BKI INVESTMENT COMPANY LIMITED

2012

Annual Report

for year ended 30 June 2012

ABN 23 106 719 868

BKI INVESTMENT COMPANY LIMITED

CORPORATE DIRECTORY

Directors

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

Chief Executive Officer

Thomas Charles Dobson Millner

Secretary

Jaime Perry 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

Ruwald & Evans
Level 1, 276 Pitt Street,
Sydney NSW 2000

Share Registry

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

Australian Stock Exchange Code

Ordinary Shares BKI

Website

www.bkilimited.com.au

Contents

BKI INVESTMENT COMPANY LIMITED

FINANCIAL HIGHLIGHTS

		% Change		$'000
Revenue Performance:				
Total Income - Ordinary	Up	8.0%	to	29,758
Total Income - Special	Down	50.3%	to	2,266
Total Revenue from Ordinary Activities	Down	0.3%	to	32,024
Profits:				
Operating Result after Tax but before special dividend income	Up	9.4%	to	27,716
Special Dividend Income	Down	50.3%	to	2,266
Net Profit from Ordinary Activities after Tax attributable to shareholders	Up	0.3%	to	29,982
Net Profit attributable to shareholders	Up	0.3%	to	29,982
Portfolio:				
Total Portfolio Value (including cash)	Down	7.1%	to	556,664
Earnings Per Share:				**Cents**
Earnings Per Share before special dividend income	Up	8.2%	to	6.51
Earnings Per Share after special dividend income	Down	0.8%	to	7.04
Dividends:				**Cents**
Interim - Ordinary	Up	6.7%	to	3.20
Final - Ordinary	Up	6.7%	to	3.20
Full Year Total Ordinary Dividends	Up	6.7%	to	6.40

Net Tangible Asset (NTA) History:

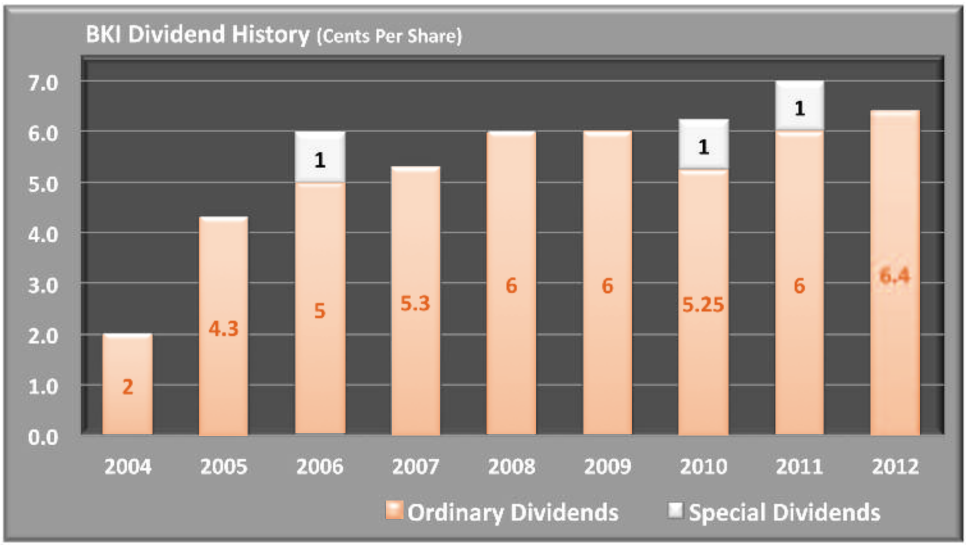
	30/06/04	30/06/05	30/06/06	30/06/07	30/06/08	30/06/09	30/06/10	30/06/11	30/06/12
NTA Before Tax	$1.08	$1.28	$1.43	$1.69	$1.52	$1.22	$1.32	$1.42	$1.30
NTA After Tax	$1.06	$1.20	$1.32	$1.51	$1.41	$1.19	$1.27	$1.34	$1.26

Dividend History (cents per share):

	30/06/04*	30/06/05	30/06/06	30/06/07	30/06/08	30/06/09	30/06/10	30/06/11	30/06/12
Interim	-	2.1	2.5	2.6	3.0	3.0	2.5	3.0	3.2
Final	2.0	2.2	2.5	2.7	3.0	3.0	2.75	3.0	3.2
Special	-	-	1.0	-	-	-	1.0	1.0	-
Total	**2.0**	**4.3**	**6.0**	**5.3**	**6.0**	**6.0**	**6.25**	**7.0**	**6.4**

* The Company was listed on ASX 12 December 2003, no interim dividend is applicable.

FINANCIAL HIGHLIGHTS (continued)



Securities held and their market value as at 30 June 2012

Stock	Shares Held	Market Value ($'000)	Portfolio Weight %
Financials			
Commonwealth Bank of Australia	946,600	50,265	9.04%
National Australia Bank Limited	2,004,000	47,174	8.48%
Westpac Banking Corporation	1,588,000	33,554	6.03%
Australia and New Zealand Banking Group Limited	669,000	14,731	2.65%
QBE Insurance Group Limited	737,000	9,846	1.77%
ASX Limited	215,500	6,422	1.15%
Milton Corporation Limited	410,378	6,160	1.11%
AMP Limited	1,314,813	5,049	0.91%
Westpac Preference Shares (WBCPB)	45,000	4,602	0.83%
Bendigo Bank Limited	610,400	4,517	0.81%
Insurance Australia Group Limited	1,280,000	4,429	0.80%
Perpetual Limited	166,310	3,805	0.68%
Suncorp-Metway Limited	390,000	3,136	0.56%
Bank of Queensland Limited	370,000	2,442	0.44%
Macquarie Group Limited	85,000	2,210	0.40%
		198,342	**35.66%**

FINANCIAL HIGHLIGHTS (continued)

Securities held (continued):

Stock	Shares Held	Market Value ($'000)	Portfolio Weight %
Energy			
New Hope Corporation Limited	14,760,452	59,189	10.64%
Woodside Petroleum Limited	390,000	12,094	2.17%
Santos Limited	130,000	1,383	0.25%
Caltex Australia Limited	91,950	1,241	0.22%
		73,907	**13.29%**
Consumer Staples			
Wesfarmers Limited	769,200	22,991	4.13%
Woolworths Limited	751,565	20,142	3.62%
Coca Cola Amatil Limited	846,000	11,320	2.04%
Metcash Limited	2,751,000	9,271	1.67%
Graincorp Limited	93,444	886	0.16%
		64,610	**11.62%**
Materials			
BHP Billiton Limited	1,369,443	43,055	7.74%
Brickworks Limited	436,209	4,406	0.79%
Rio Tinto Limited	49,562	2,799	0.50%
Arrium Limited (formerly Onesteel)	800,000	692	0.12%
		50,952	**9.16%**
Industrials			
Campbell Brothers Limited	389,734	21,092	3.79%
Brambles Limited	785,576	4,839	0.87%
UGL Limited	390,500	4,823	0.87%
GWA International Limited	1,310,000	2,738	0.49%
QUBE Logistics	1,710,000	2,642	0.47%
Seek Limited	400,000	2,528	0.45%
Salmat Limited	970,100	2,183	0.39%
Skilled Group Limited	644,826	1,522	0.27%
Lindsay Australia Limited	5,749,400	891	0.16%
Transurban Group	134,581	764	0.14%
		44,022	**7.91%**
Telecommunications Services			
Telstra Corporation Limited	7,280,000	26,790	4.82%
TPG Telecom Limited	4,420,000	7,691	1.38%
		34,481	**6.20%**

FINANCIAL HIGHLIGHTS (continued)

Securities held (continued):

Stock	Shares Held	Market Value ($'000)	Portfolio Weight %
Consumer Discretionary			
ARB Corporation Limited	845,600	7,670	1.38%
Invocare Limited	949,000	7,639	1.37%
Tatts Group	1,909,000	5,002	0.90%
Fleetwood Corporation Limited	240,500	2,821	0.51%
Tabcorp Holdings Limited	438,111	1,279	0.23%
Crown Limited	150,574	1,278	0.23%
Fairfax Media Limited	2,100,000	1,166	0.21%
Seven West Media	372,458	648	0.12%
Ten Network Holdings Limited	1,150,000	575	0.10%
Gazal Corporation Limited	211,865	372	0.07%
		28,450	**5.11%**
Utilities			
AGL Energy Limited	1,141,000	16,853	3.03%
APA Group	1,024,452	5,112	0.92%
		21,965	**3.95%**
Health Care			
Ramsay Health Care Limited	189,000	4,264	0.77%
Sonic Healthcare Limited	153,600	1,949	0.35%
Clover Corporation Limited	858,000	326	0.06%
		6,539	**1.18%**
Property Trusts			
Westfield Group	233,157	2,215	0.40%
		2,215	**0.40%**
TOTAL INVESTMENTS		**525,483**	**94.47%**
Cash and dividends receivable		**30,740**	**5.53%**
TOTAL PORTFOLIO		**556,223**	**100.00%**

The Group is not a substantial shareholder in accordance with the *Corporations Act 2001* in any of the investee corporations as each equity investment represents less than 5% of the issued capital of the investee corporation.

GROUP PROFILE

BKI Investment Company Limited (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.

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

The Group will pay the maximum amount of Net Operating Profit for that year to shareholders as fully franked dividends to the extent permitted by the Corporations Act, the Income Tax Assessment Act and prudent business practices from profits obtained through interest, dividends and other income it receives from investments.

Dividends will be declared by the Board of Directors out of Net Operating Profit for the relevant year, excluding realised capital profit from any disposals of long-term investments.

Management

The Group has an internalised portfolio management function headed by the CEO, Mr Tom Millner.

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

CHAIRMAN'S ADDRESS

Dear Shareholders,

I am pleased to enclose the 9th Annual Report of BKI Investment Company Limited (BKI) for the year ended 30 June 2012.

The Net Operating Result before special investment revenue increased 9% to $27.7m, while Earnings per Share before special dividend income increased 8% to 6.51cps.

We are particularly pleased to deliver this positive result given the mixed economic environment we continue to experience.

