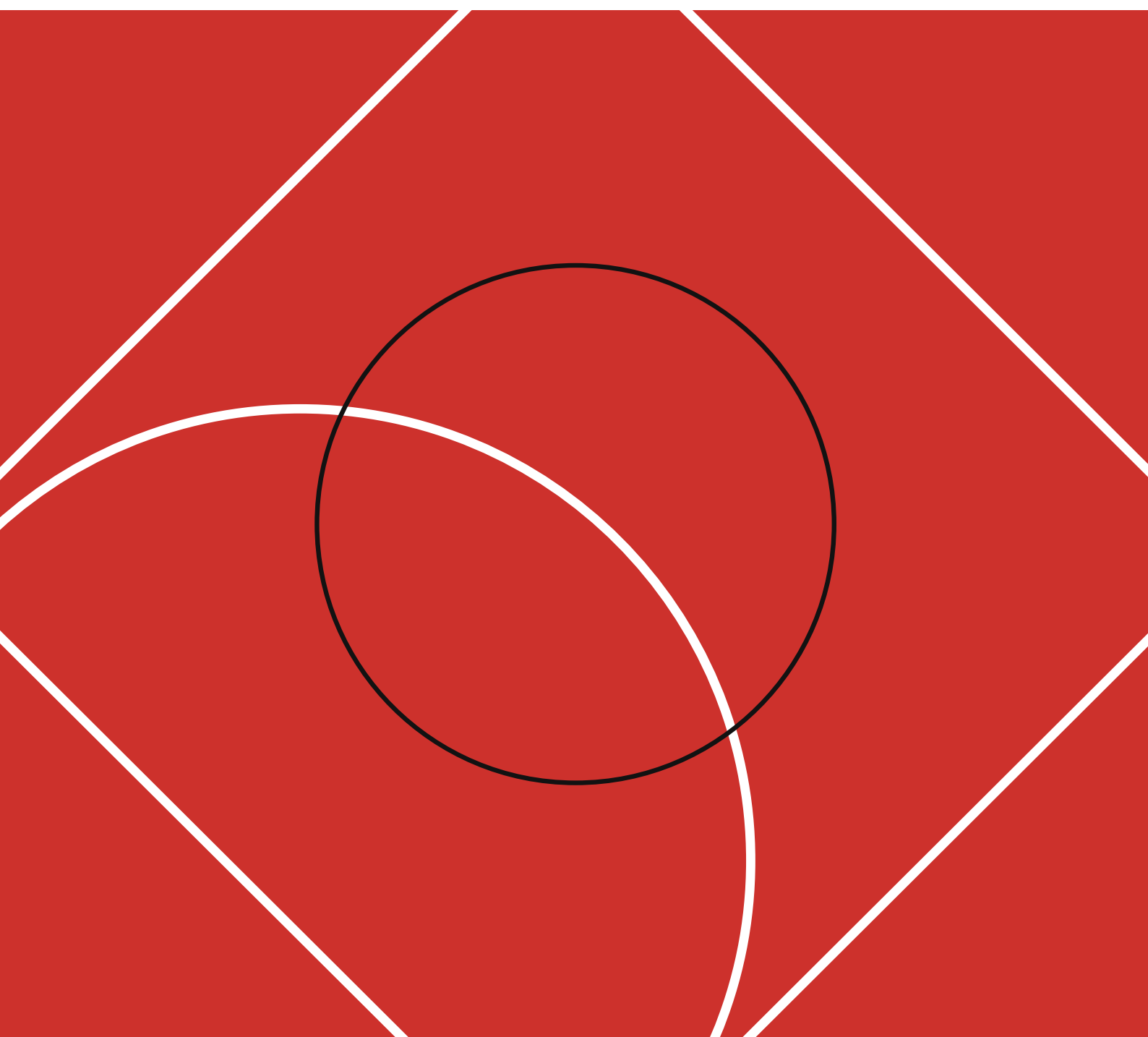


ANNUAL REPORT 2013



FLAGSHIP  
INVESTMENTS



**Flagship Investments Limited**

ABN 99 080 135 913

## FINANCIAL CALENDAR FINANCIAL YEAR END

30 June 2013

## DIVIDEND BOOKS CLOSE

13 September 2013

## DIVIDEND PAYMENT

27 September 2013

## NOTICE OF ANNUAL GENERAL MEETING

The Annual General Meeting of  
Flagship Investments Limited.

## WILL BE HELD AT:

The office of  
McCullough Robertson Lawyers  
Level 11, Central Plaza Two  
66 Eagle Street  
BRISBANE Qld 4000

## TIME:

Midday (Qld Time)

## DATE:

Friday 8 November 2013

## INVESTING IN FLAGSHIP INVESTMENTS LIMITED

Investors can purchase shares in Flagship  
Investments Limited through the Australian  
Securities Exchange.

ASX code: **FSI**

Flagship Investments Limited  
ABN 99 080 135 913  
Registered in Queensland  
23 September 1997



**FLAGSHIP INVESTMENTS LIMITED DIRECTORS** (from left to right)

Henry Smerdon AM, Dominic McGann, Sophie Mitchell, Dr Manny Pohl (Managing Director) and Patrick Corrigan AM

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# Highlights for 2013

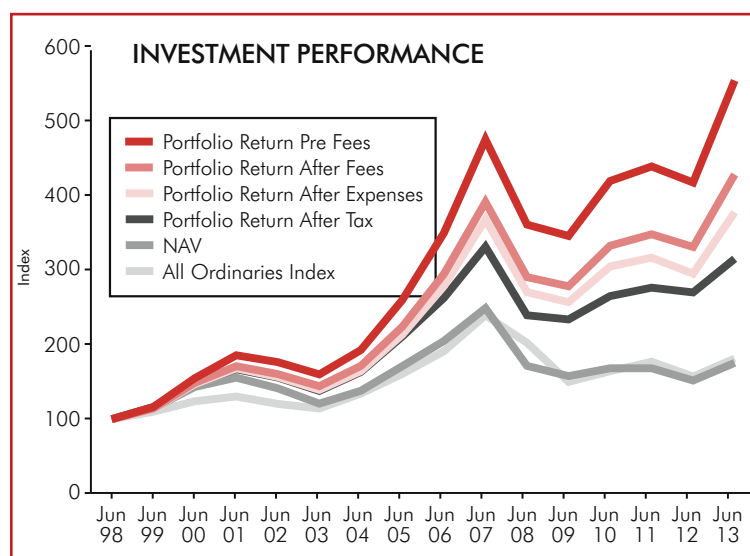


## Highlights for the year ending June 2013

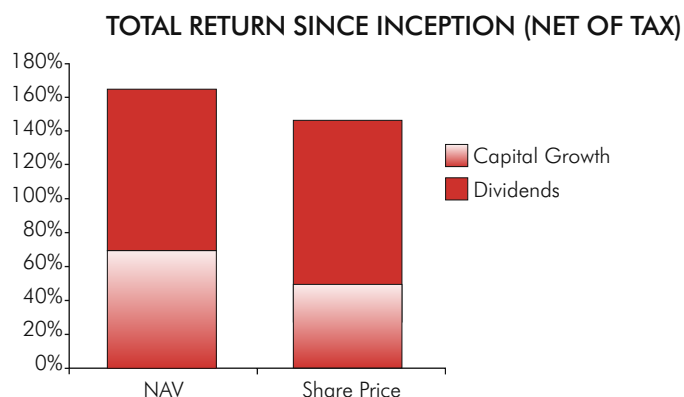
- ◆ The portfolio before fees and tax increased by 32.9% versus a 15.5% increase in the All Ordinaries Index over the twelve month period.
- ◆ The investment performance is reflected in the Net Asset Value (NAV) per share which increased by 15.67% after tax (on realised gains only).
- ◆ The annual dividend of 6.0 cents comprising 3.0 cents interim (2013) and 3.0 cents final (2012).
- ◆ On-market buy-back – bought 519,449 shares at an average price of \$1.22 (\$634,767).



## Relative Performance History



## Total return since inception to June 2013





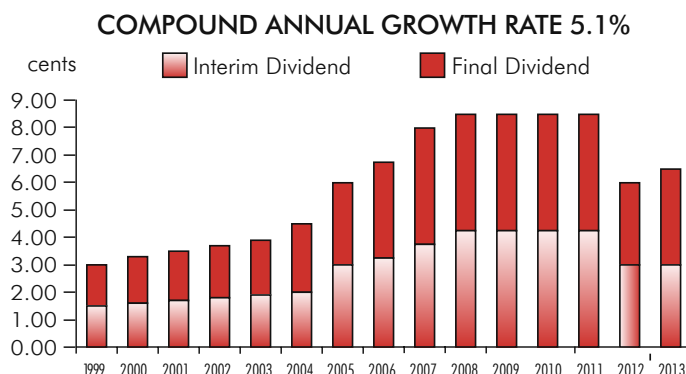
## Flagship Investments Performance vs. the All Ordinaries Index

ANNUAL PERCENTAGE GAIN				
Year to	Portfolio Return Pre Fees	Portfolio Return After Fees	NAV (on Realised Gains Only)	All Ordinaries Index
June-99	16.4%	14.4%	14.6%	10.1%
June-00	33.6%	30.4%	25.3%	12.9%
June-01	20.0%	15.2%	8.8%	5.1%
June-02	-5.0%	-6.3%	-9.3%	-7.6%
June-03	-9.4%	-10.2%	-14.6%	-5.2%
June-04	20.5%	19.0%	14.4%	17.7%
June-05	35.1%	31.0%	24.1%	19.8%
June-06	34.7%	31.6%	19.8%	19.0%
June-07	35.9%	32.8%	21.6%	25.4%
June-08	-24.1%	-25.8%	-31.3%	-15.5%
June-09	-4.2%	-4.2%	-8.0%	-26.0%
June-10	21.4%	19.6%	6.7%	9.5%
June-11	4.6%	4.6%	-1.7%	7.7%
June-12	-4.9%	-4.9%	-8.2%	-11.3%
June-13	32.9%	29.5%	15.7%	15.5%

Note: Fees include Performance Fees and Under-writing Fees.



## Dividends per share



## Major Investments June 2013

MAJOR INVESTMENTS % OF PORTFOLIO		
	June 13	June 12
Commonwealth Bank	7.9%	7.5%
SEEK	6.7%	6.7%
Telstra	6.4%	-%
REA Group	5.6%	5.1%
Woolworths	5.6%	7.3%
Carsales.com	5.5%	5.7%
ANZ Banking Group	5.3%	5.6%
<b>TOTAL</b>	<b>43.0%</b>	<b>37.9%</b>

Note: Investments greater than 5% of Portfolio.





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## COMPANY PROFILE

Flagship Investments Limited (the "Company") is a listed investment company providing investors with access to a diversified Australian investment portfolio.

The composition and performance of the investment portfolio is monitored by the Board of Directors, which comprises business people with many years of experience in the business, investment and funds management.

The Manager's investment strategy centres on the view that investing in high quality business franchises with the ability to grow sales and earnings at rates above Gross Domestic Product (GDP) growth will produce superior investment returns over the long-term. The Company's portfolio of investments comprises companies whose operations cover a wide spectrum of business activities.

The portfolio is constructed from the perspective of a business owner by investing in well managed companies and not simply by tracking the index weighting of various component stocks.

There is no fixed management fee. The Manager receives a fee which is performance based and payable annually in arrears if the Company's investments outperform the returns on a cash investment. If the Company's net performance is less than the returns on a cash investment, no performance fee is payable.

## OBJECTIVES

The investment objectives of Flagship Investments Limited are:

- ◆ To achieve medium to long-term capital growth and income through investing in a diversified portfolio of Australian companies;
- ◆ To preserve and enhance the NAV per share after allowing for inflation; and
- ◆ To provide Company Shareholders ("Shareholders") with a fully franked dividend which, over time, will grow at a rate in excess of the rate of inflation.

## INVESTOR BENEFITS

The benefits for investors in Flagship Investments Limited are:

- ◆ Reduced share investment risk through a diversified investment portfolio;
- ◆ Professional, disciplined management of an investment portfolio;
- ◆ Fully franked dividend income;
- ◆ Access to tax advantages of Listed Investment Company Capital Gains when available;
- ◆ Access to a Dividend Reinvestment Plan;
- ◆ No fixed management fees - the Fund Manager is remunerated on a performance basis;
- ◆ No entry or exit charges made by the Company; and
- ◆ Easy access to information via the Company's head office or website **[www.flagshipinvestments.com.au](http://www.flagshipinvestments.com.au)**

## INVESTMENT MANAGER

The management of the Company's investment portfolio is undertaken by EC Pohl & Co Pty Ltd.

EC Pohl & Co Pty Ltd provides administration support even when a performance fee is not paid.

Dr Manny Pohl is the Managing Director and major shareholder of EC Pohl & Co Pty Ltd.



# Chairman's Report

Dear Investor,

I am pleased to present the 16th Annual Chairman's Report for Flagship Investments Limited (previously Hyperion Flagship Investments Limited) for the financial year ended 30 June 2013.

Firstly I would like to express my appreciation for the support of Shareholders for the significant changes to the Company and its operations, for which approval was sought at the AGM last year. The changes approved by Shareholders, including to the Company's name and also to the provider of investment management services, have been implemented and are now fully operational.

## The 2012/13 Year

The performance of the Company's investment portfolio for the financial year 2012/13 has been outstanding, with the portfolio recording its best aggregate performance for more than five years. On a pre-fees basis, the portfolio return was 32.9% compared with an increase of 15.5% in the All Ordinaries Index for the same period.

