

FLAGSHIP INVESTMENTS LIMITED

JANUARY 2013 UPDATE

SHAREHOLDERS' QUARTERLY REPORT

OBJECTIVE

Long-term capital growth and income

STRATEGY

High-conviction portfolio of quality Australian listed equities from a research driven, bottom-up investment philosophy

LISTED

December 2000

COUNTRIES WHERE LISTED

Australian Securities Exchange

ASX CODE

FSI (formerly HIP)

RATINGS

- Independent Investment Research – Recommended¹

DIRECTORS

Henry R Smerdon AM
Chairman

Dr Emmanuel (Manny) C Pohl
Managing Director

Patrick Corrigan AM

Dominic M McGann

Sophie A Mitchell

COMPANY DETAILS

Flagship Investments Limited

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OVERVIEW

Flagship Investments Limited's underlying portfolio outperformed its benchmark during the quarter. It returned 9.1% versus the All Ordinaries Index return of 5.9%. In comparison, the share price of the Company increased by 14% over the quarter.

UNDERLYING PORTFOLIO PERFORMANCE (as at 31 December 2012)

	Since Inception (May 1998)	3 months	1 year	3 years	5 years
Portfolio [^]	11.3	9.1	27.7	2.8	-1.8
UBS Bank Bill Index	5.3	0.8	4.0	4.5	5.0
ASX All Ordinaries	3.8	5.9	13.5	-1.5	-7.7

[^] Source: EC Pohl & Co Pty Ltd

INVESTMENT ACTIVITY

During the December quarter, two new companies Telstra Corporation Limited (TLS) and SCA Property Group Limited (SCP) were added to the portfolio. The recent deal between Telstra and NBN changed the outlook for the company and underpinned the current dividend. Not only is Telstra spared the cost of upgrading the network while standing to benefit from increased customers and better service, but it now has additional resources to invest in other high growth areas like cloud computing, mobile and internet delivery in markets where it is gaining market share. The SCA Property Group was spun out of Woolworths in November and we received one unit in SCA for every five Woolworths' shares we held. SCA houses approximately \$1.4b of property assets associated with the Woolworths Group, owning sixty nine shopping centres in regional and suburban Australia and New Zealand, all built or renovated over the past few years. These centres are anchored by household names such as Woolworths, Big W and Dan Murphy's.

Consolidated Media was the subject of a takeover offer and sold from the portfolio in November while the exposure to Woolworths and Carsales.com was reduced.

OUTLOOK

Markets have responded positively to the gradual easing of the Euro zone debt crisis and the avoidance by the US Congress of falling off the 'Fiscal Cliff'. The 'Fiscal Cliff', a popular term used to describe the large budget cuts and tax increases scheduled to come into effect in early 2013, dominated discussions in the investment landscape during the quarter. The uncertainty surrounding the Fiscal Cliff delayed many business decisions in hiring and expanding which subsequently hurt the economy. A larger problem facing the US in the first quarter of 2013 is whether they are likely to hit the 'debt ceiling' which is the same issue that roiled the markets in the summer of 2011.

However, the short-term financial metrics for the companies in the portfolio including organic sales growth, earnings and dividend growth should continue to drive valuations higher.

PORTFOLIO CHARACTERISTICS (as at 31 December 2012)

NAV (tax on realized gains only) – total	\$34,610,243
NAV (tax on realized gains only) – per share	142.7 cents
Concentration of the Top 20 Holdings	93.49%
Stocks in the underlying portfolio	26

FUND MANAGER

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INVESTMENT PHILOSOPHY

- ◆ Investments should outperform the risk-free rate
- ◆ The price one pays determines the ultimate long-term return
- ◆ High quality growth companies outperform over the longer term

INVESTMENT PROCESS

INITIAL SCREENING PROCESS

- ROE
- Revenue Growth
- Interest Cover
- IPOs
- Broker Ideas
- Internal Ideas

FUNDAMENTAL ANALYSIS

- Understanding the Business Model
- Sustainable Competitive Advantage
- Organic Growth Opportunities
- Assessing Management
- Assessing the Operating Environment

PORTFOLIO WEIGHTING

- 5 Year Risk Adjusted Total Return
- Top Down Cash Analysis

HIGH CONVICTION PORTFOLIO OF COMPANIES

This process is the basis for all our Australian equities investment decisions.

