

BKI Investment Company Limited



ASX APPENDIX 4E – PRELIMINARY FINAL REPORT

30 JUNE 2018

The reporting period is the year ended 30 June 2018 with the previous corresponding period being the year ended 30 June 2017

BKI Investment Company Limited

YEAR ENDED 30 JUNE 2018

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	Change		Jun 2018 \$'000		Jun 2017 \$'000
Revenue performance					
Total income – ordinary	Up 8.2%	to	48,128	from	44,462
Total income – special	Down 79.6%	to	786	from	<u>3,861</u>
Total income from ordinary activities	Up 1.2%	To	48,914	from	48,323
Profits					
Net operating result before special dividend income	Up 5.8%	to	44,224	from	41,787
Special dividend income	Down 79.6%	to	786	from	<u>3,861</u>
Net profit from ordinary activities after tax attributable to shareholders	Down 1.4%	to	45,010	from	45,648
Net profit attributable to shareholders	Down 1.4%	to	45,010	from	45,648
Portfolio					
Total portfolio value (including cash & receivables)	Up 18.4%	to	1,182,409	from	998,617
Earnings per share					
			Cents		Cents
Basic earnings per share <u>before</u> special dividend income	Up 2.5%	to	7.10	from	6.93
Basic earnings per share <u>after</u> special dividend income	Down 4.5%	to	7.23	from	7.57
Dividends per share					
Interim	Up 0.7%	at	3.625	from	3.60
Final	Steady	to	3.700	from	<u>3.70</u>
Full year total	Up 0.3%	to	7.325	from	7.30

BKI Investment Company Limited

YEAR ENDED 30 JUNE 2018

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Explanation of Operating Results

Net Operating Result before special dividend income increased 5.8% to \$44.22m. An increase in issued capital from participation in the BKI Dividend Reinvestment Plan, and to a lesser extent the 2018 Entitlement Offer, resulted in Basic Earnings per Share before special dividend income increasing by only 2.5% to 7.10 cps. Special dividend income for the year totalled \$0.79m, down from \$3.86m in 2017FY, resulting in a 4.5% decrease in Basic Earnings per Share after special dividend income to 7.23cps and a 1.4% decrease in Net Profit attributable to shareholders of \$45.01m.

Positive contributors to this result include increased dividends from New Hope Corporation, AGL Energy, BHP Billiton, Woolworths Limited, Sydney Airport, Flight Centre and Macquarie Group, while lower dividends from TPG Telecom, Telstra Corporation and Tabcorp Holdings detracted from the result. Revenue from bank deposits continues to be low.

BKI received \$0.79m in special dividend income, largely comprising a special dividend paid by Tattersalls Corporation prior to its merger with Tabcorp Holdings and a special dividend paid by Telstra Corporation.

NTA Backing

	30 June 2018	30 June 2017
Net Tangible Asset backing per ordinary share before tax	\$1.63	\$1.61
Net Tangible Asset backing per ordinary share after tax	\$1.54	\$1.52

Additional Dividend Information

The Directors have declared a final ordinary 2018FY dividend of 3.700 cents per share fully franked at the tax rate of 30%, which will be paid on 29 August 2018. The Record date for the dividend is 13 August 2018.

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 14 August 2018.

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

Other Information

This report is based on audited accounts. A copy of the 2018 Annual Report, which includes the audited accounts, is attached to this Appendix 4E.



**BKI INVESTMENT
COMPANY LIMITED**

2018

ANNUAL REPORT

For year ended 30 June 2018

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 (**Contact**)
AFSL Licence No: 494045

BKI Portfolio Managers appointed by Contact

Tom Millner
Will Culbert

Company Secretaries

Jaime Pinto
Larina Tcherkezian (Alternate)

Registered Office

Level 2
160 Pitt Street Mall
Sydney NSW 2000
Telephone: (02) 9210 7000
Facsimile: (02) 9210 7099

Postal Address:
GPO Box 5015
Sydney NSW 2001

Auditors

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

Share Registry

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

Australian Stock Exchange Code

Ordinary Shares BKI

Website

www.bkilimited.com.au

BKI INVESTMENT COMPANY LIMITED

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BKI INVESTMENT COMPANY LIMITED

FINANCIAL HIGHLIGHTS

	Change		Jun 2018 \$'000	Jun 2017 \$'000
Revenue performance				
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Total income - special	Down 79.6%	to	786	from 3,861
Total income from ordinary activities	Up 1.2%	to	48,914	from 48,323
Profits				
Net operating result before special dividend income	Up 5.8%	to	44,224	from 41,787
Special dividend income	Down 79.6%	to	786	from 3,861
Net profit from ordinary activities after tax attributable to shareholders	Down 1.4%	to	45,010	from 45,648
Net profit attributable to shareholders	Down 1.4%	to	45,010	from 45,648
Portfolio				
Total portfolio value (including cash & receivables)	Up 18.4%	to	1,182,409	from 998,617
Earnings per share (EPS)				
			Cents	Cents
Basic EPS before special dividend income	Up 2.5%	to	7.10	from 6.93
Basic EPS after special dividend income	Down 4.5%	to	7.23	from 7.57
Dividends				
Interim	Up 0.7%	to	3.625	from 3.60
Final	Steady	at	3.700	from 3.70
Full year total	Up 0.3%	to	7.325	from 7.30

10 Year Dividend History (cents per share):

30 June	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Interim	3.00	2.50	3.00	3.20	3.25	3.45	3.55	3.60	3.60	3.625
Final	3.00	2.75	3.00	3.20	3.40	3.50	3.65	3.65	3.70	3.700
Special	-	1.00	1.00	-	0.50	-	-	-	-	-
Total	6.00	6.25	7.00	6.40	7.15	6.95	7.20	7.25	7.30	7.325

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	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
NTA before tax	1.22	1.32	1.42	1.30	1.52	1.63	1.65	1.55	1.61	1.63
NTA after tax	1.19	1.27	1.34	1.26	1.42	1.51	1.53	1.47	1.52	1.54

BKI INVESTMENT COMPANY LIMITED

FINANCIAL HIGHLIGHTS - Continued

List of Securities as at 30 June 2018

	Number of shares held	Market value \$'000	Portfolio weight %
Financials			
National Australia Bank	2,772,826	76,003	6.43
Westpac Banking Corporation	2,323,515	68,079	5.76
Commonwealth Bank	925,434	67,436	5.71
ANZ Banking Group	1,560,624	44,074	3.73
Macquarie Group	296,620	36,677	3.10
IAG Limited	3,157,370	26,932	2.28
ASX Limited	375,500	24,178	2.05
Challenger Limited	1,485,000	17,568	1.49
Suncorp Group	1,196,094	17,451	1.48
Pendle Group	1,093,185	10,833	0.92
Milton Corporation	2,103,640	9,698	0.82
Bank of Queensland	810,000	8,254	0.70
Perpetual Limited	181,751	7,561	0.64
IIOF Holdings	694,177	6,241	0.53
Evans Dixon	2,000,000	4,800	0.41
National Australia Bank Convertible Notes	40,000	4,060	0.34
National Australia Bank Preference Notes	39,775	4,003	0.34
Equity Trustees	185,054	3,849	0.33
Westpac Banking Corporation Convertible Notes	20,000	2,043	0.17
Commonwealth Bank Preference Shares	10,000	980	0.08
		440,720	37.31
Industrials			
Transurban Group	3,003,205	35,948	3.04
Sydney Airport	4,275,427	30,612	2.59
Qube Holdings	5,111,664	12,319	1.04
Seek Limited	537,500	11,723	0.99
Lindsay Australia	17,141,631	6,514	0.55
Brambles Limited	500,576	4,445	0.38
Boral Limited	188,452	1,231	0.10
		102,792	8.69
Consumer Staples			
Wesfarmers Limited	1,038,602	51,265	4.34
Woolworths Limited	1,088,744	33,228	2.81
Inghams Group	810,000	3,094	0.26
		87,588	7.41
Utilities			
APA Group	4,394,714	43,288	3.66
AGL Energy Limited	1,250,708	28,116	2.38
		71,404	6.04

BKI INVESTMENT COMPANY LIMITED

FINANCIAL HIGHLIGHTS - Continued

List of Securities as at 30 June 2018 (Continued)

