



**BKI INVESTMENT
COMPANY LIMITED**

2017

ANNUAL
REPORT

For year ended 30 June 2017

CORPORATE DIRECTORY

Directors

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

Investment Manager

Contact Asset Management Pty Limited (**Contact**)
AFSL Licence No: 494045

BKI Portfolio Managers appointed by Contact

Tom Millner
Will Culbert

Company Secretaries

Jaime Pinto
Larina Tcherkezian (Alternate)

Registered Office

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

Postal Address:
GPO Box 5015
Sydney NSW 2001

Auditors

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

Share Registry

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

Australian Stock Exchange Code

Ordinary Shares BKI

Website

www.bkilimited.com.au

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FINANCIAL HIGHLIGHTS

	Change		June 2017 \$'000	June 2016 \$'000
Revenue Performance:				
Total income – ordinary	Up 1.4%	to	44,462	from 43,833
Total income – special	Up 256.8%	to	3,861	from 1,082
Total income from ordinary activities	Up 7.6%	to	48,323	from 44,915
Profits				
Net operating result before special dividend income	Up 1.5%	to	41,787	from 41,170
Special dividend income	Up 256.8%	to	3,861	from 1,082
Net profit from ordinary activities after tax attributable to shareholders	Up 8.0%	to	45,648	from 42,252
Net profit attributable to shareholders	Up 8.0%	to	45,648	from 42,252
Portfolio				
Total portfolio value (including cash & receivables)	Up 7.7%	to	998,617	from 926,993
Earnings per share (EPS)				
			Cents	Cents
Basic EPS before special dividend income	Down 3.2%	to	6.93	from 7.16
Basic EPS after special dividend income	Up 3.0%	to	7.57	from 7.35
Dividends				
Interim	Steady	at	3.60	from 3.60
Final	Up 1.4%	to	3.70	from 3.65
Full year total	Up 0.7%	to	7.30	from 7.25

Dividend History (cents per share):

30 June	2004*	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Interim	-	2.10	2.50	2.60	3.00	3.00	2.50	3.00	3.20	3.25	3.45	3.55	3.60	3.60
Final	2.00	2.20	2.50	2.70	3.00	3.00	2.75	3.00	3.20	3.40	3.50	3.65	3.65	3.70
Special	-	-	1.00	-	-	-	1.00	1.00	-	0.50	-	-	-	-
Total	2.00	4.30	6.00	5.30	6.00	6.00	6.25	7.00	6.40	7.15	6.95	7.20	7.25	7.30

* The Company listed on the ASX on 12 December 2003, no interim dividend was declared for this financial year.

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

Securities Held and their Market Value as at 30 June 2017

	Number of Shares Held	Market Value (\$'000)	Portfolio Weight %
Financials			
Commonwealth Bank	1,125,434	93,197	9.32
National Australia Bank	2,709,826	80,184	8.02
Westpac Banking Corporation	2,262,015	69,014	6.91
ANZ Banking Group	1,560,624	44,821	4.49
IAG Limited	3,157,370	21,407	2.14
Macquarie Group	230,370	20,388	2.04
ASX Limited	375,500	20,131	2.02
Challenger Limited	1,485,000	19,810	1.98
Suncorp Group	1,196,094	17,726	1.78
IOOF Holdings	1,174,094	11,506	1.15
Perpetual Limited	181,751	10,154	1.02
AMP Limited	1,872,946	9,721	0.97
Milton Corporation	2,103,640	9,487	0.95
Bank of Queensland	810,000	9,275	0.93
National Australia Bank Convertible Notes	40,000	4,090	0.41
National Australia Bank Preference Notes	39,775	4,018	0.40
Equity Trustees	185,054	3,277	0.33
Westpac Banking Corporation Convertible Notes	20,000	2,060	0.21
BT Investment Management	123,185	1,402	0.14
		451,667	45.21
Industrials			
Transurban Group	2,593,205	30,729	3.08
Sydney Airport	3,395,427	24,074	2.41
Qube Holdings	5,111,664	13,444	1.35
Brambles Limited	1,045,576	10,173	1.02
Seek Limited	537,500	9,089	0.91
Lindsay Australia	17,141,631	6,428	0.64
Boral Limited	188,452	1,310	0.13
		95,247	9.54
Consumer Staples			
Wesfarmers Limited	1,038,602	41,669	4.17
Woolworths Limited	1,050,244	26,823	2.69
Coca Cola Limited	1,233,894	11,389	1.14
Ancor Limited	115,000	1,864	0.19
Graincorp Limited	93,444	885	0.09
		82,630	8.28
Telecommunications			
Telstra Corporation	9,234,451	39,708	3.98
TPG Telecom	5,017,814	28,602	2.86
		68,310	6.84

Securities Held and their Market Value as at 30 June 2017 (continued)

	Number of Shares Held	Market Value (\$'000)	Portfolio Weight %
Utilities			
APA Group	3,659,452	33,557	3.36
AGL Energy Limited	1,250,708	31,893	3.19
		65,450	6.55
Consumer Discretionary			
Invocare Limited	1,358,474	19,970	2.00
ARB Corporation	945,447	14,853	1.49
Tatts Group Limited	2,489,000	10,404	1.04
Flight Centre	270,000	10,341	1.04
		55,568	5.57
Health Care			
Sonic Healthcare	822,031	19,910	1.99
Ramsay Healthcare	264,500	19,466	1.95
Primary Healthcare	2,484,500	9,044	0.91
Regis Healthcare	650,428	2,556	0.26
Ansell Limited	87,130	2,068	0.21
		53,044	5.32
Energy			
New Hope Corporation	14,815,952	22,668	2.27
Woodside Petroleum Limited	525,802	15,707	1.57
Caltex Australia	151,950	4,803	0.48
Santos Limited	615,292	1,864	0.19
		45,042	4.51
Materials			
BHP Billiton	724,822	16,874	1.69
Brickworks Limited	436,209	6,015	0.60
		22,889	2.29
Property Trusts			
Lend Lease	350,035	5,828	0.58
Westfield Corporation	233,157	1,872	0.19
Scentre Group	290,514	1,177	0.12
		8,877	0.89
TOTAL PORTFOLIO		948,724	95.00
Investment Portfolio		946,190	94.73
Trading Portfolio		2,534	0.27
Total Portfolio		948,724	95.00
Cash and dividends receivable		49,893	5.00
Total Investment Assets		998,617	100.00

The Group is a substantial shareholder in accordance with the Corporations Act 2001 of Lindsay Australia Limited, holding 5.64% of the issued capital as at 30 June 2017. The Group is not a substantial shareholder in any other investee corporation as each equity investment represents less than 5% of the issued capital of the investee corporation.

GROUP PROFILE

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

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

Corporate Objectives

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

Investment Strategy

The Group’s investment strategy focuses on investing in well managed companies, with a profitable history and that offer attractive dividend yields. The strategy, implemented by Contact Asset Management, incorporates bottom up stock selection, focusing on the merits of individual companies rather than market and economic trends.

Dividend Policy

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

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

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

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

Management

From 1 November 2016 the portfolio management and advisory function of BKI was externalised to Contact Asset Management Pty Ltd (“Contact”). Contact is majority owned by Mr Tom Millner and Mr Will Culbert, the former CEO and Portfolio Manager respectively of BKI, with the remaining 20% owned by Washington H Soul Pattinson and Company Limited. The BKI Board of Directors and Investment Committee have continued to perform their current functions, and in particular, continue to meet regularly to review the portfolio and set the investment strategy of BKI. Incorporating the investment management services of Contact, BKI will ensure it maintains the disciplined adherence to its long standing and successful investment philosophy.

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

CHAIRMAN'S ADDRESS

Dear Shareholders,

I am pleased to enclose the 14th Annual Report of BKI Investment Company Limited (BKI) for the year to 30 June 2017.

Result Highlights

BKI's Net Operating Result before special investment revenue increased from \$41.2m to \$41.8m, while the Net Profit Attributable to Shareholders increased 8% to \$45.6m.

The BKI Board has declared a Final Dividend of 3.70cps, up from the 3.65cps Final Dividend paid last year. This dividend will be fully franked, like all previous BKI dividends paid to shareholders. BKI's Retained Profits as at 30 June 2017 totalled \$47.4m prior to the declaration of this dividend.

