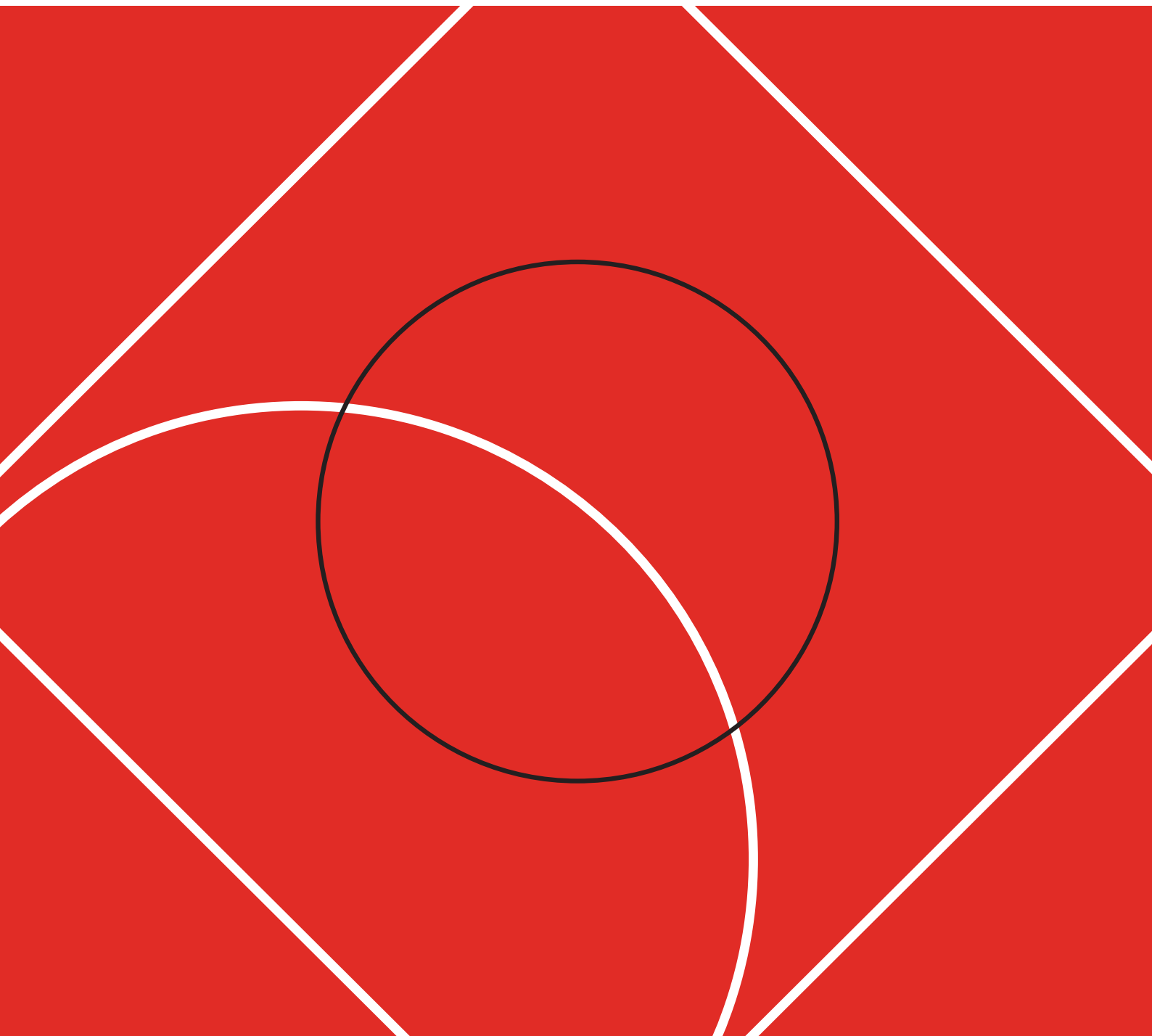




FLAGSHIP
INVESTMENTS



ANNUAL REPORT 2016

FINANCIAL CALENDAR

FINANCIAL YEAR END

30 June 2016

SHARES TRADED EX DIVIDEND

30 August 2016

DIVIDEND BOOKS CLOSE

31 August 2016

DIVIDEND PAYMENT

16 September 2016

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:

11:00am (QLD Time)

DATE:

Friday 4 November 2016

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, Dr Manny Pohl (Managing Director), Sophie Mitchell and Dominic McGann

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HIGHLIGHTS FOR 2016



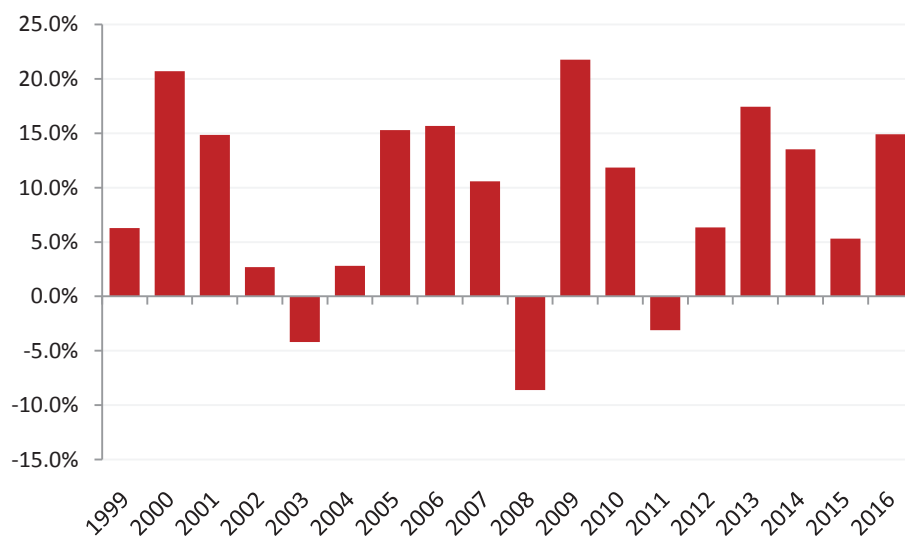
Highlights for the year ending June 2016

- ◆ The portfolio before fees and tax increased by 12.3% versus a 2.6% decrease in the All Ordinaries Index over the twelve month period.
- ◆ The Net Tangible Assets (NTA) per share increased by 5.7% after tax (on realised gains only) to \$1.82.
- ◆ Dividends of 7.25 cents comprising a 3.75 cent final dividend (2015) and a 3.5 cent interim dividend (2016) were paid during the year.



Relative Performance History

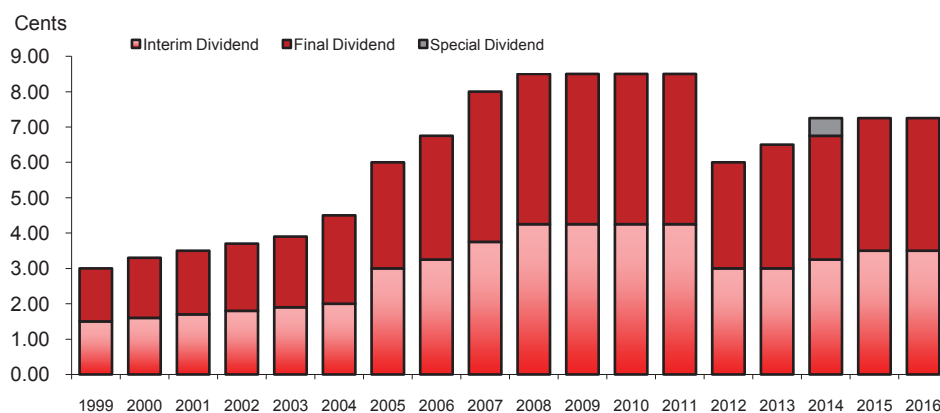
PORTFOLIO OUTPERFORMANCE vs BENCHMARK



Dividends per share as declared

COMPOUND ANNUAL GROWTH RATE 5.3% *

* (includes Special Dividend)





Flagship Investments Performance vs. the All Ordinaries Index

ANNUAL PERCENTAGE CHANGE				
Year to	Portfolio Return Pre Fees	Portfolio Return After Fees	NTA (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%
June 14	26.2%	23.5%	15.8%	12.7%
June-15	6.6%	6.2%	-1.4%	1.3%
June-16	12.3%	11.0%	5.7%	-2.6%

Note: Fees include Performance Fees.



