.9 million fully franked special dividend in FY2020 as a result of the TUA demerger. Shareholders in TPG Australia were also rewarded with a \$0.516 fully franked special dividend following implementation of the Scheme. This resulted in BKI recognizing an additional \$3.0 million special dividend in FY2020.

BKI's Net Operating Profit After Tax, including special investment revenue for FY2020 was \$48.6 million, down 35% on the previous corresponding period. The main contributing factor for BKI's significant decrease in Net Operating Profits from the previous year was the large number of special dividends received in FY2019 after the acceleration of payments by many companies reacting to the possible threat of legislation to remove the benefit of franking credits. The special dividends received in FY2019 also included the fully franked special dividend component of the BHP off-market buy-back, and a non-cash unfranked dividend recognised from the Coles-Wesfarmers demerger.

BKI's basic earnings per share, including special investment revenue, decreased 35% to 6.63 cents per share

### Dividends

Given the current economic situation, and the pressure created by significant cuts to dividends received, the BKI Board has declared a fully franked final dividend of 2.32cps, representing a 100% payout ratio on BKI's basic earnings per share, excluding special investment revenue. The BKI Board has also declared a 1.00cps fully franked special dividend. This is BKI's eighth special dividend paid to shareholders since listing in 2003.

# BKI INVESTMENT COMPANY LIMITED

## CHAIRMAN'S ADDRESS - Continued

Based on the 3.625cps FY2020 interim dividend and 2.32cps FY2020 final dividend, the current BKI dividend yield is 4.3%, grossed up to 6.3%, based on a tax rate of 30% and a share price of \$1.385 as at 30 June 2020.

Including special dividends, BKI has declared total dividends of 6.945 cps in respect of FY2020, fully franked.

Following payment of the FY2020 dividends, BKI will have approximately \$16.0m of imputation credits available for future dividends. BKI's Retained Profits at 30 June 2020 were \$45.3m.

### Dividend Key Dates

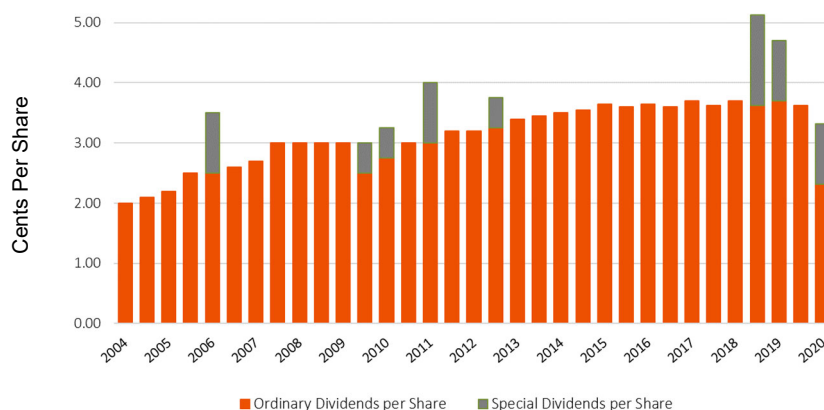
The last trading date to be eligible for the FY2020 Final Dividends is Thursday 6 August 2020. Key dates for the fully franked Final Dividends are as follows:

Event	Date
Last trading date to be eligible for the Final Dividends	Thursday 6 August 2020
Ex-Dividend Date	Friday 7 August 2020
Record Date	Monday 10 August 2020
DRP Nomination	Tuesday 11 August 2020
Payment Date	Thursday 27 August 2020

### Dividend Reinvestment Plan (DRP)

The Board has confirmed that BKI's DRP will be maintained for the FY2020 final dividends, offering shareholders the opportunity to acquire further ordinary shares in BKI. The DRP will not be offered at a discount. The last day to nominate for participation in the DRP is Tuesday 11 August 2020. To obtain access to a DRP form please use the following link: <https://bkilimited.com.au/dividend-information/>

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 10 August 2020).

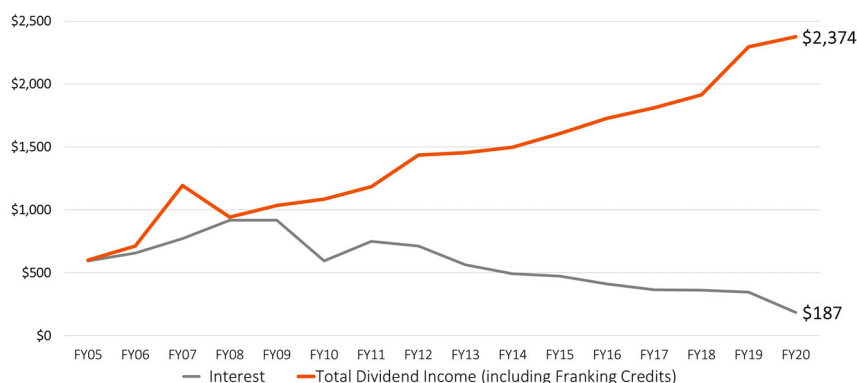


Above - Fully Franked Ordinary Dividends and Special Dividends declared by BKI (cents per share).

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 15 years.

# BKI INVESTMENT COMPANY LIMITED

## CHAIRMAN'S ADDRESS - Continued



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

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 totaling \$1,662. The franking credits enhance the income by a further \$712 (total income of \$2,374). The same investment in a term deposit (based on the cash rate + 0.50%) would be earning \$187pa with no franking credits.

### Management Expense Ratio (MER)

BKI's MER as at 30 June 2020 was 0.17%, in line with FY2019. 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	Macquarie Group	7.2%
2	Commonwealth Bank	6.6%
3	BHP Limited	6.4%
4	APA Group	5.9%
5	Transurban Group	5.3%
6	Woolworths Limited	4.9%
7	Wesfarmers Limited	4.7%
8	TPG Telecom	4.6%
9	National Australia Bank	3.6%
10	Ramsay HealthCare	3.2%
11	ASX Limited	3.1%
12	Sonic Healthcare	2.7%
13	Sydney Airport	2.7%

	Stock	% of Total Portfolio
14	Telstra Corporation	2.5%
15	Woodside Petroleum	2.3%
16	New Hope Corporation	2.3%
17	Westpac Banking Corporation	2.2%
18	Magellan Financial Group	2.1%
19	AGL Energy Limited	1.9%
20	Coles Group	1.8%
21	IAG Limited	1.6%
22	Amcor	1.6%
23	Invocare Limited	1.6%
24	ARB Corporation	1.6%
25	Goodman Group Limited	1.3%
Cash and cash equivalents		5.5%
<b>Total of Top 25 including cash and cash equivalents</b>		<b>89.2%</b>

### Outlook

Australia's economic stimulus packages currently in place have been a significant benefit to the Australian household and consumer during the COVID-19 crisis. The Government's economic support package of almost \$260 billion and the banks 779,458 loan deferrals have been very well received. However, longer-term, we are concerned with forecast unemployment numbers as well as the impact of the upcoming completion of deferral payment programs focused on small/medium businesses and individual mortgages will have on the economy.