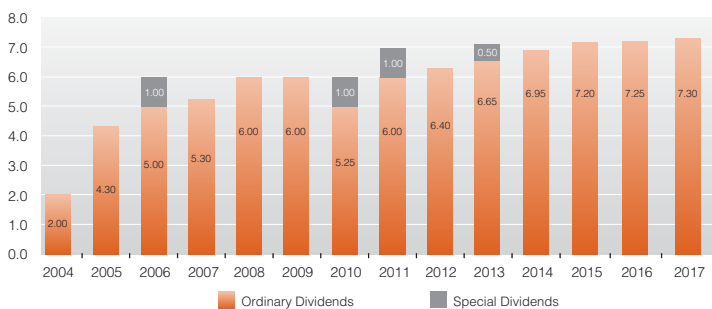
BKI's Net Operating Result of \$41.8m was mainly driven by higher dividends received from Transurban Limited, APA Group, Sydney Airports, Macquarie Group, TPG Telecom and Ramsay Healthcare. Lower dividends received from BHP Billiton, Woolworths, Woodside Petroleum, ANZ Banking Group and Suncorp Group impacted the result, while revenues from bank deposits and investments held for trading were also lower than the corresponding period.

BKI received \$3.9m in special dividend income from participating in the Telstra Corporation off market buy back. This compares to \$1.1m of special dividends received last year.

Dividends

A fully franked Final Ordinary Dividend of 3.70cps was declared, bringing the total 2017FY dividend to 7.30cps, representing a 96% pay-out ratio on BKI's Net Profit. As at 30 June 2017, BKI's fully franked dividend yield was 4.5% (based on the immediate past 12 Month rolling dividend and share price of \$1.62), while the grossed up yield was 6.4% (assumes a tax rate of 30%).

BKI has been listed since December 2003, and during this time, the Company has paid a total of \$465m or 85.1cps in dividends to BKI shareholders, including five fully franked Special Dividends passed on to shareholders.



Above: Fully franked Interim and Final dividends declared (cents per share)

The last trading date to be eligible for the Final Dividend is Thursday 3 August 2017. Key dates for the Fully Franked Final Dividend are as follows:

Event	Date
Last trading date to be eligible for the Final Dividend	Thursday 3 August 2017
Ex-Dividend Date	Friday 4 August 2017
Record Date	Monday 7 August 2017
DRP Nomination	Tuesday 8 August 2017
Payment Date	Wednesday 23 August 2017

CHAIRMAN'S ADDRESS (continued)

Dividend Reinvestment Plan (DRP)

BKI's DRP will be maintained, offering shareholders the opportunity to acquire further ordinary shares in BKI. The DRP will not be offered at a discount. The DRP price will be calculated using the average of the daily volume weighted average sale price of BKI's shares sold in the ordinary course of trading on the ASX during the 5 trading days after, but not including, the Record Date (Monday 7 August 2017).

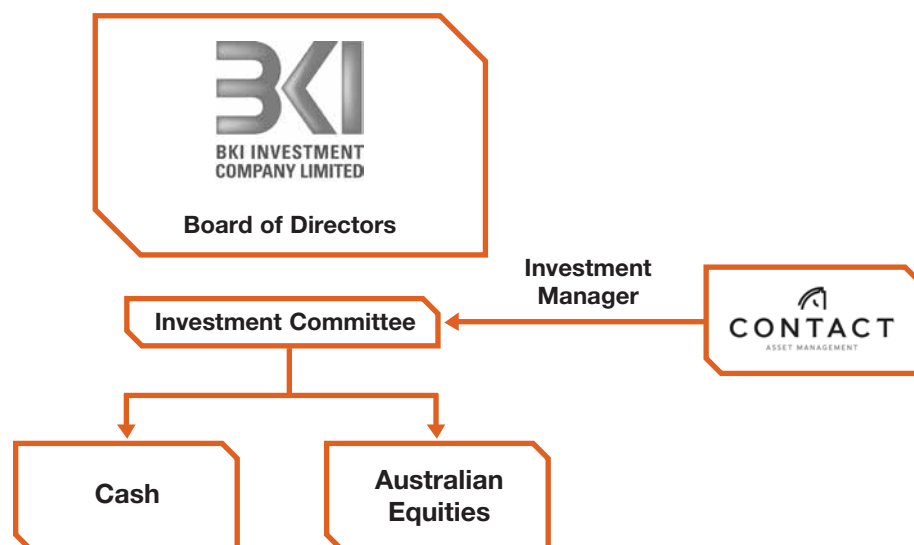
Externalised Management

On 26 September 2016 BKI announced that the management of its investment portfolio would be externalised from 1 November 2016. The portfolio management and advisory function has been assumed by Contact Asset Management Pty Ltd ("Contact"), a new investment management company majority owned by Mr Tom Millner and Mr Will Culbert, the former CEO and Portfolio Manager respectively of BKI. Mr Millner and Mr Culbert each own 40% of Contact, with the remaining 20% owned by Washington H Soul Pattinson and Company Limited.

The BKI Board of Directors and Investment Committee has continued to perform their functions, and in particular, have continued to meet regularly to review the portfolio and set the investment strategy of BKI. Along with the investment management services of Contact we have ensured that our disciplined adherence to BKI's long standing and successful investment philosophy has been maintained.

We have ensured continued alignment of the Management team through a long-term, Investment Management Agreement ("IMA") and through the existing BKI shares already held by the principals of Contact. The IMA was negotiated on behalf of BKI by an Independent Board Committee comprising David Hall, Alex Payne and Ian Huntley. The key terms of the IMA can be found on the BKI website www.bkilimited.com.au

We have preserved BKI's low MER by locking in a long term Management Fee of only 0.10% with no Performance Fee charged to BKI shareholders. Two new Investment Analysts have been employed at Contact, they are due to commence in July and September.



Above: Organisational chart of BKI Investment Company with Contact as Investment Manager

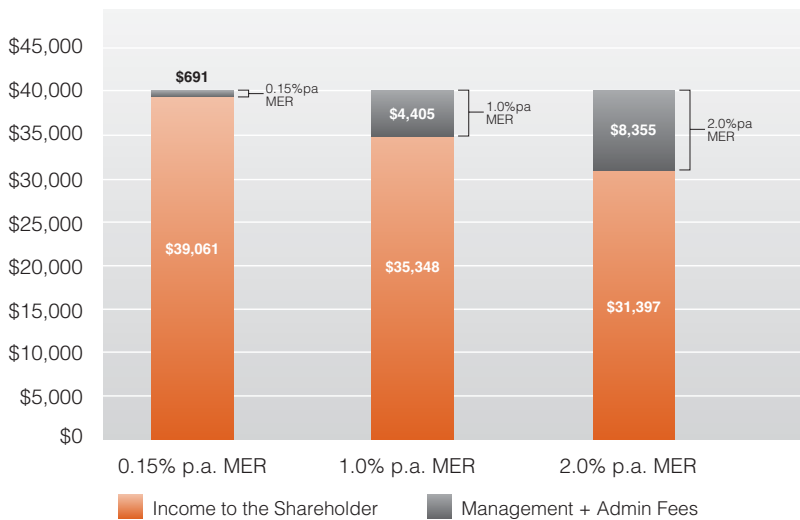
CHAIRMAN'S ADDRESS (continued)

Management Expense Ratio (MER)

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

BKI's MER as at 30 June 2017 was 0.15%, down from 0.16% reported at 30 June 2016.

Based on an investment of \$10,000 in BKI.ASX and using BKI's 13 year Total Shareholder Return of 11.2%pa, you can see from the chart below the significant difference that a low MER can make to a shareholders returns. Over a 13-year period the management fee to the shareholder charging 0.15% is \$691, compared to a fee of \$8,355 from an investment product charging the shareholder 2.00%. At BKI we will always be focused on keeping costs low.



Above: 11.2% return p.a. over 13 years, based on \$10k investment in BKI.ASX

Performance

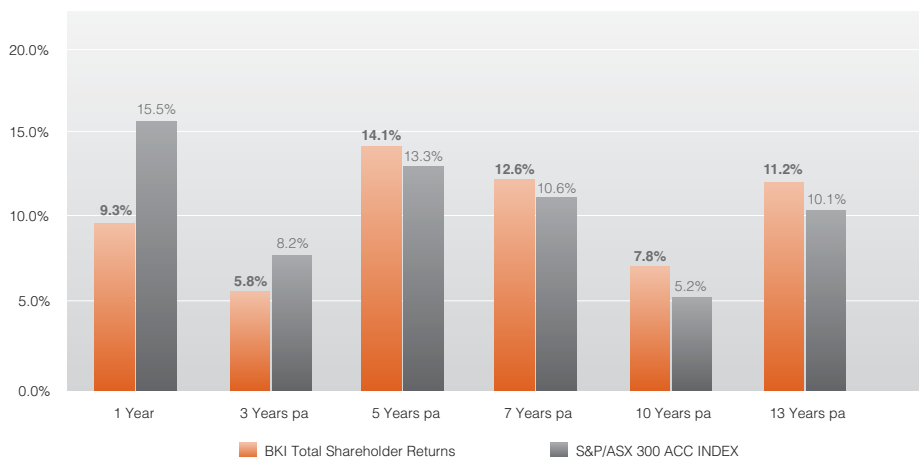
BKI's Total Shareholder Return including franking credits for the year to 30 June 2017 was 9.3%, compared to the S&P/ASX 300 Accumulation Index, which returned 15.5% over the same period. BKI's 13 year Total Shareholder Return including franking credits was 11.2% per annum as at 30 June 2017, compared to the S&P/ASX 300 Accumulation Index, which returned 10.1% per annum over the same period.