Major Investments June 2016

TOP 10 INVESTMENTS		
	June 16	June 15
Macquarie Group	7.3%	9.3%
REA Group	6.6%	4.4%
Commonwealth Bank	5.9%	7.8%
Telstra Corporation	5.6%	9.3%
CSL Limited	5.4%	1.6%
Westpac Banking Corp	4.9%	6.2%
Catapult Group	4.7%	2.8%
IPH Limited	4.5%	2.0%
SEEK	4.5%	4.4%
Carsales.Com Ltd	4.4%	3.9%
TOTAL	53.8%	51.7%

OVERVIEW

COMPANY PROFILE

Flagship Investments Limited (the “Company”) commenced operations in April 1998 and is a listed investment company providing investors with access to an expertly crafted quality portfolio of Australian growth companies.

The portfolio is managed by EC Pohl & Co Pty Ltd which has a strong funds management investment team renowned for its stability, track record and sound investment process.

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.

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 ensuring the Manager is focused on absolute returns to Shareholders (“Shareholders”).

MISSION

Creating Shareholder wealth through active management of a portfolio of ASX listed quality growth companies.

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 NTA backing per share after allowing for inflation; and
- ◆ To provide Company 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 and 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 Investment 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 website www.flagshipinvestments.com.au or head office.

INVESTMENT MANAGER

The management of the Company's investment portfolio is undertaken by EC Pohl & Co Pty Ltd, which provides administration support even when a performance fee is not paid.

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 and 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.

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

Information on the Investment Manager is available from www.ecpohl.com.

CHAIRMAN'S REPORT

Dear Investor,

I am pleased to present the 19th Annual Chairman's Report of Flagship Investments Limited for the 2015/16 financial year.

THE YEAR IN REVIEW

During the past twelve months, global markets have been subjected to increased uncertainty and volatility.

Europe remains in a slow growth environment, while there are increasing concerns around China with a slowing economy and high debt levels. The US recovery has continued, albeit slowly but with positive upside. Low interest rates in major economies (negative in some jurisdictions) have not provided the economic stimulus that might have been expected.

The vote by the UK on 23rd June 2016 to leave the European Union had short term implications for markets, which have largely recovered. The longer term implications will depend on the agreed exit strategy in due course and markets are likely to be a little more hesitant until the position becomes more certain.

While the Australian share market has not been immune from the global influences, it is very pleasing that our portfolio has had another excellent year with the portfolio return after fees, being 11% in 2015/16 compared with a decrease of 2.6% in the All Ordinaries Index in the same period.

In terms of the financials for the 2015/16 year, our Total Comprehensive Income for the year increased from \$1.888M to \$3.189M, which included payment of a performance fee of \$0.642M, while the Net Tangible Asset per share (NTA) on an after tax on realised gains only basis, increased by 5.7%.

THE MARKET OUTLOOK

We remain cautiously positive about the outlook for markets, but it is not without risks as alluded to above. There is some increased uncertainty and following the recent Federal Election outcome, business is looking to Governments for leadership. The lower dollar and lower interest rates should provide some stimulus in what will be challenging economic times.

Nevertheless, our view continues to be that companies with strong market positions, quality management and strong balance sheets are well placed and will continue to perform well. We expect some pressure on market returns in a low interest rate environment and we expect more modest gains in the coming year.

DIVIDEND

Notwithstanding the excellent performance of our investments, the Board has decided to adopt a conservative approach and approve a final dividend for the year of 3.75 cents per share. It represents an overall dividend for the year of 7.25 cents per share, fully franked.

There is no LIC attributable capital gains tax deduction available again this year.

SHARE BUY-BACK SCHEME

A share buy-back scheme was available in the 2015/16 year, although no transactions were undertaken during the year. The scheme ended on 15 July 2016 and has not been replaced.

THE INVESTMENT MANAGEMENT TEAM

I particularly want to record my appreciation and that of the Board as a whole, to our Investment Manager led by Dr Manny Pohl and his team of professionals at E C Pohl & Co. In only three of the past 18 years, has the Company's portfolio failed to outperform – and in most cases comprehensively - the performance of the All Ordinaries Index. Our success could not have been achieved without the outstanding contribution of these very committed individuals.

THE BOARD

I particularly want to thank my fellow Board members for their support and input in the past year. Patrick Corrigan AM, who had been a Non-executive Director since 1 May 2009, stepped down from the Board in November. We sincerely thank Patrick for his contribution to our success and we wish him well in the future. The Board decided not to replace Patrick at this time.

In conclusion, I want to thank Shareholders most sincerely, for their on-going support and look forward to another good year ahead.

Yours sincerely



Henry R Smerdon AM
Chairman



DIRECTORS' REPORT

Your Directors present their report on Flagship Investments Limited for the financial year ended 30 June 2016.

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 and D McGann. Patrick Corrigan AM retired on 6 November 2015 and was not replaced.

2. INFORMATION ON DIRECTORS



Henry R Smerdon AM

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

Non-Executive Chairman

Chairman of Remuneration and Nomination Committee

Member of Audit and Risk 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

Director of National Trust of Australia (Qld) Limited and

Chairman of Currumbin Wildlife Sanctuary Committee

Chair of Queensland Education Leadership Institute Ltd

Chancellor of Griffith University

Member of Public Trust Investment Board

Principal of Strategic and Financial Consulting Services

Former Listed Company directorships in last 3 years

None

Interest in Shares

65,883 ordinary shares



Dr Emmanuel (Manny) C Pohl

Pr Eng, B.Sc (Eng), MBA, DBA, FAICD, MSAA, 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

Managing Director of Global Masters Fund Limited

Executive Director of Barrack Street Investments Limited

Chair of Athelney Trust Plc

Chairman of EC Pohl & Co Pty Ltd

Director of Bond University Limited

Director of Huysamer International Holdings (Pty) Ltd

Trustee of Currumbin Wildlife Hospital Foundation

Former Listed Company directorships in last 3 years

None.

Interest in Shares

8,626,641 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.



Sophia (Sophie) A Mitchell

B.Econ, GAICD, SF Fin

Non-Executive Director

Chairman of Audit and Risk 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 Morgans, former portfolio manager Seymour Funds Management (2007), and Head of Research Morgans (1996-2007).

Other current directorships

Chairman of Norna Limited
Director of Silver Chef Limited
Director of Morgans
Director of Morgans Foundation
Trust Member 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



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 Risk 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
Chairman of Partners of McCullough Robertson Lawyers
Chair of the Brisbane Writers Festival
Director of TRI Foundation Pty Ltd
Director of Ian Frazer Family Foundation Pty Ltd
Council of the Queensland Futures Institute
Trustee American Chamber of Commerce

Former Listed Company directorships in last 3 years

None

Interest in Shares

374,090 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 12.3% over the twelve months, while the NTA increased by 5.7% after tax (on realised gains only) to \$1.82 after paying dividends of 7.25 cents per share to Shareholders during the year.

Overall performance of the Australian equity market was driven by a heightened level of uncertainty in the World's major economies and local investors seeking yield. The Australian share market, as represented by the All Ordinaries Index, decreased by 2.6%.

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

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

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 12.3%.
- ◆ The on-market buy-back programme was reinstated on 22 July 2015 until 15 July 2016 and no shares were bought back during the period.
- ◆ The maintenance of the share register was transferred from Computershare Investor Services Pty Limited to Boardroom Pty Limited, with effect from 16 November 2015.
- ◆ At the AGM of the Company held on 6 November 2015, Shareholders voted to change the auditors from BDO Audit Pty Ltd to WPIAS Pty Ltd
- ◆ On 25 November 2015 Ian Harrison resigned as Company Secretary. Brian Jones commenced on 15 November 2015 as joint Company Secretary, until Ian's departure.

6. MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Apart from the dividend declared as per item 9, 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
The dividends paid to Shareholders during the financial year were as follows			
Final	3.75	955	September 2015
Interim	3.50	887	April 2016
	7.25	1,842	
Dividends paid by the Company during the preceding year were:			
Final (Inc Special)	4.00	969	September 2014
Interim	3.50	853	April 2015
	7.50	1,822	

The final dividend paid in September 2015 and the interim dividend paid in April 2016, were fully franked.