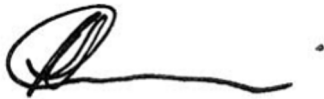
## CHAIRMAN'S ADDRESS - Continued

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This upcoming reporting season is going to be of particular interest to investors. It will be the first time since March 2020 that companies will be able to talk to investors about their business, how they are seeing the current environment and the longer term impacts that COVID-19 will have on their future financial capacity and earnings.

We believe the global economic and social shutdown will cause some long-lasting negative impacts on businesses across our market. There may actually only be a small number of companies that could escape with earnings unharmed, benefiting over the short-term from a change in consumer behaviour or through significant government stimulus packages. These companies could come out of this situation quicker and better than others, however, for the most part we believe that it will be a long and slow road ahead.

Whilst we are in for an interesting period ahead, which could last for longer than expected, BKI continues to be well positioned with a portfolio of high-quality dividend paying stocks. BKI has available cash and no debt. Even during these difficult times ahead, we will continue to ensure BKI achieves its objective of investing for the long term in profitable, high yielding and well managed companies.



**Robert Millner**  
Chairman

## PORTFOLIO MANAGER'S REPORT

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Dear Shareholders,

Contact Asset Management, as the Investment Manager of BKI Investment Company, are pleased to include our report for FY2020.

### Market Commentary

The momentum in global equity markets over the last decade finally eased during FY2020. Despite falling interest rates continuing to influence market valuations for the first six months of the year, it was on 31 December 2019 that the world's economies and equity markets began to change course. It was on this day that Wuhan health officials confirmed 27 cases of Coronavirus (COVID-19). As the outbreak quickly spread, every country globally took desperate measures to prevent further cases emerging. Unfortunately, cases did spread globally and with that came a very volatile period for markets.

Despite the S&P/ASX300 Accumulation index being up 24% for the year to 31 December 2019, and a reasonable start to the Australian reporting season in February 2020, emerging news of the spread of COVID-19 and the remarkable shutdown of all countries worldwide played havoc with market returns. The short-term volatility was significant and unfortunately Australian markets were among the hardest hit. Towards the end of March 2020, the S&P/ASX300 Accumulation index had fallen 36% from its highs in the previous month.

The COVID-19 health crisis has also led to further and multiple waves of interest rate cuts globally. The Federal Reserve cut rates to 0%, China lowered its benchmark 1 year Prime Rate by 10 bps to 4.05%, the Bank of England announced emergency cuts in interest rates to 0.10%, taking borrowing costs down to the lowest level in history. The Bank of Japan left its key short-term interest rate unchanged at negative 0.10%. In an emergency meeting, the New Zealand Governor made a surprise decision to cut the official cash rate by 0.75% to 0.25%, an all-time low, and the RBA cut Australian rates by 50 bps to a record low 0.25%.

As we had been writing about for some time, we were wary of elevated valuation metrics of the Australian market. While many companies in the BKI Portfolio continued to deliver an attractive income stream, valuations had become stretched. We expected some material downward revisions at some point, however the downward push on markets linked to the COVID-19 health crisis took everyone by surprise.

The main challenge we faced during the June quarter, from a valuation perspective, was estimating the earnings impact in the near term. The FY2021 consensus EPS growth expectations continued to paint a very optimistic picture and we believed that these forecasts looked vulnerable to erosion, putting a strain on valuations (and prices) which remained elevated despite the market pullback. We believed during this period that there was more pain to come.

The short-term pain seen in the Australian share market was surprisingly short lived and the index finished the financial year strongly, despite returning negative 7.6% for the year. This recovery is partly attributable to the \$260 billion Australian Federal stimulus being implemented to combat the COVID-19 crisis.

Australia continues to undergo its largest ever infrastructure boom with the Government investing a record \$100 billion towards transport infrastructure over the next decade, boosted again by additional funding throughout the COVID-19 pandemic. As lockdown restrictions eased and stimulus cash flowed into bank accounts, we began to see some very strong retail sales activity. These observations in the market were confirmed with some very strong data over the quarter. The ABS reported retail sales up 16.3% in May, the largest seasonally adjusted rise ever published in the 38 years of the Retail Trade survey, following the largest ever seasonally adjusted fall of 17.7% in April 2020. Trading updates from many retailers point to double digit sales growth with a significant amount driven by online sales.

We are finding it difficult to justify the (so far) V-shaped recovery in Global Equities Markets. This recovery has seen governments globally doing "whatever it takes" to stem the impact of COVID-19 on their economies. This involves maintaining near-zero interest rates, significant liquidity injections through money printing and pushing out "fiscal cliffs" with further deferments of mortgages and interest payments by small and medium business owners.

Despite all the stimulus packages and historically low interest rates currently on offer, these deep, longer term issues may take 6-12 months to play out and we continue to be concerned about the medium-term outlook for much of the Australian economy. The ASX300 index is trading at almost exactly the same level as it was in June 2019, however the earnings outlook for most companies in the index has deteriorated



# BKI INVESTMENT COMPANY LIMITED

## PORTFOLIO MANAGER'S REPORT - Continued

significantly. We do not believe we have seen the real impact high unemployment, supply chain issues, low dividends or low immigration will have on our economy.

We believe that sooner or later the market will focus on company valuations and realise that valuations do not align with the likely earnings outlook. We remain cautious into FY2021.

### Portfolio Movements

In the first half of this financial year, we made changes to the portfolio through \$55 million of sales, including exiting positions in Boral and Ampol (formally Caltex). We also reduced our overall exposure to the banking sector through sell downs of National Australia Bank, Westpac Banking Corporation and ANZ Banking Group. Over the last three years we have reduced our overall portfolio weighting in the banks from 33% to 15%.