BKI's Net Portfolio Return (after all operating expenses, provision and payment of both income and capital gains tax and the reinvestment of dividends) for the year to 30 June 2017 was positive 9.1%.

The performance figures above exclude the value of franking credits which have been passed on by BKI to its shareholders. The following chart shows BKI's Total Shareholder Returns including Franking Credits. The S&P/ASX 300 Accumulation Index has been franked to 80%.

BKI's Total Shareholder Returns including Franking Credits for 5 years, 10 years and 13 years has delivered 14.1% per annum, 7.8% per annum and 11.2% per annum respectively.

CHAIRMAN'S ADDRESS (continued)



Above: BKI Total Shareholder Returns Including Franking Credits as at 30 June 2017

Portfolio Movements

BKI's total net investment over FY2017 was approximately \$54m, with major long term investments made in companies including; Flight Centre, Sydney Airport, Telstra Corporation, Sonic Healthcare, Challenger Limited, Lend Lease, IOOF Group, Macquarie Group, Transurban Group and TPG Telecom.

The main disposals from BKI's investment portfolio included Fairfax Media, Crown Resorts, Programmed Maintenance and Salmat Limited. BKI also disposed of half of the BHP Billiton position and participated in the off market buy back by Telstra Corporation.

Stock	% of Total Portfolio
1 Commonwealth Bank	9.3%
2 National Australia Bank	8.0%
3 Westpac Banking Corp	6.9%
4 ANZ Banking Group	4.5%
5 Wesfarmers Limited	4.2%
6 Telstra Corporation	4.0%
7 APA Group	3.4%
8 AGL Energy Limited	3.2%
9 Transurban Group	3.1%
10 TPG Telecom	2.9%
11 Woolworths Limited	2.7%
12 Sydney Airport	2.4%
13 New Hope Corporation	2.3%

Stock	% of Total Portfolio
14 IAG Limited	2.1%
15 Macquarie Group	2.0%
16 ASX Limited	2.0%
17 Invocare Limited	2.0%
18 Sonic Healthcare	2.0%
19 Challenger Limited	2.0%
20 Ramsay HealthCare	1.9%
21 Suncorp Group	1.8%
22 BHP Billiton	1.7%
23 Woodside Petroleum	1.6%
24 ARB Corporation	1.5%
25 Qube Holdings	1.3%
Cash and cash equivalents	5.0%
Total of Top 25 including cash and cash equivalents	83.8%

CHAIRMAN'S ADDRESS (continued)

Share Sale Agreements

During FY2016 and FY2017 BKI completed the acquisition of four unlisted investment company's with net assets of approximately \$36m. The portfolios acquired were a strong fit with BKI's existing portfolio. An investment in BKI will now provide the vendors with administration simplicity as well as access to a low cost diversified equity portfolio, increasing fully franked dividend distributions and capital growth.

Share Purchase Plan

BKI announced on 22 June 2017 that it had raised \$21.2m under its 2017 Share Purchase Plan (SPP). BKI Shareholders were given the opportunity to purchase shares up to a maximum value of \$15,000 at \$1.58 per share. The offer was once again attractive for shareholders giving them the opportunity to purchase new shares without paying brokerage plus being eligible for the 3.70cps final dividend declared today by the Company in respect of the 2017 financial year.

Outlook

The S&P/ASX 300 Index generated very strong returns in FY2017. These returns have been driven by Australian investors continuing their search for yield, investing in sectors like Diversified Financials and the Banks, returning 28% and 22% respectively over the year.

The official cash rate has been 1.50% for 11 months now and provided there is no change to jobs growth or consumer spending, we believe that Australia's historically low interest rate environment will continue into FY2018. This situation will continue to encourage investors into equity markets and in particular into stocks that are offering attractive and sustainable dividend yields.

The BKI portfolio is well placed for the long-term and remains in a strong financial position with no debt, and cash and cash equivalents representing approximately 5% of the portfolio.

Yours sincerely,



Robert Millner
Chairman

DIRECTORS' REPORT

The Directors of BKI Investment Company Limited ("the Company", or "BKI") present the following report on the Company and its controlled entities ("the Group") for the year to 30 June 2017.

1. Directors

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

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

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

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

Former listed company directorships within the last three years:

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

Special Responsibilities:

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

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

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

Special Responsibilities:

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

Ian Thomas Huntley, BA – Independent Non-Executive Director

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

Special Responsibilities:

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

DIRECTORS' REPORT (continued)

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

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

Special Responsibilities:

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

2. Key Management Personnel

Thomas Charles Dobson Millner, B.Des (Industrial), GDipAppFin, F Fin, GAICD – Chief Executive Officer (resigned 31 October 2016)

Mr Millner joined the Company in December 2008 and has been responsible for the management of BKI's Investment Portfolio from this time. Prior to this Mr Millner held various roles with Souls Funds Management covering research, analysis and business development, and during this time was responsible for the Investment Portfolio of BKI. Effective 1 November 2016 BKI externalised the management of its Investment Portfolio to Contact Asset Management Pty Limited. From this date Mr Millner ceased being CEO of BKI and commenced management of the BKI Investment Portfolio as Portfolio Manager.

Mr Millner is currently a non-executive director of Washington H Soul Pattinson and Company Limited and New Hope Corporation Limited, and was previously a non-executive director of PM Capital Global Opportunities Fund Limited.

Special Responsibilities:

- Member of the Investment Committee

Jaime Pinto, BComm, CA – Company Secretary

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 of Quickstep Holdings Limited (ASX:QHL) and URB Investments Limited (ASX:URB), and is Company Secretary and CFO of a number of unlisted investment and industrial companies.

3. Meetings of Directors

Summarised below are the numbers of Board meetings and Committee meetings held during the year to 30 June 2017, and the numbers of meetings attended by each Director.

	Board ¹		Investment		Audit		Remuneration		Nomination ²	
	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend
RD Millner	10	10	11	13	-	-	2	2	1	1
AJ Payne	11	11	13	13	2	2	2	2	-	-
DC Hall	11	11	-	-	2	2	2	2	1	1
IT Huntley	10	11	12	13	2	2	2	2	1	1

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

² The sole meeting of the Nomination Committee was held in July 2016. Mr AJ Payne was not a member of the Committee at this time as he was scheduled for re-election as a Director under the Company's Director rotation policy. Subsequent to being re-elected as a Director at the 2016 AGM, Mr AJ Payne was reappointed to the Nomination Committee, and Mr DC Hall resigned from the Committee as he is due for re-election as a Director at the 2017 AGM.

DIRECTORS' REPORT (continued)

4. Principal Activities

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

5. Operating Results

BKI's Net Operating Result before special investment revenue increased 1.5% to \$41.8m (2016: \$41.2m), supported by increased dividends from AGL Energy, APA Group, Transurban Limited, Macquarie Group, Sydney Airports, TPG Telecom and Ramsay Healthcare. Lower dividends received from BHP Billiton, Woolworths Limited, Woodside Petroleum, ANZ Banking Group and Primary Healthcare negatively impacted the result. Revenues from bank deposits and investments held for trading were again lower than the corresponding period.

BKI received \$3.9m in special dividend income from participating in the Telstra Corporation off market buy back. This compares to \$1.1m of special dividends received in 2016FY.

BKI's Total Shareholder Return including franking credits for the year to 30 June 2017 was 9.3%, compared to the S&P/ASX 300 Accumulation Index which returned 15.5% over the same period. BKI's 13 year Total Shareholder Return including franking credits was 11.2% per annum as at 30 June 2017, compared to the S&P/ASX 300 Accumulation Index which returned 10.1% per annum over the same period.

BKI's Net Portfolio Return (after all operating expenses, provision and payment of both income and capital gains tax and the reinvestment of dividends) for the year to 30 June 2017 was positive 9.1%.

6. Review of Operations

Operating expenses of \$1.51m were in line with the previous year (2016: \$1.48m). This, combined with an increase in the average Total Portfolio Value during the year, lowered BKI's MER to 0.15% (2016: 0.16%).