In addition to the above dividends, since the end of the financial year the Directors have recommended the payment of a fully franked final dividend of 953,481 (3.75 cents per share) to be paid on 16 September 2016. There is no LIC attributable amount attached to these dividends.

10. EARNINGS PER SHARE

Based on profit after income tax.

	2016 Cents	2015 Cents
Basic earnings per share	3.0	4.2
Diluted earnings per share	3.0	4.2

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

	2016 Cents	2015 Cents
Basic earnings per share	13.0	7.7
Diluted earnings per share	13.0	7.7

See Note 16 of the Financial Report.

11. COMPANY SECRETARY

Brian Jones B.Com, FCA

Brian Jones is a Chartered Accountant and a partner of Rothsays Chartered Accountants in Sydney. He has been Company Secretary of Flagship Investments Limited since 15 November 2015. He has over 35 years' experience in the accounting and finance industries and is currently Company Secretary of two other listed Companies.

12. MEETINGS OF DIRECTORS

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

	Board		Audit and Risk Committee		Remuneration and Nomination Committee	
	Eligible to attend	Attend	Eligible to attend	Attend	Eligible to attend	Attend
Director						
H R Smerdon AM	4	4	4	3	1	1
Dr E C Pohl	4	4	-	-	1	1
S A Mitchell	4	4	4	4	1	1
D M McGann	4	4	4	4	-	-
P Corrigan AM	2	2	-	-	-	-

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
- (E) Related Party Transactions
- (F) Equity Instrument Disclosure relating to Key Management Personnel

(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.

The per annum remuneration of the Directors remained unchanged from previous year:

◆ Chairman	\$45,000
◆ Chairman – Audit and Risk Committee	\$35,000
◆ Other Directors	\$30,000

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

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 Super	Equity		Total \$
		Fees \$	Performance Fees \$	Non-monetary Benefits \$		Shares \$	Options \$	
H R Smerdon AM <i>Non-executive Chairman</i>	2016	45,000	-	-	-	-	-	45,000
	2015	45,000	-	-	-	-	-	45,000
Dr E C Pohl <i>Managing Director</i>	2016	30,750 *	-	-	-	-	-	30,750 *
	2015	30,000	-	-	-	-	-	30,000
S A Mitchell <i>Non-executive Director</i>	2016	35,000	-	-	-	-	-	35,000
	2015	35,000	-	-	-	-	-	35,000
Dominic McGann <i>Non-executive Director</i>	2016	30,750 *	-	-	-	-	-	30,750 *
	2015	30,000	-	-	-	-	-	30,000
P Corrigan AM <i>Non-executive Director (Retired)</i>	2016	10,513	-	-	-	-	-	10,513
	2015	30,000	-	-	-	-	-	30,000
Total Directors Remuneration	2016	152,013	-	-	-	-	-	152,013
	2015	170,000	-	-	-	-	-	170,000

* Inclusive of GST

(C) Service agreements

As the Company does not employ any staff, there are no employment service agreements entered into by the Company. The Company Secretary is employed by Rothsay Chartered Accountants and the Managing Director is employed by the Investment Manager – EC Pohl & Co Pty Ltd.

(D) Share-based compensation

No share-based compensation exists.

(E) Related Party Transactions

The following transactions occurred with other related parties:	2016 \$'000	2015 \$'000
Expenses paid or payable by the Company to:		
– EC Pohl & Co Pty Ltd for Performance Fee	642	178
A Performance Fee was payable in accordance with the Management Services Agreement as detailed in Note 23 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.	3	4
– Allegiant IRS for insurance advice for D & O Policy. The company is owned by McCullough Robertson Lawyers, of which D M McGann is a partner.	2	-
All related party transactions are made on an arm's length basis using the standard terms and conditions.		

DIRECTORS' REPORT (Continued)

(F) 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.

2016	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	63,229	-	2,654	65,883
Dr E C Pohl	8,409,413	-	525,157	8,934,570
S A Mitchell	30,000	-	-	30,000
D M McGann	-	-	374,090	374,090
P Corrigan AM	1,135,223	-	-1,136,223	-

END OF REMUNERATION REPORT (AUDITED)

14. GENERAL TRANSACTIONS

Other than the 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 2015 – Nil).

16. OPTIONS

No options have been issued during or since the financial year (30 June 2015 – 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.

There have been no amounts paid or payable to the auditors for non-audit services provided during the year.

The Directors have considered the position and are satisfied that the provision of any non-audit services (if necessary in future) is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Audit and Risk 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:

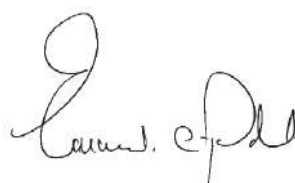
- ◆ All non-audit services would be reviewed by the Audit and Risk Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- ◆ None of the services undermine the general principles relating to auditor independence as set out in APES 110, including reviewing or auditing 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 *Corporation Act 2001* is set out on page 13.

20. ROUNDING OF AMOUNTS

The Company is of a kind referred to in ASIC Corporations Instrument 2016/191 (rounding in Financials/ Directors' Report). 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

19 August 2016

AUDITOR'S INDEPENDENCE DECLARATION



FLAGSHIP INVESTMENTS LIMITED
ABN 99 080 135 913

**AUDITOR'S INDEPENDENCE DECLARATION UNDER
SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF FLAGSHIP INVESTMENTS LIMITED**

I declare that, to the best of my knowledge and belief during the year ended 30 June 2016, there have been:

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

WPIAS Pty Ltd
Authorised Audit Company No. 440306

A handwritten signature in black ink, appearing to read 'Lee-Ann Dippenaar'.

LEE-ANN DIPPENAAR BCom CPA RCA
DIRECTOR

Dated this 19th day of August 2016

**4 Helensvale Road
HELENSVALE QLD 4212**

HEAD OFFICE:

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p: PO Box 1463 Oxenford Queensland 4210 Australia
a: 4 Helensvale Road Helensvale Queensland 4212 Australia
e: info@wpias.com.au
w: www.wpias.com.au

WPIAS a Limited Partnership

WPIAS Pty Ltd ABN 99 163 915 482
An Authorised Audit Company



Liability limited by a scheme approved under
Professional Standards Legislation

GOLD COAST | BRISBANE | SYDNEY | MELBOURNE | PERTH

CORPORATE GOVERNANCE STATEMENT: FOR THE YEAR ENDED 30 June 2016

This statement outlines the main corporate governance practices that were in place for the year ended 30 June 2016. The statement explains the extent to which the Company complies with the ASX Corporate Governance Principles and Recommendations, including explanations of why certain recommendations have not been followed. For ease of comparison with the Principles and Recommendations, this section summarises the Company's compliance with each of the specific recommendations as follows.

PRINCIPLE 1:

Lay solid foundations for management and oversight

Recommendation 1.1: Respective roles and responsibilities of its Board and Management

Compliant

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.

It is responsible for a broad range of matters including:

- ◆ monitoring the Investment Manager and the composition and performance of the investment portfolio;
- ◆ monitoring and assessing the performance of the Managing Director;
- ◆ undertaking Director nomination matters including succession planning for the Board to ensure an appropriate mix of skills, experience, expertise and diversity is maintained;
- ◆ ensuring the Managing Director has an adequate management succession plan;
- ◆ approving and maintaining appropriate risk management and internal control systems to identify, assess, monitor and manage the Company's business risks on an ongoing basis;
- ◆ overseeing the Company's process for disclosure and communications; and
- ◆ developing and approving appropriate Company policies, procedures and codes of behaviour as required to maintain a culture of integrity and a strong framework of corporate governance.

The Board has adopted a formal Board Charter that details the Board's role, authority, responsibilities, membership and operations, and is available on the Company's website www.flagshipinvestments.com.au

The Charter sets out the matters specifically reserved for the Board and the powers delegated to its Committees and to the Managing Director.

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

Chairman

The Chairman's responsibilities are:

- ◆ The overall leadership of the Board.
- ◆ Communication with Shareholders (jointly with Managing Director).
- ◆ 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 Remuneration and Nomination Committee.
- ◆ Ensure that the performance of the Investment Manager/service provider is formally reviewed by the Audit and Risk 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.
- ◆ Communication with Shareholders (jointly with Chairman).