	Number of shares held	Market value \$'000	Portfolio weight %
Energy			
New Hope Corporation	14,815,952	44,300	3.75
Woodside Petroleum Limited	593,302	21,038	1.78
Caltex Australia	151,950	4,944	0.42
		70,282	5.95
Consumer Discretionary			
ARB Corporation	945,447	21,585	1.83
Invocare Limited	1,491,474	20,493	1.73
Flight Centre	270,000	17,186	1.45
Harvey Norman Holdings Limited	1,775,000	5,893	0.50
		65,157	5.51
Telecommunications			
TPG Telecom	4,819,251	24,916	2.11
Telstra Corporation	9,234,451	24,194	2.05
		49,110	4.16
Health Care			
Sonic Healthcare	909,617	22,313	1.89
Ramsay Healthcare	339,000	18,299	1.55
Ansell Limited	87,130	2,369	0.20
Regis Healthcare	650,428	2,133	0.18
		45,114	3.82
Materials			
BHP Billiton	952,322	32,293	2.73
Brickworks Limited	436,209	6,822	0.58
Amcor	360,000	5,188	0.44%
		44,303	3.75
Property Trusts			
Goodman Group Limited	945,000	9,091	0.77
LendLease	440,035	8,717	0.74
		17,808	1.51
Total portfolio		994,277	84.15
Investment portfolio		994,277	84.15
Trading portfolio		-	-
Total portfolio		994,277	84.15
Cash and dividends receivable		187,759	15.85
Total Investment Assets		1,182,036	100.00

The Group is a substantial shareholder in accordance with the Corporations Act 2001 of Lindsay Australia Limited, holding 5.83% of the issued capital as at 30 June 2018. The Group is not a substantial shareholder in any other investee corporation as each equity investment represents less than 5% of the issued capital of the investee corporation.

BKI INVESTMENT COMPANY LIMITED

GROUP PROFILE

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

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

Corporate Objectives

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

Investment Strategy

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

Dividend Policy

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

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

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

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

Management

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

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

BKI INVESTMENT COMPANY LIMITED

CHAIRMAN'S ADDRESS

Dear Shareholders,

I am pleased to enclose the 15th Annual Report of BKI Investment Company Limited (BKI) for the year to 30 June 2018.

Result Highlights

The FY2018 year was an eventful one with mixed results from companies, the commencement of the Royal Commission into the Australian banking system, inflation in the United States, concerns of a global trade war, market volatility caused by computerised program-selling and of course the focus on imputation credits and the proposed cancelation of cash refunds on individual's dividends.

Despite all of this, it was another successful year for BKI Investment Company with the Net Operating Result before special investment revenue increasing from \$41.8m to \$44.2m, an increase of 5.8%. Basic Earnings per Share before special dividend income was up 2.5% to 7.1cps.

A fully franked Final Ordinary Dividend of 3.700cps was declared. As at 30 June 2018, BKI's fully franked dividend yield was 4.8% (based on the immediate past 12 Month rolling dividend and share price of \$1.525), while the grossed up yield was 6.9% (assumes a tax rate of 30%).

Dividends

The BKI Board has declared total Dividends of 7.325cps in FY2018, up from 7.300cps paid last year. Like all previous dividends paid to shareholders, the FY2018 dividends are fully franked. BKI had Retained Profits as at 30 June 2018 of \$47.03m prior to declaration of this dividend. BKI will have an estimated \$16.7m net imputation credits available for future dividends following payment of the FY2018 Final Dividend.

The last trading date to be eligible for the FY2018 Final Dividend is Thursday 9 August 2018. Key dates for the fully franked Final Dividend are as follows:

Event	Date
Last trading date to be eligible for the Final Dividend	Thursday 9 August 2018
Ex-Dividend Date	Friday 10 August 2018
Record Date	Monday 13 August 2018
DRP Nomination	Tuesday 14 August 2018
Payment Date	Wednesday 29 August 2018

BKI has been listed since December 2003, and during this time the Company has paid out over \$500m or 90.2cps in dividends to BKI shareholders.



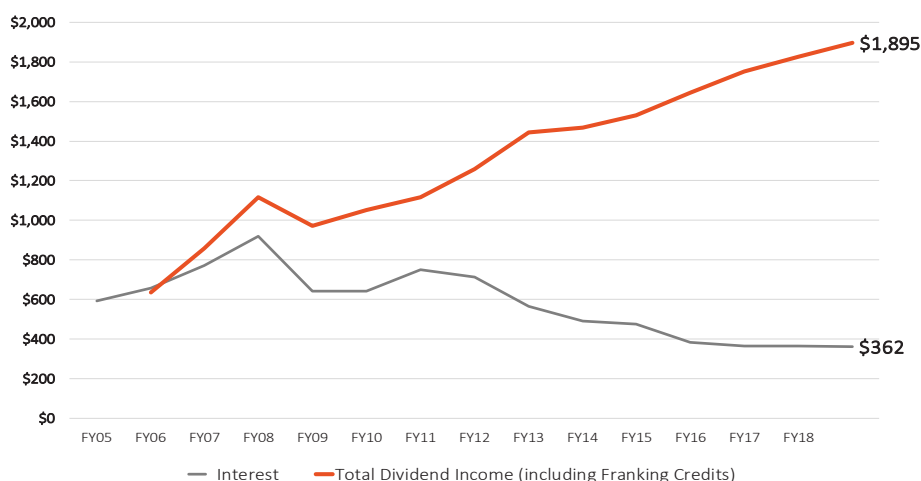
Above - Fully Franked Ordinary Dividends and Special Dividends declared by BKI (cents per share).

BKI INVESTMENT COMPANY LIMITED

CHAIRMAN'S ADDRESS - Continued

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

In this example, an investor who spent the equivalent of \$10,000 to purchase BKI shares upon listing in December 2003 and reinvested those dividends, would have received fully franked dividends of \$1,329 in FY2018. The franking credits enhance the income by a further \$566 (total income of \$1,895). The same investment in a term deposit (based on the cash rate + 0.50%) would be earning \$362pa with no franking credits.



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

Dividend Reinvestment Plan (DRP)

BKI's DRP will be maintained, offering shareholders the opportunity to acquire further ordinary shares in BKI. The DRP will not be offered at a discount. The DRP price will be calculated using the average of the daily volume weighted average sale price of BKI's shares sold in the ordinary course of trading on the ASX during the 5 trading days after, but not including, the Record Date (Monday 13 August 2018).

Management Expense Ratio (MER)

BKI's MER as at 30 June was 0.16%. 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.

Entitlement Offer

In May and June this year, BKI conducted a 1:15 non-renounceable pro-rata Entitlement Offer to eligible shareholders at an offer price of \$1.50 per share. There was also a Shortfall Offer to shareholders who wished to apply for additional new shares in excess of their pro-rata entitlement as well as a General Offer to new shareholders.

There was strong support from both existing and new investors for the BKI capital raise. The Entitlement Offer and Shortfall Offer closed on Tuesday 12 June 2018 raising approximately \$50.0 million. The General Offer closed on Thursday 14 June 2018 raising approximately \$104.5 million.

Our Portfolio Managers Tom Millner and Will Culbert met with a large number of investors and advisors during the capital raising roadshow and it became very clear that BKI's low cost and highly transparent structure is resonating well with investors. We are aligned with shareholders through our own personal investments in BKI, which we see as an important point of differentiation in the Financial Services Industry.

We are extremely pleased with the support from existing shareholders. The Board and Managers would also like to welcome new shareholders to the BKI register.

BKI INVESTMENT COMPANY LIMITED

CHAIRMAN'S ADDRESS - Continued

Top 25 Investments

	Stock	% of Total Portfolio
1	National Australia Bank	6.4%
2	Westpac Banking Corporation	5.8%
3	Commonwealth Bank	5.7%
4	Wesfarmers Limited	4.3%
5	New Hope Corporation	3.7%
6	ANZ Banking Group	3.7%
7	APA Group	3.7%
8	Macquarie Group	3.1%
9	Transurban Group	3.0%
10	Woolworths Limited	2.8%
11	BHP Billiton	2.7%
12	Sydney Airport	2.6%
13	AGL Energy Limited	2.4%

	Stock	% of Total Portfolio
14	IAG Limited	2.3%
15	TPG Telecom	2.1%
16	Telstra Corporation	2.0%
17	ASX Limited	2.0%
18	Sonic Healthcare	1.9%
19	ARB Corporation	1.8%
20	Woodside Petroleum	1.8%
21	Invocare Limited	1.7%
22	Ramsay Healthcare	1.5%
23	Challenger Limited	1.5%
24	Suncorp Group	1.5%
25	Flight Centre	1.5%
Cash and cash equivalents		15.9%
Total of Top 25 including cash and cash equivalents		87.4%

Outlook

It has been an exciting 12 months with the S&P/ASX 300 Index again generating very strong returns. While many Australian investors continue to search for yield and income, the focus from investors during FY2018 was skewed towards companies who provided growth. However, when investors chase growth, increase risk and begin to pay high multiples for companies, markets can become volatile.