BKI's net investment during FY2017 was approximately \$54m, with major long term investments made in companies including; Flight Centre, Sydney Airport, Telstra Corporation, Sonic Healthcare, Challenger Limited, Lend Lease, IOOF Group, Macquarie Group, Transurban Group and TPG Telecom. The main disposals from BKI's investment portfolio included Fairfax Media, Crown Resorts, Programmed Maintenance and Salmat Limited. BKI also disposed of half of the BHP Billiton position and participated in the off market buy back by Telstra Corporation.

During the year BKI completed the acquisition of one unlisted investment company with net assets of \$4.2m. The portfolio acquired was a strong fit with BKI's existing portfolio. BKI has now completed five transactions of this nature, which benefit existing BKI shareholders by increasing the size of BKI's portfolio in a cost-effective manner.

7. Financial Position

Net assets of the Group increased during the financial year to \$940m (2016: \$880.0m). The acquisition of one unlisted investment entity increased assets by \$4.2m during the year, the SPP in June 2017 increased funds by an additional \$21.2m, and the market value of the investment portfolio increased \$37m.

8. Employees

The Group had no employees as at 30 June 2017 (2016: two).

9. Significant Changes in the State of Affairs

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

DIRECTORS' REPORT (continued)

10. Likely Developments and Expected Results

The operations of the Group will continue with planned long term investments in Australian equities and fixed interest securities. Neither the expected results of those operations nor the strategy for particular investments have been included in this report as, in the opinion of the Directors, this information would prejudice the interests of the Group if included.

11. Significant Events after Balance Date

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

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

12. Dividends

There were two dividend payments made during the year to 30 June 2017:

- On 26 August 2016, a final total dividend of \$21,842,342 (ordinary dividend of 3.65 cents per share fully franked) was paid out of retained profits at 30 June 2016.
- On 27 February 2017, an interim total dividend of \$21,710,468 (ordinary dividend of 3.60 cents per share, fully franked) was paid out of retained profits at 31 December 2016.

In addition, the Directors declared a final ordinary dividend of 3.70 cents per share fully franked payable on 23 August 2017.

At 30 June 2017 there are \$15,676,205 of franking credits available to the Group (2016: \$15,714,362) after allowing for payment of the final, fully franked ordinary dividend.

13. Environmental Regulations

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

14. Directors' and Officers' Indemnity

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

During the year to 30 June 2017, the Group paid premiums in respect of an insurance contract to insure each of the officers against all liabilities and expenses arising as a result of work performed in their respective capacities. The Directors have not included details of the nature of liabilities covered or the amount of premium paid in respect of the insurance contract as such disclosure is prohibited under the terms of the contract.

15. Proceedings on Behalf of the Group

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

DIRECTORS' REPORT (continued)

16. Non-audit Services

The external auditor, MGI Sydney Assurance Services Pty Limited ("MGI Sydney"), did not provide any non-audit services to the Group during the year to 30 June 2017, nor did the Group pay any fees for such services.

17. Auditor's Independence Declaration

The Auditor's Independence Declaration for the year to 30 June 2017 is on page 50.

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

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

SHAREHOLDINGS

Name	Number of Shares
RD Millner	8,083,574
DC Hall	2,306,820
AJ Payne	355,366
IT Huntley	11,224,980
J Pinto	108,320

19. Corporate Governance Statement

BKI's Corporate Governance Statement can be found on the Company's website at the following address:

<http://bkilimited.com.au/about-us/corporate-governance/#cgs>

20. Remuneration Report (Audited)

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

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

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

Mr Jaime Pinto, the Company Secretary, is classified as Key Management Personnel.

Remuneration Policy

The Board is responsible for determining and reviewing remuneration arrangements, including performance incentives, for the Directors themselves and the Company Secretary, and previously for the Chief Executive Officer and the Portfolio Manager. 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.

DIRECTORS' REPORT (continued)

Elements of Director and Executive remuneration

The Board's policy for determining the nature and amount of remuneration for Key Management Personnel and other Key Executives 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 and other Key Executives 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 and other Key Executives with those of the shareholders.
- The Remuneration Committee reviews the remuneration packages of Key Management Personnel and other Key Executives annually by reference to the Group's performance, Executive performance and comparable information from industry sectors.

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

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

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

Performance-based Remuneration

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

The aims of the BKI Incentive Scheme are:

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

As at 1 July 2016, the participants in the BKI Incentive Scheme were Mr Thomas Millner, the CEO, Mr William Culbert, the Portfolio Manager, and Mr Jaime Pinto, the Company Secretary. The employment of Mr Thomas Millner and Mr William Culbert was terminated effective 31 October 2016. In accordance with their Deeds of Termination, all unvested incentives previously allocated to Mr Millner and Mr Culbert under the BKI Incentive Scheme were forfeited. Therefore, at the date of this report the only participant in the BKI Incentive Scheme is Mr Jaime Pinto.

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

DIRECTORS' REPORT (continued)

Short Term Incentive

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

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

For the 2017FY the value of the Short Term Incentive for the CEO was calculated as 20% of CEO Base Remuneration, the value of the Short Term Incentive for the Portfolio Manager was calculated as 15% of Portfolio Manager Base Remuneration, and the Short Term Incentive for the Company Secretary was set at 40% of the CEO Incentive. The CEO and Portfolio manager subsequently forfeited their entitlement to the 2017FY Short Term Incentive.

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

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

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

The following table summarises performance for the year to 30 June 2017 against the Short Term Incentive measurement criteria:

1 Year BKI Total Portfolio Return	S&P/ASX 300 Acc Index over 1 Year	Over / (Under) Performance	% Entitlement to Eligible Bonus
9.1%	13.8%	(4.7%)	Nil

The vesting criteria for the 2017 Financial Year Short Term Incentives were therefore not satisfied, and the Company did not award any short term incentives in respect of 2017 Financial Year Short Term incentives.

Long Term Incentive

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

For the year ended 30 June 2017, the CEO's Long Term Incentive was calculated on 30% of the Base Remuneration of the CEO, the Portfolio Manager's Long Term Incentive was calculated as 20% of Portfolio Manager Base Remuneration, and the Company Secretary's Long Term Incentive was set at 40% of the CEO Long Term Incentive and subject to the same vesting conditions. The CEO and Portfolio Manager subsequently forfeited their entitlement to the 2017FY Long Term Incentive, and to all unvested Long Term Incentives issued in respect of previous years.

DIRECTORS' REPORT (continued)

All outstanding Long Term Incentives granted are to be awarded to participants after 4 years provided that BKI's 4 year Total Shareholder Returns exceed the S&P/ASX 300 Accumulation Index over the same period. Should that test fail on the day, it is to be retested in Year 5.

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

During the 2017 Financial Year the following outstanding Long Term Incentives granted by the Company became eligible for vesting:

Incentive Issue	Issue date	Number of rights granted	Value of initial grant	Initial vesting date	Expiry date	Number of rights vested	Number of rights yet to vest/lapse
J Pinto 2014	01/07/2013	21,998	\$30,600	30/06/2017	30/06/2018	21,998	-

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

Period	4 year BKI total shareholder return	S&P/ASX 300 accumulation index over 4 years	Over/ (Under) performance	% Entitlement to eligible bonus
1/07/2013 to 30/06/2017	7.9%	9.2%	(1.3)%	nil

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

No outstanding Long Term Incentives granted by the Company became eligible for vesting between 1 July 2017 and the date of this report.

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

Incentive Issue	Issue date	Number of rights granted	Value of initial grant	Initial vesting date	Expiry date	Number of rights vested	Number of rights yet to vest/lapse
J Pinto 2014	01/07/2013	21,998	\$30,600	30/06/2017	30/06/2018	-	21,998
J Pinto 2015	01/07/2014	18,545	\$30,600	30/06/2018	30/06/2019	-	18,545
J Pinto 2016	01/07/2015	18,628	\$31,500	30/06/2019	30/06/2020	-	18,628
J Pinto 2017	01/07/2016	24,030	\$37,800	30/06/2020	30/06/2021	-	24,030

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

DIRECTORS' REPORT (continued)

Remuneration Details for the Year to 30 June 2017

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

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

Name	Position
RD Millner	Non-Executive Chairman
DC Hall AM	Non-Executive Director
AJ Payne	Non-Executive Director
IT Huntley	Non-Executive Director
TCD Millner	Chief Executive Officer (resigned 31 October 2016)
JP Pinto ¹	Company Secretary ¹

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

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

Directors:

	Primary Fee \$	Superannuation \$	Total \$
2016			
RD Millner	63,699	6,051	69,750
DC Hall	49,315	4,685	54,000
AJ Payne	40,297	3,828	44,125
IT Huntley	40,297	3,828	44,125
Total	193,608	18,392	212,000
2017			
RD Millner	65,205	6,195	71,400
DC Hall	50,411	4,789	55,200
AJ Payne ¹	19,697	25,378	45,075
IT Huntley	41,164	3,911	45,075
Total	176,477	40,273	216,750

¹ – Includes salary sacrifice superannuation contributions

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

DIRECTORS' REPORT (continued)

Other Key Management Personnel:

	Fixed remuneration			Share based performance related remuneration			Total Remuneration
	Salary \$	Superannuation \$	Total	STI \$	LTI \$	Total \$	
2016							
TCD Millner	295,692	19,308	315,000	-	75,132	75,132	390,132
J Pinto	-	-	-	-	31,178	31,178	31,178
Total	295,692	19,308	315,000	-	106,310	106,310	421,310
2016							
TCD Millner	98,564	6,539	105,103	-	(117,283)	(117,283)	(12,180)
J Pinto	-	-	-	-	(616)	(616)	(616)
Total	98,564	6,539	105,103	-	(117,899)	(117,899)	(12,796)

The value included in the preceding table for share based performance related remuneration (STI and LTI) is the portion of the estimated value of the performance rights which has been allocated as an expense in each relevant reporting period.