It has been another tough year for equity investors with the S&P/ASX 300 Accumulation Index falling 7%. Many segments of the market still face significant headwinds. Within some industries companies are experiencing structural changes, many of which appear to be permanent.

The BKI Board and Investment Committee have stood by our investment philosophy of focusing on companies with a quality balance sheet, strong business model and a reliable dividend yield. By investing for the long term we again see the Net Operating Result increase enabling us to lift our Ordinary Dividend paid to shareholders.

BKI's Share Price Performance (including the reinvestment of dividends) for the year to 30 June 2012 was also a feature. A return of positive 1.5% and outperforming the S&P/ASX 300 Accumulation Index by 8.5% is very encouraging given the state of the sharemarket. Shareholders also benefited from the distribution of franking credits, an additional calculation not included in these numbers.

Dividends

Directors declared a Final Ordinary Dividend of 3.2cps, up 6.7% on the 3.0cps declared last year. The Final Ordinary Dividend will be fully franked and will be paid on 30 August 2012.

The total Full Year Ordinary Dividends paid by BKI this year was 6.4cps, up 6.7% from the 6.0cps paid in 2011.

The Dividend Reinvestment Plan (DRP) is maintained, offering shareholders the opportunity to acquire further ordinary shares in BKI. The DRP will not be offered at a discount.

The DRP price for the Final Ordinary Dividend was 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 period of 5 trading days after, but not including, the Record Date (16 August 2012).

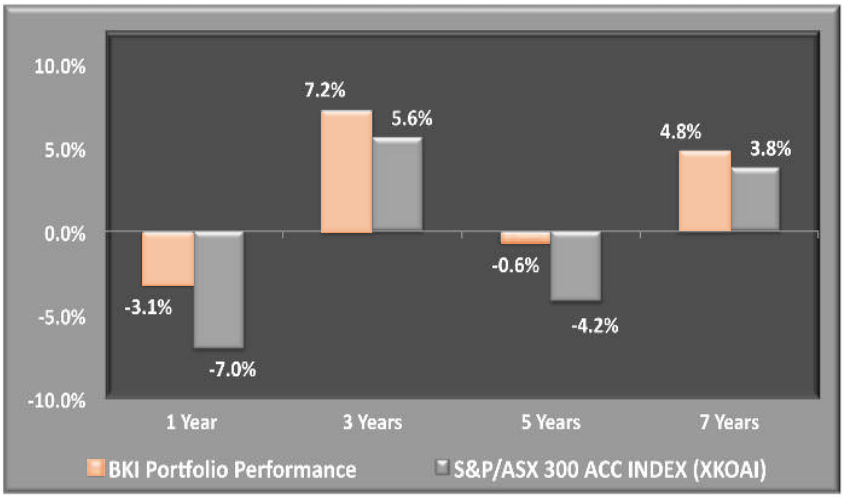
Operating Expenses

Operating expenses for FY2012 were $1.0m, flat on the previous year. BKI's Management Expense Ratio (MER) as at 30 June 2012 was 0.18%, steady from 30 June 2011. BKI is internally managed and does not charge shareholders external portfolio management fees or performance fees, allowing it to maintain one of the more competitive cost structures in the marketplace.

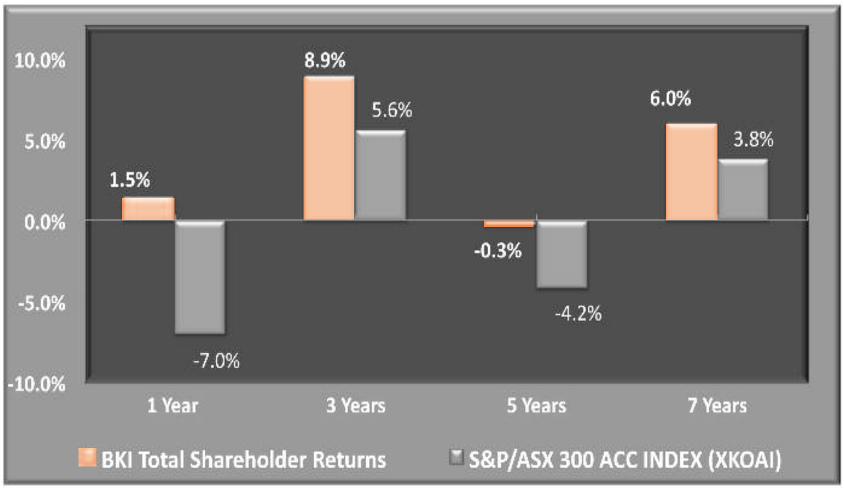
CHAIRMAN'S ADDRESS (continued)

Performance

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 2012 was negative 3.1%, outperforming the S&P/ASX 300 Accumulation Index by 3.9%, which dropped by 7.0% over the same period.



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



It is important to point out that these performance numbers are measured after all operating expenses, provision and payment of income and capital gains tax. The numbers do not include the added benefit of franking credits which are attached to dividend distributions.

We believe that as we see general interest rates and term deposit rates fall, dividends and franking credits will become even more important to many shareholders.

CHAIRMAN'S ADDRESS (continued)

Portfolio Movements

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

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

Top 20 Investments at 30 June 2012

Stock		Market Value ($'000)	Portfolio Weight %
1	New Hope Corporation Limited	59,189	10.6%
2	Commonwealth Bank of Australia	50,264	9.0%
3	National Australia Bank Limited	47,174	8.5%
4	BHP Billiton Limited	43,055	7.7%
5	Westpac Banking Corporation	33,554	6.0%
6	Telstra Corporation Limited	26,790	4.8%
7	Wesfarmers Limited	22,991	4.1%
8	Campbell Brothers Limited	21,092	3.8%
9	Woolworths Limited	20,142	3.6%
10	AGL Energy Limited	16,853	3.0%
11	Australia and New Zealand Banking Group Limited	14,731	2.6%
12	Woodside Petroleum Limited	12,094	2.2%
13	Coca Cola Amatil Limited	11,319	2.0%
14	QBE Insurance Group Limited	9,846	1.8%
15	Metcash Limited	9,271	1.7%
16	TPG Telecom Limited	7,691	1.4%
17	ARB Corporation Limited	7,670	1.4%
18	InvoCare Limited	7,639	1.4%
19	ASX Limited	6,422	1.2%
20	Milton Corporation Limited	6,160	1.1%
Cash and cash equivalents		30,740	5.5%
Total of Top 20 including cash and cash equivalents		**464,687**	**83.4%**

CHAIRMAN'S ADDRESS (continued)

Fund Manager of the Year

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

Through a company structure, LICs can offer shareholders:

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

BKI Investment Company Limited
Winner 2011
Listed Investment Company Award

Outlook

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

The global economic outlook remains challenging, and until appropriate financial reforms are implemented to resolve sovereign debt issues in Europe, economic data from the US improves and investor confidence within Asian markets lifts we could see our local sharemarket continue to drift sideways.

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

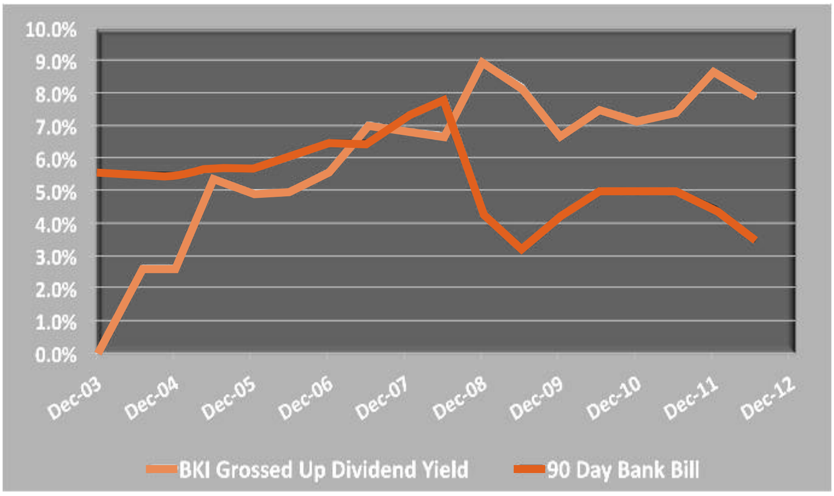
While the official cash rate is 1.25% lower than a year ago, we haven't seen a meaningful turnaround in consumer confidence as yet nor have we seen investors switching from term deposits and cash products to high yielding investments within the equities market.

We expect further rate cuts over the next 3–6 months which should encourage retail spending, mortgage and building applications, as well as a lift in sharemarket participation.

We noted in our Half Year Result commentary that many fixed interest products were then offering pre tax rates of less than 5.0%, while shareholders in BKI were receiving a grossed up yield of approximately 8%. This continues to be the case and the additional income that an investment in BKI provides should be a significant boost for investors.

As you can see by the following graph the BKI grossed up dividend yield is offering a significant higher rate than the 90 day Bank Bill Rate. The 90 day Bank Bill Rate is a key benchmark interest rate for the Australian money market and is often used as a base for setting rates on term deposit products.

CHAIRMAN'S ADDRESS (continued)



BKI continues to be in a strong financial position with no debt and cash and cash equivalents representing 5.5% of the total portfolio.

We are confident that our current equity portfolio is well positioned for the long term. It is aimed at generating an increasing income stream from dividends received which in turn should enable us to continue to distribute attractive fully franked dividends to BKI shareholders.

Yours sincerely,

Robert Millner
Chairman

Sydney
13 August 2012

DIRECTORS' REPORT

The Directors of BKI Investment Company Limited ("the Company", or "BKI") present the following report on the Company and controlled entities ("the Group") for the year ended 30 June 2012.