Recommendation 1.2: Information prior to Director election/re-election

Compliant

The Remuneration and Nominations Committee assists the Board with the selection and appointment of Directors. Before the Board appoints a new Director or puts forward a candidate for election, the Committee will ensure that appropriate background checks are undertaken. Shareholders are provided with all material information in our possession that is relevant to their decision on whether or not to elect or re-elect a Director through a number of channels, including via the Notice of Meeting, the Director Resumes and other information contained in the Annual Report.

Recommendation 1.3: Written agreement with each Director and senior executive setting out the terms of their appointment

Compliant

Upon appointment, each Director receives a letter of appointment which sets out the formal terms of their appointment, along with a deed of indemnity, insurance and access.

Recommendation 1.4: The Company Secretary of a listed entity should be accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board.

Compliant

The Company Secretary is employed by a third party as disclosed in the Directors' Report and is directly accountable to the Board on matters relating to the proper functioning of the Board.

Details regarding the Company Secretary, including experience and qualifications, are set out in the Directors' Report.

Recommendation 1.5: Gender Diversity

Compliant

The Company has a Diversity Policy which is available on the website: www.flagshipinvestments.com.au

The policy includes measureable diversity objectives of 1/3 of the independent directors. Refer Recommendation 2.3 for details on the independent Directors. There is currently one female director (1/3 of the independent Directors).

In respect of diversity, the Board considers that diversity includes differences that relate to gender, age, ethnicity and cultural background. It also includes differences in background and life experience, communication styles, interpersonal skills, education and problem solving skills.

The Board seeks to develop a culture of diversity within the Company whereby a mix of skills and diverse backgrounds are employed by the Company at all levels through structuring the recruitment processes at all levels so that a diverse range of candidates are considered and there are no excuses or unconscious biases that might discriminate against certain candidates.

Recommendations 1.6 and 1.7: Board and Senior Executive Evaluation

To ensure that the responsibility of the Board are upheld and executed to the right level, the Board has established the following Board Committees:

- ◆ Audit and Risk committee; and
- ◆ Remuneration and Nomination Committee.

Compliant

The Board is committed to formally evaluating its performance and the performance of the Audit and Risk Committee and individual Directors, as well as the governance processes supporting the Board. The Board does this through an annual assessment process. Any issues identified are addressed at subsequent Board meetings.

PRINCIPLE 2: Structure the Board to add value

Recommendation 2.1: Establish a Nomination Committee

Compliant

The Company has a Remuneration and Nomination Committee comprising two independent Directors, Henry Smerdon AM (Chair of the Committee) and Sophie Mitchell and the Managing Director Dr Manny Pohl. The Charter for the Committee is available on the Company's website: www.flagshipinvestments.com.au

A record of its meetings is set out in the Directors Report.

Recommendation 2.2: Have and disclose a Board skills matrix

Compliant

The Company's objective is to have an appropriate mix of expertise and experience on our Board and its Committees so that the Board can effectively discharge its corporate governance and oversight responsibilities. This mix is described in the Board skills matrix below.

Expertise	Experience
◆ Financial knowledge and experience	Industry Finance
◆ Legal, governance and compliance	Superannuation
◆ Commercial acumen	Market Australian Listed Securities
◆ Risk management	Geographic Australia
◆ Remuneration and nominations	

Recommendation 2.3: Independent Directors

Compliant

The Board has accepted that an Independent Director is as defined in Box 2.3 of the ASX Corporate Governance Principles and Recommendations (3rd Edition).

Of the current Board members, Mr Henry Smerdon AM, Ms Sophie Mitchell and Mr Dominic McGann are considered to be independent Directors.

The Board has determined that even though Henry Smerdon AM has been a director for 16 years, his length of service has not compromised his independence as he has no relationship with the Investment Manager or Company Management..

The length of service of each director is set out in the Directors Report.

Recommendation 2.4: A majority of the Board of a listed entity should be independent Directors

Compliant

The structure of the Board does comply with this recommendation in that a majority of the Directors are independent (refer recommendation 2.3)

CORPORATE GOVERNANCE STATEMENT: FOR THE YEAR ENDED 30 June 2016 (Continued)

Recommendation 2.5: The Chair of the Board of a listed entity should be an independent Director and, in particular, should not be the same person as the CEO of the entity.

Compliant

The Company's Chairman is Mr Henry Smerdon AM an independent Director.

Recommendation 2.6: Director induction and professional development

Compliant

New Directors are inducted into the Company's processes and policies in a suite of ways, including the provision of a 'Board manual', interviews with senior management of the Investment Manager and out of session meetings with other Directors. All Directors are encouraged to undertake ongoing professional development both in their area of technical expertise and in the skills required to effectively execute the role of Director.

PRINCIPLE 3: Act ethically and responsibly

Recommendation 3.1: Code of Conduct

Compliant

The Company has developed a Code of Conduct (the Code) which has been fully endorsed by the Board and applies to all Directors and officers. The Code is reviewed annually and updated as necessary to ensure it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the Company's integrity. A summary of the Code is available on the Company's website:

www.flagshipinvestments.com.au

The Code sets out the Company's commitment to conducting its business in accordance with all applicable laws and regulations while demonstrating and promoting the highest ethical standards.

PRINCIPLE 4: Safeguard integrity in corporate reporting

Recommendation 4.1: Audit Committee

Compliant

The Company has an Audit and Risk Committee which comprises three independent Directors.

The composition of the Committee, a record of its meetings, and the relevant experience of each member of the Committee is set out in the Directors Report.

The Audit and Risk Committee charter is available on the Company's website: www.flagshipinvestments.com.au

Recommendation 4.2: CEO and CFO declaration on the financial records

Compliant

The Board has received a declaration from the CEO and CFO that the Company's financial records have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the Company and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

Recommendation 4.3: The external auditor should attend the AGM and be available to answer questions from security holders relevant to the audit

Compliant

A partner of BDO, the Company's auditor during the year, was available at the most recent AGM and WPIAS Pty Ltd will be available at the next AGM to answer questions from Shareholders. It is the policy of the Board to always request auditor presence at AGMs.

PRINCIPLE 5: Make timely and balanced disclosure

Recommendation 5.1: Continuous Disclosure Policy

Compliant

The Company has a Continuous Disclosure Policy which sets out the obligations of the Company's Directors and officers in relation to continuous disclosure as well as the Company's obligations under the Corporations Act and the ASX Listing Rules. The policy also contains procedures for internal notification and external disclosure, as well as procedures for promoting understanding of compliance with the disclosure requirements and for the monitoring of Company compliance.

The Disclosure Policy is available on the Company's website: www.flagshipinvestments.com.au

PRINCIPLE 6: Respect the rights of security holders

Recommendation 6.1: A listed entity should provide information about itself and its governance to investors via its website

Compliant

Investors and other stakeholders can find information about the Company on its website: www.flagshipinvestments.com.au Information on the Company's corporate governance practices can also be found at www.flagshipinvestments.com.au

Recommendation 6.2: A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors

Compliant

The Company's Communications Policy sets out how the Company will communicate with Shareholders.

Information is communicated to Shareholders through the distribution of a quarterly report, annual and half yearly financial reports, announcements through the ASX and the media, on the Company's website and through the Chairman's address at the Annual General Meeting.

If requested, the Company will provide general information by email, facsimile or post.

Through the Company's information email address and phone number, and at AGMs, the Company encourages two-way communication with Shareholders.

The Communication Policy is available on the Company's website: www.flagshipinvestments.com.au

Recommendation 6.3: Disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders

Compliant

The Company facilitates and encourages participation at meetings of security holders by having sections of each meeting dedicated to questions from the floor. Shareholders are given at least 30 days' notice of security holder meetings and those that are unable to attend in person may email or fax questions they would like answered. The Company provides a direct voting facility to allow security holders to vote ahead of AGMs without having to attend or appoint a proxy.

Recommendation 6.4: Give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically

Compliant

Quarterly reports and other information required to be sent to Shareholders are sent by email to all persons who have requested their name to be added to the Company's email list. If requested, the Company will provide general information by email, facsimile or post.