In the second half of the year BKI's sales included the complete divestment of ANZ Banking Group following its failure to pay an interim 2020 dividend, as well as Challenger Limited and CIMIC Group. BKI also sold down partial positions in IAG Limited, Suncorp Group, AGL Energy and Telstra Corporation. Total divestments for the year were \$91 million.

These further divestments in the second half of the year allowed BKI to reinvest capital into other positions within the portfolio. BKI invested \$128 million during FY2020 with the largest investments being BHP Limited, Macquarie Group, Amcor, Treasury Wine Estates, Harvey Norman Holdings, Transurban Group, New Hope Corporation, TPG Telecom, Sydney Airport and Woodside Petroleum.

During June we welcomed the final court approval which sees TPG Telecom merge with VHA (Vodafone Hutchinson Australia). The merger will create Australia's third largest telecommunications company, bringing together two highly complementary businesses and creating economies of scale to compete with Telstra and Optus. The transaction also sees the Fund receive a \$0.516 cash Special Dividend and an in-specie distribution of shares in Tuas Limited (TUA). TUA is the fourth and newest mobile network operator in Singapore. While still in start-up phase, the business will have no debt and S\$130m of cash which they anticipate will be sufficient to get to EBITDA breakeven.

As at the end of June 2020, there were 43 stocks within the Portfolio, with the Top 25 holdings and cash accounting for 89.2% of the total Portfolio. The Investment Portfolio (including cash) was valued at \$1,084.7 million, with the cash position of \$59.2 million representing 5.5%.

### Performance

For the year to 30 June 2020, the S&P/ASX 300 Accumulation Index return was negative 7.6%. BKI's Total Shareholder Return was negative 7.1%, an outperformance of 0.5%. BKI's Total Shareholder Returns including franking credits for the year to 30 June 2020 was negative 5.0%.

BKI's Net Portfolio Return (after all operating expenses, provisions and payment of both income and capital gains tax and the reinvestment of dividends) for the year to 30 June 2020 was negative 8.2%.



Above - BKI Total Shareholder Returns (TSR) Including Franking Credits as at 30 June 2020.

# BKI INVESTMENT COMPANY LIMITED

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## PORTFOLIO MANAGER'S REPORT - Continued

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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 Asset Management's investment team is made up of seven investment analysts; Tom Millner, Will Culbert, Rodney Forrest, Jovana Gagic, Jared Tilley, Charlie Kingston and Rob Horne. All staff at Contact Asset Management own shares in BKI, ensuring the investment manager is aligned with shareholders. We remain committed to investing for better outcomes for all BKI Shareholders. Our focus is on earnings growth and dividend payments – not generating excessive fees.

### 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) and a Neutral rating from Morningstar.

Tom Millner and Will Culbert  
Contact Asset Management

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# BKI INVESTMENT COMPANY LIMITED

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## DIRECTORS' REPORT

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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 2020.

### 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 36 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)

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

#### **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
- Member of the Nomination 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), 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 2020, and the numbers of meetings attended by each Director.

	Board <sup>1</sup>		Investment		Audit		Remuneration		Nomination <sup>2</sup>	
	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend
RD Millner	8	8	11	11	-	-	2	2	1	1
AJ Payne	7	7	11	11	2	2	2	2	-	-
DC Hall	8	8	-	-	2	2	2	2	1	1
IT Huntley	7	7	11	11	2	2	2	2	1	1

1 The number of board meetings includes circular resolutions passed by the board during the year. It also includes a meeting of a special purpose sub-committee, which not all directors were invited to attend.

2 The sole meeting of the Nomination Committee was held in July 2019. Mr AJ Payne was not a member of the Committee at this time as he was scheduled for re-election as a Director under the Company's Director rotation policy. Subsequent to being re-elected as a Director at the 2019 AGM, Mr Payne was reappointed to the Nomination Committee, and Mr DC Hall resigned from the Committee as he is due for re-election as a Director at the 2020 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 \$45.4m, 13.3% lower than 2019, driving a 15.4% decrease in Net Operating Result before special investment revenue to \$41.6m from \$49.2m in 2019. Basic and diluted earnings per share before special dividend revenue was down 16.0% to 5.67 cents per share.

# BKI INVESTMENT COMPANY LIMITED

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## DIRECTORS' REPORT - Continued

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This result was negatively impacted by lower ordinary dividends received from Woodside Petroleum, AGL Energy, SEEK, Regis Healthcare, Transurban Group, New Hope Corporation, National Australia Bank and Macquarie Group. This was exacerbated in the second half of the year when Harvey Norman, Sydney Airport, ANZ Bank and Westpac Banking Corporation did not pay an ordinary dividend at all.

BKI realised \$0.7m from its trading portfolio, after participating in the National Australia Bank and LendLease Limited capital raisings. With the RBA decreasing interest rates to 0.25% by the end of the financial year, BKI's interest received was only \$0.6 m in FY2020, down 68% on FY2019.

Although special dividend revenue was down 74.3% on FY2019, BKI still received a healthy \$7.2m in Special Dividend Revenue in FY2020, including special dividends from Telstra Corporation, Harvey Norman, Orora Limited, and TPG Australia.

The special dividends were declared by TPG Australia following the receipt of final court approval for its merger with VHA (Vodafone Hutchinson Australia). Shareholders in TPG Australia were rewarded with a \$0.516 cps fully franked cash special dividend, generating \$3.0m special dividend revenue for BKI in FY2020. In addition, BKI has recognized a further \$1.9m fully franked special dividend in FY2020 as a result of an in-specie distribution of TUA shares. In July, as part of the merger, TPG Australia spun off Tuas Limited (TUA), who will be the owner of the TPG Singapore business, and as an existing shareholder of TPG Australia, BKI received one share in Tuas Limited via an In-Specie Dividend of Tuas shares for every two TPG Australia shares.

BKI's Net Operating Profit After Tax, including special investment revenue for FY2020 was \$48.6 million, down 35% on the previous corresponding period, with basic earnings per share, including special investment revenue, decreasing 35% to 6.63 cents per share.

Total Shareholder Return including franking credits for the year to 30 June 2020 was negative 5.0%, compared to the S&P/ASX 300 Accumulation Index, which returned negative 6.0% over the same period. BKI's Total Shareholder Return including Franking Credits for 15 years was 8.9% per annum compared to the S&P/ASX 300 Accumulation Index, which returned 8.4%.