1. Directors

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

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 28 years experience as a Company Director and extensive experience in the investment industry, and is currently a Director of the following ASX listed companies:

- Milton Corporation Limited
- New Hope Corporation Limited
- Washington H. Soul Pattinson and Company Limited
- TPG Telecom Limited
- Brickworks Limited
- Australian Pharmaceutical Industries Limited

During the past three years Mr Millner has also served as a Director of the following other ASX listed companies:

- Souls Private Equity Limited
- Choiseul Investments Limited
- Northern Energy Corporation Limited

Special Responsibilities:

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

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

A Non-executive Director since October 2003, and Chair of the Audit Committee since this time, 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

DIRECTORS' REPORT (continued)

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

A Non-executive Director since October 2003, and a member of the Audit Committee since this time, Mr Payne is Chief Financial Officer of Brickworks Limited 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
- Chairman 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 advice publications. He and partners sold the business to Morningstar Inc of the USA in mid 2006.

During the past three years Mr. Huntley has served as a Director of the following other ASX listed companies:

- Huntley Investment Company Limited

Special Responsibilities:

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

2. Key Management Personnel

Thomas Charles Dobson Millner, B.Des (Industrial), GDipAppFin, F Fin, GAICD – Chief Executive Officer

Mr Millner joined the Company in December 2008 from Souls Funds Management (SFM). Mr Millner held various roles with SFM covering research, analysis and business development, and during this time was responsible for the Investment Portfolio of BKI Investment Company Limited. Prior to this Mr Millner was an investment analyst with Republic Securities Limited, manager of the Investment Portfolio of Pacific Strategic Investments. Mr Millner is also currently a Director of Washington H. Soul Pattinson and Company Limited.

Special Responsibilities:

- Member of the Investment Committee

Jaime Pinto, BComm, CA - Company Secretary (appointed 2 November 2011)

Mr Pinto is a Chartered Accountant with over 20 years experience in both professional practice and in senior commercial roles across a broad range of industries. Jaime is currently Company Secretary and CFO of a number of unlisted investment and industrial companies.

DIRECTORS' REPORT (continued)

3. 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 have been no significant changes in the nature of those activities during the year.

4. Operating Results

BKI's Net Operating Result before special dividend income increased 9.4% to $27.7m. This strong result was achieved despite a mixed economic environment over the last year. Net Profit attributable to shareholders rose marginally to $30.0m, which included $2.3m of special dividends. The 8% increase in ordinary revenue was offset by a decrease in special dividends in 2012 due to a number of one-off special dividends being received in 2011 including Milton Corporation, Tatts Group, Mac Services, AWB Limited and Choiseul Investments Limited.

5. Review of Operations

Operating expenses in 2012 were $1.0m, in line with the previous year, allowing BKI to maintain a Management Expense Ratio (MER) of 0.18% (2011: 0.18%).

BKI's Net Portfolio Return (after all operating expenses, provision and payment of income and capital gains tax and the reinvestment of dividends) for the year to 30 June 2012 was negative 3.1%, comparing favourably to the S&P/ASX 300 Accumulation Index which dropped by 7.0% over the same period.

BKI's Share Price Performance (including the reinvestment of dividends) for the year to 30 June 2012 was 1.5%, outperforming the S&P/ASX 300 Accumulation Index by 8.5%.

During FY2012 BKI invested approximately $26.5m into the market with major purchases including Westpac Banking Corporation, National Australia Bank, Wesfarmers Limited and Fleetwood Corporation.

Major divestments from the BKI Investment Portfolio included Bluescope Steel, Echo Entertainment, Transfield Services, Suncorp Metway Preference Shares, Westpac Preference Shares (WBCPA) and half the position in Westpac Preference Shares (WBCPB). Additionally, the Orica Step-up Preference Shares were redeemed by Orica during the year.

6. Financial Position

The net assets of the Group decreased during the financial year by $28.8m to $539.6m.

This movement was driven by a $32.7m decrease (net of tax) in the market value of the investment portfolio.

7. Employees

The Group had one employee as at 30 June 2012 (2011: one).

DIRECTORS' REPORT (continued)

8. Significant Changes in the State of Affairs

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

9. Likely Developments and Expected Results

The operations of the Group will continue with planned investments in Australian equities and fixed interest securities. No information is included on the expected results of those operations and the strategy for particular investments, as it is the opinion of the Directors that this information would prejudice the interests of the Group if included in this report.

10. 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.

11. Dividends

There were two dividend payments during the year ended 30 June 2012.

On 31 August 2011, a final total dividend of $16,914,536 (ordinary dividend of 3.0 cents per share and special dividend of 1.0 cents per share, both fully franked) was paid out of retained profits at 30 June 2011.

On 12 March 2012, an interim ordinary dividend of $13,617,586 (3.2 cents per share fully franked) was paid out of retained profits at 31 December 2011.

In addition, the Directors have declared a final ordinary dividend of $13,680,523 (3.2 cents per share fully franked) payable on 30 August 2012.

At 30 June 2012 there are $11,679,000 of franking credits available to the Group (2011: $10,752,000) after allowing for payment of the final, fully franked ordinary dividend.

12. Environmental Regulations

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

DIRECTORS' REPORT (continued)

13. Meetings of Directors

The numbers of meetings of the Board of Directors and each Board Committee held during the year to 30 June 2012, and the numbers of meetings attended by each Director were:

	Board		Investment		Audit		Remuneration		Nomination*	
	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend
RD Millner	7	7	14	14	-	-	3	3	1	1
AJ Payne	7	7	14	14	3	3	3	3	1	1
DC Hall	7	7	-	-	3	3	3	3	-	-
IT Huntley	6	7	13	14	3	3	3	3	1	1

* The sole meeting of the Nomination Committee was held in July 2011. 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 2011 AGM Mr 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 2012 AGM.

14. 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.

Remuneration Policy

The Board is responsible for determining and reviewing remuneration arrangements for the Directors themselves and the Chief Executive Officer. 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 Executives fairly and appropriately with reference to relevant employment market conditions, their performance, experience and expertise.

Elements of Director and Executive 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 receive a base salary or fee, superannuation and 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 Key Management Personnel packages annually by reference to the Group's performance, Executive performance and comparable information from industry sectors.

DIRECTORS' REPORT (continued)

14. Remuneration Report (Audited) (continued)

The performance of Key Management Personnel is measured against criteria as agreed with each Executive and is 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 executives and reward them for performance results leading to long-term growth in shareholder wealth.

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

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

Performance-based Remuneration

BKI has established a Short Term and a Long Term Incentive Scheme. The participants in this scheme are the CEO, Mr Tom Millner and the Company Secretary, Mr Jaime Pinto.

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.

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

Short Term Incentive

The Short Term Incentive is determined by reference to the 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 which will be purchased on market by the Company.

The value of the Short Term Incentive for the CEO is calculated as 15% of CEO Base Remuneration. The Short Term Incentive for the Company Secretary is set at 40% of the CEO Incentive.

100% of the Short Term Incentive is initially 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%

DIRECTORS' REPORT (continued)

14. Remuneration Report (Audited) (continued)

The Short Term Incentive is subject to discretionary Board adjustment for the achievement of an improved MER and promotion of BKI.

The following table summarises current year performance 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
(3.1%)	(7.0%)	3.9%	130%

Long Term Incentive

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

For the CEO, the Long Term Incentive is calculated on 25% of Base Remuneration. Incentives granted prior to 30 September 2011 will be awarded to the CEO after 3 years, provided that BKI's 3 year Total Shareholder Returns exceed the S&P/ASX 300 Accumulation Index over the same period. Should that test fail on the day it will be retested in Years 4 and 5 to reflect the longer term success of previous decisions. Incentives granted after 30 September 2011 will be awarded to the CEO 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 will be retested in Year 5.

For the Company Secretary, the Long Term Incentive is to be set at 40% of the CEO Incentive and subject to the same vesting conditions.

The Long Term Incentive Scheme is to be paid by way of BKI shares which will be purchased on market by the Company should the incentive targets be met. The first date on which the test will be applied will be 30 June 2013. As such, no shares have yet been awarded under the Long Term Incentive Plan. The Company has accrued the appropriate portion of these future costs in the current year, but will not include the costs in the disclosed remuneration of the CEO or Company Secretary until the year in which the shares are issued to them.

DIRECTORS' REPORT (continued)

Remuneration Details for the Year Ended 30 June 2012

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	Non-Executive Director
AJ Payne	Non-Executive Director
IT Huntley	Non-Executive Director
TCD Millner	Chief Executive Officer
RJ Pillinger	Company Secretary[1] (resigned 2 November 2011)
JP Pinto	Company Secretary[1] (appointed 2 November 2011)

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

There are no other employees of the Group, with Ms L Tcherkezian of Corporate and Administrative Services Pty Limited appointed an alternate Company Secretary.

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

Directors:	Primary $	Superannuation $	Equity Compensation $	Other Compensation $	Total $
2012					
RD Millner	58,000	5,220	-	-	63,220
DC Hall	45,000	4,050	-	-	49,050
AJ Payne	37,000	3,330	-	-	40,330
IT Huntley	40,330	-	-	-	40,330
Total	**180,330**	**12,600**	**-**	**-**	**192,930**
2011					
RD Millner	56,500	5,085	-	-	61,585
DC Hall	43,500	3,915	-	-	47,415
AJ Payne	36,000	3,240	-	-	39,240
IT Huntley	39,240	-	-	-	39,240
Total	**175,240**	**12,240**	**-**	**-**	**187,480**

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 they may determine.

DIRECTORS' REPORT (continued)

Other Key Management Personnel:

	Primary $	Superannuation $	Bonus - Equity Compensation $	Other Compensation $	Total $
2012					
TCD Millner	275,725	15,775	57,915	-	349,415
RJ Pillinger	-	-	17,375	-	17,375
JP Pinto	-	-	-	-	-
Total	**275,725**	**15,775**	**75,290**	**-**	**366,790**
2011					
TCD Millner	260,867	19,633	42,900	-	323,400
RJ Pillinger	-	-	17,160	-	17,160
Total	**260,867**	**19,633**	**60,060**	**-**	**340,560**

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

Contract of Employment

Mr T Millner is employed by the Company under a contract of employment. This is an open ended contract with a notice period of one month required to terminate employment. Base Remuneration is currently $297,000 per annum inclusive of superannuation.

Remuneration is reviewed annually by the Remuneration Committee.