While the fundamental investment strategy has remained largely unchanged, the change in the Manager of our investments to EC Pohl & Co Pty Ltd, a company closely associated with our Managing Director, Dr Manny Pohl, has been very positive for the Company. Manny has been able to apply his considerable skills and abilities a little more flexibly with increased focus on the small to mid-cap companies. Within the context of the Company's traditional five year investment horizon and having regard for recent market volatility, there has also been a sharper analytical focus on a three year outlook for assessment validation purposes.

We have always believed that high quality businesses would eventually be recognised by the market and this has certainly occurred in the past year.

I would like to congratulate Manny and his team at EC Pohl & Co Pty Ltd for the outstanding result achieved. Manny has provided a detailed outline

of the investment process in the Operating and Financial Review and Managing Director's Report and I commend it to Shareholders.

The portfolio return of 32.9% resulted in an increase in comprehensive income from a loss of \$1.15 million in 2011/12 to a positive \$5.769 million in 2012/13 and for the first time since 2008, a performance fee is payable to the Manager. Shareholders would be aware that there is no fixed management fee payable, only a performance fee, so that if targets are not met, no fee is payable. In the context of the portfolio return of 32.9%, the performance fee is quite reasonable and consistent with the provisions of the Management Services Agreement.

Our Management Services Agreement also provides for the Manager to provide certain on-going services to the Company. The services are required to be provided by the Manager at its cost, regardless of whether a performance fee is payable or not.

## The Outlook

The outlook for the year ahead remains positive with early signs of recovery in the USA continuing and with the increased confidence being reflected in US equity markets. The slow down in China is being carefully managed and this is having some impact in the resources sector of the Australian equity market. The Australian economy remains somewhat subdued with some revision down of economic growth forecasts, likely to result in more modest expectations for the Australian equity market.

Short to medium term market volatility is likely to be with us for the foreseeable future. However volatility does create opportunities and our Manager is running a higher than normal level of cash at the end the year, to position the portfolio to take advantage of these opportunities as they emerge in the future.



## Dividend

The Board has taken the opportunity to increase the level of final dividend from 3 cents per share to 3.5 cents per share which, with the interim dividend of 3 cents per share, will result in an overall dividend of 6.5 cents per share for the year, compared with 6 cents per share in the previous year.

We have been very conscious of the impact of the reduced dividend flow to Shareholders in the previous two years and the time is now opportune to increase the return to Shareholders. There has been some increase in earned income from dividends and we expect this to continue, which has provided some comfort that the increased dividend can be sustained in the future.

While the dividend will be fully franked, we are not yet in a position where eligible Shareholders are able to access the LIC attributable capital gains tax deduction. We are well aware of the value of this concession to some Shareholders and will be keeping the situation under close review.

## Share Buy-Back Scheme

The share buy-back scheme was again operational in 2012/13. We believe it is helpful in providing a stable market for the Company's shares.

## The Board

I would like to thank my colleagues on the Board for their outstanding work in the past year. They have applied themselves diligently and with great skill to the responsibilities entrusted to us.

I know I speak for the Board as a whole when I say how much we appreciate the support of our Shareholders, particularly during some difficult times in the recent past. Your patience has been appreciated and will be rewarded.

We are looking forward to another good year in 2013/14.

Yours sincerely,



**Henry R Smerdon AM**

Chairman



During the past year, the Australian equity market performed extremely well with overall equity performance driven by investors seeking yield and it was no surprise to see that the Banks (the big four), along with Telstra (TLS), contributed almost 50% of the overall return during the twelve month period. The market peaked in May, declining to close on the 30th June 2013 at 4775.4 on expectations of the US Federal Reserve tapering its support activity, the Reserve Bank of Australia (RBA) cutting rates and the selling of local assets by overseas investors. Much of the recent declines experienced in Australia and around the world can be attributed to the slow down that is materializing in China, the world's largest manufacturer and exporter, as well as pressure being exerted by the Chinese central bank on the Chinese commercial banks to curb liquidity expansion. These events have had a knock on effect around the world with commodity prices affected the most, while overall global economic conditions have deteriorated further.

As an indicator of global market performance, the MSCI (as measured in US dollar terms) closed at 1433.6 in June 2013 which was an overall increase of 16.0% for the twelve months to 30 June 2013. In Australian dollar terms, the MSCI increased by 30.1% over the same period, reflecting the continued decline of the Australian dollar compared to the US dollar in the last quarter of the year. The US market performed relatively better than the other major markets with the S&P 500 increasing by 17.9% in US dollar terms for the twelve months to the end of June 2013.

During the same twelve month period, the Australian share market, as represented by the All Ordinaries Index, increased by 15.5%. By comparison our portfolio outperformed the market, increasing by 32.9% over the twelve months, while the NAV (on realised gains only) increased by 15.7% after paying a dividend of 6 cents per share to Shareholders during the year.

Once again high quality businesses were recognized as such by the market and marked up, while the speculative resource companies were under pressure. This occurs when, in addition to the growth in earnings and dividends, share prices receive a further boost as risk premiums return to more realistic levels and the price earnings ratios of quality companies expand.

Our portfolio construction process focuses on high quality, capital light growth companies and currently has a small to mid-cap bias. This investment process filters for investment grade companies using the following metrics:

- 1) Historical sales growth;
- 2) Return on equity; and
- 3) Interest cover.

The first requirement ensures that a company is growing. Only those companies with sales that have been growing faster than the Australian Economy (as measured by Nominal Gross Domestic Product) are accepted. The

principle here is that we don't want to own businesses that are stagnant or shrinking.

The second requirement, return on equity, is our litmus test for business model success. Only companies showing an annual return on equity of 15% or greater are considered. To put this another way, if an investor can get a return of 5% on government bonds that are relatively risk free, we believe that 15% is the minimum that an investor in a company should receive for the extra risk of owning equity. This represents an equity premium of 10%.

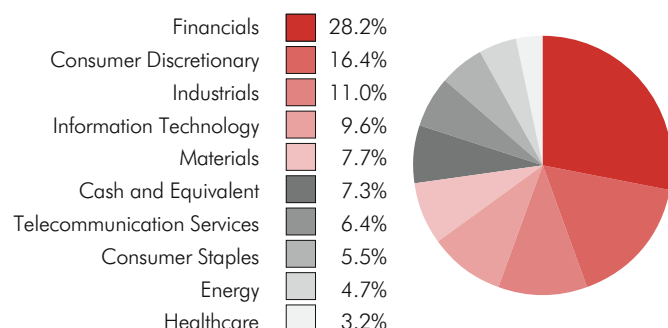
The third requirement ensures balance sheet strength and business resilience through economic cycles. Only those companies whose operating cash flow covers their annual interest bill on their borrowings by four times or greater are considered. That is, company cash flows have to drop by more than 75% before they are going to have trouble servicing their debt.

When these three filters are applied together to all the Australian listed companies, we are left with 80 to 100 companies to consider for investment. The common traits these companies share are that they are growth orientated with a strong business franchise, and in particular, those that we believe have a sustainable competitive advantage.

A sustainable competitive advantage is like having a moat around a company's business. It protects a business from competitors and new entrants to its market. Companies with a sustainable competitive advantage usually have workforces that are incentivised for business success. The company's suppliers are not usually in a dominant bargaining position, so the company has access to well priced and consistent inputs. Before we actually buy a stock we ask ourselves the question. "Would we buy all of this business if we had the money?" That is, we buy shares in the business as a business owner, not as a trader of shares.

However, we will consider selling at certain times. For example, if there is a major change in management and we feel that there is insufficient continuity of management to be associated with the track record, we may sell. A major takeover or merger, or if the market valuation of the company exceeds certain thresholds, may prompt the selling of the shares to achieve a lower weighting. If a company's cash flow deteriorates to a point where it no longer is four times the interest paid, we would seek to understand why and if the answer was unacceptable, we would in all likelihood sell the shares.

**CHART 1: DISTRIBUTION OF ASSETS AS AT 30 JUNE 2013**



The overall portfolio distribution of assets is shown in Chart 1. In the portfolio there have been additions in recent years, all of which comply with our investment philosophy. In keeping with our intention of providing Shareholders with information on the investments in the portfolio, we have included a comment on Telstra which was added for the first time to the portfolio during the year.

## TELSTRA

ASX Code: TLS

Telstra dominates the local telecommunications market, especially the rapidly expanding broadband market. Significant investment has been made in efforts to ensure Telstra has a world class mobile (NextG, 4G) and fixed (Next IP) networks, shifting away from fixed-line services to mobile services, content, internet and pay TV.

## Sustainable Competitive Advantage

Telstra's competitive advantage is ultimately due to it being an integrated service provider with a strong balance sheet and the dominant position in the market. The agreement with the government to make its PTSN network redundant and not compete with the new NBN network has generated a huge cash windfall for the company. This has enabled it to spend significant capital on upgrading their NextG mobile network giving them a significant competitive advantage in the industry.

## Organic Growth Options

There are essentially three options open to Telstra.

### 1. Improve Customer Satisfaction

Central to Telstra's strategic plan is their commitment to putting the customers first in their decisions, something seriously lacking in the past. Anecdotal evidence suggests that this is in fact happening. The introduction of usage alerts to help the consumer better manage their mobile spending with 24 hours a day support, seven days a week through the use of social media including Facebook and LiveChat.

### 2. Retain and Grow customer numbers

As there is a shift from fixed to mobile, Telstra has recognised that it is important to move their main revenue source toward mobile services. Over the past two years Telstra has recorded

over three million new domestic customers, with 1.6 million of those within the last year.

### 3. Simplify the business

Improving and simplifying online services and support services are helping reduce time wasting for the consumer on unimportant issues.

## CLOSING COMMENTS

Our investment horizon of three to five years is sufficiently long to give us a long-term perspective, but short enough to ensure that we are mindful of current market forces. This combination of having a long-term thought process with an overlay of market sensitivity we believe will provide Investors with better overall returns.

The cash rate is likely to be at 2-2.5% later this year, based on our view that mining investment has peaked and the RBA will need to cut rates further to accelerate rebalancing of growth towards the non-mining sectors. We do not expect inflation to be a barrier. Indicators of inflation – unit labour costs, GDP growth and capacity utilisation – are all well-behaved. At the current time, household income growth remains reasonable, but there has been a shift in household spending patterns. Households are saving more, investing more conservatively, paying down debt and shifting consumption from discretionary items to 'essentials'. Monetary easing may provide a cyclical boost to spending, but these structural changes are likely to remain in play.

Taking advantage of the strong markets, we increased our cash holding (7.3%) in the last quarter and will re-invest these funds now that some value has returned to the market. While we do not see a dramatic improvement in the P/E ratings from current levels, the short-term financial metrics for the companies in the portfolio, including organic sales growth, earnings and dividend growth, should provide the impetus for an improvement in valuations.

The portfolio return profile remains attractive in historical terms and the complete details of all the investments that were held at the end of the financial year are detailed later in the Annual Report. Suffice to say that Commonwealth Bank (7.8%), SEEK (6.7%) and Telstra (6.4%) were the three largest investments held at the June 2013 year-end and it is these three investments that we believe have the best risk adjusted return profiles.

Dr Emmanuel (Manny) C Pohl

Managing Director



# Directors' Report

Your Directors present their report on Flagship Investments Limited for the financial year ended 30 June 2013.

## 1. DIRECTORS

The following persons were Directors of Flagship Investments Limited from the beginning of the financial year until the date of this report, unless otherwise stated: H Smerdon AM, Dr E Pohl, S Mitchell, P Corrigan AM and D McGann.

## 2. INFORMATION ON DIRECTORS



### **Henry R Smerdon AM**

B.Com, B.Econ, FCPA, MAICD, Fdn DFP, HonD (Griffith University)

*Non-Executive Chairman*

*Chairman of Remuneration and Nomination Committee*

*Member of Audit and Compliance Committee*

### **Experience and expertise**

Director since 2000.

Extensive experience as a previous board member/CEO of Queensland Investment Corporation, Chairman of Q-Invest Ltd, member of various private and Government boards and as Under Treasurer of the Queensland Treasury.

### **Other Current directorships**

Chairman of AustSafe Super

Chairman of board of Currumbin Wildlife Sanctuary

Chairman of the Queensland Performing Arts Trust

Deputy Chancellor of Griffith University

Principal of Strategic and Financial Consulting Services

### **Former Listed Company directorships in last 3 years**

None.

### **Interest in Shares**

57,621 ordinary shares



### **Dr Emmanuel (Manny) C Pohl**

Pr Eng, B.Sc (Eng), MBA, DBA, FAICD, MSSA, F Fin

*Managing Director*

*Member of Remuneration and Nomination Committee*

### **Experience and expertise**

Managing Director since the inception of the Company in 1997.

Extensive experience in the funds management industry.

### **Other current directorships**

Chairman of EC Pohl & Co Pty Ltd

Chairman of ECP Asset Management Pty Ltd

Chairman of EC Pohl & Co Private Equity Limited

Chairman of Tabu Vodka Co Pty Ltd

Chairman of Astuce Group Limited

Chairman of Pohl Pty Ltd

Director of Global Masters Fund Limited

Director of Huysamer International Holdings (Pty) Ltd

Alternate Director of Athelney Trust Plc

Member of Bond University, Institute of Sustainable

Development & Architecture Academic Advisory Panel

Trustee of Currumbin Wildlife Foundation

### **Former Listed Company directorships in last 3 years**

None.