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 2020 was negative 8.2%.

## 6. Review of Operations

Operating expenses remained steady at \$2.0m (2019: \$2.0m), with all cost categories in line with the previous year. As a result, BKI was able to maintain its MER at 0.17% for the year (2019: 0.17%).

BKI made a number of changes to the portfolio during FY2020, with investments of \$127.7m and disposals of \$90.7m.

Additional investments were made into existing holdings including BHP Limited, Macquarie Group, Amcor, Treasury Wine Estates, Harvey Norman Holdings, Transurban Group, New Hope Corporation, TPG Telecom, Sydney Airports and Woodside Petroleum, while a new position in Orora Limited was also established.

BKI reduced its holdings in National Australia Bank, Westpac Banking Corporation, IAG Limited, Suncorp Group, AGL Energy and Telstra Corporation, and completely divested holdings in Boral, Ampol (formerly Caltex), Challenger Limited, CIMIC Group and ANZ Banking Group.

## 7. Financial Position

Net assets of the Group decreased during the financial year to \$1,047.9m (2019: \$1,155.4m), primarily driven by a negative revaluation of the investment portfolio.

## 8. Employees

The Group had no employees as at 30 June 2020 (2019: nil).

## DIRECTORS' REPORT - Continued

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### 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.

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.

As mentioned previously in this report, the advent of the COVID-19 economic crisis created significant social and economic upheaval in FY2020, causing extreme economic uncertainty across all industries globally, and resulting in extreme fluctuations in global sharemarkets. The social, economic and financial impacts of COVID-19 are expected to continue in FY2021, and we expect further changes in government policy and regulations in order to address these impacts. All of these changes will impact the intention and/or ability of companies to generate returns and pay dividends, including those companies in which BKI invests.

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 2020:

- On 29 August 2019, a final ordinary dividend of 3.700 cents per share and a final special dividend of 1.00 cents per share (both fully franked) totalling \$34.3 million was paid out of retained profits at 30 June 2019.
- On 27 February 2020, an interim ordinary dividend of 3.625 cents per share (fully franked) totalling \$26.6 million was paid out of retained profits at 31 December 2019.

In addition, the Directors declared a final ordinary dividend of 2.32 cents per share and a final special dividend of 1.00 cents per share, both fully franked at 30%, payable on 27 August 2020.

At 30 June 2020 there are \$16,040,832 of franking credits available to the Group (2019: \$14,691,000) after allowing for payment of the final, fully franked dividends.

## DIRECTORS' REPORT - Continued

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### 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 2020, 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.

### 16. Non-audit Services

During the year ended 30 June 2019 and the year ended 30 June 2020 MGI Sydney did not provide any non-audit services to the Group, nor did the Group pay any fees for such services.

### 17. Auditor's Independence Declaration

The Auditor's Independence Declaration for the year to 30 June 2020 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	9,857,446
DC Hall	2,471,337
AJ Payne	430,000
IT Huntley	11,224,980
J Pinto	125,916

### 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

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### 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.



# BKI INVESTMENT COMPANY LIMITED

## DIRECTORS' REPORT - Continued

The aims of the BKI Incentive Scheme are:

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 2019 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 FY2020 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:

<b>BKI Total Portfolio Return Compared to S&amp;P/ASX 300 Acc Index</b>	<b>% of Eligible Bonus</b>
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 2020 against the Short Term Incentive measurement criteria:

<b>1 Year BKI Total Portfolio Return</b>	<b>S&amp;P/ASX 300 Acc Index over 1 Year</b>	<b>Over / (Under) Performance</b>	<b>% Entitlement to Eligible Bonus</b>
(8.2)%	(7.6)%	(0.6)%	Nil

The vesting criteria for the 2020 Financial Year Short Term Incentives were therefore not satisfied, and the Company did not award any short term incentives in respect of 2020 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 2020, 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.

# BKI INVESTMENT COMPANY LIMITED

## DIRECTORS' REPORT - Continued

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 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 2020 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	01/07/2016	24,030	\$37,800	30/06/2020	30/06/2021	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
1/07/2016 to 30/06/2020	1.7%	7.3%	(5.6)%	nil

Based on the above performance the vesting criteria for Long Term Incentives issued on 1 July 2016 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 2020 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 2016	01/07/2015	18,628	\$31,500	30/06/2019	30/06/2020	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
1/07/2015 to 30/06/2020	1.2%	6.0%	(4.8)%	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 lapsed as at 30 June 2020.

No outstanding Long Term Incentives granted by the Company became eligible for vesting between 1 July 2020 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
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# 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
J Pinto 2020	01/07/2019	25,000	\$38,678	30/06/2023	30/06/2024	-	25,000
J Pinto 2021	01/07/2020	25,000	\$35,943	30/06/2024	30/06/2025	-	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 2020

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:

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

<sup>1</sup> 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:

	<b>Primary fee</b>	<b>Superannuation</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>2019</b>			
RD Millner	68,196	6,479	74,675
DC Hall	52,717	5,008	57,725
AJ Payne <sup>1</sup>	29,080	18,044	47,124
IT Huntley	43,037	4,088	47,125
<b>Total</b>	<b>193,030</b>	<b>33,619</b>	<b>226,649</b>
<b>2020</b>			
RD Millner	69,041	6,559	75,600
DC Hall	53,379	5,071	58,450
AJ Payne <sup>1</sup>	43,562	4,138	47,700
IT Huntley	43,562	4,138	47,700
<b>Total</b>	<b>209,544</b>	<b>19,906</b>	<b>229,450</b>

<sup>1</sup> – 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			Share based performance related remuneration			Total Remuneration
	Salary	Super-annuation	Total	STI	LTI	Total	
<b>2019</b>							
J Pinto	-	-	-	-	8,442	8,442	8,442
<b>Total</b>	-	-	-	-	<b>8,442</b>	<b>8,442</b>	<b>8,442</b>
<b>2020</b>							
J Pinto	-	-	-	-	2,752	2,752	2,752
<b>Total</b>	-	-	-	-	<b>2,752</b>	<b>2,752</b>	<b>2,752</b>

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	
	2020	2019	2020	2019	2020	2019
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**  
**16 July 2020**