**PRINCIPLE 7:
Recognise and manage risk**

Recommendation 7.1: Risk Committee

Compliant

The Audit and Risk Committee monitors the Company's business risks.

The composition of the Committee and a record of its meetings is set out in the Directors Report.

The Audit and Risk Committee charter is available on the Company's website: www.flagshipinvestments.com.au

Recommendation 7.2: Annual risk management framework review

Compliant

Each year, the Audit and Risk Committee, reviews the Company's risk management framework. Ad hoc reviews may also be conducted when the Board perceives that the risk environment has shifted significantly. A review was conducted during the year.

Recommendation 7.3: Internal audit function

Non-Compliant

The Company does not have an internal audit function as the Board has deemed it is not necessary, given the size and nature of the Company. Instead, the full Board through the Audit and Risk Committee liaises closely with the Company's external auditor to identify potential improvements to the risk management and internal control processes.

Recommendation 7.4: Exposure to economic, environmental and social sustainability risks

Compliant

The Board monitors the business risk and guides the affairs of the Company in the discharge of its stewardship responsibilities.

The Board meeting agendas and reports advise the Board of current and forthcoming issues relevant to the Company's operations and performance. The Board reviews the investment portfolio at their regular meetings.

Management has designed and implemented a risk management and internal control system through a Risk Management Framework. The Framework is monitored by the Audit & Risk Committee with regular reporting to Committee meetings. The Framework is reviewed yearly by the Committee.

The identified risks are grouped within the Framework under the following headings:

- ◆ Strategic
- ◆ Operational
- ◆ External Macro
- ◆ Environmental

**PRINCIPLE 8:
Remunerate fairly and responsibly**

Recommendation 8.1: Remuneration Committee

Compliant

The Board has a Remuneration and Nomination Committee which monitors the Company's Remuneration matters.

The Committee comprises two independent Directors and the Managing Director. The composition of the Committee and a record of its meetings are set out in the Directors Report.

A Charter setting out the Committees' role, responsibilities and composition is available on the Company's website: www.flagshipinvestments.com.au

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.

CORPORATE GOVERNANCE STATEMENT: FOR THE YEAR ENDED 30 June 2016 (Continued)

Recommendation 8.2: Disclose its policies and practices regarding the remuneration of non-executive Directors and the remuneration of executive Directors and other senior executives

Compliant

The maximum amount of Directors' fees is fixed by Shareholders at the Annual General Meeting and can only be varied by Shareholders in a similar manner. In determining the allocation of fees, the Board takes into account the time demands on each Director, together with the responsibilities undertaken by them and market practices of similar sized businesses in the Listed Investment Company sector.

It is the policy of the Board not to issue Directors incentive shares or options.

The details of the remuneration received by Directors in the 2015/2016 year are included in the Remuneration Report contained within the Directors' Report.

Recommendation 8.3: Equity-based remuneration

Not Compliant

As the Company does not have an equity-based remuneration scheme, Recommendation 8.3 is not applicable.

FINANCIAL 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 19 August 2016.

A description of the nature of the entity's operations and its principal activities is included in the Operating and Financial Review.

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

FINANCIAL REPORT (continued)

FLAGSHIP INVESTMENTS LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2016

	Notes	2016 \$'000	2015 \$'000
Other Income	5	1,584	1,743
Change in fair value of Financial Assets as at fair value through Profit & Loss	10(b)	-	(275)
Performance Fee	23	(642)	(178)
Other expenses	6	(359)	(445)
Profit before income tax		583	845
Income tax expense	7	(159)	(187)
Profit for the year		742	1,032
Other Comprehensive Income, net of income tax			
Items that will not be reclassified subsequently to profit & loss			
Changes in fair value of Financial Assets at fair value through Other Comprehensive Income		3,308	1,223
Income Tax (Expense)/Benefit relating to components of Other Comprehensive Income		(861)	(367)
Other Comprehensive Income for the year, net of tax		2,447	856
Total Comprehensive Income for the year		3,189	1,888

Earnings per share:

		Cents	Cents
Basic earnings per share	16	3.0	4.2
Diluted earnings per share	16	3.0	4.2
Comprehensive earnings per share	16	13.0	7.7

The accompanying notes form part of these financial statements.

FLAGSHIP INVESTMENTS LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

	Notes	2016 \$'000	2015 \$'000
ASSETS			
Cash and Cash Equivalents	8	1,969	872
Trade and Other Receivables	9	304	211
Financial Assets at fair value through Other Comprehensive Income	10(a)	44,109	42,208
TOTAL ASSETS		46,382	43,291
LIABILITIES			
Trade and Other Payables	12	711	235
Deferred Tax Liability	11	2,514	1,588
TOTAL LIABILITIES		3,225	1,823
NET ASSETS		43,157	41,468
EQUITY			
Issued Capital	13	35,518	35,176
Other Reserves	14	7,424	4,977
Retained earnings		215	1,315
TOTAL EQUITY		43,157	41,468

The accompanying notes form part of these financial statements.

FINANCIAL REPORT (continued)

FLAGSHIP INVESTMENTS LIMITED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2016

2015	Note	Ordinary Shares \$'000	Retained Earnings \$'000	Asset Revaluation Reserve \$'000	Asset Realisation Reserve \$'000	Total \$'000
Balance at 1 July 2014		33,666	283	5,482	461	39,892
Profit or loss attributable to members		-	1,032	-	-	1,032
Other Comprehensive Income		-	-	856	-	856
Shares issued during the year	13(c)	1,510	-	-	-	1,510
Transfer to Asset revaluation reserve		-	-	(1,678)	1,678	-
Dividends paid or provided for	15	-	-	-	(1,822)	(1,822)
Balance at 30 June 2015		35,176	1,315	4,660	317	41,468

2016	Note	Ordinary Shares \$'000	Retained Earnings \$'000	Asset Revaluation Reserve \$'000	Asset Realisation Reserve \$'000	Total \$'000
Balance at 1 July 2015		35,176	1,315	4,660	317	41,468
Profit or loss attributable to members		-	742	-	-	742
Other Comprehensive Income		-	-	2,447	-	2,447
Shares issued during the year	13(c)	342	-	-	-	342
Transfer to Asset revaluation reserve		-	-	(131)	131	-
Dividends paid or provided for	15	-	(1,842)	-	-	(1,842)
Balance at 30 June 2016		35,518	215	6,976	448	43,157

The accompanying notes form part of these financial statements.

FLAGSHIP INVESTMENTS LIMITED
STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED 30 JUNE 2016

	Notes	2016 \$'000	2015 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Dividends received		1,497	1,634
Interest received		30	50
Payments to suppliers and employees		(565)	(1,744)
Net cash provided by/(used in) operating activities	25	962	(60)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of investments		16,391	9,199
Payments for investments		(14,755)	(8,410)
Net cash provided by/(used in) operating activities		1,636	789
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	15(a)	(1,501)	(1,367)
Share Purchase Plan		-	1,083
Net cash used by financing activities		(1,501)	(284)
Net increase/(decrease) in cash and cash equivalents held		1,097	445
Cash and cash equivalents at the beginning of the year		872	427
Cash and cash equivalents at end of year	8	1,969	872

The accompanying notes form part of these financial statements.

FINANCIAL REPORT (continued)

FLAGSHIP INVESTMENTS LIMITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

The functional and presentation currency of Flagship Investments Limited is Australian dollars.

The Company is an entity to which ASIC Corporations Instrument 2016/191 (rounding in Financials / Directors' Report) applies and accordingly, amounts in the financial statements and Directors' Report have been rounded to the nearest thousand dollars.

1. BASIS OF PREPARATION

The financial statements are general purpose financial statements that have been prepared in accordance with the Australian Accounting Standards and the *Corporations Act 2001*.

These financial statements and associated notes comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The financial statements have been prepared on an accruals basis and are based on historical costs modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

Significant accounting policies adopted in the preparation of these financial statements are presented below and are consistent with prior reporting periods unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) 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".

(b) Revenue and Other Income

Revenue is recognised when the amount of the revenue can be measured reliably, it is probable that economic benefits associated with the transaction will flow to the Company and specific criteria relating to the type of revenue as noted below, has been satisfied.