### **Interest in Shares**

6,690,831 ordinary shares

Has a relevant interest in shares in the Company over which he holds a Power of Attorney arrangement with a number of Shareholders.





**Sophie A Mitchell**

B.Econ, GAICD, SF Fin

*Non-Executive Director*

*Chair of Audit and Compliance Committee*

*Member of Remuneration and Nomination Committee*

**Experience and expertise**

Appointed a Non-Executive Director on 11 June 2008.

Management and industry experience as an Executive Director of RBS Morgans, former portfolio manager Seymour Funds Management (2007), and Head of Research RBS Morgans (1996-2007).

**Other current directorships**

Director of Silver Chef Limited.

Director of MTQ Insurance Services Limited

Director of MTA Insurance Limited

Director of Expressions Dance Company

Director of RBS Morgans

Director of RBSM Foundation Trustee of the Queensland Performing Arts Trust

Member of the Takeovers Panel

Board Member of the Australia Council

**Former Listed Company directorships in last 3 years**

None.

**Interest in Shares**

30,000 ordinary shares



**Patrick Corrigan AM**

HonD (Bond University)

*Non-Executive Director*

**Experience and expertise**

Appointed a Non-Executive Director on 1 May 2009.

Extensive business experience having founded, run and sold two international freight forwarding businesses and subsequently taken on Non-Executive Directorships with a number of leading Australian corporations and arts bodies, made a Member in the Order of Australia (2000) and awarded an Honorary Doctorate of Bond University (2007).

**Other current directorships**

Chairman of UBI Logistics (Australia) Pty Ltd.

Chairman of Qantas Art Scholarship Committee.

Chairman of Gold Coast Regional Art Gallery.

Deputy Chair of Air Freight Export Council of NSW.

Director of Global Masters Fund Limited.

Director of Better Read Pty Ltd.

Director of Gold Coast Art Centre.

Director of Community Radio Station Jazz Radio Limited.

Director of Aboriginal Benefits Foundation Limited.

**Former Listed Company directorships in last 3 years**

None.

**Interest in Shares**

2,055,523 ordinary shares



**Dominic M McGann**

Solicitor of the Supreme Court of Queensland, LLB (QUT), LLM (Sydney University), LLM (Bond University)

*Non-Executive Director*

*Member of Audit and Compliance Committee*

**Experience and expertise**

Appointed Non-Executive Director on 8 October 2009.

Extensive experience as a Partner with McCullough Robertson Lawyers and a Solicitor with the Supreme Court of Queensland.

**Other current directorships**

Director of Australian National Development Index Limited

**Former Listed Company directorships in last 3 years**

None.

**Interest in Shares**

Nil ordinary shares

# Directors' Report (Continued)

## 3. PRINCIPAL ACTIVITIES

The principal activity of the Company is investing in securities listed on the Australian Securities Exchange. There have been no significant changes in the nature of this activity during the year.

## 4. REVIEW OF OPERATIONS

Our portfolio outperformed the market, increasing by 32.9% over the twelve months, while the NAV increased by 15.7% after paying a dividend of 6 cents per share to Shareholders during the year.

The Australian equity market performed extremely well with overall equity performance driven by investors seeking yield. The Australian share market, as represented by the All Ordinaries Index, increased by 15.5%.

Once again high quality businesses were recognized as such by the market and marked up, while the speculative resource companies were under pressure.

As our investment horizon is three to five years, we believe there is significant capital appreciation potential for the portfolio.

A detailed review of the operations for the year can be obtained from the Operating and Financial Review and Managing Director's Report on page 10 of this Annual Report.

## 5. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Significant changes in the state of affairs of the Company during the financial year were as follows:

- ◆ The value of the portfolio before fees and taxes increased by 32.9% following an upturn in the equity markets during the year particularly in the last six months.
- ◆ The on-market buy-back program was reinstated on 24 July 2012 and ceased on 8 July 2013. The on-market buy-back programme resulted in 519,449 shares (\$634,767) being bought back. The program was reinstated effective from 15 July 2013.

## 6. MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Apart from the dividend declared as discussed above, no other matter or circumstance not otherwise dealt with in the Director's Report or Financial Report, which has arisen since the end of the year that has significantly affected, or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in future financial years.

## 7. LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

There are no planned changes to principal activities. Any general decline in equity markets may have an adverse effect on results in future years.

## 8. ENVIRONMENTAL ISSUES

The Company's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

## 9. DIVIDENDS PAID

Type	Cents per share	Total amount \$'000's	Date of payment
Dividends paid to Shareholders during the financial year were as follows:			
Final	3.00	728	October 2012
Interim	3.00	728	April 2013
	<b>6.00</b>	<b>1,456</b>	
Dividends paid by the Company during the preceding year were:			
Final	4.25	1,046	September 2011
Interim	3.00	733	May 2012
	<b>7.25</b>	<b>1,779</b>	

The final dividend paid in October 2012 and the interim dividend paid in April 2013 were fully franked.

In addition to the above dividends, since the end of the financial year the Directors have recommended the payment of a franked final dividend of \$845,000 (3.50 cents per share) to be paid on 27 September 2013.

## 10. EARNINGS PER SHARE

Based on profit after income tax.

	2013 Cents	2012 Cents
Basic earnings per share	<b>0.8</b>	4.22
Diluted earnings per share	<b>0.8</b>	4.22

As a result of moving to AASB 9 Total Comprehensive Income is a more appropriate base for detailing earnings per share.

	2013 Cents	2012 Cents
Basic earnings per share	<b>23.73</b>	(4.67)
Diluted earnings per share	<b>23.73</b>	(4.62)

See Note 21 of the Financial Report.

## 11. COMPANY SECRETARY

**Ian W Harrison B.Bus (Acc), FCPA, CSA (Affiliate)**

Company Secretary since inception of the Company in 1997.

Ian has 34 years experience in the accounting and finance industries. He is the Company Secretary for Hyperion Asset Management Limited and was previously the Company Secretary for Wilson HTM Investment Group Ltd and its associated entities.

## 12. MEETINGS OF DIRECTORS

The number of Directors' meetings attended by each of the Directors of the Company during the financial year are:

Director	Board		Audit and Compliance Committee		Remuneration and Nomination Committee	
	Eligible to attend	Attend	Eligible to attend	Attend	Eligible to attend	Attend
H R Smerdon AM	5	5	4	4	2	2
Dr E C Pohl	5	5	-	-	2	2
S A Mitchell	5	5	4	4	2	2
P Corrigan AM	5	5	-	-	-	-
D M McGann	5	5	4	4	-	-

Decided on a new layout of 13, A, B, C & D below and some changed paragraphs. Now starting points 14 onwards on next page

## 13. REMUNERATION REPORT (AUDITED)

The remuneration report is set out under the following main headings:

- (A) Principles used to determine the nature and amount of remuneration
- (B) Details of remuneration
- (C) Service agreements
- (D) Share-based compensation

### (A) Principles used to determine the nature and amount of remuneration

Fees and payments to Directors reflect the demands which are made on, and the responsibilities of, the Directors. The Remuneration and Nomination Committee reviews the remuneration of Directors annually. No remuneration consultants were engaged during the year.

There has been no change to remuneration. The current per annum remuneration of the Directors is:

Chairman	\$40,000
Chairman – Audit Committee	\$30,000
Other Directors	\$25,000

Remuneration of Directors is determined by the Board within the maximum amount of \$200,000 previously approved by the Shareholders.

The Director fees paid to Manny Pohl were paid to his previous employer in accordance with that employer's policies.

There is no performance based remuneration for Directors.

### (B) Details of remuneration

Details of the remuneration of each Director of Flagship Investments Limited and the executives of the Company are set out in the following table.

DETAILS OF REMUNERATION								
Director	Year	Short-term Benefits			Post-Employment	Equity		Total
		Fees	Performance Fees	Non-monetary benefits	Super	Shares	Options	
		\$	\$	\$	\$	\$	\$	
H R Smerdon AM Non-Executive Chairman	2013	40,000	-	-	-	-	-	40,000
	2012	40,000	-	-	-	-	-	40,000
Dr E C Pohl Managing Director	2013	25,000	-	-	-	-	-	25,000
	2012	25,000	-	-	-	-	-	25,000
S A Mitchell Non-Executive Director	2013	30,000	-	-	-	-	-	30,000
	2012	30,000	-	-	-	-	-	30,000
P Corrigan AM Non-Executive Director	2013	25,000	-	-	-	-	-	25,000
	2012	25,000	-	-	-	-	-	25,000
Dominic M McGann Non-Executive Director	2013	25,000	-	-	-	-	-	25,000
	2012	25,000	-	-	-	-	-	25,000
Total Directors Remuneration	2013	145,000	-	-	-	-	-	145,000
	2012	145,000	-	-	-	-	-	145,000

### (C) Service agreements

As the Company does not employ any employment service agreements entered into by the Company.

The Company Secretary is employed by Hyperion Asset Management Limited, the previous Investment Manager. The Managing Director is employed by the current Investment Manager – EC Pohl & Co Pty Ltd.

### (D) Share-based compensation

No share-based compensation exists.

## END OF REMUNERATION REPORT (AUDITED)

## 14. GENERAL TRANSACTIONS

Other than Director's remuneration, the Company does not directly contract with any of the Directors.

## 15. LOANS

There are no loans issued to any of the Directors (30 June 2012 – Nil).

## 16. OPTIONS

No options have been issued during or since the financial year (30 June 2012 – Nil).

## 17. INSURANCE OF OFFICERS AND/OR AUDITORS

During the financial year the Company insured the Directors and Officers against certain liabilities as permitted by the *Corporations Act 2001*. The insurance policy prohibits disclosure of the nature of the cover, the amount of the premium, the limit of liability and other terms.

The Company has entered into an agreement for the purpose of indemnifying Directors and Officers, to the extent permitted by law, against any liability (including the costs and expenses of defending actions for an actual or alleged liability) incurred in their capacity as a Director and Officer of the Company.

The Company has not during or since the financial year indemnified or paid any insurance premiums to indemnify the auditors.

## 18. PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under Section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceeding to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under Section 237 of the *Corporations Act 2001*.

## 19. NON-AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company are important.

Details of the amounts paid or payable to the auditor (BDO Audit Pty Ltd) for audit and non-audit services provided during the year are set out in Note 17 to the Financial Statements.

The Directors have considered the position and are satisfied that the provision of any non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Committee is satisfied that the provision of any non-audit services by the auditor, would not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

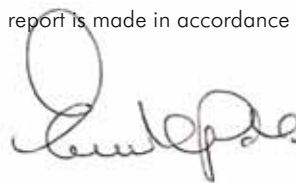
- ◆ All non-audit services are reviewed by the Audit and Compliance to ensure they do not impact the impartiality and objectivity of the auditor; and
- ◆ None of the services undermine the general principles relating to auditor independence as set out in APES 110, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

A copy of the Auditors' Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 17.

## 20. ROUNDING OF AMOUNTS

The Company is of a kind referred to in ASIC Class Order 98/100 issued by the Australian Securities and Investments Commission. Accordingly, amounts in the Financial Statements and Directors' Report have been rounded to the nearest \$1,000.

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



**Dr Emmanuel (Manny) C Pohl**  
Managing Director

23 August 2013



# Auditor's Independence Declaration



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Fax: +61 7 3221 9227  
www.bdo.com.au

Level 10, 12 Creek Street  
Brisbane QLD 4000  
GPO Box 457 Brisbane QLD 4001  
Australia

Mr H Smerdon AM  
Chairman  
Flagship Investments Limited  
Level 22  
307 Queen Street  
BRISBANE QLD 4000

Dear Henry

## DECLARATION OF INDEPENDENCE BY TIM KENDALL TO THE DIRECTORS OF FLAGSHIP INVESTMENTS LIMITED

As lead auditor of Flagship Investments Limited for the year ended 30 June 2013, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

A handwritten signature in blue ink, appearing to read 'tim kendall', is written above the printed name.

Tim Kendall  
Director  
BDO Audit Pty Ltd

Brisbane, 23 August 2013

This statement outlines the main corporate governance practices that were in place throughout the financial year unless otherwise stated.

The ASX Listing Rules require listed companies to include in their annual report a statement detailing the extent to which they have followed the ASX best practice recommendations in their reporting period. Listed companies must identify the recommendations that have not been followed and provide reasons for the Company's action.

A checklist summarising the ASX recommendations and compliance is on pages 21 and 22.

## 1. BOARD OF DIRECTORS

The Board is responsible for the overall corporate governance of the entity and its overriding objective is to protect and increase Shareholder value. The Board guides and monitors the business to ensure that the Company is properly managed in the best interest of Shareholders. The Board is accountable to its Shareholders.

A charter setting out the Board's role and responsibilities, composition etc has been established.

The Board comprises four Non-Executive Directors (including the Chairman) and one Executive Director (being the Managing Director).

The names of the current Directors are set out below:

**Mr Henry R Smerdon AM**

**Chairman**

**Chair of the Remuneration and Nomination Committee**

**Member of Audit and Compliance Committee**

Mr Smerdon AM is a Company Director and has been a Director since 2000.

**Dr Emmanuel (Manny) C Pohl**

**Managing Director**

**Member of the Remuneration and Nomination Committee**

Dr Pohl has been the Managing Director of the Company since the Company was established in 1997.

**Sophie A Mitchell**

**Non-Executive Director**

**Chair of the Audit and Compliance Committee**

**Member of the Remuneration and Nomination Committee**

Ms Mitchell is an Executive Director of RBS Morgans, and has been a Director since 2008.