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

15. 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:

	Number of Shares
RD Millner *	7,283,659
DC Hall	240,473
AJ Payne	226,665
IT Huntley	11,063,445
TCD Millner *	6,399,797
RJ Pillinger	28,669
JP Pinto	15,029

*Common to RD Millner and TCD Millner are 6,230,540 shares held in related companies and trusts in which both hold beneficial interests.

DIRECTORS' REPORT (continued)

16. 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.

During the year to 30 June 2012, the Group has paid premiums of $38,154 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.

17. Proceedings on Behalf of 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.

18. Non-audit Services

The Board of Directors is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the Board of Directors prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and CPA Australia's Professional Statement F1: Professional Independence.

No fees for non-audit services were paid to the external auditor, Ruwald & Evans, during the year ended 30 June 2012.

19. Auditor's Independence Declaration

The Auditor's Independence Declaration for the year ended 30 June 2012 has been received and can be found on page 57.

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

Robert D Millner
Director

Sydney
13 August 2012

CORPORATE GOVERNANCE STATEMENT

The Board of BKI Investment Company Limited (the Company, BKI) are committed to achieving and demonstrating the highest standards of corporate governance. Unless otherwise stated, during the reporting year the Company has followed the *Corporate Governance Principles and Recommendations with 2010 Amendments (2nd Edition)* set by the ASX Corporate Governance Council.

This report summarises the Company's application of the 8 Corporate Governance Principles and Recommendations, together with an explanation of the Company's policy concerning trading in company securities.

Principle 1 – Lay solid foundations for management and oversight

Recommendation 1.1: Companies should establish the functions reserved to the Board and those delegated to Senior Executives and disclose those functions

The Board of Directors (hereinafter referred to as the Board) are responsible for the corporate governance of the Company and controlled entities. The Directors of the Company are required to act honestly, transparently, diligently, independently, and in the best interests of all shareholders in order to increase shareholder value.

The Directors are responsible to the shareholders for the performance of the Group in both the short and the longer term and seek to balance sometimes competing objectives in the best interests of the Group as a whole. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Group is properly managed.

Role of the Board

The responsibilities of the Board include:

- contributing to the development of and approving the corporate strategy
- reviewing and approving business results, business plans, the annual budget and financial plans
- ensuring regulatory compliance
- ensuring adequate risk management processes
- monitoring the Board composition, Director selection and Board processes and performance
- overseeing and monitoring:
  - organisational performance and the achievement of the Group's strategic goals and objectives
  - compliance with the Group's Code of Conduct
- monitoring financial performance including approval of the annual report and half-year financial reports and liaison with the Group's auditors
- appointment and contributing to the performance assessment of the Chief Executive Officer and external service providers
- enhancing and protecting the reputation of the Group
- reporting to shareholders.

Role of Senior Executives

The responsibilities of Senior Executives include:

- organisation and monitoring of the investment portfolio
- managing organisational performance and the achievement of the Group's strategic goals and objectives
- management of financial performance
- management of internal controls.

CORPORATE GOVERNANCE STATEMENT (continued)

Recommendation 1.2: Companies should disclose the process for evaluating the performance of Senior Executives.

Performance of Senior Executives is measured against relative market indices and financial and strategic goals approved by the Board. Performance is measured on an ongoing basis using management reporting tools.

Principle 2 – Structure the Board to add value

The key elements of the Board composition include:

- ensuring, where practicable to do so, that a majority of the Board are Independent Directors
- Non-Executive Directors bring a fresh perspective to the Board's consideration of strategic, risk and performance matters and are best placed to exercise independent judgement and review and constructively challenge the performance of management
- the Company is to maintain a mix of Directors on the Board from different backgrounds with complementary skills and experience
- the Board seeks to ensure that:
  - at any point in time, its membership represents an appropriate balance between Directors with experience and knowledge of the Group and Directors with an external perspective
  - the size of the Board is conducive to effective discussion and efficient decision making.

Details of the members of the Board, their experience, expertise, qualifications and independent status are set out in the Directors' Report under the heading "Directors".

Recommendation 2.1: A majority of the Board should be Independent Directors
Recommendation 2.2: The Chair should be an Independent Director

The Company has not followed recommendation 2.1 or recommendation 2.2 as the Board currently comprises two independent Non-Executive Directors and two Non-Executive Directors and the Chair is not an Independent Director.

Of the members of the Board, Mr Hall and Mr Huntley are considered independent. Mr Huntley is defined as independent as his shareholding in the Company at less than 5% of issued capital is not considered substantial.

Mr Millner although meeting other criteria, and bringing independent judgement to bear on his role, is not defined as independent, primarily due to the fact that he is an officer of Washington H. Soul Pattinson and Company Limited, which is a substantial shareholder of the Company.

Mr Payne although meeting other criteria, and bringing independent judgement to bear on his role, is not defined as independent, primarily due to the fact that he is an officer of Brickworks Limited, which is an associated entity of Washington H. Soul Pattinson and Company Limited, a substantial shareholder of the Company.

In relation to Director independence, materiality is determined on both quantitative and qualitative bases. An amount of over 5% of annual turnover of the Group is considered material. In addition, a transaction of any amount or a relationship is deemed material if knowledge of it impacts the shareholders' understanding of the Director's performance.

Recommendations 2.1 and 2.2 have not been followed because the Board are of the opinion that all Directors exercise and bring to bear an unfettered and independent judgement towards their duties. BKI Investment Company Limited listed on the Australian Stock exchange on 12 December 2003 to take over the investment portfolio of Brickworks Limited and given their long standing association with the BKI Portfolio the Board is satisfied that Mr Millner and Mr Payne play an important role in the continued success and performance of the Group.

CORPORATE GOVERNANCE STATEMENT (continued)

In accordance with the Corporations Act 2001, any member of the Board who has an interest that could conflict with those of the Company must inform the Board. Where the Board considers that a significant conflict exists it may exercise discretion to determine whether the Director concerned may be present at any meeting while the item is considered.

Mr Millner and Mr Payne do not meet the criteria for independence in accordance with the ASX Corporate Governance Principles and Recommendations, however, for the reasons stated above they can be considered to be acting independently and in the best interest of the Group in the execution of their duties.

Recommendation 2.3: The roles of Chair and Chief Executive Officer should not be exercised by the same individual

The roles of Chair and Chief Executive Officer are not occupied by the same individual.

Recommendation 2.4: The Board should establish a Nomination Committee

The **Nomination Committee** consists of Directors who are not up for re-election during the year. Below are the current members of the Committee, effective from the Company's 2011 Annual General Meeting:

AJ Payne (Chairman)

DC Hall

The main responsibilities of the Committee are to:

- assess the membership of the Board having regard to present and future needs of the Group
- assess the independence of Directors to determine whether the majority of the Board act independently
- propose candidates for Board vacancies, with consideration given to qualifications, experience, domicile, and diversity of background
- oversee Board succession
- evaluate Board performance.

Recommendation 2.5: Companies should disclose the process for evaluating the performance of the Board, its Committees and Individual Directors

The Board undertakes an annual self assessment of its collective performance. The self assessment:

- compares the performance of the Board with goals and objectives
- sets forth the goals and objectives of the Board for the upcoming year.

The performance evaluation is conducted in such manner as the Board deems appropriate. In addition, each Board Committee undertakes an annual self assessment on the performance of each Committee and achievement of Committee objectives.

The Chairman annually assesses the performance of individual Directors, where necessary and meets privately with each Director to discuss this assessment. The Chairman's performance is reviewed by the Board.

Principle 3 – Promote ethical and responsible decision-making

Recommendation 3.1: Companies should establish a Code of Conduct

The Company has developed a Code of Conduct (the Code) which has been fully endorsed by the Board and applies to all Directors, employees and external service providers. The Code is regularly reviewed to ensure it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the Group's integrity.

CORPORATE GOVERNANCE STATEMENT (continued)

A signed Code has been received from the CEO, Mr TCD Millner and from Mr JP Pinto as a representative of Corporate and Administrative Services Pty Limited. No diversions from the Code were noted during the year.

In summary, the Code requires that at all times all Group personnel act with the utmost integrity, objectivity and in compliance with the letter and the spirit of the law and company policies. This includes taking into account:

- their legal obligations and the reasonable expectations of their stakeholders
- their responsibility and accountability for reporting and investigating reports of unethical practices.

Recommendation 3.2: Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them

The Company has established and disclosed on its website its Diversity Policy. The Company is committed to creating a workplace environment and culture that:

- Is free of discrimination
- Is conducive to attracting and retaining people from a broad experience base relevant to the Company
- Rewards performance
- Provides opportunities that allow individuals to reach their full potential irrespective of background or difference
- Is understanding of each individual's personal circumstances.

Recommendation 3.3: Companies should disclose in each annual report the measureable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress in achieving them

The Board of BKI is committed to appointing employees, Directors and other Officers based on merit, free from positive or negative bias on any ground including gender.

BKI currently has four Non-executive Directors, one Executive employee (the Chief Executive Officer), and two other Company Officers (Company Secretaries) appointed on a contract basis through Corporate and Administrative Services Pty Limited. This minimalist organisational structure, combined with low Director and Executive turnover, has been a significant driver in the successful establishment of a business model that continues to deliver solid shareholder returns combined with low investment risk while maintaining a competitive cost structure.

Given the above, the Board has determined that numerical gender targets are not appropriate short-term objectives for the Company. Rather, the most appropriate initial measurable objectives addressing gender diversity will be those that ensure BKI implements workplace policies and practices such that when new employees or Board members are required, the Company will recruit from a diverse pool of potential employees or Directors, all of whom have skill sets appropriate for the role in question.

The following table outlines the measureable objectives the Company will initially focus on to achieve gender diversity.