Revenue is measured at the fair value of the consideration received or receivable and is presented net of returns, discounts and rebates.

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

Interest Revenue

Interest is recognised using the effective interest method

Dividend Revenue

Dividends are recognised when the entity's right to receive payment is established.

(c) Income Tax

The income tax expense recognised in the statement of profit or loss and other comprehensive income comprises of current income tax expense plus deferred tax expense.

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (loss) for the year and is measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates and laws that have been enacted or substantively enacted by the end of the reporting period. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and losses can be utilised.

Current and deferred tax is recognised as income or an expense and included in profit or loss for the period except where the tax arises from a transaction which is recognised in other comprehensive income or equity, in which case the tax is recognised in other comprehensive income or equity respectively.

(d) Goods and Services Tax (GST)

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payable are stated inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables in the statement of financial position.

Cash flows in the statement of cash flows are included on a gross basis and the GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(e) Cash and Cash Equivalents

Cash and cash equivalents comprises cash on hand, demand deposits and short-term investments which are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

(f) Financial Instruments

Financial Assets At Fair Value Through Profit Or Loss

Financial assets at fair value through Profit or Loss are Financial Instruments convertible in to Equity Instruments. A financial asset is classified in this category if it is 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.

FLAGSHIP INVESTMENTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

(f) Financial Instruments *(continued)*

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 fair value of equity instruments 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.

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 an 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 instruments 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 Asset 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. Trades 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 different 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.

(g) Trade and Other Payables

Liabilities for trade payables and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

(h) Provisions

Provisions are recognised when the Company has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions for Dividends

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

(i) Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options which vest immediately are recognised as a deduction from equity, net of any tax effects

FINANCIAL REPORT (continued)

FLAGSHIP INVESTMENTS LIMITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

(j) New Accounting Standards and Interpretations

The AASB has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods. The Company has decided not to early adopt these Standards. The following table summarises those future requirements, and their impact on the Company where the standard is relevant:

AASB 9 Financial Instruments and amending standards AASB 2010-7 / AASB 2012-6	31 July 2016	Changes to the classification and measurement requirements for financial assets and financial liabilities	The impact of AASB 9 did not have a material impact on the Company
AASB 16 Leases	1 January 2019	AASB 16 introduces a single lessee accounting model by eliminating the current requirement to distinguish leases as either operating leases or finance leases depending on the transfer of risks & rewards of ownership. AASB 16 requires recognition of a right to use asset and liability for all leases excluding those with a tenure period of less than 12 months and those relating to low value assets. The assets will be depreciated in line with AASB 116 Property, Plant & Equipment with the unwinding of the liability in principal and interest components.	The Company is assessing the potential impact on its financial statements resulting from the application of AASB 16.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

(a) Key Estimates

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.

(b) Key Judgements

The preparation of financial reports in conformity with Australian Account Standards require 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 amount 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, the tax liability/benefit may not be crystallised at the amount disclosed in Note: 11. In addition, the tax liability/benefit that arises on the 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 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.

4. OPERATING SEGMENTS

Segment Information

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 2016

	Notes	2016 \$'000	2015 \$'000
5. REVENUE AND OTHER INCOME			
Dividends Received		1,554	1,693
Interest Received		30	50
		1,584	1,743
6. OTHER EXPENSES			
ASX listing and other fees		42	45
Audit fees		22	27
Directors fees		152	170
Insurance		24	28
Share registry		37	34
Other		82	141
		359	445
7. INCOME TAX EXPENSE			
(a) The major components of tax expense (income) comprise:			
Current tax expenses			
Deferred income tax expense:			
Decrease (increase) in deferred tax assets	11	(193)	(112)
(Decrease) increase in deferred tax liabilities	11	34	(75)
Income tax expense for continuing operations		(159)	(187)
(b) Reconciliation of income tax to accounting profit			
Profit/(Loss) before income tax		583	845
Prima facie tax payable on profit from ordinary activities before income tax rate at 30% (2015 - 30%)		175	253
Adds:			
Tax effect of:			
- Other		157	-
Less:			
Tax effect of:			
- Rebateable fully franked dividends		491	417
- Other		-	15
- Other provision for income tax in prior year		-	8
Income tax expense		(159)	(187)
(c) Amounts recognised directly in Other Comprehensive Income			
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other Comprehensive Income but directly debited or credited to Other Comprehensive Income.			
Net deferred tax		861	367
		861	367

FINANCIAL REPORT (continued)

FLAGSHIP INVESTMENTS LIMITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

	2016 \$'000	2015 \$'000
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8. CASH AND CASH EQUIVALENTS

Cash at bank and on hand	1,969	872
	1,969	872

Reconciliation of cash

Cash and Cash Equivalents reported in the Statement of Cash Flows are reconciled to the equivalent items in the Statement of Financial Position as follows:

Cash at bank and on hand	1,969	872
Balance as per Statement of Cash Flows	1,969	872

9. TRADE AND OTHER RECEIVABLES

CURRENT

Other receivables	253	211
GST receivable	51	-
Total current trade and other receivables	304	211

10. OTHER FINANCIAL ASSETS

(a) Financial Assets at Fair Value Through Other Comprehensive Income

At beginning of year	42,208	41,798
Additions (at cost)	14,755	8,410
Revaluation	3,677	(1,450)
Disposals (at fair value)	(16,531)	(6,550)
Australian listed equity securities	44,109	42,208

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

(b) Financial Assets At Fair Value Through Profit Or Loss

At beginning of year	-	250
Additions (at cost)	-	25
Revaluation	-	(275)
Australian Convertible Notes	-	-

FLAGSHIP INVESTMENTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2016

	2016 \$'000	2015 \$'000
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11. TAX ASSETS AND LIABILITIES

Recognised deferred tax assets and liabilities

Net deferred tax liabilities adjusted for deferred tax assets	2,514	1,588
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(a) Reconciliations – Deferred Tax Assets

Gross Movements.

The overall movement in deferred tax asset accounts is as follows:

Opening balance	345	952
Credited to the Income Statement	193	112
Credited to Other Comprehensive Income	-	(719)
Closing balance	538	345

The movement in deferred tax assets for each temporary difference during the year is as follows:

(i) Accruals

Opening balance	7	7
Charged directly to Profit or Loss	(7)	-
Closing Balance	0	7

(ii) Tax losses - revenue

Opening balance	338	945
(Charged)/credited directly to profit or loss	200	112
(Charged)/credited directly to Other Comprehensive Income	-	(719)
Closing Balance	538	338

(b) Reconciliations – Deferred Tax Liabilities

Gross Movements:

The overall movement in the deferred tax liability account is as follows:

Opening balance	1,933	2,361
Credited to the Income Statement	34	(75)
Credited to Other Comprehensive Income	1,085	(353)
Closing balance	3,052	1,933

The movement in deferred tax liability for each temporary difference during the year is as follows:

(i) Unrealised gain on Financial Assets on fair value

Opening balance	1,915	2,350
(Charged)/credited directly to Profit or Loss	18	(82)
(Charged)/credited directly to Other Comprehensive Income	1,085	(353)
Closing balance	3,018	1,915

(ii) Unfranked dividend and interest receivable

Opening balance	18	11
(Charged)/credited directly to Profit and Loss	16	7
	34	18

FINANCIAL REPORT (continued)

FLAGSHIP INVESTMENTS LIMITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

	2016 \$'000	2015 \$'000
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12. TRADE AND OTHER PAYABLES

CURRENT

Accounts payable and accrued expenses

711	235
711	235

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

13. ISSUED CAPITAL

(a) Share Capital

Ordinary shares Fully Paid 25,426,168 (2015: 25,230,455)

35,518	35,176
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(b) Ordinary Shares

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

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

(c) Movements in ordinary share capital

Date	Details	Number of shares	Price	\$'000
30 June 2014	Balance	24,219,484		33,666
26 September 2014	Dividend Reinvestment Plan issues	158,714	\$1.585	251
24 March 2015	Share Purchase Plan	717,154	\$1.51	1,083
	Costs of Share Purchase Plan	-	-	(28)
2 April 2015	Dividend Reinvestment Plan issues	135,103	\$1.507	204
30 June 2015	Balance	25,230,455	-	35,176
11 September 2015	Dividend Reinvestment Plan issues	107,583	\$1.774	191
7 April 2016	Dividend Reinvestment Plan issues	88,130	\$1.715	151
		195,713	-	342
30 June 2016	Balance	25,426,168		35,518

(d) Share buy-back

On 16 July 2014 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-back ceased 10 July 2015.