**Patrick Corrigan AM**

**Non-Executive Director**

Mr Corrigan AM is a Company Director and has been a Director since May 2009.

**Dominic M McGann**

**Non-Executive Director**

**Member of the Audit and Compliance Committee**

Mr McGann is a Partner of McCullough Robertson and has been a Director since October 2009.

The Company's Board reviews Board effectiveness and membership on an ongoing basis and retains flexible criteria for nominations to fill Board vacancies in the light of the Company's current circumstances and the skills, knowledge, gender and experience of the current Board members.

The Board has established a diversity policy which it is responsible for. For the purposes of the policy, diversity covers gender, age, ethnicity, cultural background, impairment or disability, sexual preference or religion.

The purpose of the diversity policy is to ensure that:

- ◆ A safe and supportive workplace is provided where differences are valued and respected;
- ◆ Workplace structures, systems, policies and procedures help employees balance their work, family and other responsibilities effectively;
- ◆ Employees have the ability to contribute and access opportunities based on merit; and
- ◆ Employment decisions are transparent, equitable and procedurally fair.

Because of the size of the Company and the limited number of employees, the Board is responsible for:

- ◆ Workplace structures, systems, policies and procedures;
- ◆ Establishing and monitoring the Company's overall diversity strategy and policy;
- ◆ Setting targets on diversity which will include gender;
- ◆ Monitoring achievement of diversity targets; and
- ◆ Include gender diversity objectives in Board recruitment, Board performance evaluation and succession planning processes.

The Board has set a target of diversity on the Board of one third of the independent Directors with a focus on women. There is currently one female director (25% of the independent Directors).

## Independence

The Board has adopted the test of Director independence as set out in the ASX Principles. Having regard to this definition, the Board considers a Director to be independent if he or she is not a member of management and is free of any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with a Director's ability to act in the best interests of the Company. No Directors except the Managing Director and Patrick Corrigan AM hold a material interest in the issued shares of the Company. The Board has not adopted any quantitative thresholds in relation to dealing with entities in which a Director may have a financial interest and instead performs assessments on a case by case basis.

## Conflicts of Interest

Directors are required to declare any conflicts of interest and, where deemed necessary, do not participate in any discussions or any decisions which relate to the conflict. The Board regularly assesses the independence of the Non-Executive Directors based on their disclosure of interests. As at the date of this report, the independent Directors are Henry Smerdon AM, Sophie Mitchell, Patrick Corrigan AM and Dominic McGann.

Directors and Board Committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Company's expense. Prior approval of the Chairman is required which will not be unreasonably withheld.

## Review of Board and Director Performance

A formal review of the performance of the Board and Audit and Compliance Committee is undertaken yearly. A review was undertaken during the year with any issues raised, addressed at subsequent Board meetings.

The Board has determined the responsibilities of the Chairman and Managing Director. A summary of these responsibilities are:

## Chairman

The Chairman's responsibilities are:

- ◆ The overall leadership of the Board.
- ◆ Communication with Shareholders.
- ◆ Keeping Directors informed with accurate, timely and relevant information.
- ◆ Evaluating the performance of the Board and individual Directors, including the Managing Director.
- ◆ Managing the business of the Board.
- ◆ Ensuring the effective operation of Board Committees.
- ◆ Ensuring appropriate standards for corporate governance are in place and complied with.
- ◆ Monitoring conflicts of interest.
- ◆ Ensuring effective communication with the Managing Director.

## In particular, the Chairman will:

- ◆ Be responsible for the efficient organization and conduct of Board business, including chairing meetings, briefing Directors on issues relevant to the Board, establishing appropriate agendas for meetings.
- ◆ Facilitate the effective contribution of all Directors to, at and between meetings.
- ◆ Be the spokesperson for the Company at the Annual General Meeting particularly in regard to policy and strategic issues.
- ◆ Chair the Nominations Committee.
- ◆ Ensure that the performance of the Investment Manager/service provider is formally reviewed by the Audit and Compliance Committee at least once per year.
- ◆ Ensure, in conjunction with the Managing Director, that corporate and strategic priorities and objectives for the Company are developed and considered by the Board on an annual basis.

## Managing Director

The responsibility of the Managing Director is broadly to work with the Board and the Chairman to achieve the Company's corporate and strategic objectives and to undertake those duties not specifically assigned to the Board or the Chairman and generally are:

- ◆ Day to day management of the business.
- ◆ Implementing decisions of the Board and reporting to the Board on progress/outcomes.
- ◆ Providing the Chairman and other Board members with accurate and timely information on all matters relevant to the business and operations of the Company.
- ◆ Ensuring that there is effective communication between himself, the Chairman and other Directors.
- ◆ Ensuring that the services provided to the Company are consistent with the needs of the Company as assessed by the Board and that the service provided is regularly evaluated for efficiency and value for money.
- ◆ Reporting to the Board regularly on the performance of the business against strategic priorities and objectives.

## Terms of office and appointment of new Directors

The Company's constitution specifies that all Directors (with the exception of the Managing Director) must retire from office no later than the third Annual General Meeting (AGM) following their last

election. Where eligible, a Director may stand for re-election.

There are no set terms of office or retirement ages for individual Directors.

Details of the Directors' qualifications, expertise and experience are set out in the Directors' Report on pages 12 and 13.

Prospective candidates for election to the Board are reviewed by the Nominations Committee. The Nominations Committee considers the experience, skills, gender and background of the candidates, diversity policy and the requirements of the Board, to ensure the Board's overall composition enables it to discharge its responsibilities and lead the Company effectively.

## 2. DEALINGS IN THE COMPANY'S SHARES

The constitution permits Directors to acquire shares in the Company. The Company has established a policy that requires that all Directors and employees obtain approval from the Chairman in respect to any dealings. The Chairman requires prior approval of the Chairman of the Audit and Compliance Committee in advance of any proposed dealing in the Company shares.

Following this approval, the Director or employee is able to trade in securities EXCEPT in the period from the 1st of the month until notification of financial information to the ASX such as NAV, profit information or announcements of share issues or capital raisings, or if a Director or employee is in possession of any price sensitive information.

## 3. COMMITTEES

Due to the size and nature of the operations of the Company, the Board as a whole carries out the roles often assigned to committees.

### ◆ Audit and Compliance Committee

The Board has established an Audit and Compliance Committee. The Board has agreed that the Committee is to consist solely of independent Directors. The Committee consists of the following independent Directors:

S A Mitchell (Chair)

H R Smerdon AM

D M McGann

A charter, setting out the Committee's role and responsibilities, composition, structure, membership requirements and the manner in which the Committee is to operate has been established. Included in its role is an ongoing review of the performance of the Manager and the services it provides.

The role of the Committee is to oversee the preparation and audit of the financial statements, review the financial statements and monitor the establishment and maintenance of an internal control framework, risk management systems and appropriate ethical standards. The Committee has appropriate financial and risk expertise and all members are financially literate and have an appropriate understanding of the industry in which the Company operates. All matters determined by the Committee are submitted to the full Board as recommendations for Board decision.

Minutes of the Committee meetings are tabled at the subsequent Board meeting.

### ◆ Remuneration and Nomination Committee

The Board has established a Remuneration and Nomination Committee. The Committee consists of the following Directors:

H R Smerdon AM (Chairman)

Dr E C Pohl

S Mitchell

The Committee has met during the year.

A Charter setting out the Committees' role, responsibilities and composition has been established.

The role of the Committee is to assess the skills required on the Board and review remuneration matters.

All matters determined by the Committee are submitted to the full Board as recommendations for Board decision.

Minutes of the Committee meetings are tabled at the subsequent Board meeting.

## 4. REMUNERATION

### ◆ Directors

The total quantum of Directors' fees payable by the Company has been determined by Shareholders in general meeting.

The Board has delegated the responsibility for determining the remuneration of individual Directors to the Remuneration and Nomination Committee.

### ◆ Executives

The only executives of the Company are the Managing Director and Company Secretary. During the year the Company Secretary did not receive any remuneration from the Company. The Managing Director did receive remuneration as a Director and was employed and paid by the current Manager during the year. The services of the Company Secretary are provided by the previous Manager following Shareholder approval last year to novate the Management Services Agreement to EC Pohl & Co Pty Ltd.

## 5. ETHICAL STANDARDS

The Board supports the need for Directors and employees to observe the highest standards of behaviour and business ethics. The Company has developed a statement of values and a Code of Conduct (the Code) which has been fully endorsed by the Board and applies to all Directors and employees. The Code reflects the high standards of behaviour and professionalism expected of Directors and employees and the practices necessary to maintain confidence in the Company's integrity. The Code requires that at all times all Company personnel act with the utmost integrity, objectivity and in compliance with the letter and the spirit of the law and Company policies. Any unethical practices are to be reported to the Chairman. A copy of the Code is available on the Company's website.

In particular, the Code requires that executives and employees:

- ◆ Do not disclose or use in any improper manner confidential information about the Company, its clients or employees;
- ◆ Avoid conflicts of interest; and
- ◆ Protect any Company assets under their control and not use Company assets for personal purposes, without prior Company approval.

## 6. COMPLIANCE AND CONTINUOUS DISCLOSURE

The Company is committed to maintaining the highest standard of integrity and seeks to ensure all its activities are undertaken with efficiency, honesty and fairness.

As a listed entity, the Company has an obligation under the ASX Listing Rules to maintain an informed market with respect to its securities. Accordingly, the Company keeps the market advised of all information required to be disclosed under the rules which it believes would have a material effect on the price or value of the Company's securities.

The Company aims to keep Shareholders informed of the Company's performance and all major developments in an ongoing manner. Information is communicated to Shareholders through:

- ◆ The Annual Report, which is available to all Shareholders.
- ◆ The Interim Financial Report which contains summarised financial information and review of the operations of the entity during the period.
- ◆ Quarterly Shareholder newsletters.
- ◆ Other correspondence regarding matters impacting on Shareholders, as required.

All documents that are released publicly are made available on the Company's website [www.flagshipinvestments.com.au](http://www.flagshipinvestments.com.au)

Shareholders are also encouraged to participate in the Annual General Meeting to ensure a high level of accountability and identification with the Company's strategies and goals. Important issues are presented to Shareholders as single resolutions.

The Shareholders are responsible for voting on the appointment and aggregate remuneration of Directors, any changes to the Company's constitution and changes to the entity which may impact on share ownership rights.

## 7. RISK MANAGEMENT

The Company considers risk management as a critical discipline and core competency that enables it to meet its strategic and business-level objectives. A detailed Risk Management Framework has been established and is reviewed annually by the Audit and Compliance Committee. The Framework documents the risks which the Board has identified. Reporting is provided to the Audit and Compliance Committee in accordance with the Framework and enables the evaluation of the effectiveness of the management and mitigation of the Company's material business risks. A summary of the Risk Management Framework is available on the website.

The Board also reviews its Outsourcing Policy annually, in particular the processes to monitor the internal controls and risk management of its major service providers continue to be appropriate.

The Investment Manager, EC Pohl Pty Ltd, has provided an audited report setting out the control objectives and procedures for the key operating areas of asset management, investment administration and information technology which is reviewed and discussed with the Investment Manager.

The Company seeks to reduce investment risk by a policy of diversification of investments across industries and companies operating in various sectors of the market.

Other risk management issues are considered by the Board in addition to the risks which are managed by the Investment Manager, who is providing all operational activities. The Investment Manager reviews risks as part of its normal risk management process.

The Board receives regular reports about the financial condition and operational results of the Company.

The Managing Director and Chief Financial Officer are required to provide formal statements to the Board each financial year that in all material respects:

- ◆ The Company's financial statements present a true and fair view of the Company's financial condition and operational results, and
- ◆ The risk management and internal compliance and control systems are sound, appropriate and operating efficiently and effectively.

The Company Secretary is required to provide a formal statement to the Board each financial year that in all material respects the regulatory and secretarial compliance requirements are operating efficiently and effectively.



## 8. EXTERNAL AUDITORS

The Company's policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs by the Audit and Compliance Committee. BDO Audit Pty Ltd (BDO) were appointed as the external auditors in 1998 and have been retained following completion of a tender process in 2009.

It is BDO's policy to rotate audit engagement partners on listed companies at least every five years.

The Company's external auditor attends the Annual General Meeting and is available to answer Shareholder questions.

An analysis of fees paid to the external auditors, including a breakdown of fees for non-audit services, is provided in Notes 5 and 17 to the financial statements.