Objective	**Progress achieved to date**
Develop and promote a Diversity Policy that promotes a corporate culture of diversity	Policy developed, displayed on corporate website, and distributed to appropriate stakeholders
Update recruitment documents, processes, and partners to ensure the company always appeals to, and targets, a diverse pool of potential employees	Performed initial review of existing recruitment documents and Nomination Committee policies and procedures
Update internal policies and procedures to reflect flexible work culture	Commenced review of corporate leave policy

CORPORATE GOVERNANCE STATEMENT (continued)

Recommendation 3.4: Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board

Role	**Female Total**	**Male Total**	**Female %**
Director	Nil	4	0%
Executive Employees	Nil	1	0%
Other Employees	Nil	Nil	n/a
Other Officers (Contracted*)	1	1	50%
Total Employees and Officers	**1**	**6**	**14%**

* through Corporate and Administrative Services Pty Limited

Principle 4 – Safeguard integrity in financial reporting

Recommendation 4.1: The Board should establish an Audit Committee

The members of the **Audit Committee** at the date of this Annual Financial Report are:

DC Hall (Chairman)
AJ Payne
IT Huntley

Recommendation 4.2: The Audit Committee should be structured so that it:

- *consists only of Non-Executive Directors*
- *consists of a majority of Independent Directors*
- *is chaired by an Independent Chair, who is not Chair of the Board*
- *has at least three members*

The Audit Committee consists only of Non-Executive Directors. The majority of members are independent.

The Chairman of the Audit Committee is an independent, Non-Executive Director who is not Chairman of the Board. The Chairman of the Audit Committee is also required to have accounting or related financial expertise, which includes past employment, professional qualification or other comparable experience. The other members of the Audit Committee are all financially literate and have a strong understanding of the industry in which the Group operates.

Recommendation 4.3: The Audit Committee should have a formal charter

The main responsibilities of the Audit Committee as defined in the Audit Committee Charter are to:

- review, assess and approve the Annual Report, Half-Year Financial Report and all other financial information published by the Group or released to the market
- reviewing the effectiveness of the organisation's internal control environment covering:
  - effectiveness and efficiency of operations
  - reliability of financial reporting
  - compliance with applicable laws and regulations
- oversee the effective operation of the risk management framework
- recommend to the Board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement, the scope and quality of the audit and assess performance and consider the independence and competence of the external auditor on an ongoing basis. The Audit Committee receives certified independence assurances from the external auditors

CORPORATE GOVERNANCE STATEMENT (continued)

- review and approve the level of non-audit services provided by the external auditors and ensure it does not adversely impact on auditor independence. The external auditor will not provide services to the Group where the auditor would have a mutual or conflicting interest with the Group; be in a position where they audit their own work; function as management of the Group; or have their independence impaired or perceived to be impaired in any way
- review and monitor related party transactions and assess their priority
- report to the Board on matters relevant to the Committee's role and responsibilities.

The external auditor will attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the Audit Report.

Principle 5 – Make timely and balanced disclosure

Recommendation 5.1: Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies

The Chairman and Company Secretary have been nominated as being the persons responsible for communications with the Australian Stock Exchange (ASX). This role includes the responsibility for ensuring compliance with the continuous disclosure requirements in the ASX listing rules and overseeing and co-ordinating information disclosure to ASX. The Chairman and Chief Executive Officer are responsible for disclosure to analysts, brokers and shareholders, the media and the public.

The Company has written policies and procedures on information disclosure that focus on continuous disclosure of any information concerning the Group that a reasonable person would expect to have a material effect on the price of the Company's securities.

Principle 6 – Respect the rights of shareholders

Recommendation 6.1: Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy

The Board aims to ensure that shareholders are informed of all major developments affecting the Group.

Shareholders are updated with the Group's operations via monthly ASX announcements of the Net Tangible Asset (NTA) backing of the portfolio and other disclosure information. All recent ASX announcements and Annual Reports are available on the Group's website, or alternatively, by request via email, facsimile or post. In addition, a copy of the Annual Report is distributed to all shareholders who elect to receive it, and is available on the Group's website.

The Board encourages participation by shareholders at the Annual General Meeting to ensure a high level of accountability and to ensure that shareholders remain informed about the Group's performance and goals.

Principle 7 – Recognise and manage risk

Recommendation 7.1: Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies

The Board is committed to the identification and quantification of risk throughout the Group's operations.

Considerable importance is placed on maintaining a strong control environment. There is an organisational structure with clearly drawn lines of accountability. Adherence to the Code of Conduct is required at all times and the Board actively promotes a culture of quality and integrity.

CORPORATE GOVERNANCE STATEMENT (continued)

Recommendation 7.2: The Board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.

The Board operates to minimise exposure to investment risk, in part, by implementing stringent processes and procedures to effectively manage investment risk.

Management of investment risk is fundamental to the business of the Group being an investor in Australian listed securities. An Investment Committee has been established to perform, among other roles, investment risk mitigation.

The **Investment Committee** consists of the following members:

RD Millner (Chairman)
AJ Payne
IT Huntley
TCD Millner

The main responsibilities of the Committee are to:

- assess the information and recommendations received from the Chief Executive Officer in his role as portfolio manager regarding the present and future investment needs of the Group
- assess the performance of the Chief Executive Officer in his role as portfolio manager
- evaluate investment performance.

Recommendation 7.3: The Board should disclose whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

The Chief Executive Officer and the administrative and company secretarial service provider, namely Mr TCD Millner and Mr JP Pinto of Corporate & Administrative Services Pty Ltd, have made the following certifications to the Board in accordance with Section 295A of the Corporations Act:

- that the Group's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Parent and consolidated entities in accordance with all mandatory professional reporting requirements
- that the above statement is founded on a sound system of internal control and risk management which implements the policies adopted by the Board and that the Group's risk management and internal control is operating effectively and efficiently in all material respects in relation to financial reporting risks.

Principle 8 – Remunerate fairly and responsibly

Recommendation 8.1: The Board should establish a Remuneration Committee.

The Group has established a **Remuneration Committee** consisting of the following members:

AJ Payne (Chairman)
DC Hall
RD Millner
IT Huntley

The Remuneration Committee oversees and reviews remuneration packages and other terms of employment for Executive Management. In undertaking their roles the Committee members consider reports from external remuneration experts on recent developments on remuneration and related matters.

CORPORATE GOVERNANCE STATEMENT (continued)

Mr RD Millner abstains from any discussions or votes in relation to the remuneration of the CEO, Mr TCD Millner in order to avoid any conflict of interest.

Executive remuneration and other terms of employment are reviewed annually by the Remuneration Committee having regard to personal and corporate performance, contribution to long term growth, relevant comparative information and independent expert advice. Performance is measured against relative market indices.

Any person engaged in an executive capacity is required to sign a formal employment contract at the time of their appointment covering a range of matters including their duties, rights, responsibilities, and any entitlements on termination.

As well as a base salary, remuneration in such circumstances could be expected to include superannuation, performance-related bonuses and fringe benefits.

Recommendation 8.2: Companies should clearly distinguish the structure of Non-Executive Directors' remuneration from that of Executive Directors and Senior Executives.

Fees for Non-Executive Directors reflect the demands on and responsibilities of our Directors. Non-Executive Directors are remunerated by way of base fees and statutory superannuation contributions and do not participate in schemes designed for the remuneration of executives. Non-Executive Directors do not receive any options, bonus payments nor are provided with retirement benefits other than statutory superannuation.

The Remuneration Committee's terms of reference include responsibility for reviewing any transactions between the organisation and the Directors, or any interest associated with the Directors, to ensure the structure and terms of the transaction are in compliance with the *Corporations Act 2001* and are appropriately disclosed.

Trading Policy

ASX Listing Rule 12.9 requires that a Company must establish a policy concerning trading in company securities by Directors, Senior Executives and employees, and release the policy to the market.

The Company has developed a Share Trading Policy which has been fully endorsed by the Board and applies to all Directors and employees. A copy of this Policy can be found on the Group's website.

BKI's policy regarding allowable dealings by Directors, Officers and employees in BKI shares, options and other securities requires each person to:

- never engage in short term trading of the Company's securities
- not deal in the Company's securities while in possession of price sensitive information
- notify the Company Secretary of any material intended transactions involving the Company's securities
- restrict their buying and selling of the Company's securities to the following Trading Windows:-
  - during the currency of a prospectus;
  - for a new issue while rights are being traded;
  - where shares are offered pursuant to an approved employee share scheme;
  - to 14 days after the release of the Company's half yearly announcement;
  - to 14 days after the release of the Company's annual results announcements;
  - to 14 days after the Annual General Meeting; and
  - to 14 days after release of an NTA announcement.

Any request to trade outside of the Trading Window must be made in writing to the Company Secretary, who will record the request in a register that contains all relevant details of such dealings and the current interests held by Directors. Any such requests will be subject to approval by the Chairman. No requests were made during the current year to trade outside of the Trading Window.

The Directors are satisfied that the Group has complied with its policies on ethical standards, including trading in securities.