The Company announced on 6 July 2015 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 during the period 22 July 2015 to 15 July 2016 subject to market conditions. The buy-back ceased 15 July 2016.

FLAGSHIP INVESTMENTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2016

	2016 \$'000	2015 \$'000
14. RESERVES		
(a) Asset Revaluation Reserve		
The asset revaluation reserve records fair value movements 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 Realisation Reserve.		
(b) 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.		
15. DIVIDENDS		
(a) Dividends and distributions paid		
The following dividends were declared and paid:		
Final fully franked ordinary dividend of 3.7 cents (2015 – 4.0 cents) per share paid on 11 September 2015 (2015 – 26 September 2014)	955	969
Interim fully franked ordinary dividend of 3.5cents (2015 – 3.5 cents) per share paid on 7 April 2016 (2015 – 2 April 2015)	887	853
Total	1,842	1,822
Dividends paid in cash or satisfied by the issue of shares under the dividend reinvestment plan during the years ended 30 June 2016 and 2015 were as follows:		
Paid in cash	1,501	1,367
Satisfied by issue of shares	341	455
	1,842	1,822
(b) Proposed dividends		
Proposed final 2016 fully franked ordinary dividend of 3.75 cents (2015: 3.75 cents) per share to be paid	953	914
The proposed final dividend for 2016 was declared after the end of the reporting period and therefore has not been provided for in the financial statements. There are no income tax consequences arising from this dividend at 30 June 2016		
(c) Franked dividends		
The franking credits available for subsequent financial years at a tax rate of 30%	850	1,149
The above available balance is based on the dividend franking account at year-end adjusted for		
(a) Franking credits that will arise from the payment of the current tax liabilities;		
(b) Franking credits that will arise from the receipt of dividends recognised as receivables at the end of the year.		
The impact on the franking credit of the dividends proposed after the end of the reporting period is to reduce it by \$ 408 (2015: \$ 392).		
The ability to use the franking credits is dependent upon the Company's future ability to declare dividends.		
(d) Listed Investment Company capital gain account		
Balance of the Listed Investment Company (LIC) capital gain account	-	-

FINANCIAL REPORT (continued)

FLAGSHIP INVESTMENTS LIMITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

	2016 \$'000	2015 \$'000
16. 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	742	1,032
(ii) Total Comprehensive Income	3,189	1,888
(b) Basic and Diluted earnings per share	Cents	Cents
(i) Profit/(loss) from continuing operations attributable to the owners of the Company	3.0	4.2
(ii) Total Comprehensive Income	13.0	7.7
(c) Weighted average number of ordinary shares used in the calculation of earnings per share		
	25,331,442	24,565,427
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		

17. AUDITORS REMUNERATION

Remuneration of the auditor of the Company for:

Audit or reviewing the financial statements

25	27
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Total remuneration of auditors

25	27
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18. LEASING COMMITMENTS

(a) Operating Leases

Minimum lease payments under non-cancellable operating leases:

- not later than one year	35	43
- between one year and five years	-	26
	35	69

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 2016

19. FINANCIAL RISK MANAGEMENT

The Company is exposed to a variety of financial risks through its use of financial instruments.

The Company's overall risk management plan seeks to minimise potential adverse effects due to the unpredictability of financial markets. The Company does not speculate in financial assets.

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:

	2016 \$'000	2015 \$'000
Financial Assets		
Cash and cash equivalents	1,969	872
Receivables	304	211
Financial Assets at fair value through Other Comprehensive Income.	44,109	42,208
Total Financial Assets	46,382	43,291
Financial Liabilities		
Trade and Other Payables	711	235
Total Financial Liabilities	711	235

(a) Market Risk

Foreign exchange risk

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

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.

At 30 June 2016, the effect of profit and equity as a result of changes in the interest rate, with all other variables remaining constant, would be as follows:

	2016	2015
Portfolio five year return	13.82%	12.2%
All Ordinaries Index five year return	2.7%	4.7%

(b) 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% (2015 - 5%) with all other variables held constant.

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

2016 +/- \$2,205,450

2015 +/- \$2,110,000

Impact on profit or loss is nil.

(c) Cash Flow 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 2016: Balance \$1,969,000

Weighted average interest rate 2.11%

30 June 2015: Balance \$872,000

Weighted average interest rate 2.26%

(d) 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.

FINANCIAL REPORT (continued)

FLAGSHIP INVESTMENTS LIMITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

(e) 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.

(f) 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.

20. 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, but did not buy any back during the year.

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

21. FAIR VALUE MEASUREMENTS

The Company measures the following assets and liabilities at fair value on a recurring basis:

- Financial Assets at fair value through Other Comprehensive Income.
- Financial Assets At fair value through Profit or Loss.
- Available-for-sale Financial Assets.

Fair value hierarchy

AASB 13 *Fair Value Measurement* requires all assets and liabilities measured at fair value to be assigned to a level in the fair value hierarchy as follows:

- Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 Inputs other than quoted prices included with level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 Unobservable inputs for the asset or liability.

The table below shows the assigned level for each asset and liability held at fair value by the Company:

30 June 2016	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	TOTAL \$'000
Recurring fair value measurements.				
Financial Assets				
- Listed Equity Securities	44,109			44,109

30 June 2015	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	TOTAL \$'000
Recurring fair value measurements.				
Financial Assets				
- Listed Equity Securities	42,208	-	-	42,208

Transfers between levels of hierarchy

There were no transfers between levels of the fair value hierarchy.

Highest and best use

The current use of each asset measured at fair value is considered to be its highest and best use.

FLAGSHIP INVESTMENTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2016

	2016 \$'000	2015 \$'000
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22. RELATED PARTY TRANSACTIONS

Transactions with related parties

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

The following transactions occurred with other related parties:

EC Pohl & Co Pty Ltd for Performance Fee

- A Performance Fee was payable in accordance with the Management Services Agreement as detailed in Note 23.

• 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.	642	178
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• McCullough Robertson Lawyers for the provision of legal services. D M McGann is a partner of McCullough Robertson Lawyers.	3	4
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• Allegiant IRS for insurance advice for D & O Policy.		
The company is owned by McCullough Robertson Lawyers, of which D M McGann is a partner.	2	-

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

23. MANAGEMENT SERVICES AGREEMENT

In accordance with a Management Services Agreement which was signed early in November 2015, 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 6 November 2015 and can be extended by the Board thereafter.

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 \$689,468 (incl GST) was paid or payable during the year ended 30 June 2016 (2015 - \$178,000).

FINANCIAL REPORT *(continued)*

FLAGSHIP INVESTMENTS LIMITED NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

	2016 \$'000	2015 \$'000
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24. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Other Key Management Personnel

The Company's Secretary and Chief Financial Officer (Brian Jones) is a partner of Rothsay Chartered Accountants. Brian has not received any form of direct remuneration from the Company. Brian Jones (as Company Secretary and partner of Rothsay Chartered Accountants) is remunerated by EC Pohl & Co Pty Ltd for the provision of these services.

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 22.

The totals of remuneration paid to the key management personnel of Flagship Investments Limited during the year are as follows:

Short-term Employment benefits	152	170
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Detailed remuneration disclosures are provided in sections (A) – (F) of the Remuneration Report on pages 11 and 12.

25. CASH FLOW INFORMATION

Reconciliation of result for the year to cash flows from operating activities

Reconciliation of net income to net cash provided by operating activities:

Profit for the year	742	1,032
Cash flows excluded from profit attributable to operating activities		
Non-cash flows in profit:		
- unrealised (gains)/losses on fair value financial assets	-	275
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries		
- (increase)/decrease in trade and other receivables	(109)	(59)
- (increase)/decrease in prepayment	14	(4)
- (increase)/(decrease) in deferred tax assets	(163)	(187)
- increase /(decrease) in trade and other payables	478	(1,117)
Cash flow from operations	962	(60)

26. CONTINGENCIES

In the opinion of the Directors, the Company did not have any contingencies at 30 June 2016 (30 June 2015:None).