ASX CORPORATE GOVERNANCE COUNCIL BEST PRACTICE RECOMMENDATIONS			
ASX Principle	Reference	Compliance	
<b>Principle 1: Lay solid foundations for management and oversight</b>			
1.1 Establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	1	Comply	
1.2 Disclose the process for evaluating the performance of senior executives.	4	Comply	
1.3 Provide the information indicated in the Guide to reporting on Principle 1.	1 and 4	Comply	
<b>Principle 2: Structure the board to add value</b>			
2.1 A majority of the board should be independent directors.	1	Comply	
2.2 The chair should be an independent director.	1	Comply	
2.3 The roles of chair and chief executive officer should not be exercised by the same individual.	1	Comply	
2.4 The board should establish a nomination committee.	1	Comply	
2.5 Disclose the process for evaluating the performance of the board, its committees and individual directors.	1	Comply	
2.6 Provide the information indicated in Guide to reporting on Principle 2.	1 and Director's Report	Comply	
<b>Principle 3: Promote ethical and responsible decision-making</b>			
3.1 Establish a code of conduct and disclose the code or a summary of the code as to:			
❖ The practices necessary to maintain confidence in the company's integrity.	5	Comply	
❖ The practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders.	5	Comply	
❖ The responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	5	Comply	
3.2 Establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.	1	Comply	
3.3 Disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.	1	Comply	
3.4 Disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.	1	Comply	
3.5 Provide the information indicated in Guide to reporting on Principle 3.	1	Comply	

ASX CORPORATE GOVERNANCE COUNCIL BEST PRACTICE RECOMMENDATIONS		
ASX Principle	Reference	Compliance
<b>Principle 4: Safeguard integrity in financial reporting</b>		
4.1 Establish an audit committee.	3	Comply
4.2 The audit committee should be structured so that it:		
❖ Consists only of non-executive directors.	3	Comply
❖ Consists of a majority of independent directors.	3	Comply
❖ Is chaired by an independent chair, who is not chair of the board.	3	Comply
❖ Has at least three members.	3	Comply
4.3 The audit committee should have a formal charter.	3	Comply
4.4 Provide the information indicated in Guide to reporting on Principle 4.	3, Director's Report and website	Comply
<b>Principle 5: Make timely and balanced disclosure</b>		
5.1 Establish written policies designed to ensure compliance with ASX Listing Rules disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	6	Comply
5.2 Provide the information indicated in Guide to reporting on Principle 5.	6 and website	Comply
<b>Principle 6: Respect the rights of shareholders</b>		
6.1 Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose the policy or a summary of the policy.	6	Comply
6.2 Provide the information indicated in Guide to reporting on Principle 6.	6 and website	Comply
<b>Principle 7: Recognise and manage risk</b>		
7.1 Establish policies for the oversight and management of material business risks and disclose a summary of those policies.	7 and website	Comply
7.2 Require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	7	Comply
7.3 Disclose whether the board has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	7	Comply
7.4 Provide the information indicated in Guide to reporting on Principle 7.	7 and website	Comply
<b>Principle 8: Remunerate fairly and responsibly</b>		
8.1 The board should establish a remuneration committee.	3 and 4	Comply
8.2 The remuneration committee should be structured so that it:	4	Comply
❖ Consists of a majority of independent directors.		
❖ Is chaired by an independent chair.		
❖ Has at least three members.		
8.3 Clearly distinguish the structure of non executive directors' remuneration from that of executive directors and senior executives.	4	Comply
8.4 Provide the information indicated in Guide to reporting on Principle 8.	3, 4 and Remuneration Report	Comply

Note 1: Reference refers to the relevant sections of this Corporate Governance Statement or to the Director's Report.

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This financial report covers Flagship Investments Limited as an individual entity. There are no controlled entities.

Flagship Investments Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Flagship Investments Limited  
Level 12  
Corporate Centre One  
2 Corporate Court  
BUNDALL QLD 4217

The financial report was authorised for issue by the Directors on 23 August 2013.

A description of the nature of the entity's operations and its principal activities is included in the Operating and Financial Review and Managing Director's report on page 10.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete and available globally at minimum cost to the Company. All media releases, financial reports and other information are available from the Company at the above address or from our website:

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

# Financial Report

FLAGSHIP INVESTMENTS LIMITED  
**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
 FOR THE YEAR ENDED 30 JUNE 2013

	Notes	2013 \$'000	2012 \$'000
Other Income	4	1,519	1,422
Performance Fee	22	(1,243)	-
Other Expenses	5	(520)	(422)
<b>Profit/(Loss) before income tax</b>		<b>(244)</b>	<b>1,000</b>
Income tax (Expense)/Benefit	6	448	38
<b>Profit after income tax for the year</b>		<b>204</b>	<b>1,038</b>

## Other Comprehensive Income

*Items that will not be reclassified subsequently to profit & loss*

Changes in fair value of Financial Assets at fair value through Other Comprehensive Income		7,950	(3,147)
Income Tax (Expense)/Benefit relating to components of Other Comprehensive Income		(2,385)	937
<b>Other Comprehensive Income/(Loss) for the year, net of tax</b>		<b>5,565</b>	<b>(2,188)</b>
<b>Total Comprehensive Income/(Loss) for the year</b>		<b>5,769</b>	<b>(1,150)</b>

## Earnings per share:

		Cents	Cents
Basic earnings per share	21	0.08	4.22
Diluted earnings per share	21	0.08	4.22

*The above statement of financial position should be read in conjunction with the notes to the financial statements.*



FLAGSHIP INVESTMENTS LIMITED  
**STATEMENT OF FINANCIAL POSITION**  
AS AT 30 JUNE 2013

	Notes	2013 \$'000	2012 \$'000
<b>ASSETS</b>			
Cash and Cash Equivalents	7	2,531	604
Trade and Other Receivables	8	198	151
Financial Assets at fair value through Other Comprehensive Income	9	34,102	28,758
Deferred Tax Assets	11	447	2,384
<b>Total Assets</b>		<b>37,278</b>	<b>31,897</b>
<b>LIABILITIES</b>			
Trade and Other Payables	12	1,409	57
Deferred Tax Liability		-	-
<b>Total Liabilities</b>		<b>1,409</b>	<b>57</b>
<b>Net Assets</b>		<b>35,869</b>	<b>31,840</b>
<b>EQUITY</b>			
Contributed Equity	13	33,657	33,941
Other Reserves	14	2,227	(2,304)
Retained Earnings		(15)	203
<b>Total Equity</b>		<b>35,869</b>	<b>31,840</b>

The above statement of financial position should be read in conjunction with the notes to the financial statements.

# Financial Report

## FLAGSHIP INVESTMENTS LIMITED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2013

	Notes	Contributed Equity \$'000	Retained Earnings \$'000	Asset Revaluation Reserve \$'000	Asset Realisation Reserve \$'000	TOTAL \$'000
<b>Balance at 1 July 2011</b>		34,293	944	(116)	-	35,121
<b>Total Comprehensive Income</b>						
Profit for Year		-	1,038	-	-	1,038
Other Comprehensive Income		-	-	(2,188)	-	(2,188)
<b>Total Comprehensive Income</b>		-	1,038	(2,188)	-	(1,150)
<b>Transfers between Reserves</b>						
Transfer to Asset Realisation Reserve		-	-	(15)	15	-
<b>Total Transfers between Reserves</b>		-	-	(15)	15	-
<b>Transactions with Owners in their capacity as owners</b>						
Shares issued during period	13(b)	474	-	-	-	474
Shares bought back on market	13(b)	(826)	-	-	-	(826)
Dividends paid or provided for	15(a)	-	(1,779)	-	-	(1,779)
		(352)	(1,779)	-	-	(2,131)
<b>Balance at 30 June 2012</b>		<b>33,941</b>	<b>203</b>	<b>(2,319)</b>	<b>15</b>	<b>31,840</b>
<b>Balance at 1 July 2012</b>		33,941	203	(2,319)	15	31,840
<b>Total Comprehensive Income</b>						
Profit for Year		-	204	-	-	204
Other Comprehensive Income		-	-	5,565	-	5,565
<b>Total Comprehensive Income</b>		-	204	5,565	-	5,769
<b>Transfers between Reserves</b>						
Transfer to Asset Realisation Reserve		-	-	(1,440)	1,440	-
<b>Total Transfers between Reserves</b>		-	-	(1,440)	1,440	-
<b>Transactions with Owners in their capacity as owners</b>						
Shares issued during period	13(b)	351	-	-	-	351
Shares bought back on market	13(b)	(635)	-	-	-	(635)
Dividends paid or provided for	15(a)	-	(420)	-	(1,034)	(1,456)
		(284)	(420)	-	(1,034)	(1,740)
<b>Balance at 30 June 2013</b>		<b>33,657</b>	<b>(15)</b>	<b>1,806</b>	<b>421</b>	<b>35,869</b>

The above statement of changes in equity should be read in conjunction with the notes to the financial statements.

FLAGSHIP INVESTMENTS LIMITED  
**STATEMENT OF CASH FLOWS**  
 FOR THE YEAR ENDED 30 JUNE 2013

	Notes	2013 \$'000	2012 \$'000
<b>Cash flows from operating activities</b>			
Dividends received		1,460	1,427
Interest received		9	6
Other payments (inclusive of GST)		(408)	(402)
<b>Net cash inflow/(outflow) from operating activities</b>	20	<b>1,061</b>	<b>1,031</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of investments		7,231	2,739
Payment for investments		(4,625)	(1,661)
<b>Net cash inflow/(outflow) from investing activities</b>		<b>2,606</b>	<b>1,078</b>
<b>Cash flows from financing activities</b>			
Dividends paid	15(a)	(1,105)	(1,305)
Buy-back of shares		(635)	(826)
<b>Net cash inflow/(outflow) from financing activities</b>		<b>(1,740)</b>	<b>(2,131)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>1,927</b>	<b>(22)</b>
Cash and cash equivalents at the beginning of the year		604	626
<b>Cash and cash equivalents at end of period</b>	7	<b>2,531</b>	<b>604</b>

The above statement of cash flows should be read in conjunction with the notes to the financial statements.

## FLAGSHIP INVESTMENTS LIMITED NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### (A) BASIS OF PREPARATION

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Australian Accounting Interpretations and the *Corporations Act 2001*.

Australian Accounting Standards include Australian Equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report of Flagship Investments Limited complies with International Financial Reporting Standards (IFRS).

These financial statements have been prepared under the historical cost convention, except for Financial Assets at fair value through Other Comprehensive Income, which are measured at fair value.

Unless otherwise stated, all amounts are presented in Australian dollars. Flagship Investments Limited is a for-profit entity for the purpose of preparing these financial statements.

#### (B) BALANCE SHEET FORMAT

The Statement of Financial Position is in a liquidity format. The adoption of a liquidity format results in the removal of the terms "current asset" and "non current asset" from the Statement of Financial Position, in favour of the general term "assets".

#### (C) REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable net of the amount of Goods and Services Tax (GST). The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Company's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

##### (i) Dividend Revenue

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

##### (ii) Interest Revenue

Interest revenue is recognised on a time proportion basis using the effective interest method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest revenue. Interest revenue on impaired loans is recognised using the original effective interest rate.

#### (D) INCOME TAX

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the income tax rate adjusted by changes in deferred tax assets and tax liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the Statement of Financial Position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

#### (E) FINANCIAL INSTRUMENTS

##### Financial Assets At Fair Value Through Profit Or Loss

Financial assets at fair value through profit or loss are assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term, or if so designated by management and within the requirement of AASB 9 *Financial Instruments*. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the profit or loss in the period in which they arise.

##### Financial Assets At Fair Value Through Other Comprehensive Income

The Company is a long-term investor in equity instruments. Under AASB 9, these investments are classified as fair value through Other Comprehensive Income. After initial recognition at fair value (being cost), the Company has elected to present in Other Comprehensive Income changes in the fair value of equity instrument investments.

Unrealised gains and losses on investments are recognised in the Asset Revaluation Reserve until the investment is sold or otherwise disposed of, at which time the cumulative gain or loss is transferred to the Asset Realisation Reserve.

The Company derecognises an investment when it is sold or it transfers the investment and the transfer qualifies for derecognition in accordance with AASB 9. Upon derecognition, unrealised gains/losses net of tax relating to the investment are transferred from the revaluation reserve to the realisation reserve.

FLAGSHIP INVESTMENTS LIMITED  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2013

**Available-For-Sale Financial Assets**

These investments are measured at fair value.

Unrealised gains and losses arising from changes in the fair value of these assets are taken directly to Other Comprehensive Income and accumulated in Equity.

When these financial Assets are sold, the accumulated fair value adjustments are reclassified from Equity to the profit or loss as gains and losses on sale.

Available-For-Sale-Financial assets are assessed at each reporting date to determine whether there is any objective evidence that it is impaired. In the case of Available-For-Sale Financial Instruments, a significant or prolonged decline in the value of the instrument below cost is considered to be evidence of whether or not impairment has arisen.

Any cumulative impairment loss in respect of an Available-For-Sale Financial Assets previously recognised in equity is reclassified to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For Available- For-Sale Financial Assets that are debt securities, the reversal is recognised in profit or loss. For equity securities, the reversal is recognised in Other Comprehensive Income.

**Loans and Receivables**

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement no more than 30 days from the date of recognition.

Collectability of loans and receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in the profit or loss in other expenses.

**Fair Value Estimation**

The fair value of financial instruments traded in active markets (such as publicly traded derivatives and securities) is based on quoted market prices at the Statement of Financial Position date. The quoted market price used for financial assets held by the Company is the current bid price. The appropriate quoted market price for financial liabilities is the current bid price.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market

interest rate that is available to the Company for similar financial instruments.

**(F) CASH AND CASH EQUIVALENTS**

For Statement of Cash Flows purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

**(G) TRADE AND OTHER PAYABLES**

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Other liabilities are measured at amortised cost using the effective interest method.

**(H) CONTRIBUTED EQUITY**

Ordinary shares are classified as Equity.

Incremental costs directly attributable to the issue of new shares or options are shown in Equity as a deduction, net of tax, from the proceeds.

**(I) DIVIDENDS**

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Company, on or before the end of the reporting period but not distributed at the end of the reporting period.

**(J) GOODS AND SERVICES TAX (GST)**

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the Statement of Financial Position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

**(K) ROUNDING OF AMOUNTS**

The Company is of a kind referred to in Class order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, unless otherwise stated.