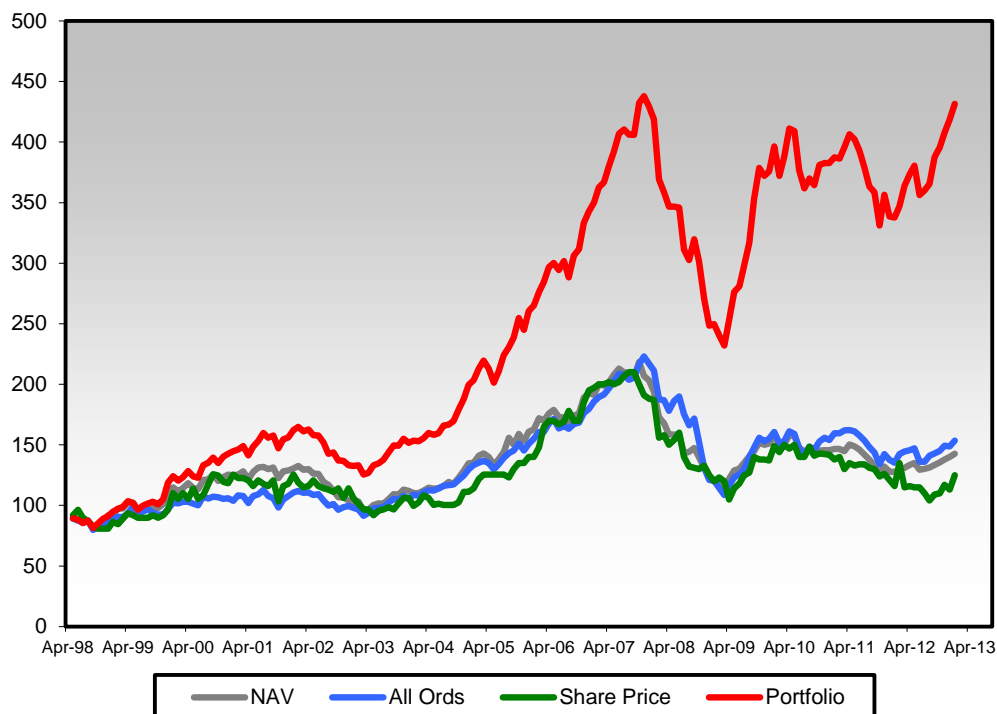
SECTOR BREAKDOWN (as at 31 December 2012)

Financials	29.42%
Consumer Discretionary	18.70%
Materials	11.98%
Information Technology	9.97%
Industrials	9.02%
Health Care	6.29%
Consumer Staples	5.65%
Energy	5.64%
Telecommunication Services	2.92%
Cash and Equivalent	0.42%

TOP 5 STOCK HOLDINGS (as at 31 December 2012)

Commonwealth Bank of Australia	7.63%
SEEK	6.43%
Cochlear	6.28%
REA Group	6.19%
BHP Billiton	6.15%

SHARE PRICE (as at 31 December 2012) (after adjusting for the rights issue)



STRUCTURE AND TERMS

Legal Domicile	Australian Securities Exchange (ASX) Listed Investment Company (LIC)
Fees	Management fee – Nil (2011/2012) Performance fee 15% of the annual outperformance over the UBS Bank Bill Index
MER	0.0%
Reporting and Correspondence	Monthly Net Asset Value prices on www.flagshipinvestments.com.au and www.asx.com.au also quarterly reports, half-yearly and annual reports
Dividend Information	AUD 0.03 at 10 May 2012 AUD 0.03 at 12 October 2012
Auditor	BDO Audit Pty Ltd
Registry	Computershare Investor Services Pty Limited
Share price and NAV	www.flagshipinvestments.com.au and www.asx.com.au

¹ This opinion is provided by Independent Investment Research and must be read together with whole report including the disclaimer and relevant legal notices which can be found at www.independentresearch.com.au