Traditionally, we are happy with stable markets, however, when you get moments of large volatility it can prove to be a great opportunity for long-term investors. This volatility is likely remain into the FY2019 year with the Royal Commission into the Australian banking system shaking up the financial services industry, while the debate surrounding imputation credits sends shivers down the spine of any Australian who invests in dividend paying companies. On top of this, we also believe that increasing US interest rates, concerns of global trade wars and continual pressure from computerised program selling in all major exchanges will add further volatility at times during the year ahead.

Despite the chase for growth seen in this past year, we are confident that with low interest rates investors will be discouraged to invest in cash products. This situation will continue to encourage investors into equity markets and in particular into stocks that are offering attractive and sustainable dividend yields.

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

The recent entitlement offer has placed the BKI portfolio in a very strong position to take advantage of opportunities. Cash represents approximately 16% of the portfolio and BKI has no debt meaning our shareholders are not asked to fund financing costs. We will continue to deploy further funds into the market to ensure BKI achieves its goals of 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.

Robert Millner
Chairman

BKI INVESTMENT COMPANY LIMITED

PORTFOLIO MANAGER'S REPORT

Dear Shareholders,

Contact Asset Management, as the Portfolio Manager of BKI Investment Company, is pleased to include our report for FY2018.

Results

The Net Operating Result of \$44.2m, was mainly driven by higher dividends received from New Hope Corporation, AGL Energy, BHP Billiton, Woolworths Limited, Sydney Airport, Flight Centre and Macquarie Group. Lower dividends received from, TPG Telecom, Telstra Corporation and Tabcorp Holdings had a negative impact on the result, while revenues from bank deposits continue to be low.

Portfolio Movements

BKI's total investments over FY2018 was approximately \$93.8m, with disposals of approximately \$79.5m.

Major long term investments included; Pendal Group (formally BT Investments), Tabcorp Holdings (after the merger between Tabcorp Holdings and Tatts Group), Macquarie Group, BHP Billiton, Ramsay Healthcare, Amcor Limited, APA Group and Transurban Group.

We also added the following new positions to the BKI Portfolio during the year:

Goodman Group (GMG). GMG develop and manage commercial and industrial property assets globally. GMG have repositioned themselves well over the past 10 years having sold down B-grade assets through urbanisation of global cities. GMG's core focus is on the development and management of high quality warehouses, large scale logistics facilities, business and office parks. Although the dividend yield is low at 2.9%, GMG has gradually increased their dividend year-on-year for the past seven years. They have significantly reduced their debt levels with debt to equity at approximately 8% and the Company has been run by a very capable management team led by Co-founder Greg Goodman.

Harvey Norman (HVN). Despite the increase in online sales and away from traditional retail outlets, HVN have been growing revenues both domestically and offshore. HVN's net assets are close to \$3.0b, which represents a price to book value of 1.3x. The Company offers a very attractive grossed up fully franked dividend yield of 9.9%. Strong alignment exists between the Company and Chairman, Gerry Harvey, who owns 30% of the Company.

Evans Dixon (ED1). ED1 is a financial services firm formed through the merger of Evans & Partners and Dixon Advisory. The long-term growth for Evans Dixon is expected to come from the growing Australian superannuation industry. Deloitte has forecast the Australian Superannuation system to be valued at \$9.5 trillion within the next 20 years. This is up from \$2 trillion currently and reflects the legislated increases in the Superannuation Guarantee from 9.5% to 12.0% by 2025. Co-founders and staff of Evans Dixon have significant ownership in the company.

Inghams Group (ING). ING produces, processes and distributes poultry products throughout Australia and New Zealand. They commenced operations in 1918 and listed on the ASX in 2016. ING is one of the two largest players in the market who together hold between 75%-80% market share. Inghams provide investors stable earnings growth and an attractive grossed up fully franked dividend yield of 7.5%.

The main disposals from BKI's investment portfolio included AMP Limited, Coca-Cola Amatil, GrainCorp Limited, Primary Healthcare, Santos Limited, Scentre Group and Westfield Corporation.

Tatts Group Limited merged with Tabcorp Holdings during the year. Following a disappointing first result by the combined group, which included a cut in the dividend, the entire Tabcorp Holding position was sold.

Transurban Group and Woodside Petroleum raised capital during the year through renounceable entitlement offers. BKI's entitlements in both these companies were traded on market for a small profit.

We also reduced positions in Commonwealth Bank, IOOF Holdings and Brambles Limited.

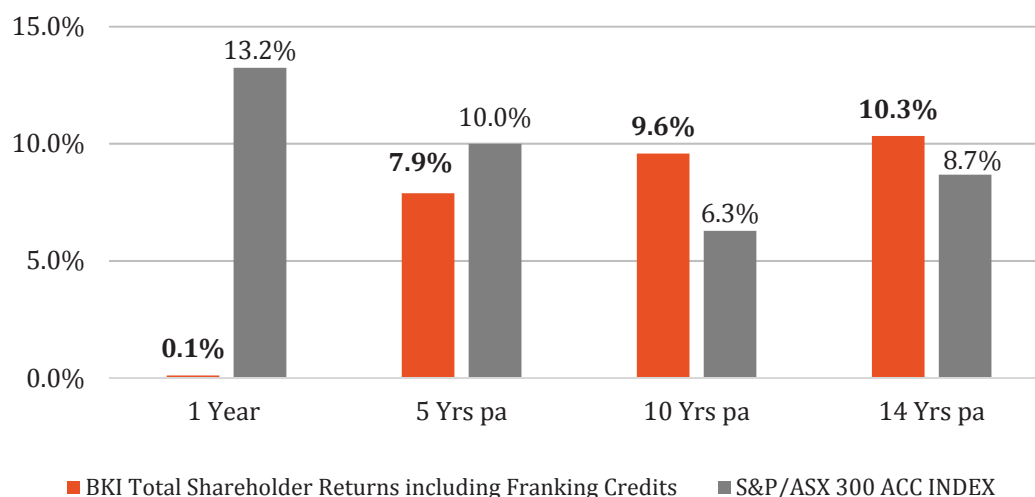
BKI INVESTMENT COMPANY LIMITED

PORTFOLIO MANAGER'S REPORT - Continued

Performance

BKI's short-term performance has been disappointing. Total Shareholder Return including franking credits for the year to 30 June 2018 was 0.1%, compared to the S&P/ASX 300 Accumulation Index, which returned 13.2% over the same period.

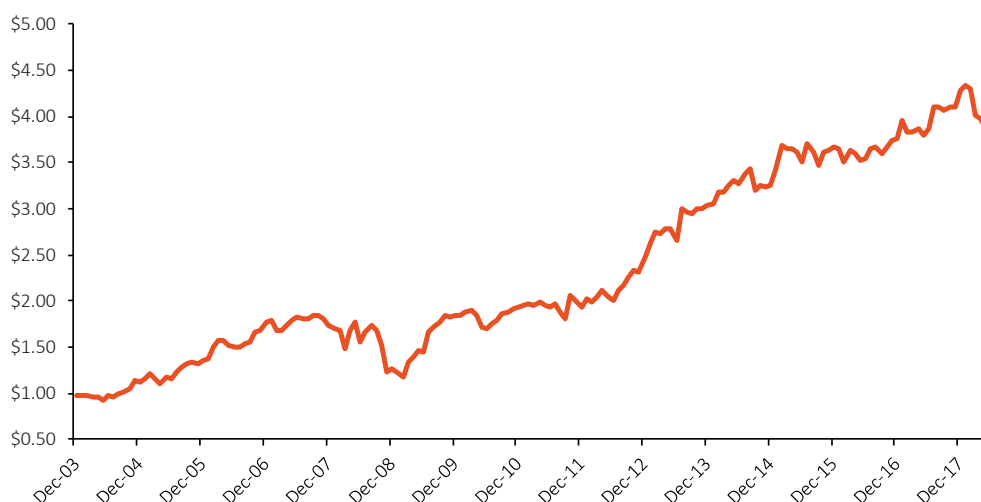
BKI's Total Shareholder Returns including Franking Credits for 5 years, 10 years and 14 years has delivered 7.9% per annum, 9.6% per annum and 10.3% per annum respectively.