27. EVENTS OCCURRING AFTER THE REPORTING DATE

No matters or circumstances have arisen since the end of the financial year which 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.

DIRECTORS' DECLARATION

The Directors of the Company declare that:

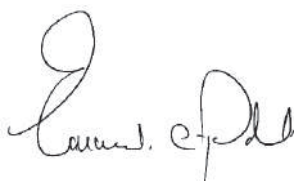
- (a) the Financial Statements and Notes set out on pages 19 to 36 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS); and
 - (ii) give a true and fair view of the financial position as at 30 June 2016 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 pages 11 and 12 of the Directors' Report (as part of the audited remuneration report) for the year ended 30 June 2016 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

19 August 2016

INDEPENDENT AUDITOR'S REPORT



FLAGSHIP INVESTMENTS LIMITED
ABN 99 080 135 913

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 (the entity), which comprises the statement of financial position as at 30 June 2016, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the 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 is free from material misstatement, whether due to fraud or error.

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 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 judgment, 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 entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by 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.

Matters Relating to the Electronic Presentation of the Audited Financial Report

This auditor's report relates to the financial report of Flagship Investments Limited for the year ended 30 June 2016, intended to be included on the entity's website. The entity's directors are responsible for the integrity of the entity's website. We have not been engaged to report on the integrity of the entity's website. The auditor's report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on the website.

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WPiAS a Limited Partnership

WPiAS Pty Ltd ABN 99 163 915 482
An Authorised Audit Company



GOLD COAST | BRISBANE | SYDNEY | MELBOURNE | PERTH

INDEPENDENT AUDITOR'S REPORT (continued)

FLAGSHIP INVESTMENTS LIMITED
ABN 99 080 135 913

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FLAGSHIP INVESTMENTS LIMITED

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's Opinion

In our opinion the financial report of Flagship Investments Limited is in accordance with the Corporations Act 2001, including:

- (a) giving a true and fair view of the entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards and the Corporations Regulations 2001.

Report on the Remuneration Report

We have audited the remuneration report included in pages 11 to 12 of the directors' report for the year ended 30 June 2016. The directors of the entity are responsible for the preparation and presentation of the remuneration report in accordance with s300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the remuneration report of Flagship Investments Limited for the year ended 30 June 2016 complies with s300A of the Corporations Act 2001.

Other Matter

The financial report of Flagship Investments Limited for the year ended 30 June 2015 was audited by another auditor who expressed an unmodified opinion on that financial report on 14 August 2015.

WPIAS Pty Ltd

Authorised Audit Company No. 440306



LEE-ANN DIPPENAAR BCom CA RCA
DIRECTOR

Dated this 19th day of August 2016

4 Helensvale Road
Helensvale Qld 4212

SHAREHOLDER INFORMATION

The Shareholder information set out below was applicable as at 22 July 2016.

1. DISTRIBUTION OF SECURITIES:

Distributions	No. of Shareholders
1 to 1,000	106
1,001 to 5,000	212
5,001 to 10,000	133
10,001 to 100,000	237
100,001 and over	35
Total	723

Holdings of less than a marketable parcel	37
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2. TWENTY LARGEST SHAREHOLDERS

Shareholders	Ordinary Shares	%
Citicorp Nominees Pty Limited	5,098,455	20.05%
Global Masters Fund Limited	2,132,197	8.39%
Pohl Pty Ltd <Gap Investments Unit>	1,094,320	4.75%
Mrs Sylvia Maria Valmadre	857,661	3.37%
Mr Cornelius Laubius Visser Laubscher	570,972	2.25%
Mara Super Pty Ltd <MVL Super Fund >	520,000	2.05%
Cidel Bank and Trust Inc <The Fragrance A/c>	514,201	2.02%
Mr John Steven Page + Mrs Gillian Kay Page <Page Employees S/F>	494,049	1.94%
Mr Gregory John Burton & Mrs Catherine Beatrice Burton <GJ Burton Personal Super>	466,580	1.84%
Mr Hank Van Lieshout	386,634	1.52%
Mr Dominic Martin McGann	374,090	1.47%
Qantum Electronics Pty Ltd <Super>	343,410	1.35%
Mrs Mary Van Lieshout	333,042	1.31%
Erika Haberfield	307,520	1.21%
Noonbah Pty Ltd <Noonbah>	299,000	1.18%
Barclay Super Pty Ltd <Don Barclay SF>	281,389	1.11%
Mr Hank van Lieshout + Mrs Joyce Van Lieshout	260,000	1.02%
LIC Investments Pty Ltd <LIC investments Unit a/c>	250,000	0.98%
Dynasty Peak Pty Ltd <The Avoca SF>	210,148	0.83%
Mr Edwin Henry Buckland & Mrs Enid Olive Buckland <Buckland Super Fund>	200,000	0.79
Total	14,993,668	58.97

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 *	8,626,641	36.16
Global Masters Fund Limited	2,132,197	8.39

* Has the power to control voting and/or the disposal of securities in accordance with a Power Of Attorney in relation to 3,425,790 shares.

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 2016

Individual investments at 30 June 2016 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	%
	ORDINARY SHARES			
ACX	Aconex Limited	195,328	1,368.6	2.97
APA	APA Group	185,574	1,714.7	3.72
ARB	ARB Corporation Limited	50,000	837.0	1.82
AUB	AUB Group Limited	74,743	754.9	1.64
BBN	Baby Bunting Group Limited	339,664	815.2	1.77
BGL	BigAir Group Limited	40,987	25.0	0.05
BLA	Blue Sky Alternative Investments Limited	57,859	468.7	1.02
BTT	BT Investment Management Limited	100,000	788.0	1.71
BXB	Brambles Limited	126,524	1,567.6	3.40
CAR	Carsales.Com Limited	165,468	2,038.6	4.42
CAT	Catapult Group International Ltd	709,538	2,185.4	4.74
CBA	Commonwealth Bank of Australia Limited	36,773	2,738.1	5.93
CSL	CSL Limited	22,373	2,509.8	5.45
CVO	Cover-More Group Limited	367,796	445.0	0.97
DMP	Domino's Pizza Enterprises Limited	26,265	1,789.4	3.88
IPH	IPH Limited	324,733	2,084.7	4.52
INV	InvoCare Limited	73,857	970.5	2.11
MAI	Mainstreambpo Limited	850,147	510.1	1.11
MFG	Magellan Financial Group Limited	57,127	1,271.0	2.76
MQG	Macquarie Group Limited	49,159	3,387.0	7.35
PSQ	Pacific Smiles Group Limited	360,632	753.7	1.63
PWH	PWR Holdings Limited	141,801	394.2	0.86
REA	REA Group Ltd	51,055	3,037.2	6.59
RIO	Rio Tinto Limited	24,077	1,095.5	2.38
RWC	Reliance Worldwide Corporation Limited	60,000	185.4	0.40
SEK	SEEK Limited	136,525	2,076.5	4.51
SRX	Sirtex Medical Limited	30,962	791.7	1.72
TLS	Telstra Corporation Limited	462,297	2,570.4	5.58
TME	Trade Me Group Limited	324,710	1,435.2	3.12
WBC	Westpac Banking Corporation Limited	77,683	2,283.9	4.96
WPL	Woodside Petroleum Limited	45,297	1,215.8	2.64
			44,108.8	95.73
	CASH			
	Cash		1,968.6	4.27
	TOTAL		46,077.4	100.0

(2) TRANSACTIONS AND BROKERAGE

There were 120 (2015: 70) transactions in securities during the year on which brokerage of \$84,218 (2015: \$51,710) was paid.

NOTES

[illegible]

CORPORATE DIRECTORY

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
Dominic M McGann
Non-Executive Director

SECRETARY

Brian E Jones

PRINCIPAL 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
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BUNDALL QLD 4217
Tel: +61 (0) 7 5644 4405
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SOLICITORS

McCullough Robertson Lawyers
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BRISBANE QLD 4000
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Fax: +61 (0) 7 3229 9949

AUDITORS

WPIAS Pty Ltd
4 Helensvale Road
HELENSVALE QLD 4210

SHARE REGISTRY

Boardroom Pty Limited
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INVESTMENTS

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