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

	Fixed remuneration		Performance-related - STI		Performance-related - LTI	
	2017	2016	2017	2016	2017	2016
TCD Millner	(863)%	80.7%	0%	0%	963%	19.3%
J Pinto	0%	0%	0%	0%	100%	100%

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

Contract of Employment

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

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



Robert D Millner
Director

Sydney
18 July 2017

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017 \$'000	2016 \$'000
Ordinary revenue from investment portfolio	2(a)	43,398	41,738
Revenue from bank deposits	2(c)	656	1,155
Other income	2(d)	5	-
Other gains	2(e)	403	940
Income from operating activities before special investment revenue		44,462	43,833
Operating expenses	3	(1,506)	(1,479)
Discount on acquisition of controlled entities, net of expenses		188	114
Operating result before income tax expense and special investment revenue		43,144	42,468
Income tax expense	4(a)	(1,357)	(1,298)
Net operating result before special investment revenue		41,787	41,170
Special investment revenue	2(b)	3,861	1,082
Net operating profit		45,648	42,252
Profit for the year attributable to members of the Company		45,648	42,252
		2017	2016
		Cents	Cents
Basic and diluted earnings per share before special dividend income	6	6.93	7.16
Basic and diluted earnings per share after special dividend income	6	7.57	7.35

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

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017 \$'000	2016 \$'000
Profit for the year attributable to members of the Company		45,648	42,252
Other comprehensive income			
Unrealised gains/ (losses) on investment portfolio		52,773	(48,470)
Deferred tax (expense)/ benefit on unrealised gains/ losses on investment portfolio		(15,832)	14,541
Realised losses on investment portfolio		(14,840)	(9,244)
Tax benefit relating to realised losses on investment portfolio	4(a)	4,452	2,773
Total other comprehensive income		26,553	(40,400)
Total comprehensive income		72,201	1,852

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017

	Note	2017 \$'000	2016 \$'000
Current assets			
Cash and cash equivalents	7	40,973	63,740
Trade and other receivables	8	8,920	8,315
Trading portfolio	9	2,534	479
Prepayments		16	24
Total current assets		52,443	72,558
Non-current assets			
Investment portfolio	9	946,190	854,460
Property, plant and equipment		-	21
Deferred tax assets	10	15,504	12,129
Total non-current assets		961,694	866,610
Total assets		1,014,137	939,168
Current liabilities			
Trade and other payables		436	484
Current tax liabilities	11	48	381
Employee benefits		-	16
Total current liabilities		484	881
Non-current liabilities			
Deferred tax liabilities	12	73,298	58,308
Employee benefits		-	19
Total non-current liabilities		73,298	58,327
Total liabilities		73,782	59,208
Net assets		940,355	879,960
Equity			
Share capital	13	749,967	718,221
Revaluation reserve	14	170,228	133,287
Realised capital gains reserve	15	(27,228)	(16,840)
Retained profits	16	47,388	45,292
Total equity		940,355	879,960

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2017

	Share Capital \$'000	Revaluation Reserve \$'000	Realised Capital Gains Reserve \$'000	Retained Profits \$'000	Total Equity \$'000
Total equity at 1 July 2015	652,562	167,216	(10,369)	43,827	853,236
Issue of shares, net of issue costs	65,659	-	-	-	65,659
Dividends paid or provided for	-	-	-	(40,787)	(40,787)
Unrealised loss on revaluation of investment portfolio	-	(48,470)	-	-	(48,470)
Provision for tax on unrealised loss on revaluation of investment portfolio	-	14,541	-	-	14,541
Net operating profit for the year	-	-	-	42,252	42,252
Net realised loss through other comprehensive income	-	-	(6,471)	-	(6,471)
Total equity at 30 June 2016	718,221	133,287	(16,840)	45,292	879,960
Total equity at 1 July 2016	718,221	133,287	(16,840)	45,292	879,960
Issue of shares, net of issue costs	31,746	-	-	-	31,746
Dividends paid or provided for	-	-	-	(43,552)	(43,552)
Unrealised gain on revaluation of investment portfolio	-	52,773	-	-	52,773
Provision for tax on unrealised gain on revaluation of investment portfolio	-	(15,832)	-	-	(15,832)
Net operating profit for the year	-	-	-	45,648	45,648
Net realised loss through other comprehensive income	-	-	(10,388)	-	(10,388)
Total equity at 30 June 2017	749,967	170,228	(27,228)	47,388	940,355

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 2017

	Note	2017 \$'000	2016 \$'000
Cash flows from operating activities			
Dividends and distributions received		46,521	42,242
Other receipts in the course of operations		5	-
Payments to suppliers and employees		(1,602)	(1,474)
Proceeds from sale of trading portfolio		719	2,748
Payments for trading portfolio		(2,370)	-
Interest received		808	1,292
Income tax paid		(1,373)	(1,881)
Net cash inflow from operating activities	17(a)	42,708	42,927
Cash flows from investing activities			
Net cash from acquisition of controlled entities		(12)	137
Proceeds from sale of investment portfolio		26,335	29,886
Payments for investment portfolio		(75,796)	(43,451)
Payments for plant and equipment		-	(9)
Net cash outflow from investing activities		(49,473)	(13,437)
Cash flows from financing activities			
Proceeds from issues of ordinary shares less issue costs		20,985	27,883
Dividends paid	5(b)	(36,987)	(34,766)
Net cash outflow from financing activities		(16,002)	(6,883)
Net (decrease)/ increase in cash held		(22,767)	22,607
Cash at the beginning of the year		63,740	41,133
Cash at the end of the year	7	40,973	63,740

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

1. Summary of Significant Accounting Policies

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

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

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

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

Basis of Preparation

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

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

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

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Accounting Policies

a. Principles of Consolidation

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

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.

Valuation of investment portfolio

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

1. Summary of Significant Accounting Policies (continued)

c. Financial Instruments (continued)

Valuation of trading portfolio

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

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

Fair value

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

d. Employee Benefits

(i) Wages, salaries and annual leave

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

(ii) Long service leave

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

(iii) Share incentives

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

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

For the Long Term Incentive Plan, the incentives are based on the performance of the Group over a minimum four year period. The incentives are settled in shares. Expenses are recognised over the assessment period based on the amount expected to be payable under this plan, resulting in a provision for incentive payable being built up on the balance sheet over the assessment period.

In the event that the executive does not complete the period of service, the cumulative expense is reversed.

e. Revenue

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

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

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

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

f. Cash and Cash Equivalents

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

1. Summary of Significant Accounting Policies (continued)

g. Plant and Equipment

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

h. Goods and Services Tax (GST)

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

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

i. Segment Reporting

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

j. Comparative Figures

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

k. Rounding of Amounts

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

l. Critical Accounting Estimates and Judgments

Deferred Tax Balances

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

1. Summary of Significant Accounting Policies (continued)

m. Australian Accounting Standards not yet effective

The Group has not applied any Australian Accounting Standards or UIG interpretations that have been issued as at balance date but are not yet operative for the year ended 30 June 2017 (“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.

