

### Prospectus – Pro Rata Bonus Issue of Options

Magellan Flagship Fund Limited ('MFF') announced on 8 August 2012 that the Board had resolved to proceed with a one (1) for three (3) pro rata bonus issue of options (the 'Bonus Issue').

All shareholders registered as at 5:00pm (Sydney time) on the record date, being 10 October 2012, will be entitled to receive one (1) option for every three (3) Shares held on that date. Each option gives the holder the right to acquire one (1) share in MFF and is exercisable at \$1.05 prior to the expiry date of 31 October 2017. No application money is payable for the grant of the options.

The details and conditions of the Bonus Issue are set out in the enclosed Prospectus, which will be forwarded to shareholders shortly.

The indicative timetable for the Bonus Issue is as follows:

Announcement and Appendix 3B, Prospectus lodged with ASIC and ASX	27 September 2012
Shares trade ex-bonus option entitlements	4 October 2012
Options commence trading on a deferred settlement basis	4 October 2012
Record Date to determine entitlements under the Bonus Issue	10 October 2012
Prospectus sent to shareholders	17 October 2012
Expected issue and entry of options on the register and despatch of holding statements	17 October 2012
End of deferred settlement trading	17 October 2012
Normal trading of options commences on ASX	18 October 2012
Option exercise period	Issue date to 31 October 2017
Expiry Date for options	5:00 pm (Sydney time) 31 October 2017

The above dates are subject to change and are indicative only. MFF reserves the right to amend this indicative timetable subject to the Corporations Act 2001 and the ASX Listing Rules.

Yours faithfully,



**Leo Quintana**  
Legal Counsel & Company Secretary

**27 September 2012**



# PROSPECTUS

Pro rata bonus issue of one (1) Option for every three (3) Shares held by each Shareholder recorded on the Company's share register on the Record Date of 10 October 2012

**No application monies are payable for the grant of Options**

## **Important Information**

This Prospectus under section 713 of the Corporations Act contains important information for you as a shareholder and requires your immediate attention. It should be read in its entirety. If you have any questions as to its contents or the course of action you should follow, please consult your stockbroker, accountant, solicitor or other professional financial adviser immediately.



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## 1. Important Notice

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### **Lodgement and listing**

This Prospectus is dated 27 September 2012 and was lodged with the Australian Securities & Investments Commission ('ASIC') on that date. Neither ASIC, Australian Securities Exchange ('ASX') nor their respective officers take responsibility for the contents of this Prospectus or the merits of the investment to which it relates. This Prospectus expires on the date which is 13 months after the date of this Prospectus and no Options will be issued on the basis of this Prospectus after that date.

This Prospectus is issued by Magellan Flagship Fund Limited ('Company'). The content of the Prospectus has been determined on the basis that the Company is a disclosing entity for the purposes of the Corporations Act and that ASX maintains a database of publicly disclosed information about the Company and certain matters may reasonably be expected to be known to investors and their professional advisers whom shareholders and potential investors may consult.

The Company will apply for quotation of the Options on ASX within seven days following the lodgement of this Prospectus with ASIC. If ASX does not grant permission for the Options to be quoted within three months after the date of this Prospectus (or any longer period permitted by law), the Options will not be issued or, if any Options have been issued, the issue will be void.

### **Not investment or financial product advice**

The information provided in this Prospectus is not investment or financial product advice and has been prepared without taking into account your particular objectives, financial situation or needs (including tax issues) as an investor. You should carefully read the whole of this Prospectus and consider all of the risk factors that could affect the performance of the Options or underlying Shares or the Company in light of your own particular objectives, financial situation and needs before deciding whether to exercise the Options. If you have any questions, you should contact your financial or other professional adviser for advice.

Some of the risk factors that you should consider are set out in Section 6 of this Prospectus. There may be additional risk factors in addition to these that should be considered in light of your personal circumstances.

This Prospectus is only relevant for investors in the Options and should not be used for any other purpose.

### **No representations other than this Prospectus**

No person is authorised to give any information or to make any representation in connection with the Bonus Issue which is not contained in this Prospectus. You should rely only on information in this Prospectus. Any information or representation that is not in this Prospectus may not be relied on as having been authorised by the Company in connection with the Bonus Issue.

### **Restrictions on distribution**

This Prospectus does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such offer or invitation. The distribution of this Prospectus in jurisdictions outside Australia and New Zealand may be restricted by law and persons who come into possession of this Prospectus should seek advice on, and observe, any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

### **Forward looking statements**

Certain statements in this Prospectus relate to the future. These forward looking statements which are identified by words such as "may", "could", "believes", "estimates", "expects", "intends" and other

similar words that involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual results, performance or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by such statements. Such forward looking statements are based on numerous assumptions regarding present and future business strategies and the environment in which the Company will operate in the future.