# Financial Report

## FLAGSHIP INVESTMENTS LIMITED NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

### (L) KEY JUDGEMENTS

The preparation of financial reports in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. This requires the Board to exercise their judgement in the process of applying the Company'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 and deferred tax assets have been recognised for Capital Gains Tax (CGT) on the unrealised gains/losses in the investment portfolio at current tax rates.

As the Directors do not intend to dispose of the portfolio, this tax liability/benefit may not be crystallised at the amount disclosed in Note 11. In addition, the tax liability/benefit that arises on disposal of these securities may be impacted by changes in tax legislation relating to treatment of capital gains and the rate of taxation applicable to such gains/losses at the time of disposal.

The Company has an investment process (see below for explanation) which is anticipated will deliver medium to long-term capital growth – minimum investment period is three to five years. The deferred tax asset has been carried forward as it believed that this process will deliver growth over this period to utilise the deferred tax asset.

The Company does not hold any securities for short term trading purposes. Therefore the investment portfolio is classified as Financial Assets at fair value through Other Comprehensive Income.

### (M) KEY ASSUMPTIONS AND SOURCES OF ESTIMATION UNCERTAINTY

There are no key assumptions or sources of estimation uncertainty that have a risk of causing material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period as investments are carried at their market value.

### (N) NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET MANDATORY OR EARLY ADOPTED

The Company has early adopted AASB 9 *Financial Instruments* (AASB 9) with initial application from 1 July 2011.

A number of new standards, amendments and interpretations are effective for annual periods beginning after 1 July 2013.

New and amended standards dealing with Consolidated Financial Statements, Separate Financial Statements, Joint Arrangements, Disclosure of Interests in Other Entities and Fair Value Measurement have been released. These standards are effective from 1 January 2013. The Company does not plan to adopt these standards early nor does it expect there to be any recognition or measurement impacts as a result of the application of these new standards.

## 2. FINANCIAL RISK MANAGEMENT

The activities of the Company expose it to a variety of financial risks as discussed below:

The Company's overall risk management program focuses on the volatility of the financial markets and seeks to minimise potential adverse effects on the financial performance of the Company. Risk governance is managed through the Board which provides direct oversight on the Company's risk management framework and overall risk management performance. The Board provides written principles for risk management covering investment portfolio composition. Risk is managed by the professional, disciplined management of the investment portfolio by EC Pohl & Co Pty Ltd (the Manager).

The Company held the following financial instruments:

	30 June 2013 \$'000	30 June 2012 \$'000
<b>Financial assets</b>		
Cash and cash equivalents	2,531	604
Trade and Other Receivables	198	151
Financial Assets at fair value through Other Comprehensive Income/ Available-For-Sale	34,102	28,758
<b>Total</b>	<b>36,831</b>	<b>29,513</b>
<b>Financial liabilities</b>		
Trade and Other Payables	1,409	57
<b>Total</b>	<b>1,409</b>	<b>57</b>

### (A) MARKET RISK

#### (i) Foreign exchange risk

The Company operates entirely within Australia and is not exposed to material foreign exchange risk.

#### (ii) Equity market risk

The Company is exposed to risk of market price movement through its investments in Australian listed equity securities. Equity investments held by the Company are classified on the Statement of Financial Position as Financial Assets at fair value through Other Comprehensive Income and any movement in the listed equity securities is reflected in Other Comprehensive Income.

The risk to Shareholders is that adverse equity securities market movements have the potential to cause losses in Company earnings or the value of its holdings of financial instruments. The Manager's investment strategy centres on the view that investing in proven high quality businesses with growth opportunities arising from their sustainable competitive advantage will outperform over the longer-term. Consistent with this approach, the Manager has an established risk management framework that includes procedures, policies and functions to ensure constant monitoring of the quality of the investee companies. The objective of the risk management framework is to manage and control risk exposures within acceptable parameters while optimising returns.

Equity market risk is measured as a percentage change in the value of equity instruments held in the portfolio, as compared to the total market index for the same period.

FLAGSHIP INVESTMENTS LIMITED  
**NOTES TO FINANCIAL STATEMENTS**  
 FOR THE YEAR ENDED 30 JUNE 2013

The Company's exposure to equity market risk over the Manager's investment horizon at end of reporting period is:

	2013	2012
Portfolio five year return	9.0%	-2.6%
All Ordinaries Index five year return	-2.2%	-8.1%

**Sensitivity Analysis**

Increases/decreases in an equity securities price, affect the Company's asset revaluation reserve and Other Comprehensive Income for the year. The analysis is based on the assumption that the Financial Assets at fair value through Other Comprehensive Income had increased/decreased by 5% (2012 - 5%) with all other variables held constant.

Impact on Equity and Other Comprehensive Income for the year:-

2013 +/- \$1,705,000

2012 +/- \$1,438,000

Impact on profit or loss is nil.

**(iii) Cashflow interest rate risk**

The Company is exposed to cash flow interest rate risk from holding cash and cash equivalents at variable rates. The objective of the Company is to minimise the potential adverse effects of interest rate risk.

In order to minimise the potential adverse effects of this risk, the Manager reviews the interest rate exposure as part of cash flow management and takes into consideration liquidity and yields as part of cash flow management. The cash and cash equivalents held are subject to an insignificant level of risk of changes in value.

As at the reporting date, the Company had the following cash and cash equivalents:

30 June 2013: Balance \$2,531,000

Weighted average interest rate 1.57%

30 June 2012: Balance \$604,000

Weighted average interest rate 2.84%

**(B) RELATIVE PERFORMANCE RISK**

The Manager aims to outperform the risk free cash rate over the long-term. However, as the portfolio consists of equity investments these will tend to be more volatile than cash, so there will likely be periods of relative under and over performance compared to the benchmark risk free rate.

Over the long-term the Manager is confident that the portfolio can achieve outperformance through an investment selection process that invests in companies that have a sound business model, display a sustainable competitive advantage and have proven quality management.

**(C) CREDIT RISK**

Credit risk is the risk of a counterparty defaulting on their financial obligations resulting in a loss to the Company. The objective of the Company is to minimise credit risk exposure. Credit risk arises from cash and cash equivalents and Financial Assets at fair value through Other Comprehensive Income. Credit risk is managed by the Manager.

Credit risk arising from cash and cash equivalents is managed by only transacting with counterparties independently rated with a minimum rating of A. The providers of financial services to the Company are rated as AA by Standard and Poor's. Credit risk on cash and cash equivalents is deemed to be low.

Credit risk arising from Financial Assets at fair value through Other Comprehensive Income relates to the risk of counterparties on the ASX defaulting on their financial obligations on transactions for Australian listed equity securities. The credit risk for these transactions is deemed to be low.

The maximum credit risk exposure of the Company at year end is the carrying value of the assets in the Statement of Financial Position.

There is no concentration of credit risk with respect to financial assets in the Statement of Financial Position.

**(D) LIQUIDITY RISK**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The objective of the Company is to ensure as far as possible that it will always have sufficient liquidity to meet its liabilities when due, under both normal and distressed conditions.

Prudent liquidity risk management implies maintaining sufficient cash and marketable Australian listed equity securities.

The Manager controls liquidity risk by continuously monitoring the balance between equity securities and cash or cash equivalents and the maturity profiles of assets and liabilities to ensure this risk is minimal.

FLAGSHIP INVESTMENTS LIMITED  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2013

## (E) FAIR VALUE MEASUREMENTS

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

AASB 7 *Financial Instruments: Disclosures*, requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included with 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 asset or liability that are not based on observable market data (unobservable inputs).

The following table presents the Company's assets and liabilities measured and recognised at fair value as 30 June 2013.

Company – at 30 June 2012	Level 1	Level 2	Level 3
Assets	\$'000	\$'000	\$'000
<b>Available-For-Sale</b>			
<b>Financial Assets</b>			
Listed Equity Securities	28,758	-	-
<b>Total</b>	<b>28,758</b>	<b>-</b>	<b>-</b>
<b>Company – at 30 June 2013</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Financial Assets</b>			
<b>at fair value through Other</b>			
<b>Comprehensive Income</b>			
Listed Equity Securities	34,102	-	-
<b>Total</b>	<b>34,102</b>	<b>-</b>	<b>-</b>

## (F) CAPITAL MANAGEMENT

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The capital structure of the Company consists of equity attributable to members of the Company. The Board monitors the return on capital, which is defined as net operating income divided by total Shareholders' Equity. The Board also monitors the level of dividends to Shareholders.

The capital of the Company is invested by the Investment Manager in accordance with the investment policy established by the Board. The Company has no borrowings. It is not subject to any externally imposed capital requirements.

The Company has continued the on-market buy-back of its own shares during the year. This assists in maintaining the alignment between the market price and the Net Asset Value of the Company.

There were no changes in the Company's approach to capital management during the year.

## 3. SEGMENT INFORMATION

### OPERATING SEGMENT

The Company operates in the investment industry. Its core business focuses on investing in Australian equities to achieve medium to long-term capital growth and income.

Operating segments have been determined on the basis of reports reviewed by the Managing Director. The Managing Director is considered to be the chief operating decision maker of the Company. The Managing Director considers the business from both a product and geographic perspective and assesses performance and allocates resources on this basis. The Managing Director considers the business to consist of just one reportable segment.

FLAGSHIP INVESTMENTS LIMITED  
**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 30 JUNE 2013

	Notes	2013 \$'000	2012 \$'000
<b>4. REVENUE</b>			
Dividends		1,508	1,416
Interest		11	6
Other		-	-
<b>Total</b>		<b>1,519</b>	<b>1,422</b>
<b>5. OTHER EXPENSES</b>			
<b>Profit/(Loss) before income tax includes the following specific expenses:</b>			
ASX listing and other fees		38	35
Audit fees		28	25
Directors fees		145	145
Insurance		29	29
Share registry		33	27
Other		247	161
<b>Total</b>		<b>520</b>	<b>422</b>
<b>6. INCOME TAX EXPENSE</b>			
<b>(a) Income tax expense</b>			
Deferred tax		(448)	(38)
Under/(over) provided in prior years		-	-
<b>Total income tax expense in profit or loss</b>		<b>(448)</b>	<b>(38)</b>
Deferred income tax (benefit)/expense included in income tax expense comprises:			
Decrease (increase) in deferred tax assets	11	(451)	(33)
(Decrease) increase in deferred tax liabilities	11	3	(5)
		<b>(448)</b>	<b>(38)</b>
<b>(b) Reconciliation of income tax expense to prima facie tax payable</b>			
Profit/(Loss) before income tax expense		(244)	1000
Tax at the Australian tax rate of 30% (2012 – 30%)		(73)	300
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:			
Dividend franking credits		(367)	(341)
Other		(8)	3
		<b>(448)</b>	<b>(38)</b>
Under/(over) provision in prior years		-	-
<b>Total income tax expense (benefit)</b>		<b>(448)</b>	<b>(38)</b>
<b>(c) Amounts recognised in Other Comprehensive Income</b>			
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to Other Comprehensive Income.			
Net deferred tax – debited/(credited) directly to Other Comprehensive Income	11	2,385	(937)
		<b>2,385</b>	<b>(937)</b>

# Financial Report

## FLAGSHIP INVESTMENTS LIMITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013 \$'000	2012 \$'000
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### 7. CASH AND CASH EQUIVALENTS

Cash at bank and on hand	2,531	604
	<b>2,531</b>	<b>604</b>

### 8. TRADE AND OTHER RECEIVABLES

Other receivables	198	151
	<b>198</b>	<b>151</b>

### 9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

#### Listed Securities, at fair value

At beginning of year	28,758	-
Reclassification from Available-For-Sale Financial Assets	-	32,961
Additions (at cost)	4,649	1,661
Revaluation	5,893	(3,147)
Disposals (at fair value)	(5,198)	(2,717)
<b>Closing Balance at 30 June</b>	<b>34,102</b>	<b>28,758</b>
Australian listed equity securities	<b>34,102</b>	<b>28,758</b>

For listed equity securities, fair value is determined by reference to closing bid prices on the Australian Securities Exchange.

### 10. AVAILABLE-FOR-SALE FINANCIAL ASSETS

#### Listed Securities, at fair value

At beginning of year	-	32,961
Reclassification To Available-For-Sale Financial Assets through Other Comprehensive Income	-	(32,961)
Additions (at cost)	-	-
Revaluation	-	-
Disposals (at fair value)	-	-
<b>Closing Balance at 30 June</b>	<b>-</b>	<b>-</b>
Australian listed equity securities	<b>-</b>	<b>-</b>

For listed equity securities, fair value is determined by reference to closing bid prices on the Australian Securities Exchange.

