



FLAGSHIP INVESTMENTS LIMITED

Chairman's Address – Annual General Meeting

8 November 2013

Ladies and gentlemen, my fellow Directors and I welcome you to the 16th Annual General Meeting of our Company.

At the outset, can I express my appreciation for the support of our Shareholders for the significant changes to the Company and its operations which were approved at last year's AGM. The changes particularly in regard to the investment management services, have been implemented and are now fully operational.

We believe that the benefits of those changes will continue to be reflected in the Company's results in the years ahead.

The 2012/13 Financial Year

The 2012/13 year has been an outstanding one for the Company. We achieved the best aggregate performance for the Company's investment portfolio for more than 5 years. The portfolio return was 32.9 per cent compared with an increase of 15.5 per cent in the All Ordinaries Index for the same period.

This high level of outperformance is very satisfying and a strong endorsement of our long standing fundamental investment philosophy. We are also very pleased that it has underpinned a capacity to provide some increase in return to our shareholders via our dividend payment.

The outstanding investment return for the portfolio has also meant that there was a positive change of \$6.9 million in our reported comprehensive income (after tax) with the negative return of \$1.15 million in 2011/12 being converted to a surplus of \$5.77 million in comprehensive income for the 2012/13 year.

For the first time since 2008, the company has also provided for the payment of a performance fee of \$1.243 million to our investment manager. As Shareholders would be aware, there is no fixed investment management fee payable, only a fee based on the achievement of agreed investment return benchmarks. If the investment return target is not achieved, no fee is payable.

The level of investment fee payable clearly reflects the outstanding investment performance achieved for the year.

The 2013/14 Financial Year So Far

The investment portfolio return for the period to October was 18.0 per cent compared with 13.5 per cent for the All Ordinaries Index for the same period, a more than 30 per cent outperformance.

We believe the portfolio is well positioned to continue to benefit from the generally positive outlook for the Australian equity market.

It will also mean that a significant performance fee is likely to be payable for the 2013/14 financial year.

The Outlook

The Australian equity market has been one of the best performing markets with the possible exception of Europe. In recent times, the All Ordinaries Index has continued to test new highs not seen since the pre GFC days. This is despite some uncertainty around the strength of the Australian economy particularly in the light of some slowing in China and continuing concern about the US and its capacity for some serious issues around debt levels to be resolved for the longer term.

If there is a risk for the Australian market and indeed the US market, it is that expectation will get ahead of reality and result in significant adverse corrections. However while there is a need for some caution in this regard, we remain positive on the future outlook.

Our Investment Manager

We are extremely fortunate to have E C Pohl & Co Pty Ltd, a company closely associated with our Managing Director, Dr Manny Pohl, as our investment manager. Manny is the ultimate investment professional maintaining a commitment to a fundamental investment style that has stood him and us in good stead through some challenging times.

In more recent times, Manny has been able to apply his considerable skills and abilities with a little more flexibility and an increased focus on the small to mid-cap companies which have been a source of regular outperformance for the portfolio, while pragmatically not ignoring opportunities in the large cap space.

The traditional 5 year investment horizon remains core to the investment decisions however, there is also a continuing sharper analytical focus on a 3 year outlook as part of assessment validation purposes.

Our Share Price

We are pleased that there has been a closer alignment of our share price with the underlying value of the portfolio. At the end of October, the unaudited net asset backing of the Company's shares was \$1.724 per share and if estimated tax on unrealised gains/(losses) was to be deducted, the figure would be \$1.577 per share. Our shares are currently trading around the \$1.50 mark.

There is a share buyback scheme currently in place and we believe this has been a significant contributor to a more stable market for the Company's shares. The current share buyback scheme will expire on 8 July 2014.

Dividend Policy

Your Board was pleased to be able to increase the level of Final Dividend for the 2012/13 year to 3.5 cents per share fully franked compared with 3 cents per share fully franked for the previous corresponding period.

We believe that the increase in dividend is sustainable in the longer term given the positive outlook for markets generally.

While dividend flows have increased, they are not yet sufficient to cover the cash dividend as well as payment of the performance fee and other expenses. Some greater uptake of Shareholders participating in the dividend reinvestment scheme would help to minimise the cash outflow arising from the dividend payment.

Nevertheless, the Board thought it reasonable that some additional benefit flow to Shareholders following the outstanding year for the Company and the positive outlook we envisage.

Your Board

I have again valued the significant contributions made by each member of the Board to our continuing success. They are highly skilled individuals who bring many years of real world experience to the table and make my job so much easier.

I thank them sincerely for another great year.

Resolution 1 deals with the re-election of myself as a Director of the Company and consequently, I will stand down as chair for this item. Sophie Mitchell has agreed to act as chair for this part of the agenda.

In Conclusion

It has been a great year and one has reason to be quietly confident about the future.

I and my fellow Board members look forward to continuing to serve the Company and our Shareholders to the best of our ability.