Certain important factors that could cause actual results, performance or achievements to differ materially from those in the forward looking statements include, among others, the risk factors described in this Prospectus in Section 6, and other unknown risks and uncertainties. Forward looking statements should, therefore, be construed in light of such risk factors and reliance should not be placed on forward looking statements. Unless otherwise indicated forward looking statements relate to the beliefs, expectations or intentions of the Company (and no other person) as at the date of this Prospectus.

### **Disclaimer**

None of the Company, its directors nor any other person connected with the Bonus Issue guarantees that the Exercise Price of the Options will be equal to or less than the price of the Shares during the period between the Record Date and the Expiry Date or that an Option holder will be able to find a willing buyer for their Options if they decide to sell them.

### **Electronic Prospectus**

This Prospectus may be viewed online at [www.asx.com.au](http://www.asx.com.au). Persons who access the electronic version of this Prospectus should ensure they download and read the entire Prospectus.

### **Defined terms and glossary**

Certain abbreviations and other defined terms used throughout this Prospectus have defined meanings which are set out in section 10 of this Prospectus.

## 2. Letter from the Chairman

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Dear Shareholder,

Magellan Flagship Fund Limited announced to ASX on 8 August 2012 that the Board had resolved to proceed with a one (1) for three (3) pro rata bonus issue of options.

The Board is now pleased to release this Prospectus to facilitate the pro rata bonus issue of approximately 114,948,118 Options<sup>1</sup>.

The Company is undertaking the Bonus Issue for the purposes of:

- providing a benefit to Shareholders through the Bonus Issue of Options for which no application money is payable;
- enabling security holders to choose whether they buy, sell or hold the Company's securities, including the Options, provided that they are listed for quotation by ASX and depending upon securities markets and demand; and
- facilitating the raising of capital, if the Options are exercised, to continue to fund the growth of the Company and its capital resources.

All Shareholders registered as at 5:00pm (Sydney time) on the Record Date, being 10 October 2012, will be entitled to receive one (1) Option for every three (3) Shares held on that date.

### **No application money is payable for the grant of the Options.**

Each Option gives the holder the right to acquire one (1) Share and is exercisable at one dollar and five cents (\$1.05) per Option at any time prior to 5.00pm (Sydney time) on 31 October 2017. If the maximum number of Options issued under this Prospectus is subsequently exercised, the Company will raise approximately \$120.7 million.

Full details and conditions of the Bonus Issue are set out in this Prospectus. You should read this entire Prospectus carefully. Information about the Company is also contained in the Company's 30 June 2012 Annual Report as well as continuous disclosure releases to ASX.

You do not have to take any action or pay any amounts to receive these Options. Please contact your stockbroker with any queries in relation to the trading of the Options. If you do not have a stockbroker, Mark Pittman or Hamish Nairn from Taylor Collison (ph: +61 8 8410 3900) would be pleased to address your queries.

Yours faithfully,



**Richard Warburton AO LVO**  
Chairman

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<sup>1</sup> The precise number of Options issued is subject to rounding and may vary as a result of any Shares purchased (and subsequently cancelled) by the Company during the period from the date of this Prospectus up to the Record Date under the Company's current on-market Share buyback program.

### 3. Important Dates

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Announcement and Appendix 3B, Prospectus lodged with ASIC and ASX	27 September 2012
Shares trade ex-bonus Option entitlements	4 October 2012
Options commence trading on a deferred settlement basis	4 October 2012
Record Date to determine entitlements under the Bonus Issue	10 October 2012
Prospectus sent to Shareholders	17 October 2012
Expected issue and entry of Options on the register and despatch of holding statements	17 October 2012
End of deferred settlement trading	17 October 2012
Normal trading of Options commences on ASX	18 October 2012
Option exercise period	Issue date to 31 October 2017
Expiry Date for Options	5:00 pm (Sydney time) 31 October 2017

The above dates (except the date of this Prospectus) are subject to change and are indicative only. The Company reserves the right to amend this indicative timetable subject to the Corporations Act and the Listing Rules.

For any enquiries concerning the Bonus Issue, please contact Taylor Collison on + 61 8 8410 3900.