Above - BKI Total Shareholder Returns (TSR) Including Franking Credits as at 30 June 2018.

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 2018 was positive 5.6%.

There are many ways to measure the performance of BKI. Despite the short-term performance of BKI's TSR being disappointing, there has been 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 14 years.



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

PORTFOLIO MANAGER'S REPORT - Continued

Investment Team

During the year, Contact Asset Management added two new members to the team. Mr Rahul Tamilarasan and Ms Jovana Gagic.

Mr Tamilarasan, B.Com, joined Contact in July 2017 as an Investment Analyst. Prior to joining Contact, Rahul spent two years at EY in the financial services assurance division. He has experience with banking, asset management and insurance clients.

Ms Jovana Gagic, B.Bus, joined Contact in September 2017 as an Investment Analyst. Prior to joining Contact, Jovana spent three years at Pitcher Partners as an Accountant and Senior Auditor in the audit team managing various projects for ASX Listed Investment Companies.

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

Research and Ratings

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

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

Tom Millner and Will Culbert
Contact Asset Management

BKI INVESTMENT COMPANY LIMITED

DIRECTORS' REPORT

The Directors of BKI Investment Company Limited (“the Company”, or “BKI”) present the following report on the Company and its controlled entities (“the Group”) for the year to 30 June 2018.

1. Directors

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

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

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

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

Former listed company directorships within the last three years:

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

Special Responsibilities:

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

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

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

Special Responsibilities:

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

Ian Thomas Huntley, BA – Independent Non-Executive Director

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

Special Responsibilities:

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

BKI INVESTMENT COMPANY LIMITED

DIRECTORS' REPORT - Continued

1. Directors (continued)

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

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

Special Responsibilities:

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

2. Key Management Personnel

Jaime Pinto, BComm, CA - Company Secretary

Mr Pinto is a Chartered Accountant with over 25 years' experience in both professional practice and in senior commercial roles across a broad range of industries. He is currently Company Secretary of Quickstep Holdings Limited (ASX:QHL), URB Investments Limited (ASX: URB), and TPI Industries Limited (ASX: TPE) and is Company Secretary and CFO of a number of unlisted investment 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 2018, and the numbers of meetings attended by each Director.

	Board ¹		Investment		Audit		Remuneration		Nomination ²	
	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend
RD Millner	9	9	15	15	-	-	2	2	1	1
AJ Payne	9	9	14	15	2	2	2	2	1	1
DC Hall	9	9	-	-	2	2	2	2	-	-
IT Huntley	9	9	14	15	2	2	2	2	1	1

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

2 The sole meeting of the Nomination Committee was held in July 2017. Mr DC Hall 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 2017 AGM, Mr DC Hall was reappointed to the Nomination Committee, and Mr RD Millner and Mr IT Huntley resigned from the Committee as they are due for re-election as Directors at the 2018 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 \$47.1m, 8.6% higher than 2017, driving a 5.8% increase in Net Operating Result before special investment revenue to \$44.2m from \$41.8m in 2017. Basic and diluted earnings per share before special dividend income was up 2.5% to 7.1cps.

Positive contributors to this result include increased dividends from New Hope Corporation, AGL Energy, BHP Billiton, Woolworths Limited, Sydney Airport, Flight Centre and Macquarie Group, while lower dividends from TPG Telecom, Telstra Corporation and Tabcorp Holdings detracted from the result. Revenue from bank deposits continues to be low.

BKI INVESTMENT COMPANY LIMITED

DIRECTORS' REPORT - Continued

BKI received \$0.8m in special dividend income from Tattersalls Group and Telstra Corporation. This compares to \$3.9m of special dividends received in 2017FY from the Telstra off market buy back.

Total Shareholder Return including franking credits for the year to 30 June 2018 was 0.1%, compared to the S&P/ASX 300 Accumulation Index, which returned 13.2% over the same period. BKI's Total Shareholder Returns including Franking Credits for 5 years, 10 years and 14 years has delivered 7.9% per annum, 9.6% per annum and 10.3% per annum respectively.

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 2018 was positive 5.6%.

6. Review of Operations

Operating expenses of \$1.8m were higher than the previous year (2017: \$1.5m), with 2017 benefiting from the non-cash reversal of accrued employee incentives following the outsourcing of the Investment Management function. This increased BKI's MER to 0.16% from 0.15% in 2017.

BKI's total investments over FY2018 was approximately \$93.8m, with disposals of approximately \$79.5m.

Major long term investments included; Pendal Group (formally BT Investments), Tabcorp Holdings (after the merger between Tabcorp Holdings and Tatts Group), Macquarie Group, BHP Billiton, Ramsay Healthcare, Amcor Limited, APA Group and Transurban Group. New portfolio positions established by BKI during the year include Goodman Group (GMG), Harvey Norman (HVN), Evans Dixon (ED1), and Inghams Group (ING).

The main disposals from BKI's investment portfolio included AMP Limited, Coca-Cola Amatil, GrainCorp Limited, Primary Healthcare, Santos Limited, Scentre Group and Westfield Corporation. BKI also disposed its holding in Tabcorp Holdings subsequent to its merger with Tatts Group, and reduced positions in Commonwealth Bank, IOOF Holdings and Brambles Limited.

In May and June 2018 BKI conducted a 1:15 non-renounceable pro-rata Entitlement Offer to eligible shareholders at an offer price of \$1.50 per share, combined with a Shortfall Offer to shareholders who wished to apply for additional new shares in excess of their pro-rata entitlement as well as a General Offer to new shareholders ("the 2018 Offers"). The 2018 Offers raised a combined \$154.5 million before issue costs.

7. Financial Position

Net assets of the Group increased during the financial year to \$1,115.6m (2017: \$940.4m), driven by the 2018 Offers which increased funds by approximately \$150m.

8. Employees

The Group had no employees as at 30 June 2018 (2017: nil).

9. Significant Changes in the State of Affairs

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

10. Likely Developments and Expected Results

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

DIRECTORS' REPORT - Continued

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

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

11. Significant Events after Balance Date

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

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

12. Dividends

There were two dividend payments made during the year to 30 June 2018:

- On 23 August 2017, a final total dividend of \$22,883,140 (ordinary dividend of 3.700 cents per share fully franked) was paid out of retained profits at 30 June 2017.
- On 28 February 2018, an interim total dividend of \$22,490,744 (ordinary dividend of 3.625 cents per share, fully franked) was paid out of retained profits at 31 December 2017.

In addition, the Directors declared a final ordinary dividend of 3.700 cents per share fully franked payable on 29 August 2018.

At 30 June 2018 there are \$15,676,205 of franking credits available to the Group (2017: \$15,676,205) after allowing for payment of the final, fully franked ordinary dividend.

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 2018, the Group paid premiums in respect of an insurance contract to insure each of the officers against all liabilities and expenses arising as a result of work performed in their respective capacities. The Directors have not included details of the nature of liabilities covered or the amount of premium paid in respect of the insurance contract as such disclosure is prohibited under the terms of the contract.

15. Proceedings on Behalf of the Group

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

BKI INVESTMENT COMPANY LIMITED

DIRECTORS' REPORT - Continued

16. Non-audit Services

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

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

During the year to 30 June 2017 MGI Sydney did not provide any non-audit services to the Group, nor did the Group pay any fees for such services.

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

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

17. Auditor's Independence Declaration

The Auditor's Independence Declaration for the year to 30 June 2018 is on page 50.

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

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

Name	Number of Shares
RD Millner	8,476,085
DC Hall	2,460,607
AJ Payne	379,056
IT Huntley	11,224,980
J Pinto	113,154

19. Corporate Governance Statement

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

DIRECTORS' REPORT - Continued

20. Remuneration Report (Audited)

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

During the previous financial year the Company externalised its investment management function to Contact Asset Management Pty Limited. As part of this process the employment of the CEO, Mr Thomas Millner and the Portfolio Manager, Mr William Culbert, terminated effective 31 October 2016.