FLAGSHIP INVESTMENTS LIMITED  
**NOTES TO THE FINANCIAL STATEMENTS**  
 FOR THE YEAR ENDED 30 JUNE 2013

	2013 \$'000	2012 \$'000
<b>11. DEFERRED TAX ASSETS</b>		
<b>The balance comprises temporary differences attributable to:</b>		
<i>Amounts recognised in profit or loss</i>		
Accruals	8	9
Tax losses - revenue	1,064	612
Tax losses - capital	785	785
	<b>1,857</b>	<b>1,406</b>
<i>Amounts recognised in Other Comprehensive Income</i>		
Tax losses – capital	(624)	(6)
Unrealised loss on Available-For-Sale Investments	-	-
Unrealised loss on Financial Assets on fair value through Other Comprehensive Income	-	993
	<b>(624)</b>	<b>987</b>
<b>Net deferred tax assets</b>	<b>1,233</b>	<b>2,393</b>
<b>Reconciliations</b>		
<b>(i) Gross Movements:</b>		
The overall movement in deferred tax asset accounts is as follows:		
Opening balance	2,393	1,423
(Charged)/credited directly to the profit or loss	451	33
(Charged)/credited to Other Comprehensive Income	(1,611)	937
<b>Closing balance at 30 June</b>	<b>1,233</b>	<b>2,393</b>
<b>(ii) The movement in deferred tax assets for each temporary difference during the year is as follows:</b>		
<i>Share issue expenses</i>		
Opening balance	-	59
(Charged)/credited directly to the income statement	-	(59)
<b>Closing balance</b>	<b>-</b>	<b>-</b>
<i>Accruals</i>		
Opening balance	9	8
(Charged)/credited directly to the profit or loss	(1)	1
<b>Closing Balance</b>	<b>8</b>	<b>9</b>
<i>Tax losses-revenue</i>		
Opening balance	612	521
(Charged)/credited directly to profit or loss	452	91
<b>Closing Balance</b>	<b>1,064</b>	<b>612</b>



# Financial Report

## FLAGSHIP INVESTMENTS LIMITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	2013 \$'000	2012 \$'000
<b>11. DEFERRED TAX ASSETS (continued)</b>		
<i>Tax losses – capital</i>		
Opening balance	779	785
(Charged)/credited directly to profit or loss	-	-
(Charged)/credited directly to Other Comprehensive Income	(618)	(6)
<b>Closing balance</b>	<b>161</b>	<b>779</b>
<i>Available-For-Sale Investments</i>		
Opening balance	-	50
(Charged)/credited directly to Other Comprehensive Income	-	(50)
<b>Closing balance</b>	<b>-</b>	<b>-</b>
<i>Unrealised loss on Financial Assets at fair value through Other Comprehensive Income</i>		
Opening balance	993	-
(Charged)/credited directly to Other Comprehensive Income	(993)	993
<b>Closing balance</b>	<b>-</b>	<b>993</b>
<b>DEFERRED TAX LIABILITIES</b>		
<b>The balance comprises temporary differences attributable to:</b>		
<i>Amounts recognised in Profit or Loss</i>		
Unfranked dividend and interest receivable	12	9
<b>Net deferred tax liabilities</b>	<b>12</b>	<b>9</b>
<i>Amounts recognised in Other Comprehensive Income</i>		
Unrealised gain on Financial Assets on fair value through Other Comprehensive Income	774	-
	<b>774</b>	<b>-</b>
<b>Net deferred tax liabilities</b>	<b>786</b>	<b>9</b>
<b>Reconciliations</b>		
<b>(i) Gross Movements:</b>		
The Overall movement in the deferred tax liability account is as follows:		
Opening balance	9	14
Charged/(credited) directly to profit or loss	3	(5)
Charged/(credited) directly to other comprehensive income	774	-
<b>Closing balance</b>	<b>786</b>	<b>9</b>
<b>(ii) The movement in deferred tax liability for each temporary difference during the year is as follows:</b>		
<i>Unrealised gain on Financial Assets on fair value through Other Comprehensive Income</i>		
Opening balance	-	-
Charged/(credited) directly to profit and loss	774	-
<b>Closing balance</b>	<b>774</b>	<b>-</b>
<i>Unfranked dividend and interest receivable</i>		
Opening balance	9	14
Charged/(credited) directly to profit and loss	3	(5)
<b>Closing balance</b>	<b>12</b>	<b>9</b>
<b>Net deferred tax asset adjusted for deferred tax liabilities</b>	<b>447</b>	<b>2,384</b>
<b>12. TRADE AND OTHER PAYABLES</b>		
Accrued expenses	1,409	57
	<b>1,409</b>	<b>57</b>

Contractual cash flows from trade and other payables approximate their carrying amount. Trade and other payables are all contractually due within six months of reporting date.

FLAGSHIP INVESTMENTS LIMITED  
**NOTES TO THE FINANCIAL STATEMENTS**  
 FOR THE YEAR ENDED 30 JUNE 2013

	2013 Shares	2012 Shares	2013 \$'000	2012 \$'000
<b>13. CONTRIBUTED EQUITY</b>				
<b>(a) Share Capital</b>				
Ordinary shares				
Fully paid	24,226,573	24,455,539	33,657	33,941
<b>Total Share Capital</b>	<b>24,226,573</b>	<b>24,455,539</b>	<b>33,657</b>	<b>33,941</b>

The Company does not have an authorised capital value or par value in respect of its issued shares.

**(b) Movements in ordinary share capital:**

Date	Details	Number of Shares	Price	\$'000
<b>30 June 2011</b>	<b>Balance</b>	<b>24,752,257</b>		<b>34,293</b>
20 July 2011 to 29 June 2012	Cancellation of shares under the buy-back scheme	(673,721)	\$1.230 (average price)	(826)
9 September 2011	Dividend Reinvestment Plan issues (see note (d) below)	213,372	\$1.318	281
10 May 2012	Dividend Reinvestment Plan issues (d) below	163,631	\$1.177	193
<b>30 June 2012</b>	<b>Balance</b>	<b>24,455,539</b>		<b>33,941</b>
20 July 2012 to 29 June 2013	Cancellation of shares under the buy-back scheme	(519,449)	\$1.222 (average price)	(635)
12 October 2012	Dividend Reinvestment Plan issues (see note (d) below)	123,497	\$1.085	134
30 November 2012	Dividend Reinvestment Plan issues (see note (d) below)	1,041	\$1.085	1
12 April 2013	Dividend Reinvestment Plan issues (see note (d) below)	165,945	\$1.305	216
<b>30 June 2013</b>	<b>Balance</b>	<b>24,226,573</b>		<b>33,657</b>

**(c) Ordinary shares**

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

**(d) Share buy-back**

On 24 July 2012 the Company announced to the Australian Securities Exchange that it intended to buy-back up to a maximum of 10% of its issued capital within one year, subject to market conditions. The buy-backs reflect the Company's focus on maintaining an efficient balance sheet through active capital management.

The Company has also announced on 26 June 2013 to the Australian Securities Exchange that the buy-back program had been extended and that it intended to buy-back up to a maximum of 10% of its issued capital within one year, subject to market conditions.

FLAGSHIP INVESTMENTS LIMITED  
**NOTES TO THE FINANCIAL STATEMENTS**  
 FOR THE YEAR ENDED 30 JUNE 2013

## 14. OTHER RESERVES

### Asset Revaluation Reserve

Increments or decrements on the revaluation of long-term investments after provision for deferred tax are recorded in the Asset Revaluation Reserve. When an investment has been sold or de-recognised, the realised gains and losses (after tax) are transferred from the revaluation reserve to the Asset Revaluation Reserve.

### Asset Realisation Reserve

The Asset Realisation Reserve records realised gains and losses from the sale of investments which are transferred from the Asset Revaluation Reserve.

	2013 \$'000	2012 \$'000
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## 15. DIVIDENDS

### (a) Dividends paid

Final dividend of 3.00 cents (2012 – 4.25 cents) per fully paid share paid on 12 October 2012 (2011 – 9 September 2011)

Fully franked based on tax paid @ 30% – 3.00 cents per share	728	1,046
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Interim dividend of 3.0 cents (2012 – 3.00 cents) per fully paid share paid on 12 April 2013 (2012 – 10 May 2012)

Fully franked based on tax paid @ 30% – 3.0 cents per share	728	733
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### Total dividends provided for or paid

1,456	1,779
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Dividends paid in cash or satisfied by the issue of shares under the dividend reinvestment plan during the years ended 30 June 2013 and 2012 were as follows:

Paid in cash	1,105	1,305
Satisfied by issue of shares	351	474
1,456	1,779	

### (b) Listed Investment Company capital gain account

Balance of the Listed Investment Company (LIC) capital gain account

-	-
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LIC capital gains available for distribution are dependent upon:

- (i) The disposal of investment portfolio holdings which qualify for LIC capital gains; or
- (ii) The receipt of LIC distributions from LIC securities held in the portfolio.

FLAGSHIP INVESTMENTS LIMITED  
**NOTES TO THE FINANCIAL STATEMENTS**  
 FOR THE YEAR ENDED 30 JUNE 2013

	2013 \$'000	2012 \$'000
<b>15. DIVIDENDS (continued)</b>		
<b>(c) Franked dividends</b>		
The franked portions of the final dividends recommended after 30 June 2013 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax or franking credits received on dividends in the year ending 30 June 2014.		
Balance as at 30 June 2013 on the franking account after allowing for tax payable in respect of the current year's profits, the receipt of dividends recognised as receivables and the payment of dividends recognised as a liability at the reporting date.	1,440	1,539
<b>(d) Dividends not recognised at year end</b>		
In addition to the above dividends, since year end the Directors have recommended the payment of a final dividend of 3.5 cents per fully paid ordinary share, (2012 – 3.00 cents) fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend to be paid on 27 September 2013, but not recognised as a liability at year end.	845	732
The impact on the franking account of dividends recommended after year end but before the financial statements were authorised for issue and not recognised as a liability at year end will be a reduction on the franking account.	362	314
	<b>2013</b>	<b>2012</b>
	<b>\$</b>	<b>\$</b>

## 16. KEY MANAGEMENT PERSONNEL DISCLOSURES

### (a) Other Key Management Personnel

The Company's Secretary and Chief Financial Officer (Ian Harrison) is employed by Hyperion Asset Management Limited. Ian has not received any form of direct remuneration from the Company. Hyperion Asset Management Limited was the Manager until Shareholders approved a novation of the Management Services Agreement to EC Pohl & Co Pty Ltd at the AGM on 18 October 2012. Hyperion Asset Management Limited is remunerated by EC Pohl & Co Pty Ltd for the provision of these services only if a performance fee has been paid in accordance with the Management Services Agreement.

The Company has no other staff and therefore has no Key Management Personnel other than the Directors.

No member of Key Management Personnel held options over shares in the Company during the year.

There have been no other transactions with Key Management Personnel or their related entities other than those disclosed in Note 19.

### (b) Key Management Personnel (Directors) Compensation

Short-term Employment benefits	145,000	145,000
Post-Employment Benefits	-	-
Long-term Benefits	-	-
<b>Total remuneration</b>	<b>145,000</b>	<b>145,000</b>

Detailed remuneration disclosures are provided in sections (A)-(D) of the remuneration report on page 15.

# Financial Report

## FLAGSHIP INVESTMENTS LIMITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

### 16. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

#### (c) Equity Instrument Disclosure relating to Key Management Personnel

The number of shares in the Company held during the financial year by each Director of Flagship Investments Limited, including their related parties is set out below.  
There were no shares granted during the year as compensation.

2013	Balance at the Start of the Year	Received During the Year by Exercise of Rights	Other Changes During the Year	Balance at the End of the Year
H R Smerdon AM	54,808	-	2,813	57,621
Dr E C Pohl	6,606,807	-	84,027	6,690,831
S A Mitchell	30,000	-	-	30,000
P Corrigan AM	2,055,523	-	-	2,055,523
D M McGann	-	-	-	-

2012	Balance at the Start of the Year	Received During the Year by Exercise of Rights	Other Changes During the Year	Balance at the End of the Year
H R Smerdon AM	51,800	-	3,008	54,808
Dr E C Pohl	7,544,610	-	(937,803)	6,606,807
S A Mitchell	30,000	-	-	30,000
P Corrigan AM	2,055,523	-	-	2,055,523
D M McGann	-	-	-	-

	2013 \$'000	2012 \$'000
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### 17. REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by the auditor:

Provision of accounting advice	1	5
Audit and review of financial reports and other audit work under the Corporations Act 2001	28	25
<b>Total remuneration of auditors</b>	<b>29</b>	<b>30</b>

### 18. COMMITMENTS

#### Lease commitments: Company as lessee:

Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:

Within one year	43	-
Later than one year but not later than five years	113	-
Later than five years	-	-
	<b>156</b>	<b>-</b>
Representing		-
Non-cancellable operating leases	<b>156</b>	<b>-</b>
<b>Total lease commitments</b>	<b>156</b>	<b>30</b>

The lease relates to premises at Level 12 Corporate Centre One, 2 Corporate Court, Bundall QLD 4217. A separate Deed of Lease Arrangements & Indemnity has been entered into with EC Pohl & Co Pty Ltd, where EC Pohl & Co Pty Ltd is responsible for the lease arrangements of the Company and must indemnify the Company if the terms of the lease arrangements are not complied with.

FLAGSHIP INVESTMENTS LIMITED  
**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 30 JUNE 2013

	2013 \$'000	2012 \$'000
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## 19. RELATED PARTY TRANSACTIONS

The following transactions occurred with other related parties:

*Expenses paid or payable by the Company to:*

Amounts remaining payable at balance date:

– EC Pohl & Co Pty Ltd for Performance Fee.	1,243	-
A Performance Fee was payable in accordance with the Management Services Agreement as detailed in Note 22.		
Dr E C Pohl has an interest in the transaction as during the year Dr E C Pohl was a Director, employee and Shareholder of EC Pohl & Co Pty Ltd.		
– McCullough Robertson Lawyers for the provision of legal services. D M McGann is a partner of McCullough Robertson Lawyers.	26	6

All related party transactions are made on an arm's length basis using the standard terms and conditions.