## 4. Bonus Issue Overview

Question	Answer	More Information
<b>What is the Bonus Issue?</b>	Shareholders will receive one (1) Option for every three (3) Shares held by them at 5:00pm (Sydney time) on the Record Date of 10 October 2012.	7.2
<b>Who is the issuer of the Options and this Prospectus?</b>	Magellan Flagship Fund Limited (ACN 121 977 844) is the issuer of the Options and this Prospectus.	n.a
<b>What do Shareholders need to do to receive their Options?</b>	Shareholders who are listed on the register of the Company on the Record Date do not need to do anything to receive Options under the Bonus Issue.	n.a
<b>Is an amount payable upon issue of the Options?</b>	As the Options are being issued as part of a bonus issue, nothing is payable upon issue of the Options and no funds will be raised by the Company unless and until the Options are exercised.	7.2
<b>How many Options will be issued?</b>	<p>There will be approximately 114,948,118 Options (subject to rounding). The number of Options issued may vary as a result of any Shares purchased (and subsequently cancelled) by the Company during the period from the date of this Prospectus up to the Record Date under the Company's current on-market Share buyback program.</p> <p>In the calculation of any entitlement, fractions will be rounded down to the nearest whole number.</p> <p>You will receive a holding statement setting out the Options issued to you from the Company's Share Registrar, Boardroom Pty Limited.</p>	7.1
<b>Will the Options be quoted on ASX?</b>	The Company intends that the Options will be quoted on ASX, and will apply to ASX for quotation within 7 days of this Prospectus.	
<b>Are the Options transferable?</b>	The Options are transferable which means that Option holders who do not wish to exercise some or all of their Options may sell or otherwise transfer their Options on ASX once the Options are listed. There is no guarantee that holders will be able to sell their Options or that they will receive a particular price.	7.2
<b>When can the Options be exercised?</b>	The Options are exercisable at any time from their date of issue until 5:00pm (Sydney time) on 31 October 2017.	7.2

<b>When do the Options expire?</b>	The Options expire at 5:00pm (Sydney time) on 31 October 2017.	7.2
<b>What is the Exercise Price of the Options?</b>	Each Option allows the holder to acquire one (1) Share at an issue price of \$1.05 per Option.	7.2
<b>How do Shareholders exercise their Options?</b>	If you would like to exercise your Options you can do so by completing the Application Form and paying \$1.05 per Option to the Company via the payment methods set out in the Application Form.	7.2
<b>Can Shareholders exercise part of their Option holding?</b>	Yes, Option holders should indicate on the Application Form the partial number of Options they wish to exercise and remit the appropriate amount of money for that number of Options. However, the minimum number of Options that can be exercised each time is the lower of 1,000 Options and all the Options held by the Option holder.	7.2
<b>What rights are attached to Shares issued on exercise of the Options?</b>	<p>Shares issued on exercise of Options rank equally with other issued Shares of the Company and will be governed by the Constitution, the Corporations Act and the Listing Rules. The rights attaching to each Share include the right to vote at a general meeting of Shareholders (whether present in person or by any representative, proxy or attorney) and the right to receive dividends.</p> <p>Shares issued upon the exercise of Options will only participate in a future dividend or other shareholder action if such Shares have been issued on or prior to the applicable record date for determining entitlements.</p>	7.2
<b>How can further information be obtained?</b>	Contact Taylor Collison on + 61 8 8410 3900 if you have questions relating to the Bonus Issue. Alternatively, please contact your stockbroker, accountant, solicitor or other financial adviser.	n.a

The above table is a summary only. This Prospectus should be read in full before making any decisions in relation to the Options, including whether or not to exercise your Options.

## 5. Overview of the Company

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### 5.1 Overview

The Company is a listed investment company whose investment portfolio is managed by Magellan Asset Management Limited, the Investment Manager.

The Company's primary investment objective is to achieve strong risk adjusted returns for Shareholders by identifying and investing in an investment portfolio of at least 20 stock exchange listed international and Australian companies assessed to have attractive business characteristics, at a discount to their assessed intrinsic values. The Directors believe that, by investing in such an investment portfolio, superior risk adjusted investment returns may be generated over the medium to long term.

A further objective is to generate attractive returns to Shareholders through dividend payments utilising franking credits and the benefits of the listed investment company structure, although tax is not the primary factor in investment decisions.

A third objective is to minimise the risk of permanent capital loss for Shareholders. While it is difficult to eliminate investment risk completely, the Company believes prudent investment parameters have been established to mitigate the risk of permanent capital loss.

Further information about the Company is set out in the documents specified in section 9.1 below.

### 5.2 Share Price

Official quotation of the Company's Shares on ASX commenced on 19 December 2006.

The highest and lowest recorded market sale prices of the Company's Shares quoted on ASX during the period from commencement of official quotation to the date of this Prospectus were:

	<b>Price</b>	<b>Date</b>
<b>Highest</b>	\$1.04	20 December 2006
<b>Lowest</b>	\$0.40	3 March 2009

The highest and lowest recorded market sale prices of the Company's Shares in the last 12 months prior to the date of this Prospectus are:

	<b>Price</b>	<b>Date</b>
<b>Highest</b>	\$0.935	11 September 2012
<b>Lowest</b>	\$0.615	26 September 2011

The last market sale price of the Company's Shares on ASX on the last day that trading took place in the Shares prior to the date of this Prospectus was \$0.925 on 26 September 2012.