During the period to 31 October 2016 Mr Thomas Millner was classified as Key Management Personnel and Mr William Culbert was classified as an Other Key Executive.

Currently 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, and previously for the Chief Executive Officer and the Senior Investment Analyst. 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.

BKI INVESTMENT COMPANY LIMITED

DIRECTORS' REPORT - Continued

Performance-based Remuneration

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

The aims of the BKI Incentive Scheme are:

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 2017 and as at the date of this report the only participant in the BKI Incentive Scheme was Mr Jaime Pinto.

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

Short Term Incentive

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

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

For the 2018FY the Short Term Incentive for the Company Secretary was set at 15,000 BKI shares.

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

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

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

The following table summarises performance for the year to 30 June 2018 against the Short Term Incentive measurement criteria:

1 Year BKI Total Portfolio Return	S&P/ASX 300 Acc Index over 1 Year	Over / (Under) Performance	% Entitlement to Eligible Bonus
5.6%	13.2%	(7.6%)	Nil

The vesting criteria for the 2018 Financial Year Short Term Incentives were therefore not satisfied, and the Company did not award any short term incentives in respect of 2018 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.

BKI INVESTMENT COMPANY LIMITED

DIRECTORS' REPORT - Continued

For the year ended 30 June 2018, the Company Secretary's Long Term Incentive was set at 25,000 BKI shares. All outstanding Long Term Incentives granted are to be awarded to participants after 4 years provided that BKI's 4 year Total Shareholder Returns exceed the S&P/ASX 300 Accumulation Index over the same period. Should that test fail on the day, it is to be retested in Year 5.

The Long Term Incentive Scheme is to be paid by way of BKI shares purchased on market by the Company. The Company has accrued as an expense the appropriate portion of these future costs in the 2018 financial year. The Company reversed prior year accruals previously recognised in respect of unvested Long Term Incentives of the CEO and Portfolio Manager, creating a negative expense in the 2017 financial year. These positive and negative expenses have been included in the disclosed remuneration of the CEO (2017FY only) and Company Secretary.

During the 2018 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 2015	01/07/2014	18,545	\$30,600	30/06/2018	30/06/2019	18,545	-

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
1/07/2014 to 30/06/2018	2.5%	8.3%	(5.8)%	nil

Based on the above performance the vesting criteria for Long Term Incentives issued on 1 July 2013 were not satisfied. In accordance with the terms of the Long Term Incentive Scheme, these incentives will be retested as at 30 June 2019.

During the 2018 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 2014	01/07/2013	21,998	\$30,600	30/06/2017	30/06/2018	21,998	-

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
1/07/2013 to 30/06/2018	5.9%	10.0%	(4.1)%	nil

Based on the above performance the vesting criteria for Long Term Incentives issued on 1 July 2013 were not satisfied. In accordance with the terms of the Long Term Incentive Scheme, these incentives lapsed as at 30 June 2018.

No outstanding Long Term Incentives granted by the Company became eligible for vesting between 1 July 2018 and the date of this report.

BKI INVESTMENT COMPANY LIMITED

DIRECTORS' REPORT - Continued

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

Incentive issue	Issue date	Number of rights granted	Value of initial grant	Initial vesting date	Expiry date	Number of rights vested/lapsed	Number of rights yet to vest/lapse
J Pinto 2015	01/07/2014	18,545	\$30,600	30/06/2018	30/06/2019	-	18,545
J Pinto 2016	01/07/2015	18,628	\$31,500	30/06/2019	30/06/2020	-	18,628
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

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 2018

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

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

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

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

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

Directors:

	Primary fee \$	Superannuation \$	Total \$
2017			
RD Millner	65,205	6,195	71,400
DC Hall	50,411	4,789	55,200
AJ Payne ¹	19,697	25,378	45,075
IT Huntley	41,164	3,911	45,075
Total	176,477	40,273	216,750
2018			
RD Millner	66,690	6,335	73,025
DC Hall	51,553	4,897	56,450
AJ Payne ¹	22,100	24,000	46,100
IT Huntley	42,100	4,000	46,100
Total	182,443	39,232	221,675

¹ – Includes salary sacrifice superannuation contributions

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

BKI INVESTMENT COMPANY LIMITED

DIRECTORS' REPORT - Continued

Other Key Management Personnel:

	Fixed remuneration			Share based performance related remuneration			Total Remuneration
	Salary	Super-annuation	Total	STI	LTI	Total	
2017							
TCD Millner	98,564	6,539	105,103	-	(117,283)	(117,283)	(12,180)
J Pinto	-	-	-	-	(616)	(616)	(616)
Total	98,564	6,539	105,103	-	(117,899)	(117,899)	(12,796)
2018							
TCD Millner	-	-	-	-	-	-	-
J Pinto	-	-	-	-	30,456	30,456	30,456
Total	-	-	-	-	30,456	30,456	30,456

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 BKI shares issued (if any) 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	
	2018	2017	2018	2017	2018	2017
TCD Millner	0%	(863)%	0%	0%	0%	963%
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
18 July 2018

BKI INVESTMENT COMPANY LIMITED

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2018

	<i>Note</i>	2018 \$'000	2017 \$'000
Ordinary revenue from investment portfolio	2(a)	47,134	43,398
Revenue from bank deposits	2(c)	908	656
Other income	2(d)	-	5
Other gains	2(e)	86	403
Income from operating activities before special investment revenue		48,128	44,462
Operating expenses	3	(1,818)	(1,506)
Discount on acquisition of controlled entities, net of expenses		-	188
Operating result before income tax expense and special investment revenue		46,310	43,144
Income tax expense	4(a)	(2,086)	(1,357)
Net operating result before special investment revenue		44,224	41,787
Special investment revenue	2(b)	786	3,861
Net operating profit		45,010	45,648
Profit for the year attributable to members of the Company		45,010	45,648

	<i>Note</i>	2018 Cents	2017 Cents
Basic and diluted earnings per share before special dividend income	6	7.10	6.93
Basic and diluted earnings per share after special dividend income	6	7.23	7.57

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 2018

	2018	2017
	\$'000	\$'000
<i>Note</i>		
Profit for the year attributable to members of the Company	45,010	45,648
Other comprehensive income		
Unrealised gains on investment portfolio	28,304	52,773
Deferred tax expense on unrealised gains on investment portfolio	(8,491)	(15,832)
Realised losses on investment portfolio	(3,199)	(14,840)
Tax benefit relating to realised losses on investment portfolio	4(a) 960	4,452
Total other comprehensive income	17,574	26,553
Total comprehensive income	62,584	72,201

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 2018

	<i>Note</i>	2018 \$'000	2017 \$'000
Current assets			
Cash and cash equivalents	7	177,570	40,973
Trade and other receivables	8	10,562	8,920
Trading portfolio	9	-	2,534
Prepayments		16	16
Total current assets		188,148	52,443
Non-current assets			
Investment portfolio	9	994,277	946,190
Deferred tax assets	10	17,232	15,504
Total non-current assets		1,011,509	961,694
Total assets		1,199,657	1,014,137
Current liabilities			
Trade and other payables		1,386	436
Current tax liabilities	11	409	48
Total current liabilities		1,795	484
Non-current liabilities			
Deferred tax liabilities	12	82,247	73,298
Total non-current liabilities		82,247	73,298
Total liabilities		84,042	73,782
Net Assets		1,115,615	940,355
Equity			
Share capital	13	908,015	749,967
Revaluation reserve	14	190,041	170,228
Realised capital gains reserve	15	(29,467)	(27,228)
Retained profits	16	47,025	47,388
Total Equity		1,115,615	940,355

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 2018

	Share capital \$'000	Revaluation reserve \$'000	Realised capital gains reserve \$'000	Retained profits \$'000	Total equity \$'000
Total equity at 1 July 2016	718,221	133,287	(16,840)	45,292	879,960
Issue of shares, net of issue costs	31,746	-	-	-	31,746
Dividends paid or provided for	-	-	-	(43,552)	(43,552)
Unrealised gain on revaluation of investment portfolio	-	52,773	-	-	52,773
Provision for tax on unrealised gain on revaluation of investment portfolio	-	(15,832)	-	-	(15,832)
Net operating profit for the year	-	-	-	45,648	45,648
Net realised loss through other comprehensive income	-	-	(10,388)	-	(10,388)
Total equity at 30 June 2017	749,967	170,228	(27,228)	47,388	940,355
Total equity at 1 July 2017	749,967	170,228	(27,228)	47,388	940,355
Issue of shares, net of issue costs	158,048	-	-	-	158,048
Dividends paid or provided for	-	-	-	(45,373)	(45,373)
Unrealised loss on revaluation of investment portfolio	-	28,304	-	-	28,304
Provision for tax on unrealised loss on revaluation of investment portfolio	-	(8,491)	-	-	(8,491)
Net operating profit for the year	-	-	-	45,010	45,010
Net realised loss through other comprehensive income	-	-	(2,239)	-	(2,239)
Total equity at 30 June 2018	908,015	190,041	(29,467)	47,025	1,115,615