## 20. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

Profit/(Loss) for the year	204	1,038
Sundry Income	-	-
Net (Gain)/loss on sale of Financial Assets at fair value through Other Comprehensive Income	-	-
Changes in Operating Assets/Liabilities		
(Increase)/Decrease in trade and other receivables	(50)	11
(Increase)/Decrease in prepayment	-	-
(Increase)/Decrease in deferred tax assets	(448)	(38)
Increase/(Decrease) in trade and other payables	1,355	20
Increase in deferred tax liabilities	-	-
Net cash inflow/(outflow) from operating activities	1,061	1,031

## 21. EARNINGS PER SHARE

(a) Earnings used in the calculation of basic and diluted earnings per share.

(i) Profit/(loss) from continuing operations attributable to the owners of the Company	204	1,038
(ii) Total Comprehensive Income	5,769	(1,150)

Cents Cents

(b) Basic and Diluted earnings per share

(i) Profit/(loss) from continuing operations attributable to the owners of the Company	0.8	4.22
(ii) Total Comprehensive Income	23.73	(4.67)

Number Number

(c) Weighted average number of ordinary shares used in the calculation of earnings per share

24,310,607	24,598,740
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Total Comprehensive Income is a more appropriate base for determining earnings per share as it includes profit after income tax and changes in fair value of financial assets.



FLAGSHIP INVESTMENTS LIMITED  
**NOTES TO THE FINANCIAL STATEMENTS**  
FOR THE YEAR ENDED 30 JUNE 2013

## 22. MANAGEMENT SERVICES AGREEMENT

At the AGM on Thursday 18th October 2012 the Shareholders approved the Novation of the Management Services Agreement from Hyperion Asset Management Limited to EC Pohl & Co Pty Ltd, a company related to Dr E C Pohl.

In accordance with a Management Services Agreement approved by Shareholders at the AGM on 12 November 2010, the Company has agreed to engage the Manager to provide primary and secondary management services, including:

- 1) managing the investment of the Company's portfolio, including keeping it under review;
- 2) ensuring investments by the Company are only made in authorised investments;
- 3) complying with the investment policy of the Company;
- 4) identifying, evaluating and implementing the acquisition and disposal of authorised investments;
- 5) provide the Company with monthly investment performance reporting;
- 6) manage the company's public and regulatory announcements and notices;
- 7) promoting investment in the Company by the general investment community;
- 8) providing investor relationship services; and
- 9) provision of accounting, human resources, corporate and information technology services support.

The agreement has a term of five years from the agreement date of 12 November 2010.

The agreement may be terminated if:

- a) either party ceases to carry on business, or
- b) either party enters into liquidation voluntarily or otherwise, or
- c) either party passes any resolution for voluntary winding-up, or
- d) a receiver of the property of either party, or any part thereof, is appointed, or
- e) the Shareholders of the Company at an abnormal meeting called in for that purpose, resolve by binding resolution to terminate the operations, or
- f) if the Company provides written notes to the Manager in the event of any material and substantial breach of the agreement by the Manager or if the Manager fails to remedy a breach of this agreement within 14 days following written notice of the breach
- g) if the Manager provides written notice to the Company in the event of any material and substantial breach of the agreement by the Company or if the Company fails to remedy a breach of this agreement within 14 days following written notice of the breach.
- h) In recognition of the roles and personal expertise of senior executives retained by the Manager for the purpose of providing the primary services described in clause 3 of the Agreement, the parties agree that the agreement may be terminated, at the option of the Company, if there are major changes to senior executives (or their roles) providing the primary services. The Company shall be entitled to give the Manager a written termination notice upon or after the occurrence of a major change of the kind mentioned and such notice, if given, shall be effective at the end of the calendar month next following the giving of such notice unless the Company and the Manager mutually agree upon another date at which this agreement will terminate.

Under the agreement the Manager will receive a performance fee, payable annually in arrears, equal to 15% of the amount by which the Company's net performance before tax (that is, after all costs and outlays but before the calculation of the performance fee) exceeds the interest rate payable on bank bills as represented by the UBS Bank Bill Index for that year. If the Company's net performance in the year is less than the interest rate payable on bank bills as represented by the UBS Bank Bill Index for that year, then no performance fee will be payable.

Under the terms of this agreement a performance fee of \$1,243,000 (excl GST) was paid or payable during the year ended 30 June 2013 (2012 - NIL).

## 23. SUBSEQUENT EVENTS

No events have arisen, subsequent to balance date that would require amendment of, or disclosure of, in the financial statements.

## 24. CONTINGENT ASSETS AND LIABILITIES

The Company has no known contingent assets or liabilities.

# Directors' Declaration

The Directors of the Company declare that:

- (a) the Financial Statements and Notes set out on pages 23 to 42 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS); and
  - (ii) give a true and fair view of the financial position as at 30 June 2013 and of the performance for the year ended on that date; and

in the Directors' opinion,

- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- (c) the remuneration disclosures set out on page 15 of the Directors' Report (as part of the audited remuneration report) for the year ended 30 June 2013 comply with section 300A of the *Corporations Act 2001*.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors and is signed for and on behalf of the Directors by:



**Dr Emmanuel (Manny) C Pohl**  
Managing Director

23 August 2013

## INDEPENDENT AUDITOR'S REPORT

To the members of Flagship Investments Limited

### Report on the Financial Report

We have audited the accompanying financial report of Flagship Investments Limited, which comprises the statement of financial position as at 30 June 2013, the statement of profit or loss and comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

### Directors' Responsibility for the Financial Report

The directors of the company 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*, that the financial statements comply with *International Financial Reporting Standards*.

### Auditor's Responsibility

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

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

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

### Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Flagship Investments Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

### Opinion

In our opinion:

- a) the financial report of Flagship Investments Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the company's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

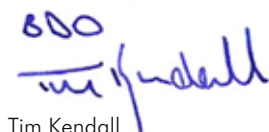
### Report on the Remuneration Report

We have audited the Remuneration Report included on page 15 in the directors' report for the year ended 30 June 2013. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### Opinion

In our opinion, the Remuneration Report of Flagship Investments Limited for the year ended 30 June 2013 complies with section 300A of the *Corporations Act 2001*.

BDO Audit Pty Ltd



Tim Kendall  
Director

Brisbane, 23 August 2013

# Shareholder Information

The Shareholder information set out below was applicable as at 22 August 2013.

## 1. DISTRIBUTION OF SECURITIES

Distributions	No. of Shareholders
1 to 1,000	108
1,001 to 5,000	280
5,001 to 10,000	127
10,001 to 100,000	210
100,001 and over	37
<b>Total</b>	<b>762</b>
Holdings of less than a marketable parcel	34

## 2. TWENTY LARGEST SHAREHOLDERS

Shareholders	Ordinary Shares	%
Pohl Pty Ltd <Gap Investments Unit a/c>	2,856,321	11.83
Global Masters Fund Limited	2, 205,392	9.14
Polka Management Services Pty Ltd <The Corrigan Settlement a/c>	1,235,223	5.12
Polka Management Services Pty Ltd <Pat Corrigan Super Fund a/c>	820,300	3.40
Mary Van Lieshout	772,567	3.20
Dr Johan Kristof Basson & Mrs Helga Basson	751,465	3.11
Mrs Sylvia Maria Valmadre	750,204	3.11
Barclay Super Pty Ltd <Don Barclay Super Fund a/c>	515,199	2.13
Mr Cornelius Laubius Visser Laubscher	488,781	2.02
Cidel Bank and Trust Inc <The Fragrance a/c>	468,302	1.94
Mr Paul J Tys & Mrs Loris E Tys <TYS S/F a/c>	390,305	1.62
Hank Van Lieshout	338,191	1.40
Mr Gregory John Burton & Mrs Catherine Beatrice Burton <GJ Burton Personal Super a/c>	331,809	1.37
Mr John Steven Page + Mrs Gillian Kay Page <Page Employees S/F A/C>	327,866	1.36
The Corporation Of The Synod Of The Diocese Of Brisbane	325,999	1.35
Astuce Group Limited	312,679	1.30
Erika Haberfield	307,520	1.27
Mr Christopher Andrew Beard <Est George E Beard No.2 a/c>	269,641	1.12
Hank Van Lieshout & Joyce Van Lieshout	260,000	1.08
Quantum Electronics Pty Ltd <Super a/c>	253,086	1.05
<b>Total</b>	<b>13,980,850</b>	<b>57.92</b>

## 3. SUBSTANTIAL SHAREHOLDINGS

The names of the Shareholders who have notified the Company of a substantial holding in accordance with section 671B of the Corporations Act 2001 are:

Substantial Shareholder	No. of Shares	% of total
Dr E C Pohl*	6,690,831	27.5
Wilson HTM Investment Group Ltd**	2,472,317	10.2
P Corrigan AM	2,055,523	9.0
Global Masters Fund Limited	2,205,392	9.1

\* Has the power to control voting and/or the disposal of securities in accordance with a Power Of Attorney in relation to 3,419,950 shares.

\*\* Has the power to control voting and/or the disposal of securities as Investment Manager of Individually Managed Accounts.

## 4. VOTING RIGHTS

On a show of hands every Shareholder present in person or by proxy shall have one vote and upon a poll each share shall have one vote.

# Investments

## 1. HOLDINGS OF SECURITIES AS AT 30 JUNE 2013

Individual investments at 30 June 2013 are listed below. The list should not, however, be used to evaluate portfolio performance or to determine the net asset backing per share at other dates. Individual holdings in the portfolio may change during the course of the year.

Company		Shares	Market Value \$'000	%
<b>ORDINARY SHARES</b>				
ALQ	ALS Limited	53,300	510.6	1.39
AMP	AMP Limited	294,027	1,249.6	3.41
ANZ	Australia and New Zealand Banking Group Limited	68,000	1,943.4	5.31
ARP	ARB Corporation Limited	20,000	228.0	0.62
BHP	BHP Billiton Limited	56,341	1,767.4	4.83
BXB	Brambles Limited	117,063	1,093.4	2.98
CBA	Commonwealth Bank of Australia	41,700	2,884.8	7.88
COH	Cochlear Limited	19,000	1,172.5	3.20
CRZ	Carsales.com Limited	214,000	2,018.0	5.51
DMP	Dominos Pizza Enterprises Limited	56,000	625.5	1.71
IRE	IRESS Market Technology Limited	200,000	1,500.0	4.10
MQG	Macquarie Group Limited	41,000	1,716.7	4.69
NVT	Navitas Limited	232,000	1,338.7	3.65
PTM	Platinum Asset Management Limited	195,000	1,066.7	2.91
REA	REA Group Limited	74,000	2,037.2	5.56
RIO	Rio Tinto Limited	20,000	1,047.4	2.86
SEK	SEEK Limited	272,000	2,467.0	6.73
SKT	Sky Network Television Limited	131,000	598.7	1.63
TLS	Telstra Corporation Limited	491,200	2,343.0	6.40
TME	Trade Me Group Limited	90,000	370.8	1.01
WBC	Westpac Banking Corporation	53,000	1,530.6	4.18
WOR	WorleyParsons Limited	53,000	1,033.0	2.82
WOW	Woolworths Limited	62,000	2,034.2	5.55
WPL	Woodside Petroleum Limited	20,000	700.2	1.91
WTF	Wotif.com Holdings Limited	182,000	824.5	2.25
			<b>34,101.9</b>	<b>93.09</b>
<b>OPTIONS</b>				
	Options		0.0	0.00
<b>CASH</b>				
	Cash		2,531.4	6.91
	<b>TOTAL</b>		<b>36,633.3</b>	<b>100.00</b>

## 2. TRANSACTIONS AND BROKERAGE

There were 26 (2012: 36) transactions in securities during the year on which brokerage of \$35,640(2012: \$12,352) was paid.

FLAGSHIP INVESTMENTS LIMITED  
ABN 99 080 135 913  
REGISTERED IN QUEENSLAND ON  
23 SEPTEMBER 1997.

## BOARD OF DIRECTORS

Henry R Smerdon AM

*Non-Executive Chairman*

Dr Emmanuel (Manny) C Pohl

*Managing Director*

Sophie A Mitchell

*Non-Executive Director*

Patrick Corrigan AM

*Non-Executive Director*

Dominic M McGann

*Non-Executive Director*

## SECRETARY

Ian W Harrison

## PRINCIPLE PLACE OF BUSINESS

Level 12

Corporate Centre One

2 Corporate Court

BUNDALL QLD 4217

## MANAGER

EC Pohl & Co Pty Ltd

ACN 154 399 916

Level 12

Corporate Centre One

2 Corporate Court

BUNDALL QLD 4217

Tel: +61 (0) 7 5644 4405

Fax: +61 (0) 7 5574 1457

Toll Free: 1800 FLAGSHIP

1800 352 474

## SOLICITORS

McCullough Robertson Lawyers

Level 11

Central Plaza Two

66 Eagle Street

BRISBANE QLD 4000

Tel: +61 (0) 7 3233 8888

Fax: +61 (0) 7 3229 9949

## AUDITORS

BDO Audit Pty Ltd

Level 10

12 Creek Street

BRISBANE QLD 4000

## SHARE REGISTRY

Computershare Investor Services Pty Limited

GPO Box 2975

MELBOURNE VIC 3001

Toll Free: 1300 850 505

International: +61 (0) 3 9415 4000

Fax: +61 (0) 3 9473 2500

## REGISTERED OFFICE

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BUNDALL QLD 4217

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Fax: +61 (0) 7 5574 1457

Toll Free: 1800 FLAGSHIP

1800 352 474

## WEBSITE ADDRESS

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



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**INVESTMENTS**