# BKI INVESTMENT COMPANY LIMITED

## CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2020

	<i>Note</i>	<b>2020</b> \$'000	2019 \$'000
Ordinary revenue from investment portfolio	2(a)	<b>45,368</b>	52,310
Revenue from bank deposits	2(c)	<b>614</b>	1,944
Other income	2(d)	<b>2</b>	-
Other gains	2(e)	<b>748</b>	-
<b>Income from operating activities before special investment revenue</b>		<b>46,732</b>	54,254
Operating expenses	3	<b>(2,034)</b>	(2,047)
Operating result before income tax expense and special investment revenue		<b>44,698</b>	52,207
Special investment revenue	2(b)	<b>7,182</b>	27,977
<b>Operating result before income tax expense</b>		<b>51,880</b>	80,184
Income tax expense	4(a)	<b>(3,258)</b>	(5,484)
<b>Net operating profit</b>		<b>48,622</b>	74,700
<b>Profit for the year attributable to members of the Company</b>		<b>48,622</b>	74,700

	<i>Note</i>	<b>2020</b> Cents	2019 Cents
<b>Basic and diluted earnings per share before special dividend revenue (net of applicable tax)</b>	6	<b>5.67</b>	6.75
<b>Basic and diluted earnings per share after special dividend revenue (net of applicable tax)</b>	6	<b>6.63</b>	10.26

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 2020

		2020	2019
	<i>Note</i>	\$'000	\$'000
Profit for the year attributable to members of the Company		48,622	74,700
<b>Other comprehensive income</b>			
Unrealised (losses)/gains on investment portfolio		(128,339)	43,504
Deferred tax benefit/(expense) on unrealised losses/gains on investment portfolio		38,502	(13,051)
Realised losses on investment portfolio		(18,963)	(13,474)
Tax benefit relating to realised losses on investment portfolio	4(a)	5,689	4,042
<b>Total other comprehensive income</b>		(103,111)	21,021
<b>Total comprehensive (loss) income</b>		(54,489)	95,721

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 2020

		2020	2019
	Note	\$'000	\$'000
<b>Current assets</b>			
Cash and cash equivalents	7	48,290	88,856
Trade and other receivables	8	11,079	9,165
Prepayments		45	23
<b>Total current assets</b>		<b>59,414</b>	<b>98,044</b>
<b>Non-current assets</b>			
Investment portfolio	9	1,025,474	1,136,573
Property, plant & equipment		1	-
Deferred tax assets	10	25,744	20,230
<b>Total non-current assets</b>		<b>1,051,219</b>	<b>1,156,803</b>
<b>Total assets</b>		<b>1,110,633</b>	<b>1,254,847</b>
<b>Current liabilities</b>			
Trade and other payables		312	307
Current tax liabilities	11	2,438	1,272
<b>Total current liabilities</b>		<b>2,750</b>	<b>1,579</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities	12	59,976	97,840
<b>Total non-current liabilities</b>		<b>59,976</b>	<b>97,840</b>
<b>Total liabilities</b>		<b>62,726</b>	<b>99,419</b>
<b>Net assets</b>		<b>1,047,907</b>	<b>1,155,428</b>
<b>Equity</b>			
Share capital	13	924,130	916,233
Revaluation reserve	14	130,657	220,494
Realised capital gains reserve	15	(52,176)	(38,902)
Retained profits	16	45,296	57,603
<b>Total equity</b>		<b>1,047,907</b>	<b>1,155,428</b>

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 2020

	Share capital \$'000	Revaluation reserve \$'000	Realised capital gains reserve \$'000	Retained profits \$'000	Total equity \$'000
<b>Total equity at 1 July 2018</b>	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)
<b>Total equity at 30 June 2019</b>	<b>916,233</b>	<b>220,494</b>	<b>(38,902)</b>	<b>57,603</b>	<b>1,155,428</b>
<b>Total equity at 1 July 2019</b>	916,233	220,494	(38,902)	57,603	1,155,428
Issue of shares, net of issue costs	7,897	-	-	-	7,897
Dividends paid or provided for	-	-	-	(60,929)	(60,929)
Unrealised loss on revaluation of investment portfolio	-	(128,339)	-	-	(128,339)
Provision for tax on unrealised loss on revaluation of investment portfolio	-	38,502	-	-	38,502
Net operating profit for the year	-	-	-	48,622	48,622
Net realised loss through other comprehensive income	-	-	(13,274)	-	(13,274)
<b>Total equity at 30 June 2020</b>	<b>924,130</b>	<b>130,657</b>	<b>(52,176)</b>	<b>45,296</b>	<b>1,047,907</b>

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 2020

		2020	2019
	Note	\$'000	\$'000
<b>Cash flows from operating activities</b>			
Dividends and distributions received		50,727	73,551
Other receipts in the course of operations		2	-
Payments to suppliers and employees		(2,045)	(2,893)
Proceeds from sale of trading portfolio		5,409	-
Payments for trading portfolio		(4,662)	-
Interest received		729	1,870
Income tax paid		(1,234)	(1,154)
<b>Net cash inflow from operating activities</b>	17(a)	<b>48,926</b>	71,374
<b>Cash flows from investing activities</b>			
Proceeds from sale of investment portfolio		90,732	76,633
Payments for investment portfolio		(127,711)	(181,937)
Capital returns received from investment portfolio		527	1,130
<b>Net cash outflow from investing activities</b>		<b>(36,452)</b>	(104,174)
<b>Cash flows from financing activities</b>			
Proceeds from issues of ordinary shares less issue costs		(26)	(31)
Dividends paid	5(b)	(53,014)	(55,883)
<b>Net cash outflow from financing activities</b>		<b>(53,040)</b>	(55,914)
<b>Net decrease in cash held</b>		<b>(40,566)</b>	(88,714)
Cash at the beginning of the year		88,856	177,570
<b>Cash at the end of the year</b>	7	<b>48,290</b>	88,856

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

# BKI INVESTMENT COMPANY LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

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### 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.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

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### 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.

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020**

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**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.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

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### 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.

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020**

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**1. Summary of Significant Accounting Policies (continued)**

**l. 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 16 Leases**

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

The Group does not have any arrangements that satisfy the definition of a Lease, and therefore the adoption of this standard has not had an impact on the financial performance or position of the Group.

**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 2020 ("the inoperative standards"). The Group only intends to adopt the inoperative standards at the date at which their adoption becomes mandatory.