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012 $'000	2011 $'000
Revenue from investment portfolio	2 (a)	**27,610**	25,414
Revenue from bank deposits	2 (c)	**1,525**	2,138
Other Income	2 (d)	**-**	4
Other Gains	2 (e)	**623**	-
Income from operating activities before special investment revenue		**29,758**	27,556
Operating Expenses	3	**(1,037)**	(1,046)
Operating Result before income tax expense and special investment revenue		**28,721**	26,510
Income Tax Expense	4	**(1,005)**	(1,169)
Net Operating Result before special investment revenue		**27,716**	25,341
Special Investment Revenue	2 (b)	**2,266**	4,557
Net Operating Profit		**29,982**	29,898
Profit for the year attributable to members of the Company		**29,982**	29,898
		2012 Cents	**2011 Cents**
Basic and diluted Earnings Per Share before special dividend income	21	**6.51**	6.02
Basic and diluted Earnings Per Share after special dividend income	21	**7.04**	7.10

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2012

	2012 $'000	2011 $'000
Profit for the year attributable to members of the Company	**29,982**	29,898
Other Comprehensive Income		
Unrealised gains / (losses) on investment portfolio	**(46,757)**	36,313
Deferred tax benefit / (expense) on unrealised gains/ (losses) on investment portfolio	**14,027**	(10,894)
Realised losses on investment portfolio	**(931)**	(109)
Tax benefit / (expense) relating to realised losses on investment portfolio	**206**	(85)
Total Other Comprehensive Income	**(33,455)**	25,225
Total Comprehensive Income	**(3,473)**	55,123

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

CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2012

	Note	2012 $'000	2011 $'000
Current Assets			
Cash and cash equivalents	6	**24,996**	33,900
Trade and other receivables	7	**6,185**	4,347
Prepayments		**26**	19
Total Current Assets		**31,207**	38,266
Non-Current Assets			
Investment Portfolio	8	**525,483**	561,230
Property, Plant & Equipment	9	**5**	6
Deferred tax assets	10	**4,200**	4,050
Total Non-Current Assets		**529,688**	565,286
Total Assets		**560,895**	603,552
Current Liabilities			
Trade and other payables	11	**547**	233
Current tax liabilities	12	**96**	509
Employee Benefits	13	**17**	18
Total Current Liabilities		**660**	760
Non-Current Liabilities			
Deferred tax liabilities	14	**20,596**	34,395
Total Non-Current Liabilities		**20,596**	34,395
Total Liabilities		**21,256**	35,155
Net Assets		**539,639**	568,397
Equity			
Share capital	15	**460,080**	454,833
Revaluation reserve	16	**46,721**	79,451
Realised capital gains reserve	17	**525**	1,250
Retained profits	18	**32,313**	32,863
Total Equity		**539,639**	568,397

This Balance Sheet should be read in conjunction with the accompanying notes

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2012

	Share Capital $'000	Revaluation Reserve $'000	Realised Capital Gains Reserve $'000	Retained Profits $'000	Total Equity $'000
Total equity at 1 July 2010	**449,707**	**54,032**	**1,444**	**29,219**	**534,402**
Issue of shares, net of cost	5,126	-	-	-	**5,126**
Dividends paid or provided for	-	-	-	(26,254)	**(26,254)**
Revaluation of investment portfolio	-	36,313	-	-	**36,313**
Provision for tax on unrealised losses	-	(10,894)	-	-	**(10,894)**
Profit for the year	-	-	-	29,898	**29,898**
Net realised gains through other comprehensive income	-	-	(194)	-	**(194)**
Total equity at 30 June 2011	**454,833**	**79,451**	**1,250**	**32,863**	**568,397**
Total equity at 1 July 2011	**454,833**	**79,451**	**1,250**	**32,863**	**568,397**
Issue of shares, net of cost	5,247	-	-	-	**5,247**
Dividends paid or provided for	-	-	-	(30,532)	**(30,532)**
Revaluation of investment portfolio	-	(46,757)	-	-	**(46,757)**
Provision for tax on unrealised losses	-	14,027	-	-	**14,027**
Profit for the year	-	-	-	29,982	**29,982**
Net realised gains through other comprehensive income	-	-	(725)	-	**(725)**
Total equity at 30 June 2012	**460,080**	**46,721**	**525**	**32,313**	**539,639**

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

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012 $'000	2011 $'000
Cash flows from operating activities			
Payments to suppliers and employees		**(1,104)**	(1,019)
Other receipts in the course of operations		**-**	4
Dividends and distributions received		**29,304**	29,240
Payments for trading portfolio		**(484)**	-
Proceeds from sale of trading portfolio		**1,107**	-
Interest received		**1,777**	2,338
Income tax paid		**(1,023)**	(633)
Net cash inflow from operating activities	19(a)	**29,577**	29,930
Cash flows from investing activities			
Payment for investment portfolio		**(27,682)**	(31,956)
Proceeds from sale of investment portfolio		**14,486**	9,730
Net cash outflow from investing activities		**(13,196)**	(22,226)
Cash flows from financing activities			
Proceeds from issues of ordinary shares less issue costs		**(9)**	-
Dividends paid	5(a)	**(25,276)**	(21,128)
Net cash outflow from financing activities	**(25,285)**	(21,128)	
Net increase / (decrease) in cash held		**(8,904)**	(13,424)
Cash at the beginning of the year		**33,900**	47,324
Cash at the end of the year		**24,996**	33,900

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

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 controlled entities (the Group), and BKI Investment Company Limited as an individual parent entity. Parent company information is summarised in Note 27. BKI Investment Company Limited is a listed public company, incorporated and domiciled in Australia.

The Financial Report of BKI Investment Company Limited and controlled entities, and BKI Investment Company Limited as an individual parent entity comply 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 24 to the financial statements. All controlled entities have a June financial year-end.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012 (continued)

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 2012 (continued)

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 revalued 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 revalued 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 current bid prices 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, consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at balance date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iv) Share incentives

Share incentives are provided under the Short and Long Term Incentive Plans. The Short and Long Term Incentive Plans are 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 three year period. The incentives are settled in shares (but based on a cash amount). Expenses are recognised over the assessment period based on the amount expected to be payable under 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012 (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e. 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. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

f. 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 revenue is recognised when the right to receive a dividend has been established.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

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

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.

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 Class Order 98/100 and accordingly, amounts in the financial report and Directors' Report have been rounded off to the nearest $1,000.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012 (continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 14. 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.

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 2012 ("the inoperative standards"). The impact of the inoperative standards has been assessed and the impact has been identified as not being material. The Group only intends to adopt inoperative standards at the date at which their adoption becomes mandatory.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012 (continued)

	Consolidated	
	2012	2011
	$'000	$'000
2. REVENUES		
(a) Revenue from investment portfolio		
Rebateable dividends:		
- other corporations	**25,385**	22,308
Non - rebateable dividends:		
- other corporations	**1,691**	2,589
Distributions:		
- other corporations	**534**	517
	27,610	25,414
(b) Special investment revenue		
Rebateable dividends - special:		
- other corporations	**2,266**	4,557
(c) Revenue from bank deposits		
Interest received	**1,525**	2,138
(d) Other income		
Other revenue	**-**	4
(e) Other gains		
Net gain on sale of investments held for trading	**623**	-
	623	-
Total Income	**32,024**	32,113
3. OPERATING EXPENSES		
Administration expenses	**272**	301
Occupancy costs	**8**	8
Employment expense	**606**	578
Professional fees	**150**	156
Depreciation	**1**	3
Total Expenditure	**1,037**	1,046

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012 (continued)

	Consolidated	
	2012	2011
	$'000	$'000
4. 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:		
(a) Operating profit before income tax expense and net gains on investment portfolio	**30,987**	31,067
Tax calculated at 30% (2011:30%)	**9,296**	9,320
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
- Franked dividends and distributions received	**(8,295)**	(8,060)
- (Over) / Under provision in prior year	**4**	(91)
Net tax expense on operating profit before net gains on investments	**1,005**	1,169
Net realised (losses) / gains on investment portfolio	**(931)**	(109)
Tax calculated at 30% (2011: 30%)	**(279)**	(33)
Tax effect of:		
- difference between accounting and tax cost bases for capital gains purposes	**73**	118
Total Tax (credit) / expense	**799**	1,254
(b) The components of tax expense comprise		
Current tax	**909**	1,281
Deferred tax	**(114)**	64
(Over) / Under provision in prior year	**4**	(91)
	799	1,254
5. DIVIDENDS		
(a) Dividends paid during the year		
Final dividend for the year ended 30 June 2011 of 3.00 cents per share (2010 final: 2.75 cents per share) fully franked at the tax rate of 30%, paid on 31 August 2011	**12,686**	11,511
Final special dividend for the year ended 30 June 2011 of 1.00 cents per share (2010 final special: 0.50 cents per share) fully franked at the tax rate 30%, paid on 31 August 2011	**4,229**	2,093
Interim dividend for the year ended 30 June 2012 of 3.20 cents per share (2011 interim: 3.00 cents per share) fully franked at the tax rate 30%, paid on 12 March 2012	**13,617**	12,650
Total	**30,532**	26,254

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012 (continued)

	Consolidated	
	2012 $'000	2011 $'000
5. DIVIDENDS (continued)		
Dividends paid in cash or invested in shares under the dividend reinvestment plan ("DRP")		
Paid in cash	**25,276**	21,128
Reinvested in shares via DRP	**5,256**	5,126
Total	**30,532**	26,254
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	**17,542**	18,001
Impact on the franking account of dividends declared but not recognised as a liability at the end of the financial year	**(5,863)**	(7,249)
Net available	**11,679**	10,752

(b) Dividends declared after balance date

Since the end of the year the Directors have declared a final ordinary dividend for the year ended 30 June 2012 of 3.2 cents per share fully franked at the tax rate of 30% (2011: final ordinary dividend of 3.0 cents per share and a special dividend of 1.0 cents per share, both fully franked at the tax rate of 30%), payable on 30 August 2012, but not recognised as a liability at the year end.

6. CURRENT ASSETS - CASH AND CASH EQUIVALENTS

Cash at bank	**23,804**	32,246
Short term bank deposits	**1,192**	1,654
	24,996	33,900

7. CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

Dividends and distributions receivable	**4,449**	3,877
Interest receivable	**212**	464
Outstanding settlements	**1,518**	-
Other receivable	**6**	6
	6,185	4,347

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012 (continued)

	Consolidated	
	2012	2011
	$'000	$'000

8. FINANCIAL ASSETS - INVESTMENT PORTFOLIO

Investment Portfolio - Non-Current		
Listed securities at fair value available for sale:		
- Shares in other corporations	**525,483**	561,230
Total Investment Portfolio	**525,483**	561,230

9. PROPERTY, PLANT AND EQUIPMENT

Office equipment, furniture & fittings at cost	**19**	19
Accumulated depreciation	**(14)**	(13)
Total	**5**	6

Reconciliation of the carrying amounts of each class of asset at the beginning and end of the financial year:

Office equipment, furniture & fittings at cost		
Carrying value at 1 July	**6**	9
Additions	**-**	-
Depreciation expense	**(1)**	(3)
Carrying value at 30 June	**5**	6

10. NON CURRENT ASSETS - DEFERRED TAX ASSETS

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

Transaction costs on equity issues	**49**	211
Accrued expenses	**57**	39
Tax losses	**4,094**	3,800
	4,200	4,050

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012 (continued)