	2017 \$'000	2016 \$'000
2. Revenues		
(a) Ordinary revenue from investment portfolio		
Fully franked dividends	37,394	37,220
Unfranked dividends	2,012	1,431
Trust distributions	3,992	3,087
Total ordinary revenue from investment portfolio	43,398	41,738
(b) Special investment revenue		
Fully franked dividends	3,861	1,082
(c) Revenue from bank deposits		
Interest received	656	1,155
(d) Other income		
Other revenue	5	-
(e) Other gains		
Net realised gain on sale of investments held for trading	214	1,027
Net unrealised gain/ (loss) on investments held for trading	189	(87)
Total other gains	403	940
Total income	48,323	44,915
3. Operating expenses		
Administration expenses	385	376
Occupancy expenses	4	13
Employment expenses	251	930
Investment Management	669	-
Professional fees	190	153
Depreciation	7	7
Total operating expenses	1,506	1,479

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

2017
\$'000

2016
\$'000

4. Tax expense

(a) Reconciliation of income tax expense

The aggregated amount of income tax expense attributable to the year differs from the amounts prima facie payable on profits from ordinary activities. The difference is reconciled as follows:

Operating profit before income tax expense, including gross gains on investment portfolio	47,005	43,550
Tax calculated at 30% (2016: 30%)	14,102	13,065
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
- Franked dividends and distributions received	(12,377)	(11,491)
- Permanent difference to reset tax cost base of investments acquired on acquisition of subsidiaries	(265)	(195)
- Discount on acquisition of subsidiaries, net of expenses	(51)	(34)
- Prior year over provision	(52)	(47)
Net income tax expense on operating profit before net gains on investments	1,357	1,298
Net realised losses on investment portfolio	(14,840)	(9,244)
Tax calculated at 30% (2016: 30%)	(4,452)	(2,773)
Total tax benefit	(3,095)	(1,474)

(b) The components of tax expense comprise:

Current tax	151	1,264
Deferred tax	(3,194)	(2,691)
Prior year over provision	(52)	(47)
Total tax benefit	(3,095)	(1,474)

5. Dividends

(a) Dividends paid during the year

Final dividend for the year ended 30 June 2016 of 3.65 cents per share (2015 final: 3.65 cents per share) fully franked at the tax rate of 30%, paid on 26 August 2016

21,842 20,314

Interim dividend for the year ended 30 June 2017 of 3.60 cents per share (2016 interim: 3.60 cents per share) fully franked at the tax rate of 30%, paid on 27 February 2017

21,710 20,473

Total dividends paid

43,552 40,787

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

	2017 \$'000	2016 \$'000
5. Dividends (continued)		
(b) Reconciliation of total dividends paid to dividends paid in cash:		
Total dividends paid	43,552	40,787
Less: Dividends reinvested in shares via DRP	(6,565)	(6,021)
Dividends paid in cash	36,987	34,766
(c) Franking Account Balance		
Balance of the franking account after allowing for tax payable in respect of the current year's profits and the receipt of dividends recognised as receivables	25,483	24,703
Estimated impact on the franking account of dividends declared but not recognised as a liability at the end of the financial year (refer below)	(9,807)	(8,989)
Net imputation credits available for future dividends	15,676	15,714
Maximum fully franked dividends payable from available franking credits at the tax rate of 30% (2016: 30%)	36,578	36,667

(d) Dividends declared after balance date

Since the end of the year the Directors have declared a final ordinary dividend for the year ended 30 June 2017 of 3.70 cents per share fully franked at the tax rate of 30% (2016: final ordinary dividend of 3.65 cents per share fully franked at the tax rate of 30%), payable on 23 August 2017, but not recognised as a liability at the year end.

6. Earnings per share

Net operating profit	45,648	42,252
Earnings used in calculating basic and diluted earnings per share before special dividend income	41,787	41,170
Earnings used in calculating basic and diluted earnings per share after special dividend income	45,648	42,252

	2017 No. ('000)	2016 No. ('000)
Weighted average number of ordinary shares used in calculating basic and diluted earnings per share	602,860	574,631

	2017 Cents	2016 Cents
Basic and diluted earnings per share before special dividend income	6.93	7.16
Basic and diluted earnings per share after special dividend income	7.57	7.35

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

	2017 \$'000	2016 \$'000
7. Cash and cash equivalents		
Cash at bank	8,973	15,740
Short term bank deposits	32,000	48,000
	40,973	63,740
8. Trade and other receivables		
Dividends and distributions receivable	8,829	8,091
Interest receivable	32	184
Outstanding settlements	28	(3)
Other	31	43
	8,920	8,315
9. Financial Assets - Equity Portfolio		
Trading portfolio – current		
Listed securities at fair value held for trading	2,534	479
Investment portfolio – non-current		
Listed securities at fair value available for sale	946,190	854,460
Total Investment Portfolio	948,724	854,939

Fair Value Measurement

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

2017 2016
\$'000 \$'000

10. Deferred tax assets

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

Transaction costs on equity issues	252	371
Accrued expenses	21	121
Realised capital tax losses	15,231	11,637
Total	15,504	12,129

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	444	(165)	92	371
Accrued expenses	119	2	-	121
Realised capital tax losses	8,812	2,825	-	11,637
Balance as at 30 June 2016	9,375	2,662	92	12,129
Transaction costs on equity issues	371	(175)	56	252
Accrued expenses	121	(100)	-	21
Realised capital tax losses	11,637	3,594	-	15,231
Balance as at 30 June 2017	12,129	3,319	56	15,504

2017 2016
\$'000 \$'000

11. Current tax liabilities

Provision for income tax	48	381
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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

2017
\$'000

2016
\$'000

12. Deferred tax liabilities

The deferred tax asset balance comprises the following timing differences:

Revaluation of investments held	72,576	57,710
Unfranked dividends receivable and interest receivable	722	598
Total	73,298	58,308

Movements in deferred tax liabilities

	Opening balance \$'000	(Credited)/ charged to statement of comprehensive income \$'000	(Credited)/ charged to equity \$'000	Closing balance \$'000
Revaluation of investment portfolio	72,308	-	(14,598)	57,710
Unfranked dividends receivable and interest receivable	628	(30)	-	598
Balance as at 30 June 2016	72,936	(30)	(14,598)	58,308
Revaluation of investment portfolio	57,710	-	14,866	72,576
Unfranked dividends receivable and interest receivable	598	124	-	722
Balance as at 30 June 2017	58,308	124	14,866	73,298

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

2017
\$'000 2016
\$'000

13. Share capital

(a) Issued and paid-up capital

618,463,068 ordinary shares fully paid (2016: 598,420,148) **749,967** 718,221

(b) Movement in ordinary shares

	2017		2016	
	Number of shares	\$'000	Number of shares	\$'000
Beginning of financial year	598,420,148	718,221	556,560,509	652,562
Issued during the year:				
- dividend reinvestment plan	4,053,333	6,565	3,663,370	6,021
- share purchase plan	13,400,891	21,174	18,189,797	28,192
- acquisition of controlled entities	2,588,696	4,139	20,006,472	31,662
Gross funds raised				53,654
- less net transaction costs		(131)		(216)
End of the financial year	618,463,068	749,967	598,420,148	718,221

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

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

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

(c) Capital Management

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

The Group recognises that its capital will fluctuate in accordance with market conditions and in order to maintain or adjust the capital structure, 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 2017 net debt was \$Nil (2016: \$Nil).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

13. Share capital (continued)

(d) Acquisition of controlled entities

During the 2017FY the Company acquired 100% of the shares of one unlisted investment company (2016FY: three acquisitions were made). The acquisition benefits BKI shareholders by increasing the size of BKI's portfolio in a cost-effective manner, and at the same time reducing the per share cost of managing the portfolio.

The Company issued 2,588,696 new shares in BKI Investment Company Limited as consideration for the acquisition in 2017FY, having a fair value of \$4M. The acquisition resulted in BKI achieving a discount on acquisition, which is not allocated against the assets of the company purchased because only financial assets were purchased. The discount has therefore been included in "Discount on acquisition of controlled entities, net of expenses" in the "Consolidated Income Statement".

	2017	2016
	\$'000	\$'000

14. Revaluation reserve

The revaluation reserve is used to record increments and decrements on the revaluation of the investment portfolio, net of applicable income tax.

Balance at the beginning of the year	133,287	167,216
Gross revaluation of investment portfolio	52,773	(48,470)
Deferred provision for tax on unrealised gains/losses	(15,832)	14,541
Balance at the end of the year	170,228	133,287

15. Realised capital gains reserve

The realised capital gains reserve records net gains and losses after applicable income tax arising from the disposal of securities in the investment portfolio.