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 2018

	Note	2018 \$'000	2017 \$'000
Cash flows from operating activities			
Dividends and distributions received		46,561	46,521
Other receipts in the course of operations		-	5
Payments to suppliers and employees		(1,084)	(1,602)
Proceeds from sale of trading portfolio		2,660	719
Payments for trading portfolio		(40)	(2,370)
Interest received		898	808
Income tax paid		(873)	(1,373)
Net cash inflow from operating activities	17(a)	48,122	42,708
Cash flows from investing activities			
Net cash from acquisition of controlled entities		-	(12)
Proceeds from sale of investment portfolio		79,543	26,335
Payments for investment portfolio		(102,544)	(75,796)
Capital returns received from investment portfolio		21	-
Net cash outflow from investing activities		(22,980)	(49,473)
Cash flows from financing activities			
Proceeds from issues of ordinary shares less issue costs		150,392	20,985
Dividends paid	5(b)	(38,937)	(36,987)
Net cash inflow/ (outflow) from financing activities		111,455	(16,002)
Net increase/ (decrease) in cash held		136,597	(22,767)
Cash at the beginning of the year		40,973	63,740
Cash at the end of the year	7	177,570	40,973

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

BKI INVESTMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

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.

BKI INVESTMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

1. Summary of Significant Accounting Policies (continued)

b. Income Tax

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

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

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

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

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

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

c. Financial Instruments

Recognition

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

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

(i) Wages, salaries and annual leave

Liabilities for wages and salaries, including annual leave, expected to be settled within 12 months of balance date are recognised as current provisions in respect of employees' services up to balance date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave

In calculating the value of long service leave, where the total long service leave liability becomes material, consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. In such circumstances, expected future payments are discounted using market yields at balance date on long term corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Share incentives

Share incentives are provided under the Short and Long Term Incentive Plans.

The Short Term Incentive Plan is settled in shares, but based on a cash amount. A provision for the amount payable under the Short Term Incentive plan is recognised on the Balance Sheet.

For the Long Term Incentive Plan, the incentives are based on the performance of the Group over a minimum four year period. The incentives are settled in shares. Expenses are recognised over the assessment period based on the amount expected to be payable under this plan, 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, 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).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

1. Summary of Significant Accounting Policies (continued)

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.

g. **Plant and Equipment**

Plant and equipment represents the costs of furniture and computer equipment and is depreciated over its useful life, a period of between 3 and 5 years.

h. **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.

i. **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.

j. **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.

k. **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.

l. **Critical Accounting Estimates and Judgments**

Deferred Tax Balances

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

1. Summary of Significant Accounting Policies (continued)

m. **Australian Accounting Standards not yet effective**

The Group has not applied any Australian Accounting Standards or UIG interpretations that have been issued as at balance date but are not yet operative for the year ended 30 June 2018 (“the inoperative standards”). The Group only intends to adopt the inoperative standards at the date at which their adoption becomes mandatory. The impact of the inoperative standards has been assessed and the impact has been identified as not being material. The most relevant standards are discussed in further detail below.

AASB 15: Revenue from Contracts with Customers

AASB 15 is applicable to annual reporting periods beginning on or after 1 July 2018, as deferred by AASB 2015-8: *Amendments to Australian Accounting Standards – Effective Date of AASB 15*. AASB 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Based a preliminary assessment performed over each revenue line, the effects of AASB 15 are not expected to have a material effect on the Group.

AASB 9: Financial Instruments and associated Amending Standards

AASB 9 is applicable to annual reporting periods beginning on or after 1 July 2018. The Standard will be applicable retrospectively and includes revised requirements for the classification and measurement of financial instruments requirements for financial instruments and hedge accounting. The key changes that may affect the Group on initial application include certain simplifications to the classification of financial assets and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Based on a preliminary assessment performed over each financial instrument, the effects of AASB 9 are not expected to have a material effect on the Group.

BKI INVESTMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

	2018 \$'000	2017 \$'000
2. Revenues		
(a) Ordinary revenue from investment portfolio		
Fully franked dividends	39,326	37,394
Unfranked dividends	2,801	2,012
Trust distributions	5,007	3,992
Total ordinary revenue from investment portfolio	47,134	43,398
(b) Special investment revenue		
Fully franked dividends	786	3,861
(c) Revenue from bank deposits		
Interest received	908	656
(d) Other income		
Other revenue	-	5
(e) Other gains		
Net realised gain on sale of investments held for trading	250	214
Net unrealised (loss)/ gain on investments held for trading	(164)	189
Total other gains	86	403
Total income	48,914	48,323
3. Operating expenses		
Administration expenses	366	385
Occupancy expenses	-	4
Employment expenses	254	251
Investment Management	1,038	669
Professional fees	160	190
Depreciation	-	7
Total operating expenses	1,818	1,506

BKI INVESTMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

	2018 \$'000	2017 \$'000
4. Tax expense		
(a) Reconciliation of income tax expense		
The aggregated amount of income tax expense attributable to the year differs from the amounts prima facie payable on profits from ordinary activities. The difference is reconciled as follows:		
Operating result before income tax expense, including special investment revenue	47,096	47,005
Tax calculated at 30% (2017: 30%)	14,129	14,102
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
- Franked dividends and distributions received	(12,034)	(12,377)
- Permanent difference to reset tax cost base of investments acquired on acquisition of subsidiaries	-	(265)
- Discount on acquisition of subsidiaries, net of expenses	-	(51)
- Prior year over provision	(9)	(52)
Net income tax expense on operating profit before net gains on investments	<u>2,086</u>	<u>1,357</u>
Net realised losses on investment portfolio	(3,199)	(14,840)
Tax calculated at 30% (2017: 30%)	<u>(960)</u>	<u>(4,452)</u>
Total tax expense/ (benefit)	<u>1,126</u>	<u>(3,095)</u>
(b) The components of tax expense comprise:		
Current tax	1,311	151
Deferred tax	(176)	(3,194)
Prior year over provision	(9)	(52)
Total tax expense/ (benefit)	<u>1,126</u>	<u>(3,095)</u>
5. Dividends		
(a) Dividends paid during the year		
Final dividend for the year ended 30 June 2017 of 3.70 cents per share (2016 final: 3.65 cents per share) fully franked at the tax rate of 30%, paid on 23 August 2017	22,883	21,842
Interim dividend for the year ended 30 June 2018 of 3.625 cents per share (2017 interim: 3.60 cents per share) fully franked at the tax rate of 30%, paid on 28 February 2018	<u>22,490</u>	<u>21,710</u>
Total dividends paid	<u>45,373</u>	<u>43,552</u>

BKI INVESTMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

	2018	2017
	\$'000	\$'000
5. Dividends (continued)		
(b) Reconciliation of total dividends paid to dividends paid in cash:		
Total dividends paid	45,373	43,552
Less: Dividends reinvested in shares via DRP	(6,436)	(6,565)
Dividends paid in cash	38,937	36,987
(c) Franking account balance		
Balance of the franking account after allowing for tax payable in respect of the current year's profits and the receipt of dividends recognised as receivables	28,220	25,483
Estimated impact on the franking account of dividends declared but not recognised as a liability at the end of the financial year (refer below)	(11,501)	(9,807)
Net imputation credits available for future dividends	16,719	15,676
Maximum fully franked dividends payable from available franking credits at the tax rate of 30% (2017: 30%)	39,010	36,578
(d) Dividends declared after balance date		
<p>Since the end of the year the Directors have declared a final ordinary dividend for the year ended 30 June 2018 of 3.700 cents per share fully franked at the tax rate of 30% (2017: final ordinary dividend of 3.700 cents per share fully franked at the tax rate of 30%), payable on 29 August 2018, but not recognised as a liability at the year end.</p>		
6. Earnings per share		
Net operating profit	45,010	45,648
Earnings used in calculating basic and diluted earnings per share <i>before</i> special dividend income	44,244	41,787
Earnings used in calculating basic and diluted earnings per share <i>after</i> special dividend income	45,010	45,648
	2018	2017
	No. '000	No. '000
Weighted average number of ordinary shares used in calculating basic and diluted earnings per share	622,799	602,860
	2018	2017
	Cents	Cents
Basic and diluted earnings per share <i>before</i> special dividend income	7.10	6.93
Basic and diluted earnings per share <i>after</i> special dividend income	7.23	7.57