# BKI INVESTMENT COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020 \$'000	2019 \$'000
<b>2. Revenues</b>		
<b>(a) Ordinary revenue from investment portfolio</b>		
Fully franked dividends	34,206	41,878
Unfranked dividends	4,606	3,679
Trust distributions	6,556	6,753
<b>Total ordinary revenue from investment portfolio</b>	<b>45,368</b>	<b>52,310</b>
<b>(b) Special investment revenue</b>		
Fully franked dividends	6,724	19,886
Unfranked dividends	458	8,091
<b>Total special investment revenue</b>	<b>7,182</b>	<b>27,977</b>
<b>(c) Revenue from bank deposits</b>		
Interest received	614	1,944
<b>(d) Other income</b>		
Other income	2	-
<b>(e) Other gains</b>		
Net realised gain on sale of investments held for trading	748	-
<b>Total income</b>	<b>53,914</b>	<b>82,231</b>
<b>3. Operating expenses</b>		
Administration expenses	454	459
Employment expenses	232	235
Investment Management	1,188	1,194
Professional fees	160	159
<b>Total operating expenses</b>	<b>2,034</b>	<b>2,047</b>

# BKI INVESTMENT COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020 \$'000	2019 \$'000
<b>4. Tax expense</b>		
<b>(a) Reconciliation of income tax expense</b>		
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	51,880	80,184
Tax calculated at 30% (2019: 30%)	15,564	24,055
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
- Franked dividends and distributions received	(12,279)	(18,520)
- Prior year over provision	(27)	(51)
Net income tax expense on operating profit before net gains on investments	3,258	5,484
Net realised losses on investment portfolio	(18,963)	(13,474)
Tax calculated at 30% (2019: 30%)	(5,689)	(4,042)
<b>Total tax expense</b>	<b>(2,431)</b>	<b>1,442</b>
<b>(b) The components of tax expense comprise:</b>		
Current tax	3,356	4,161
Deferred tax	(5,760)	(2,668)
Prior year over provision	(27)	(51)
<b>Total tax expense</b>	<b>(2,431)</b>	<b>1,442</b>



# BKI INVESTMENT COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020 \$'000	2019 \$'000
<b>5. Dividends</b>		
<b>(a) Dividends paid during the year</b>		
Final ordinary dividend for the year ended 30 June 2019 of 3.70 cents per share (2018: 3.70 cents per share) fully franked at the tax rate of 30%, paid on 29 August 2019	27,036	26,837
Final special dividend for the year ended 30 June 2019 of 1.00 cents per share (2018: nil) fully franked at the tax rate of 30%, paid on 29 August 2019	7,306	-
Interim ordinary dividend for the year ended 30 June 2020 of 3.625 cents per share (2019: 3.625 cents per share) fully franked at the tax rate of 30%, paid on 27 February 2020	26,587	26,372
Interim special dividend of \$nil (2019: 1.50 cents per share, fully franked at the tax rate of 30%)	-	10,913
<b>Total dividends paid</b>	<b>60,929</b>	<b>64,122</b>
<b>(b) Reconciliation of total dividends paid to dividends paid in cash:</b>		
Total dividends paid	60,929	64,122
Less: Dividends reinvested in shares via DRP	(7,915)	(8,239)
<b>Dividends paid in cash</b>	<b>53,014</b>	<b>55,883</b>
<b>(c) Franking account balance</b>		
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	26,506	29,409
Estimated impact on the franking account of dividends declared but not recognised as a liability at the end of the financial year (refer below)	(10,465)	(14,718)
<b>Net imputation credits available for future dividends</b>	<b>16,041</b>	<b>14,691</b>
<b>Maximum fully franked dividends payable from available franking credits at the tax rate of 30% (2019: 30%)</b>	<b>37,429</b>	<b>34,278</b>

### (d) Dividends declared after balance date

Since the end of the year the Directors have declared a final ordinary dividend for the year ended 30 June 2020 of 2.32 cents per share and a special dividend of 1.00 cents per share, both fully franked at the tax rate of 30% (2019: final ordinary dividend of 3.70 cents per share and special dividend of 1.00 cents per share, both fully franked at the tax rate of 30%), payable on 27 August 2020, but not recognised as a liability at the year end.

# BKI INVESTMENT COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020 \$'000	2019 \$'000
<b>6. Earnings per share</b>		
<b>(a) Calculation of earnings</b>		
Net operating profit	48,622	74,700
Earnings used in calculating basic and diluted earnings per share <i>after</i> special dividend income	48,622	74,700
Less: Special investment revenue	(7,182)	(27,977)
Add: Tax expense attributable to special investment revenue	138	2,427
Earnings used in calculating basic and diluted earnings per share <i>before</i> special dividend income	41,578	49,150
<b>b) Number of shares</b>		
	2020 No. '000	2019 No. '000
Weighted average number of ordinary shares used in calculating basic and diluted earnings per share, before and after special dividend income	733,696	728,234
<b>c) Earnings per share</b>		
	2020 Cents	2019 Cents
Basic and diluted earnings per share <i>before</i> special dividend income	5.67	6.75
Basic and diluted earnings per share <i>after</i> special dividend income	6.63	10.26

# BKI INVESTMENT COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020 \$'000	2019 \$'000
<b>7. Cash and cash equivalents</b>		
Cash at bank	48,290	65,856
Short term bank deposits	-	23,000
	<b>48,290</b>	<b>88,856</b>

<b>8. Trade and other receivables</b>		
Dividends and distributions receivable	10,655	8,833
Capital returns receivable	248	-
Interest receivable	-	116
Other	176	216
	<b>11,079</b>	<b>9,165</b>

### 9. Financial Assets – Equity Portfolio

#### Investment portfolio – non-current

Listed securities at fair value available for sale	1,025,474	1,136,573
<b>Total investment portfolio</b>	<b>1,025,474</b>	<b>1,136,573</b>

#### 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	510	778
Accrued expenses	34	32
Realised capital tax losses	25,200	19,420
<b>Total</b>	<b>25,744</b>	<b>20,230</b>

# BKI INVESTMENT COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### 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	1,063	(294)	9	778
Accrued expenses	29	3	-	32
Realised capital tax losses	16,140	3,280	-	19,420
<b>Balance as at 30 June 2019</b>	<b>17,232</b>	<b>2,989</b>	<b>9</b>	<b>20,230</b>
Transaction costs on equity issues	778	(276)	8	510
Accrued expenses	32	2	-	34
Realised capital tax losses	19,420	5,780	-	25,200
<b>Balance as at 30 June 2020</b>	<b>20,230</b>	<b>5,506</b>	<b>8</b>	<b>25,744</b>