Balance at the beginning of the year	(16,840)	(10,369)
Net losses on investment portfolio transferred from statement of Comprehensive income	(10,388)	(6,471)
Balance at the end of the year	(27,228)	(16,840)

16. Retained profits

Balance at the beginning of the year	45,292	43,827
Net profit attributable to members of the Company	45,648	42,252
Dividends provided for or paid	(43,552)	(40,787)
Balance at the end of the year	47,388	45,292

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

	2017 \$'000	2016 \$'000
17. Notes to the statement of cash flows		
(a) Reconciliation of cash flow from operating activities to net operating profit		
Net operating profit	45,648	42,252
Non cash items:		
- Expenses associated with acquisition of subsidiary	(188)	(114)
- Non-cash purchases of held for trading investments	-	1,721
- Depreciation & impairment of fixed assets	19	7
- Loss on disposal of fixed assets	1	-
- Unrealised (gain)/ loss on trading investments	(189)	87
Changes in assets and liabilities, net of effects from consolidation of subsidiaries:		
- (Increase)/ decrease in trade and other receivables	(606)	(445)
- (Increase)/ decrease in held for trading investments	(1,865)	-
- (Increase)/ decrease in prepayments	8	5
- (Increase)/ decrease in deferred tax assets	285	164
- (Decrease)/ increase in payables	(44)	(2)
- (Decrease)/ increase in provisions	(34)	(1)
- (Decrease)/ increase in current tax liabilities	(333)	(607)
- (Decrease)/ increase in deferred tax liabilities	6	(140)
Net cash inflow from operating activities	42,708	42,927

(b) Non-cash financing and investing activities

(i) Dividend reinvestment plan

Under the terms of the dividend reinvestment plan, \$6,565,000 (2016: \$6,021,000) of dividends were paid via the issue of 4,053,333 shares (2016: 3,663,370).

(ii) Acquisition of controlled entities

During the year the Group acquired shares in one unlisted investment company via the issue of 2,588,696 new shares in BKI (refer Note 13 (d)).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

18. Management of Financial Risk

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

a. Financial instruments' terms, conditions and accounting policies

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

b. Net fair values

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

c. Credit risk

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

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

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

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

d. Market risk

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

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

The market value of the portfolio changes continuously because the market value of individual companies within the portfolio fluctuates throughout the day. The change in the market value of the portfolio is recognised through the Revaluation Reserve. Listed Investments represent 94% (2016: 91%) of total assets.

As at 30 June 2017, a 5% movement in the market value of the BKI portfolio would result in:

- A 5% movement in the net assets of BKI before provision for tax on unrealised capital gains (2016: 5%); and
- A movement of 7.7 cents per share in the net asset backing before provision for tax on unrealised capital gains (2016: 7.1 cents).

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

18. Management of Financial Risk (continued)

d. Market risk (continued)

At 30 June 2017, the spread of investments is in the following sectors:

Sector	Percentage of total investment		Amount	
	2017 %	2016 %	2017 \$'000	2016 \$'000
Financials	45.21	39.40	451,667	365,401
Industrials	9.54	8.74	95,247	81,064
Consumer staples	8.28	7.91	82,630	73,326
Telecommunications Services	6.84	11.18	68,310	103,702
Utilities	6.55	6.25	65,450	57,939
Consumer discretionary	5.57	5.09	55,568	47,100
Health care	5.32	4.95	53,044	45,755
Energy	4.51	4.42	45,042	40,975
Materials	2.29	3.86	22,889	35,700
Property trusts	0.89	0.43	8,877	3,977
Total investments	95.00	92.23	948,724	854,939
Cash and dividends receivable	5.00	7.77	49,893	72,058
Total portfolio	100.00	100.00	998,617	926,997

Securities representing over 5% of the investment portfolio at 30 June 2017 or 30 June 2016 were:

Company	Percentage of total investment		Amount	
	2017 %	2016 %	2017 \$'000	2016 \$'000
Commonwealth Bank	9.3	8.8	93,197	81,991
National Australia Bank	8.0	7.4	80,184	68,330
Westpac Banking Corporation	6.9	7.2	69,014	66,503
Telstra Corporation	4.0	5.5	39,708	51,104
TPG Telecom	2.9	5.7	28,602	52,598

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.

e. Interest Rate Risk

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

The Group has no financial liability as at 30 June 2017 (2016: Nil).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

18. Management of Financial Risk (continued)

f. Foreign Currency Risk

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

g. Liquidity risk

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

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

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

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

h. Capital risk management

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

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

19. Key Management Personnel Remuneration

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

Name	Position
RD Millner	Non-Executive Chairman
DC Hall AM	Non-Executive Director
AJ Payne	Non-Executive Director
IT Huntley	Non-Executive Director
TCD Millner	Chief Executive Officer (resigned 31 October 2016)
JP Pinto	Company Secretary ¹

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

Details of the nature and amount of each Non-Executive Director's and Other Key Management Personnel's emoluments from the Group in respect of the year to 30 June 2017 have been included in the Remuneration Report section of the Directors' Report.

The combined annual payment to all Non-Executive Directors is capped at \$300,000 until shareholders, by ordinary resolution, approve some other fixed sum amount. This amount is to be divided amongst the Directors as the Board may determine. These fees exclude any additional fee for any service based agreement which may be agreed from time to time and the reimbursement of out of pocket expenses. No such payments were made in 2017FY (2016: nil).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

20. Superannuation Commitments

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

21. Related Party Transactions

Related parties of the Group fall into the following categories:

(i) Controlled Entities

At 30 June 2017, subsidiaries of the Parent were:

	Country of incorporation	Percentage Owned (%)	
		2017	2016
Brickworks Securities Pty Limited	Australia	100	100
Huntley Investment Company Pty Limited	Australia	100	100
R Love Investments Pty Limited	Australia	100	100
Pacific Strategic Investments Pty Limited	Australia	100	100
George Meller Pty Limited	Australia	100	100
Bryn Cwar Holdings Pty Limited	Australia	100	100
WWM Pty Limited	Australia	100	100
Auburn Pty Limited	Australia	100	-

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

(ii) Directors/Officers Related Entities

Persons who were Directors/Officers of BKI Investment Company Limited for part or all of the year ended 30 June 2017 were:

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

Chief Executive Officer: TCD Millner (resigned 31 October 2016)

Company Secretary: JP Pinto¹

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

Corporate & Administrative Services Pty Limited

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

Fees paid to CAS for services provided to the Parent and controlled entities for the year to 30 June 2017 were \$122,100 (2016: \$122,100, including GST) and are at standard market rates. As at 30 June 2017 the Group owed \$10,175 to CAS (2016: Nil).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

21. Related Party Transactions (continued)

(ii) Directors/Officers Related Entities (continued)

Pitt Capital Partners Limited

The Group appointed Pitt Capital Partners Limited (**PCP**), an entity in which Mr RD Millner and Mr TCD Millner have an indirect interest, to act as Financial Advisor for the 2016 and 2017 Share Purchase Plans.

Fees payable to PCP for services provided to the Parent and controlled entities for the year to 30 June 2017 were \$55,000 (2016: \$49,500, including GST) and are at standard market rates. As at 30 June 2017 the Group owed \$55,000 to PCP (2016: Nil).

Contact Asset Management Pty Limited

Effective 1 November 2016, the Group appointed Contact Asset Management Pty Limited (**Contact**) as Investment Manager. Contact is an entity in which Mr RD Millner has an indirect interest and Mr TCD Millner has a direct interest.

Fees payable to Contact for services provided to the Parent and controlled entities for the year to 30 June 2017 were \$718,149 including GST (2016: Nil) and are at standard market rates. As at 30 June 2017 the Group owed \$91,541 to Contact (2016: Nil).

(iii) Transactions in securities

Share Holdings

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

2017	Balance as at 1 Jul	Granted as compensation	Net other changes	Balance as at 30 Jun	Net movements post balance date	Balance as at date of Annual Report
RD Millner ¹	8,555,552	-	(330,618)	8,224,934	(141,360)	8,083,574
DC Hall	297,326	-	2,009,494	2,306,820	-	2,306,820
AJ Payne	295,872	-	59,494	355,366	-	355,366
IT Huntley	11,224,980	-	-	11,224,980	-	11,224,980
TCD Millner ¹	7,660,745	64,230	37,997	7,762,972	-	N/A
J Pinto	77,937	25,692	4,691	108,320	-	108,320
Total	28,112,412	89,922	1,781,058	29,983,392	(141,360)	22,079,060
2016						
RD Millner ¹	8,484,091	-	71,461	8,555,552	-	8,555,552
DC Hall	277,970	-	19,356	297,326	-	297,326
AJ Payne	286,194	-	9,678	295,872	-	295,872
IT Huntley	11,224,980	-	-	11,224,980	-	11,224,980
TCD Millner ^{1,2}	7,597,492	27,148	36,105	7,660,745	-	7,660,745
J Pinto	39,943	28,869	9,125	77,937	-	77,937
Total	27,910,670	56,017	145,725	28,112,412	-	28,112,412

1 Common to RD Millner and TCD Millner as at 30 June 2017 are 7,289,287 shares (2016: 7,260,285) held in related companies and trusts in which both hold beneficial interests.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

(iii) Transactions in securities (continued)

Directors acquired shares through the Dividend Reinvestment Plan, the 2016 Share Purchase Plan, the 2017 Share Purchase Plan, and/ or on-market purchase.