BKI INVESTMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

	2018 \$'000	2017 \$'000
7. Cash and cash equivalents		
Cash at bank	57,570	8,973
Short term bank deposits	120,000	32,000
	<u>177,570</u>	<u>40,973</u>
8. Trade and other receivables		
Dividends and distributions receivable	10,189	8,829
Interest receivable	42	32
Outstanding settlements	-	28
Other	331	31
	<u>10,562</u>	<u>8,920</u>
9. Financial Assets – Equity Portfolio		
Trading portfolio – current		
Listed securities at fair value held for trading	-	2,534
Investment portfolio – non-current		
Listed securities at fair value available for sale	994,277	946,190
Total investment portfolio	<u>994,277</u>	<u>948,724</u>

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	1,064	252
Accrued expenses	29	21
Realised capital tax losses	16,139	15,231
Total	<u>17,232</u>	<u>15,504</u>

BKI INVESTMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

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	371	(175)	56	252
Accrued expenses	121	(100)	-	21
Realised capital tax losses	11,637	3,594	-	15,231
Balance as at 30 June 2017	12,129	3,319	56	15,504
Transaction costs on equity issues	252	(407)	1,218	1,063
Accrued expenses	21	8	-	29
Realised capital tax losses	15,231	909	-	16,140
Balance as at 30 June 2018	15,504	510	1,218	17,232

2018 2017
\$'000 \$'000

11 Current tax liabilities

Provision for income tax	409	48
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12. Deferred tax liabilities

The deferred tax asset balance comprises the following timing differences:

Revaluation of investments held	81,191	72,576
Unfranked dividends receivable and interest receivable	1,056	722
Total	82,247	73,298

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	57,710	-	14,866	72,576
Unfranked dividends receivable and interest receivable	598	124	-	722
Balance as at 30 June 2017	58,308	124	14,866	73,298
Revaluation of investment portfolio	72,576	-	8,615	81,191
Unfranked dividends receivable and interest receivable	722	334	-	1,056
Balance as at 30 June 2018	73,298	334	8,615	82,247

BKI INVESTMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

	2018		2017	
	\$'000		\$'000	
13. Share Capital				
(a) Issued and paid-up capital				
725,311,402 ordinary shares fully paid (2017: 618,463,068)	908,015		749,967	
(b) Movement in ordinary shares				
	2018		2017	
	Number of	\$'000	Number of	\$'000
	shares		shares	
Beginning of financial year	618,463,068	749,967	598,420,148	718,221
Issued during the year:				
- dividend reinvestment plan	3,878,164	6,436	4,053,333	6,564
- share purchase plan	-	-	13,400,891	21,174
- entitlement offer	102,970,170	154,455	-	-
- acquisition of controlled entities	-	-	2,588,696	4,139
Gross funds raised		160,891		31,878
- less net transaction costs		(2,843)		(131)
End of financial year	725,311,402	908,015	618,463,068	749,967

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 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 2018 net debt was \$Nil (2017: \$Nil).

(d) Acquisition of controlled entities

During the 2018FY the Company did not acquire shares in any unlisted investment companies.

In 2017FY one acquisition was made, with the Company issuing 2,588,696 new shares in BKI Investment Company Limited as consideration for an acquisition having a fair value of \$4M. The acquisition resulted in BKI achieving a discount on acquisition, which was included in "Discount on acquisition of controlled entities, net of expenses" in the "Consolidated Income Statement".

BKI INVESTMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

	2018 \$'000	2017 \$'000
14. Revaluation reserve		
The revaluation reserve is used to record increments and decrements on the revaluation of the investment portfolio, net of applicable income tax.		
Balance at the beginning of the year	170,228	133,287
Gross revaluation of investment portfolio	28,305	52,773
Deferred provision for tax on unrealised gains/losses	(8,492)	(15,832)
Balance at the end of the year	190,041	170,228
15. Realised capital gains reserve		
The realised capital gains reserve records net gains and losses after applicable income tax arising from the disposal of securities in the investment portfolio.		
Balance at the beginning of the year	(27,228)	(16,840)
Net losses on investment portfolio transferred from statement of Comprehensive income	(2,239)	(10,388)
Balance at the end of the year	(29,467)	(27,228)
16. Retained profits		
Balance at the beginning of the year	47,388	45,292
Net profit attributable to members of the Company	45,010	45,648
Dividends provided for or paid	(45,373)	(43,552)
Balance at the end of the year	47,025	47,388
17. Notes to the statement of cash flows		
(a) Reconciliation of cash flow from operating activities to net operating profit		
Net operating profit	45,010	45,648
Non cash items:		
- Expenses associated with acquisition of subsidiary	-	(188)
- Depreciation & impairment of fixed assets	-	19
- Loss on disposal of fixed assets	-	1
- Unrealised loss/(gain) on trading investments	164	(189)
Changes in assets and liabilities, net of effects from consolidation of subsidiaries:		
- (Increase) in trade and other receivables	(1,641)	(606)
- Decrease/ (Increase) in held for trading investments	2,370	(1,865)
- Decrease in prepayments	-	8
- Decrease in deferred tax assets	402	285
- Increase/ (decrease) in payables	950	(44)
- (Decrease) in provisions	-	(34)
- Increase/ (decrease) in current tax liabilities	362	(333)
- Increase in deferred tax liabilities	505	6
Net cash inflow from operating activities	48,122	42,708

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

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, \$6,436,000 (2017: \$6,565,000) of dividends were paid via the issue of 3,878,164 shares (2017: 4,053,333).

(ii) Acquisition of controlled entities

During the year the Group did not acquire shares in an unlisted investment company (2017: acquired shares in one unlisted investment company via the issue of 2,588,696 new shares in BKI - refer Note 13 (d)).

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 83% (2017: 94%) of total assets.

BKI INVESTMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

18. Management of Financial Risk (continued)

d. Market risk (continued)

As at 30 June 2018, a 5% movement in the market value of the BKI portfolio would result in:

- a 4% movement in the net assets of BKI before provision for tax on unrealised capital gains (2017: 5%); and
- A movement of 6.9 cents per share in the net asset backing before provision for tax on unrealised capital gains (2017: 7.7 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 2018, the spread of investments is in the following sectors:

	Percentage of total investment (%)		Amount (\$'000)	
	2018	2017	2018	2017
Financials	37.31	45.21	440,719	451,667
Industrials	8.69	9.54	102,792	95,247
Consumer staples	7.41	8.28	87,587	82,630
Utilities	6.04	6.55	71,404	65,450
Energy	5.95	4.51	70,283	45,042
Consumer discretionary	5.51	5.57	65,156	55,568
Telecommunications services	4.16	6.84	49,110	68,310
Health care	3.82	5.32	45,115	53,044
Materials	3.75	2.29	44,303	22,889
Property trusts	1.51	0.89	17,808	8,877
Total investments	84.15	95.00	994,277	948,724
Cash and dividends receivable	15.85	5.00	187,759	49,893
Total portfolio	100.00	100.00	1,182,036	998,617

Securities representing over 5% of the investment portfolio at 30 June 2018 or 30 June 2017 were:

	Percentage of total investment (%)		Amount (\$'000)	
	2018	2017	2018	2017
National Australia Bank	6.4	8.0	76,003	80,184
Westpac Banking Corporation	5.8	6.9	68,079	69,014
Commonwealth Bank	5.7	9.3	67,436	93,197

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

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 2018 (2017: Nil).

f. Foreign Currency Risk

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

g. Liquidity risk

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

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

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

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

h. Capital risk management

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

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

19. Key Management Personnel Remuneration

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

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

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

Details of the nature and amount of each Non-Executive Director's and Other Key Management Personnel's emoluments from the Group in respect of the year to 30 June 2018 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 2018FY (2017: nil).