**2020**      2019  
**\$'000**      \$'000

### 11. Current tax liabilities

Provision for income tax	<b>2,438</b>	1,272
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### 12. Deferred tax liabilities

The deferred tax asset balance comprises the following timing differences:

Revaluation of investments held	<b>58,853</b>	96,463
Unfranked dividends receivable and interest receivable	<b>1,123</b>	1,377
<b>Total</b>	<b>59,976</b>	97,840

#### 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	81,191	-	15,272	96,463
Unfranked dividends receivable and interest receivable	1,056	321	-	1,377
<b>Balance as at 30 June 2019</b>	<b>82,247</b>	<b>321</b>	<b>15,272</b>	<b>97,840</b>
Revaluation of investment portfolio	96,463	-	(37,610)	58,853
Unfranked dividends receivable and interest receivable	1,377	(254)	-	1,123
<b>Balance as at 30 June 2020</b>	<b>97,840</b>	<b>(254)</b>	<b>(37,610)</b>	<b>59,976</b>

# BKI INVESTMENT COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020		2019	
	\$'000		\$'000	
13. Share Capital				
(a) Issued and paid-up capital				
735,513,845 ordinary shares fully paid (2019: 730,688,257)		924,130		916,233
(b) Movement in ordinary shares				
	2020		2019	
	Number of shares	\$'000	Number of shares	\$'000
Beginning of financial year	730,688,257	916,233	725,311,402	908,015
Issued during the year:				
- dividend reinvestment plan	4,825,588	7,915	5,376,855	8,239
Gross funds raised		7,915		8,239
- less net transaction costs		(18)		(21)
End of financial year	735,513,845	924,130	730,688,257	916,233

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 2020 net debt was \$Nil (2019: \$Nil).

### (d) Acquisition of controlled entities

The Company did not acquire shares in any unlisted investment companies during the 2019FY or 2020FY.

# BKI INVESTMENT COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

	2020 \$'000	2019 \$'000
<b>14. Revaluation reserve</b>		
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	220,494	190,041
Gross revaluation of investment portfolio	(128,339)	43,504
Deferred provision for tax on unrealised gains/losses	38,502	(13,051)
<b>Balance at the end of the year</b>	<b>130,657</b>	<b>220,494</b>
<b>15. Realised capital gains reserve</b>		
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	(38,902)	(29,467)
Net losses on investment portfolio transferred from statement of Comprehensive income	(13,274)	(9,432)
Realised gains transferred to retained earnings on deregistration of subsidiaries	-	(3)
<b>Balance at the end of the year</b>	<b>(52,176)</b>	<b>(38,902)</b>
<b>16. Retained profits</b>		
Balance at the beginning of the year	57,603	47,025
Net profit attributable to members of the Company	48,622	74,700
Dividends provided for or paid	(60,929)	(64,122)
<b>Balance at the end of the year</b>	<b>45,296</b>	<b>57,603</b>
<b>17. Notes to the statement of cash flows</b>		
<b>(a) Reconciliation of cash flow from operating activities to net operating profit</b>		
Net operating profit	48,622	74,700
Non cash items:		
- Non-cash dividend income	-	(8,091)
Changes in assets and liabilities, net of effects from consolidation of subsidiaries:		
- (Increase)/decrease in trade and other operating receivables	(1,666)	1,397
- Increase in prepayments	(22)	(7)
- Decrease in deferred tax assets	380	435
- Increase/(decrease) payables	5	(1,083)
- Increase in current tax liabilities	1,166	863
- Increase in deferred tax liabilities	441	3,160
<b>Net cash inflow from operating activities</b>	<b>48,926</b>	<b>71,374</b>

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020**

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**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, \$7,915,000 (2019: \$8,240,000) of dividends were paid via the issue of 4,825,588 shares (2019: 5,376,855).

**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 92% (2019: 91%) of total assets.

# BKI INVESTMENT COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### 18. Management of Financial Risk (continued)

#### d. Market risk (continued)

As at 30 June 2020, 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 (2019: 5%); and
- A movement of 7.0 cents per share in the net asset backing before provision for tax on unrealised capital gains (2019: 7.8 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 2020 and 30 June 2019, the spread of investments was in the following sectors:

	Percentage of total investment (%)		Amount (\$'000)	
	2020	2019	2020	2019
Financials	29.86	36.54	323,885	451,105
Industrials	10.51	9.93	113,984	122,515
Consumer discretionary	9.08	7.66	98,526	94,591
Materials	8.97	5.72	97,225	70,461
Consumer staples	8.15	6.06	88,467	74,679
Utilities	7.86	6.69	85,260	82,552
Telecommunications services	7.02	5.39	76,196	66,589
Health care	6.09	5.51	66,051	67,925
Energy	4.62	6.49	49,961	80,167
Property	2.38	2.10	25,920	25,987
<b>Total investments</b>	<b>94.54</b>	<b>92.09</b>	<b>1,025,474</b>	<b>1,136,573</b>
Cash and dividends receivable	5.46	7.91	59,193	97,689
<b>Total portfolio</b>	<b>100.00</b>	<b>100.00</b>	<b>1,084,667</b>	<b>1,234,262</b>

Securities representing over 5% of the investment portfolio at 30 June 2020 or 30 June 2019 were:

	Percentage of total investment (%)		Amount (\$'000)	
	2020	2019	2020	2019
Macquarie Group	7.2	5.0	77,703	61,412
Commonwealth Bank	6.6	6.7	71,504	82,154
BHP Group	6.4	4.5	68,954	55,257
APA Group	5.9	4.3	64,225	52,863
Transurban Group	5.3	4.4	56,966	54,502
National Australia Bank	3.6	5.4	39,102	67,045

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.



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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

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### 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 2020 (2019: 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:

<b>Name</b>	<b>Position</b>
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 <sup>1</sup>

<sup>1</sup> 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 2020 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 FY2020 (2019: nil).

# BKI INVESTMENT COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### 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 2020, subsidiaries of the Parent were:

	Country of incorporation	Percentage Owned (%)	
		2020	2019
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

There were no transactions between the Parent and controlled entities in FY2020. In FY2019 transactions between the Parent and controlled entities consisted of transfers of investment holdings from subsidiaries to the parent entity.