Other Key Management Personnel acquired shares through the Dividend Reinvestment Plan, the 2016 Share Purchase Plan, on-market purchase, and/ or purchases by the company on behalf of the KMP in satisfaction of vested performance rights.

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

2017	2016
\$'000	\$'000

22. Parent Company Information

Information relating to the parent entity of the Group, BKI Investment Company Limited:

Current assets	52,410	72,335
Non-current assets	1,199,044	1,099,808
Total assets	1,251,454	1,172,143
Current liabilities	407	803
Non-current liabilities	319,125	299,629
Total liabilities	319,532	300,432
Issued capital	749,967	718,221
Reserves	181,955	153,491
Total shareholders' equity	931,922	871,712
Net operating profit	45,466	41,968
Total other comprehensive income	26,551	(40,402)

The parent company has no contingent liabilities as at 30 June 2017.

23. Capital and Leasing Commitments

The Group has no capital and leasing commitments as at 30 June 2017.

24. Auditors' Remuneration

Remuneration of the auditor of the parent entity for auditing the financial report of the Parent and the controlled entities

24	24
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25. Contingent Liabilities

The Group has no contingent liabilities as at 30 June 2017.

26. Authorisation

The financial report was authorised for issue on 18 July 2017 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 21 to 44, are in accordance with the *Corporations Act 2001* and:
 - a. comply with Accounting Standards and the Corporations Regulations; and
 - b. comply with International Financial Reporting Standards, as stated in note 1 to the financial statements
 - c. give a true and fair view of the financial position as at 30 June 2017 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 2017.

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



Robert D Millner
Director

Sydney
18 July 2017

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF BKI INVESTMENT COMPANY LIMITED



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Director: Brian Wheeler CA

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

Report on the Audit of the Financial Report

Opinion

We have audited the accompanying financial report of BKI Investment Company Limited and Controlled Entities (the consolidated entity), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated income statement, consolidated statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and the directors' declaration of the consolidated entity comprising BKI Investment Company Limited and the entities it controlled at the year's end or from time to time during the year.

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

- (a) giving a true and fair view consolidated entity's financial position as at 30 June 2017 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- (c) the financial report also complies with the *International Financial Reporting Standards* as disclosed in Note 1.

Basis for Opinion

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

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

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

INDEPENDENT AUDITOR'S REPORT (continued)

TO THE MEMBERS OF BKI INVESTMENT COMPANY LIMITED

Key Audit Matters

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

Key Audit Matter	How Our Audit Addressed the Key Audit Matter
<p><i>Valuation and Existence of Investments</i></p> <p>The investment portfolio at 30 June 2017 comprised of listed equity investments of \$946 million.</p> <p>We focused on the valuation and existence of investments because investments represent the principal element of the net asset value disclosed on the Consolidated Statement of Financial Position in the financial report.</p>	<p>We tested the valuation of a representative sample of listed investments by vouching the share prices to external market information to ensure they are fairly stated.</p> <p>We agreed the existence of a representative sample of listed investments by confirming shareholdings with share registries.</p> <p>No material differences were identified.</p>
<p><i>Revenue from Investments</i></p> <p>ASAs presume there are risks of fraud in revenue recognition unless rebutted.</p> <p>We focused on the cut-off, accuracy and completeness of dividend revenue and dividend receivables.</p>	<p>We assessed the accounting policy for revenue recognition for compliance with the accounting standards and performed testing to ensure that revenue had been accounted for in accordance with the accounting policy.</p> <p>We found that the accounting policies implemented were in accordance with the accounting standards, and that revenue has been accounted for in accordance with the accounting policy.</p> <p>We tested the accuracy and completeness of dividend revenue by agreeing the dividends and distributions of a representative sample of investments to supporting documentation obtained from share registries.</p> <p>We tested the cut-off and completeness of dividend revenue and dividend receivables by checking the dividend details of a representative sample of investments from external market information and ensured that dividends that were declared before, but payable after, the reporting date were recorded.</p> <p>No material differences were identified.</p>

INDEPENDENT AUDITOR'S REPORT (continued)

TO THE MEMBERS OF BKI INVESTMENT COMPANY LIMITED

Other Information

The directors of BKI Investment Company Limited are responsible for the other information. The other information comprises the information in the annual report for the year ended 30 June 2017, but does not include the financial report and the auditor's report thereon.

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

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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included on pages 15 to 20 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of BKI Investment Company Limited for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

INDEPENDENT AUDITOR'S REPORT (continued)

TO THE MEMBERS OF BKI INVESTMENT COMPANY LIMITED

Responsibilities

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

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

Name of Auditor: *Ivan Lee*

Ivan Lee

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

Dated this *18th* day of *July* 2017

AUDITOR'S INDEPENDENCE DECLARATION



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Director: Brian Wheeler CA

BKI INVESTMENT COMPANY LIMITED AND CONTROLLED ENTITIES
ABN: 23 106 719 868
AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF
THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF BKI INVESTMENT COMPANY
LIMITED AND CONTROLLED ENTITIES

As lead auditor for the audit of BKI Investment Company Ltd and Controlled Entities for the year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been:

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

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

Name of Auditor: *Ivan Lee*
Ivan Lee
Director

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

Dated this *18th* day of *July* 2017

ASX ADDITIONAL INFORMATION

1) Equity Holders

At 30 June 2017 there were 14,769 holders of ordinary shares in the capital of the Parent. These holders were distributed as follow:

Number of shares held	Number of shareholders
1 – 1,000	1,044
1,001 – 5,000	2,019
5,001 – 10,000	2,095
10,001 – 100,000	8,659
100,001 and over	952
Total	14,769

Holding less than a marketable parcel of 308 shares 587

The 20 largest holdings of the Parent's share as at 30 June 2017 are listed below:

Name	Number of shares held	%
Washington H Soul Pattinson and Company Limited	58,504,741	9.46
Huntley Group Investments Pty Ltd <Huntley Group Investments AC>	8,523,274	1.38
J S Millner Holdings Pty Limited	5,218,407	0.84
GM Pty Limited (GM Family A/C>	3,957,047	0.64
Jeanneau Cloud Nine Pty Limited	3,909,012	0.63
I R McDonald Pty Limited	3,000,000	0.49
Nulis Nominees (Australia) Limited	2,499,839	0.40
Nibot Pty Limited	2,111,105	0.34
Netwealth Investments Limited	1,885,708	0.30
Navigator Australia Limited	1,746,489	0.28
Stuart Llewellyn Gwyn Morgan + Margaret Patricia Morgan	1,646,089	0.27
Huntley Group Investments Pty Ltd <Ian Huntley Super Fund A/c>	1,630,711	0.26
HSBC Custody Nominees (Australia) Limited	1,557,453	0.25
Fennybentley Pty Limited	1,554,678	0.25
Farjoy Pty Limited	1,450,800	0.23
Stuart Llewellyn Gwyn Morgan	1,399,588	0.23
T N Phillips Investments Pty Limited	1,387,276	0.22
K C Perks Investments Pty Ltd <Kym Perks S/F A/C>	1,384,223	0.22
Donald Cant Pty Limited	1,307,530	0.21
Mr Peter Graydon Moppett	1,281,720	0.21

ASX ADDITIONAL INFORMATION

Votes of Members

Article 5.12 of the Company's Constitution provides

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

2) Substantial Shareholders

As at 30 June 2017 the name and holding of each substantial shareholder as disclosed in a notice received by the Parent is:

Substantial Shareholders	Shares Held	%
Washington H Soul Pattinson & Company Limited ¹	58,595,247	9.68%
Brickworks Limited ²	58,595,247	9.68%

¹ Details included on substantial shareholder notice dated 11 April 2017. This does not agree to the holding of Washington H. Soul Pattinson & Company Limited as at 30 June 2017

² Details included on substantial shareholder notice dated 11 April 2017. Shares held by Brickworks Limited represent a technical relevant interest as a result of Brickworks Limited's shareholding in Washington H Soul Pattinson & Company Limited.

3) Other Information:

- There is no current on-market buy-back in place.
- There were 88 (2016: 121) transactions in securities undertaken by the Group and the total brokerage paid or accrued during the year was \$288,699 (2016: \$174,744).

4) Management Expense Ratio:

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

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

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

30 June	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
NTA before tax	1.08	1.28	1.43	1.69	1.52	1.22	1.32	1.42	1.30	1.52	1.63	1.65	1.55	1.61
NTA after tax	1.06	1.20	1.32	1.51	1.41	1.19	1.27	1.34	1.26	1.42	1.51	1.53	1.47	1.52