BKI INVESTMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

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 2018, subsidiaries of the Parent were:

	Country of incorporation	Percentage Owned (%)	
		2018	2017
Brickworks Securities Pty Limited	Australia	100	100
Huntley Investment Company Pty Limited	Australia	100	100
R Love Investments Pty Limited	Australia	100	100
Pacific Strategic Investments Pty Limited	Australia	100	100
George Meller Pty Limited	Australia	100	100
Bryn Cwar Holdings Pty Limited	Australia	100	100
WWM Pty Limited	Australia	100	100
Auburn Pty Limited	Australia	100	100

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

(ii) Directors/Officers Related Entities

Persons who were Directors/Officers of BKI Investment Company Limited for the year ended 30 June 2018 were:

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

Company Secretary: JP Pinto¹

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

Corporate & Administrative Services Pty Limited

The Group has appointed Corporate & Administrative Services Pty Limited (**CAS**), an entity in which Mr RD Millner has an indirect interest, to provide 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 2018 were \$122,100 (2017: \$122,100, including GST) and are at standard market rates. As at 30 June 2018 the Group owed \$10,175 to CAS (2017: \$10,175).

BKI INVESTMENT COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

21. Related Party Transactions (continued)

(ii) Directors/Officers Related Entities (continued)

Pitt Capital Partners Limited

The Group appointed Pitt Capital Partners Limited (**PCP**), an entity in which Mr RD Millner has an indirect interest, to act as Financial Advisor for the 2017 Share Purchase Plan and the 2018 Entitlement Offer.

Fees payable to PCP for services provided to the Parent and controlled entities for the year to 30 June 2018 were \$594,653 (2017: \$55,000, including GST) and are at standard market rates. As at 30 June 2018 the Group owed \$594,653 to PCP (2017: \$55,000).

Contact Asset Management Pty Limited

Effective 1 November 2016, the Group appointed Contact Asset Management Pty Limited (**Contact**) as Investment Manager. 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 2018 were \$1,114,278 including GST (2017: \$718,149) and are at standard market rates. As at 30 June 2018 the Group owed \$108,389 to Contact (2017: \$91,541).

(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
2018						
RD Millner	8,224,934	-	251,151	8,476,085	-	8,476,085
DC Hall	2,306,820	-	153,787	2,460,607	-	2,460,607
AJ Payne	355,366	-	23,690	379,056	-	379,056
IT Huntley	11,224,980	-	-	11,224,980	-	11,224,980
J Pinto	108,320	-	4,834	113,154	-	113,154
Total	22,220,420	-	433,462	22,653,882	-	22,653,882
2017						
RD Millner ¹	8,555,552	-	(330,618)	8,224,934	(141,360)	8,083,574
DC Hall	297,326	-	2,009,494	2,306,820	-	2,306,820
AJ Payne	295,872	-	59,494	355,366	-	355,366
IT Huntley	11,224,980	-	-	11,224,980	-	11,224,980
TCD Millner ^{1,2}	7,660,745	64,230	37,997	7,762,972	-	N/A
J Pinto	77,937	25,692	4,691	108,320	-	108,320
Total	28,112,412	89,922	1,781,058	29,983,392	(141,360)	22,079,060

¹ Common to RD Millner and TCD Millner as at 30 June 2017 were 7,289,287 shares held in related companies and trusts in which both hold beneficial interests.

² While Mr TCD Millner ceased to be a KMP on 31 October 2016, his shareholding as at 30 June 2017 has been disclosed.

Directors acquired shares through the Dividend Reinvestment Plan, the 2017 Share Purchase Plan, the 2018 Entitlement Offer, and/ or on-market purchase. Mr RD Millner disposed of shares through the making of in-specie distributions as Trustee of a deceased estate.

Other Key Management Personnel acquired shares through the Dividend Reinvestment Plan and/ or purchases by the company on behalf of the KMP in satisfaction of vested performance rights.

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 2018

	2018	2017
	\$'000	\$'000
22. Parent company information		
Information relating to the parent entity of the Group, BKI Investment Company Limited:		
Current assets	188,148	52,410
Non-current assets	1,248,859	1,199,044
Total assets	1,437,007	1,251,454
Current liabilities	1,718	407
Non-current liabilities	328,106	319,125
Total liabilities	329,824	319,532
Issued capital	908,015	749,967
Reserves	199,167	181,955
Total shareholders' equity	1,107,182	931,922
Net operating profit	45,010	45,466
Total other comprehensive income	17,575	26,551

The parent company has no contingent liabilities as at 30 June 2018.

23. Capital and Leasing Commitments

The Group has no capital and leasing commitments as at 30 June 2018.

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	25	24
Total remuneration for audit and other assurance services	25	24
Providing review services in respect of the Entitlement Offer conducted by the Company	7	-
Total remuneration of the auditor of the Group	32	24

25. Contingent Liabilities

The Group has no contingent liabilities as at 30 June 2018.

26. Authorisation

The financial report was authorised for issue on 18 July 2018 by the Board of Directors.

BKI INVESTMENT COMPANY LIMITED

DIRECTORS' DECLARATION

The Directors of BKI Investment Company Limited declare that:

1. the financial statements and notes, as set out on pages 22 to 44, 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 2018 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 2018.

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



Robert D Millner
Director

Sydney
18 July 2018



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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 2018, 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 2018 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 2018 comprised of listed equity investments of \$994 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 2018, but does not include the financial report and the auditor's report thereon.

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

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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar2.pdf. This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included on pages 17 to 21 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of BKI Investment Company Limited for the year ended 30 June 2018, 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.

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

Chartered Accountants

Name of Auditor: 

Clayton Lawrence

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

Dated this 18th day of July 2018



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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 2018, I declare that, to the best of my knowledge and belief, there have been:

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

Name of Firm:

MGI Sydney Assurance Services
MGI Sydney Assurance Services Pty Limited

Chartered Accountants

Name of Auditor:



Clayton Lawrence
Director

Address:

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

Dated this

18th day of July 2018

BKI INVESTMENT COMPANY LIMITED

ASX ADDITIONAL INFORMATION

1) Equity Holders

At 30 June 2018 there were 16,904 holders of ordinary shares in the capital of the Parent. These holders were distributed as follows:

Number of shares held

1 – 1,000	1,120
1,001 – 5,000	2,263
5,001 – 10,000	2,478
10,001 – 100,000	9,888
100,001 and over	1,155
Total	16,904

Holding less than a marketable parcel of 327 shares 638

The 20 largest holdings of the Parent's share as at 30 June 2018 are listed below:

Name	Number of share held	%
Washington H Soul Pattinson and Company Limited	62,405,057	8.60
Huntley Group Investments Pty Ltd	8,523,274	1.18
HSBC Custody Nominees (Australia) Limited	5,771,877	0.80
J S Millner Holdings Pty Limited	5,566,300	0.77
Jeanneau Cloud Nine Pty Limited	4,169,612	0.57
GM Pty Limited	3,365,124	0.46
Netwealth Investments Limited	3,032,433	0.42
I R McDonald Pty Limited	3,000,000	0.41
Nulis Nominees (Australia) Limited	2,383,182	0.33
Nibot Pty Limited	2,251,845	0.31
Basapa Pty Ltd	2,000,000	0.28
Estate of Francis Albert Robertson	1,786,110	0.25
Mitchforce Investments Pty Ltd	1,771,889	0.24
K C Perks Investments Pty Ltd	1,714,223	0.24
Navigator Australia Limited	1,650,617	0.23
Donald Cant Pty Limited	1,668,698	0.23
Fennybentley Pty Limited	1,658,178	0.23
Stuart Llewellyn Gwyn Morgan + Margaret Patricia Morgan	1,646,089	0.23
Farjoy Pty Limited	1,550,800	0.21
T N Phillips Investments Pty Limited	1,520,000	0.21

BKI INVESTMENT COMPANY LIMITED

ASX ADDITIONAL INFORMATION

Votes of Members

Article 5.12 of the Company's Constitution provides

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

2) Substantial Shareholders

As at 30 June 2018 the name and holding of each substantial shareholder as disclosed in a notice received by the Parent is:

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

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

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

3) Other Information:

- There is no current on-market buy-back in place.
- There were 141 (2017: 88) transactions in securities undertaken by the Group and the total brokerage paid or accrued during the year was \$396,363 (2017: \$288,699)

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