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 2020 were:

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

Company Secretary: JP Pinto<sup>1</sup>

<sup>1</sup> 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 2020 were \$122,100 (2019: \$122,100, including GST) and are at standard market rates. As at 30 June 2020 the Group owed \$nil to CAS (2019: \$nil).

# BKI INVESTMENT COMPANY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

### 21. Related Party Transactions (continued)

#### (ii) Directors/Officers Related Entities (continued)

##### **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 2020 were \$1,275,159 including GST (2019: \$1,281,319) and are at standard market rates. As at 30 June 2020 the Group owed \$99,461 to Contact (2019: \$113,174).

#### (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
<b>2020</b>						
RD Millner	8,810,842	-	1,046,604	9,857,446	-	9,857,446
DC Hall	2,460,607	-	10,730	2,471,337	-	2,471,337
AJ Payne	414,056	-	15,944	430,000	-	430,000
IT Huntley	11,224,980	-	-	11,224,980	-	11,224,980
J Pinto	119,761	-	6,155	125,916	-	125,916
Total	23,030,246	-	1,079,433	24,109,679	-	24,109,679
<b>2019</b>						
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

Directors acquired shares through the Dividend Reinvestment Plan, and/or on-market purchase.

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 2020

	2020 \$'000	2019 \$'000
<b>22. Parent company information</b>		
Information relating to the parent entity of the Group, BKI Investment Company Limited:		
Current assets	59,413	98,044
Non-current assets	1,252,571	1,358,155
Total assets	1,311,984	1,456,199
Current liabilities	2,670	1,499
Non-current liabilities	269,368	307,232
Total liabilities	272,038	308,731
Issued capital	924,130	916,233
Reserves	115,817	231,236
Total shareholders' equity	1,039,947	1,147,469
Net operating profit	48,622	75,169
Total other comprehensive income	(103,111)	21,021

The parent company has no contingent liabilities as at 30 June 2020.

### 23. Capital and Leasing Commitments

The Group has no capital and leasing commitments as at 30 June 2020.

### 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	27	26
Total remuneration for audit and other assurance services	27	26
Other non-audit services	-	-
Total remuneration of the auditor of the Group	27	26

### 25. Contingent Liabilities

The Group has no contingent liabilities as at 30 June 2020.

### 26. Authorisation

The financial report was authorised for issue on 16 July 2020 by the Board of Directors.

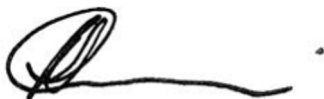
## DIRECTORS' DECLARATION

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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 2020 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 2020.

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



**Robert D Millner**  
Director

**Sydney**  
**16 July 2020**



## 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 2020, 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 2020 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
<i>Valuation and Existence of Investments</i>	
<p>The investment portfolio at 30 June 2020 comprised of listed equity investments of <b>\$1,025.47</b> 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>
<i>Revenue from Investments</i>	
<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 2020, 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 reports.

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](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 19 to 23 of the directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of BKI Investment Company Limited for the year ended 30 June 2020, 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 2020 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, 16 July 2020**



MGI Sydney Assurance Services Pty Limited  
Level 5, 6 O'Connell Street  
Sydney NSW 2000  
Tel: +61 2 9230 9200  
PO Box H258  
Australia Square  
Sydney NSW 1215  
ABN 24 160 063 525  
www.mgisyd.com.au

**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 2020, 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.

*MGI Sydney Assurance Services*

**Name of Firm:** MGI Sydney Assurance Services Pty Limited

Chartered Accountants

**Name of Auditor:**

A handwritten signature in black ink, appearing to read 'Clayton Lawrence', is written over a horizontal line.

Clayton Lawrence  
Director

**Address:** Level 5, 6 O'Connell Street, Sydney NSW 2000

**Dated this** 16<sup>th</sup> day of July 2020

# BKI INVESTMENT COMPANY LIMITED

## ASX ADDITIONAL INFORMATION

### 1) Equity Holders

At 30 June 2020 there were 18,271 holders of ordinary shares in the capital of the Parent. These holders were distributed as follow:

#### Number of shares held

1 – 1,000	1,485
1,001 – 5,000	2,769
5,001 – 10,000	2,731
10,001 – 100,000	10,116
100,001 and over	1,170
<b>Total</b>	<b>18,271</b>

Holding less than a marketable parcel of 361 shares	729
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The 20 largest holdings of the Parent's share as at 30 June 2020 are listed below:

<b>Name</b>	<b>Number of share held</b>	<b>%</b>
Washington H Soul Pattinson and Company Limited	62,405,057	8.48
Huntley Group Investments Pty Ltd	8,523,274	1.16
J S Millner Holdings Pty Limited	5,816,300	0.79
HSBC Custody Nominees (Australia) Limited	5,658,288	0.77
Jeanneau Cloud Nine Pty Limited	4,169,612	0.57
GM Pty Limited	3,365,124	0.46
Netwealth Investments Limited	3,024,782	0.41
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
Donald Cant Pty Limited	2,198,618	0.30
Estate of Francis Albert Robertson	2,136,110	0.29
K C Perks Investments Pty Ltd	2,004,233	0.27
Snow Foundation Limited	1,863,600	0.25
Fennybentley Pty Limited	1,700,000	0.23
BNP Paribas Nominees Pty Limited	1,623,394	0.22
T N Phillips Investments Pty Limited	1,619,044	0.22
T G Millner Holdings Pty Limited	1,605,708	0.22
Farjoy Pty Limited	1,550,800	0.21
Mr Timothy Frank Robertson	1,535,151	0.21

## 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 2020 the name and holding of each substantial shareholder as disclosed in a notice received by the Parent is listed below. The number of shares held and percentage ownership do not necessarily reflect the current ownership levels of these shareholders, as any subsequent movements of less than 1% would not need to be disclosed to ASX or the Company.

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

<sup>1</sup> Details included on substantial shareholder notice dated 26 June 2018.

<sup>2</sup> 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 150 (2019: 322) transactions in securities undertaken by the Group and the total brokerage paid or accrued during the year was \$427,873 (2019: \$577,354)

### 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	2012
0.69	0.71	0.56	0.46	0.46	0.31	0.19	0.18	0.18
2013	2014	2015	2016	2017	2018	2019	2020	
0.19	0.17	0.18	0.16	0.15	0.16	0.17	0.17	