10. NON CURRENT ASSETS - 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	419	(208)	-	211
Accrued expenses	55	(16)	-	39
Tax losses	3,759	41	-	3,800
Balance as at 30 June 2011	4,233	(183)	-	4,050
Transaction costs on equity issues	211	(162)	-	49
Accrued expenses	39	18	-	57
Tax losses	3,800	294	-	4,094
Balance as at 30 June 2012	4,050	150	-	4,200

	Consolidated	
	2012 $'000	2011 $'000
11. TRADE AND OTHER PAYABLES		
Current Liabilities		
Creditors and accruals	**547**	233
12. CURRENT TAX LIABILITIES		
Provision for income tax	**96**	509
13. EMPLOYEE BENEFITS		
Aggregate employee benefits	**17**	18
Analysis of provisions:		
Current	**17**	18
	17	18

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012 (continued)

14. NON CURRENT LIABILITIES - DEFERRED TAX LIABILITIES

	Consolidated	
	2012 $'000	2011 $'000
The deferred tax liability balance comprises the following timing differences:		
Revaluation of investments held	**20,372**	34,207
Non rebateable dividends receivable and interest receivable	**224**	188
	20,596	34,395

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	23,073	-	11,134	34,207
Non rebateable dividends receivable and interest receivable	307	(119)	-	188
Balance as at 30 June 2011	23,380	(119)	11,134	34,395
Revaluation of investment portfolio	34,207	-	(13,835)	20,372
Non rebateable dividends receivable and interest receivable	188	36	-	224
Balance as at 30 June 2012	34,395	36	(13,835)	20,596

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012 (continued)

	Consolidated	
	2012	2011
	$'000	$'000

15. SHARE CAPITAL

(a) Issued and paid-up capital

427,516,347 ordinary shares fully paid (2011: 422,863,407)	**460,080**	454,833

(b) Movement in ordinary shares

	2012		2011	
	Number of Shares	**$'000**	Number of Shares	$'000
Beginning of the financial year	**422,863,407**	**454,833**	418,566,158	449,707
Issued during the year:				
- dividend reinvestment plan	**4,652,940**	**5,247**	4,297,249	5,126
End of the financial year	**427,516,347**	**460,080**	422,863,407	454,833

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 continue 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, 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 2012 net debt was $ Nil (2011: $Nil).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012 (continued)

	Consolidated 2012 $'000	Consolidated 2011 $'000

16. REVALUATION RESERVE

The Revaluation reserve is used to record increments and decrements on the revaluation of the investment portfolio.

	2012 $'000	2011 $'000
Balance at the beginning of the year	**79,451**	54,032
Revaluation of investment portfolio	**(32,730)**	25,419
Balance at the end of the year	**46,721**	79,451

17. REALISED CAPITAL GAINS RESERVE

The Realised capital gains reserve records gains or losses after applicable taxation arising from the disposal of securities in the investment portfolio.

	2012 $'000	2011 $'000
Balance at the beginning of the year	**1,250**	1,444
Net (losses) / gains on investment portfolio transferred from Statement of Comprehensive Income	**(725)**	(194)
Balance at the end of the year	**525**	1,250

18. RETAINED PROFITS

	2012 $'000	2011 $'000
Retained profits at the beginning of the year	**32,863**	29,219
Net profit attributable to members of the company	**29,982**	29,898
Dividends provided for or paid	**(30,532)**	(26,254)
Retained profits at the end of the year	**32,313**	32,863

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012 (continued)

19. RECONCILIATION OF CASH FLOW

(a) Reconciliation of cash flow from operating activities to operating profit

	Consolidated 2012 $'000	Consolidated 2011 $'000
Net Profit from ordinary activities	**29,982**	29,898
Non cash item:		
- depreciation expense	**1**	3
Change in assets and liabilities, net of the effects of purchase of subsidiaries		
(Increase) / Decrease in receivables and prepayments	**(327)**	(535)
Decrease in deferred tax assets	**56**	98
Increase / (Decrease) in payables	**51**	35
Increase in employee entitlements	**(1)**	5
Increase / (Decrease) in deferred tax liabilities	**228**	121
Increase / (Decrease) in current tax liabilities	**(413)**	305
Net cash inflow from operating activities	**29,577**	29,930

(b) Non-cash financing and investing activities

(i) Dividend reinvestment plan

Under the terms of the dividend reinvestment plan, $5,256,000 (2011: $5,126,000) of dividends were paid via the issue of 4,652,940 shares (2011: 4,297,249).

(c) Acquisition of controlled entities

No controlled entities were acquired in 2012 or 2011.

20. AUDITOR'S REMUNERATION

Remuneration of the auditor of the parent entity for:

	2012 $'000	2011 $'000
Auditing the financial report of the Parent and the controlled entities	**19**	19
	19	19

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012 (continued)

	Consolidated	
	2012	2011
	$'000	$'000

21. EARNINGS PER SHARE

	2012	2011
Net Operating Profit	**29,982**	29,898
Earnings used in calculating basic and diluted earnings per share	**29,982**	29,898
	2012	2011
	No. ('000)	No. ('000)
Weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share	**425,698**	421,079
Basic and diluted earnings per share before special dividend income (cents)	**6.51**	6.02
Basic and diluted earnings per share after special dividend income (cents)	**7.04**	7.10

22. 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	Non-Executive Director
AJ Payne	Non-Executive Director
IT Huntley	Non-Executive Director
TCD Millner	Chief Executive Officer
RJ Pillinger	Company Secretary[1] (resigned 2 November 2011)
JP Pinto	Company Secretary[1] (appointed 2 November 2011)

1 Services provided under contract through Corporate and 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 2012 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 they 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012 (continued)

23. 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.

24. RELATED PARTY TRANSACTIONS

Related parties of the Group fall into the following categories:

(i) Controlled Entities

At 30 June 2012, subsidiaries of the Parent were:

	Country of Incorporation	Percentage Owned (%)	
		2012	2011
Brickworks Securities Pty Limited	Australia	**100**	100
Pacific Strategic Investments Pty Limited	Australia	**100**	100
Huntley Investment Company Pty Limited	Australia	**100**	100

Transactions between the Parent and controlled entities consist of loan balance 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 part or all of the year ended 30 June 2012 were:

Directors:	RD Millner
	DC Hall
	AJ Payne
	IT Huntley
Chief Executive Officer	TCD Millner
Company Secretary:	RJ Pillinger[1] (resigned 2 November 2011)
	JP Pinto[1] (appointed 2 November 2011)

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

Corporate and Administrative Services Pty Limited

The Group has appointed Corporate & Administrative Services Pty Limited, an entity in which Mr RD Millner has an indirect interest, to provide the Group with administration, company secretarial services and preparation of all financial accounts.

Administration and secretarial fees paid for services provided to the Parent and controlled entities for the year ended 30 June 2012 were $122,100 (2011: $119,405, including GST) and are at standard market rates.

No administration fees were owed by the Group to Corporate & Administrative Services Pty Limited as at 30 June 2012.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012 (continued)

24. RELATED PARTY TRANSACTIONS (continued)

(iii) Transactions in Securities

Share and Option Holdings

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

Shares

2012	Balance at 1/07/11	Granted as compensation	Net Change Other	Balance at 30/6/12
RD Millner[1]	6,774,543		484,116	7,258,659
DC Hall	240,473		0	240,473
AJ Payne	226,665		0	226,665
IT Huntley	11,063,445		0	11,063,445
TCD Millner[1]	5,828,678	36,020	460,000	6,324,698
RJ Pillinger[2]	14,261	14,408	0	28,669
JP Pinto[3]	0	0	0	0
Total	24,148,065	50,428	944,116	25,142,609

2011	Balance at 1/07/10	Granted as compensation	Net Change Other	Balance at 30/6/11
RD Millner[1]	6,252,078	-	522,465	6,774,543
DC Hall	234,460	-	6,013	240,473
AJ Payne	191,305	-	35,360	226,665
IT Huntley	11,063,445	-	-	11,063,445
TCD Millner[1]	10,068	35,652	5,782,958	5,828,678
RJ Pillinger	-	14,261	-	14,261
Total	17,751,356	49,913	6,343,288	24,148,065

1 Common to RD Millner and TCD Millner are 6,230,540 (2011: 5,780,540) shares held in related companies and trusts in which both hold beneficial interests. TCD Millner's beneficial interest in these companies and trusts became effective during the year ended 30 June 2011 and this change is reflected in the "Net Change Other" movement in the above table.

2 Mr Pillinger ceased being a KMP upon his resignation on 2 November 2011.

3 Mr Pinto became a KMP upon his appointment on 2 November 2011.

Directors acquired shares through Dividend Reinvestment Plan or on-market purchase.

There have been no other changes to Directors' shareholdings during the years ended 30 June 2011 or 30 June 2012.

All Key Management Personnel or their associated entities, being shareholders, are entitled to receive dividends.

25. FINANCIAL REPORTING BY SEGMENTS

The Group operates solely in the securities industry in Australia and has no reportable segments.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012 (continued)

26. 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 Audit Committee 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 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.

The spread of cash and bank bills between banks is reviewed monthly by the Board to determine if it 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 the 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 prices of the companies and trusts in which it is invested.

As the market value of individual companies fluctuates throughout the day, the market value of the portfolio changes continuously. The change in the market value of the portfolio is recognised through the Revaluation Reserve. Listed Investments represent 94% (2011: 93%) of total assets.

A 5% movement in the market value of each of the companies and trusts within the portfolio would result in a 5% (2011: 5%) movement in the net assets before provision for tax on unrealised capital gains at 30 June 2012.

The net asset backing before provision for tax on unrealised capital gains would move by 6.1 cents per share at 30 June 2012 (2011: 6.6 cents).

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

The Group 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 particular sector of the market.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012 (continued)

26. MANAGEMENT OF FINANCIAL RISK (continued)

d) Market risk (continued)

At 30 June 2012, the spread of investments is in the following sectors:

Sector	Percentage of total investment		Amount	
	2012 %	2011 %	**2012 $'000**	2011 $'000
Financials	**35.66%**	34.35%	**198,342**	205,893
Energy	**13.29%**	15.87%	**73,907**	95,136
Consumer Staples	**11.62%**	10.40%	**64,610**	62,344
Materials	**9.16%**	11.89%	**50,952**	71,274
Industrials	**7.91%**	7.25%	**44,022**	43,481
Telecommunications Services	**6.20%**	4.58%	**34,481**	27,483
Consumer Discretionary	**5.11%**	4.52%	**28,450**	27,105
Utilities	**3.95%**	3.48%	**21,965**	20,852
Health Care	**1.18%**	0.94%	**6,539**	5,645
Property Trusts	**0.40%**	0.34%	**2,215**	2,017
Total Investments	**94.47%**	93.62%	**525,483**	561,230
Cash and dividends receivable	**5.53%**	6.38%	**30,740**	38,248
Total Portfolio	**100.00%**	100.00%	**556,223**	599,478

Securities representing over 5% of the investment portfolio at 30 June 2012 were:

Company				
New Hope Corporation Limited	**10.6%**	12.9%	**59,189**	76,312
Commonwealth Bank of Australia	**9.0%**	7.7%	**50,265**	46,254
National Australia Bank Limited	**8.5%**	7.9%	**47,174**	47,112
BHP Billiton Limited	**7.7%**	10.0%	**43,055**	59,618
Westpac Banking Corporation	**6.0%**	4.6%	**33,554**	27,279
	41.9%	43.1%	**233,237**	256,575

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.

The Group is not exposed to foreign currency risk as all investments are quoted in Australian dollars. The fair value of the Group's other financial instruments is unlikely to be materially affected by a movement in interest rates as they generally have short dated maturities and fixed interest rates.

e) Liquidity risk

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

The Group has a zero level of gearing, and sufficient cash reserves to meet operating cash requirements at current levels for well in excess of 5 years.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012 (continued)

26. MANAGEMENT OF FINANCIAL RISK (continued)

e) Liquidity risk (continued)

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 in the form of readily tradable securities which can be sold on-market if necessary.

f) 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.

27. PARENT COMPANY INFORMATION

	2012 $'000	2011 $'000
Information relating to the parent entity of the Group, BKI Investment Company Limited:		
Current assets	**31,207**	38,266
Non-current assets	**727,065**	762,663
Total assets	**758,272**	800,929
Current liabilities	**581**	681
Non-current liabilities	**226,099**	239,898
Total liabilities	**226,680**	240,579
Issued capital	**460,080**	454,833
Reserves	**71,512**	105,517
Total shareholders' equity	**531,592**	560,350
Profit or loss	**29,982**	29,898
Total Other Comprehensive Income / (Loss)	**29,982**	29,898

The parent company has no contingent liabilities at 30 June 2012.

28. CAPITAL AND LEASING COMMITMENTS

The Group has no capital and leasing commitments at 30 June 2012.

29. CONTINGENT LIABILITIES

The Group has no contingent liabilities at 30 June 2012.

30. AUTHORISATION

The Financial Report was authorised for issue on 13 August 2012 by the Board of Directors.

DIRECTORS' DECLARATION

The Directors of BKI Investment Company Limited declare that:

1. The financial statements and notes, as set out on pages 30 to 54, 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 2012 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 2012.

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

Robert D Millner
Director

Sydney
13 August 2012

INDEPENDENT AUDITOR'S REPORT

Ruwald+Evans 75 YEARS
CHARTERED ACCOUNTANTS

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

Report on the Financial Report

We have audited the accompanying financial report of BKI Investment Company Limited (the company) and BKI Investment Company Limited and Controlled Entities (the consolidated entity), which comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies, other explanatory information and the directors' declaration for the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation 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 is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with AASB 101: Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards (IFRS).

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to auditing engagements and plan and perform the audit to obtain reasonable assurance as to whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. 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 provided to the directors as at the date of this audit report.

Auditor's Opinion

In our opinion:

(a) The financial report of BKI Investment Company Limited and Controlled entities is in accordance with the *Corporations Act 2001*, including:

i. giving a true and fair view of the company and consolidated entity's financial position as at 30 June 2012 and of their performance for the year ended on that date; and

ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

(b) The financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration Report included in the directors' report for the year ended 30 June 2012. The directors of the company 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.

Auditor's Opinion

In our opinion the remuneration report of BKI Investment Company Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.

RUWALD & EVANS

Martin Bocxe

Partner

Level 1, 276 Pitt Street, SYDNEY NSW 2000, 13 August 2012

CELEBRATING 75 YEARS 1937 – 2012

Chartered Accountants

Liability limited by a scheme approved under Professional Standards legislation

Liability limited by a scheme approved under Professional Standards Legislation

AUDITOR'S INDEPENDENCE DECLARATION

Ruwald+Evans
CHARTERED ACCOUNTANTS
75 YEARS

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Auditors' Independence Declaration under Section 307C of the Corporations Act 2001 to the directors of BKI Investment Company Limited and Controlled Entities

I declare that to the best of my knowledge and belief, during the review for the year ended 30 June 2012, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

RUWALD & EVANS

Martin Bocxe
Partner

Level 1, 276 Pitt Street,
SYDNEY NSW 2000

13 August 2012

CELEBRATING 75 YEARS 1937 – 2012

Chartered Accountants

ASX ADDITIONAL INFORMATION

1) Equity Holders

At 31 July 2012, there were 11,052 holders of ordinary shares in the capital of the Parent. These holders were distributed as follow:

No. of Shares held	No. of Shareholders
1 – 1,000	825
1,001 – 5,000	1,742
5,001 – 10,000	1,705
10,001 – 100,000	6,220
100,001 and over	560
Total	**11,052**
Holding less than a marketable parcel of 410 shares	524

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).

ASX ADDITIONAL INFORMATION (continued)

The 20 largest holdings of the Parent's share as at 31 July 2012 are listed below:

Name	Shares Held	%
Washington H. Soul Pattinson & Company Limited	57,870,223	13.54
Huntley Group Investments Pty Limited <Huntley Group Investments A/C>	8,523,274	1.99
Argo Investments Limited	8,311,237	1.94
J S Millner Holdings Pty Limited	4,365,288	1.02
HSBC Custody Nominees (Australia) Limited	4,156,596	0.97
Bougainville Copper Limited	3,875,709	0.91
National Nominees Limited	3,670,872	0.86
UBS Wealth Management Australia Nominees Pty Limited	1,739,499	0.41
Lunicash Super Pty Limited	1,700,000	0.40
Huntley Group Investments Pty Limited <Ian Huntley Super Fund A/C>	1,529,360	0.36
T G Millner Holdings Pty Limited	1,153,442	0.27
Milton Corporation Limited	1,147,375	0.27
K C Perks Investments Pty Limited	1,135,187	0.27
D E C Investments Pty Limited	1,056,920	0.25
Nulis Nominees (Australia) Limited	1,019,227	0.24
The Miller Foundation Ltd	1,000,000	0.23
Farjoy Pty Ltd	1,000,000	0.23
Mrs Patricia Roberta Huntley	902,763	0.21
One 478 Pty Ltd	900,000	0.21
Willpower Investments Pty Limited	885,401	0.21

ASX ADDITIONAL INFORMATION (continued)

2) Substantial Shareholders

As at 31 July 2012 the name and holding of substantial shareholder as disclosed in a notice received by the Parent is:

Substantial Shareholders	No. of Shares	% of Total
Washington H. Soul Pattinson & Company Limited[1]	53,561,922	13.68%

1 Details included on substantial shareholder notice dated 19 February 2009

3) Other Information

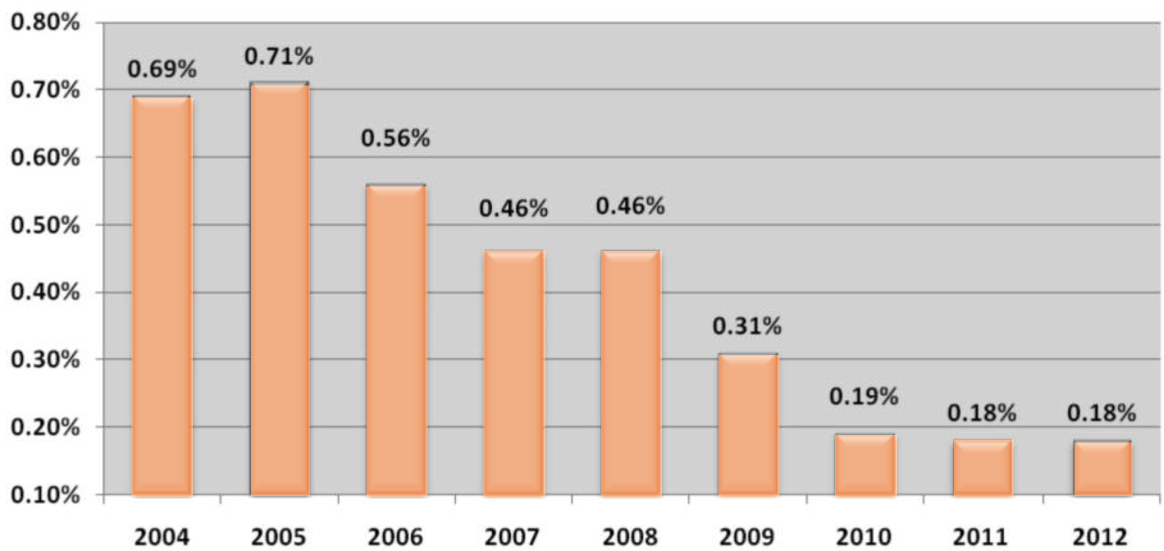
- There is no current on-market buy-back in place.
- There were 87 (2011: 135) transactions in securities undertaken by the Group and the total brokerage paid or accrued during the year was $102,768 (2011: $120,510)

4) Management Expense Ratio

The Management Expense Ratio ("MER") is the total 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.

30/06/04	30/06/05	30/06/06	30/06/07	30/06/08	30/06/09	30/06/10	30/06/11	30/06/12
0.69%	0.71%	0.56%	0.46%	0.46%	0.31%	0.19%	0.18%	0.18%

Chart showing MER by year:



BKI INVESTMENT
COMPANY LIMITED