Investors should note that past performance is not necessarily an indicator of future performance.

## 6. Risk Factors

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Investors should be aware that exercising Options involves various risks. There are general risks associated with owning securities in publicly listed investment companies as well as risks specifically related to the Company. The price of securities can go down as well as up due to factors outside the control of the Company.

Some of the key factors which may affect the future earnings of the Company, the market price of its Shares and the price at which the Options may trade include:

- (a) movements in domestic and international share markets, interest rates, foreign exchange rates, and commodity prices;
- (b) changes in general economic conditions and the global security situation, including the possibility of terrorist disturbances;
- (c) the future earnings, net tangible assets per share, and market prices of the securities of the Company and of the companies in which the Company invests;
- (d) changes in regulatory and governmental policy, including changes to the taxation of companies as a result of changes to Australian and foreign taxation laws;
- (e) the liquidity of the market for the Company's Shares and Options;
- (f) the success of the investment philosophy and investment objectives of the Company and the investment processes of the Investment Manager;
- (g) the ability of the Investment Manager to retain its investment management team and the composition of that team;
- (h) the loss of key Directors, or the loss of key staff or directors of the Investment Manager, particularly Chris Mackay or Hamish Douglass;
- (i) the need to obtain alternative investment management services in the event that the agreement between the Company and the Investment Manager is terminated; and
- (j) the Company's business is exposed to operational risks including risks arising from processing error, fraud, system failure and staff skills and performance. Operational risk has the potential to have a material adverse impact on the financial performance as well as the reputation of the Company's current and future businesses and in turn on the Company itself.

The above list of risk factors is not meant to be exhaustive. The above risks, and others not specifically referred to above, may in the future materially affect the financial performance of the Company and the value of an Option issued under this Prospectus and any Share which is issued as the result of the exercise of an Option. Therefore, no assurances or guarantees of future profitability, distributions, payment of dividends, returns of capital or performance of the Company or its securities can be provided by the Company.

If you have doubts as to whether you should exercise your Options and acquire Shares, you should consult with your stockbroker, accountant, solicitor or other financial adviser.

## 7. Terms of the Bonus Issue

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### 7.1 The Bonus Issue

The Bonus Issue is a one (1) for three (3) bonus issue of Options exercisable at \$1.05 per Option. No funds will be raised from the issue of the Options. If all Options issued under this Prospectus are subsequently exercised, the Shares issued would raise approximately \$120.7 million. The Bonus Issue is made to all Shareholders registered at 5.00pm (Sydney time) on the Record Date. The total number of Options which may be issued is approximately 114,948,118, subject to rounding and any adjustment resulting from any Shares purchased (and subsequently cancelled) by the Company during the period from the date of this Prospectus up to the Record Date under the Company's current on-market Share buyback program. In the calculation of any entitlement, fractions will be rounded down to the nearest whole number.

You do not need to take any action to receive the Options. You will be sent a personalised copy of the Prospectus, which will enclose an Option holding statement that will state the number of Options that will be issued to you.

If you would like to exercise your Options you can do so on or before the Expiry Date by completing an Application Form and paying the full amount of the Exercise Price. The Application Form outlines the available Exercise Price payment methods. Your completed Application Form should be returned to the Share Registrar, Boardroom Pty Limited. An Application Form will be provided to Option holders at the same time as Option holding statements are despatched.

### 7.2 Rights Attaching to Options

The terms and conditions of the Options, which are set out in the Terms of Options, are summarised below:

#### *Register*

The Company will maintain a register of holders of Options in accordance with Section 168(1)(b) of the Corporations Act.

#### *Transfer/Transmission*

An Option may be transferred or transmitted in any manner approved by ASX.

#### *Exercise*

An Option may be exercised by delivery to the Company of a duly completed Application Form, signed by the registered holder(s) of the Option, together with payment to the Company of \$1.05 per Option being exercised.

An Option may be exercised on any Business Day from the date of grant of an Option to the Expiry Date (inclusive), but not thereafter.

An Exercise of Options is only effective when the Company has received a duly completed Application Form and the full amount of the Exercise Price in cleared funds. The Application Form outlines the available Exercise Price payment methods.

The minimum number of Options that can be exercised each time is the lower of 1,000 Options and all the Options held by the Option holder.

#### *Dividend Entitlement*

Options do not carry any dividend entitlement until they are exercised. Shares issued on exercise of Options rank equally with other issued Shares of the Company on and from that date. Shares issued upon the exercise of Options will only participate in a future dividend or other shareholder action if such Shares have been issued on or prior to the applicable record date for determining entitlements.

### *Participating Rights*

An Option holder may only participate in new issues of securities to holders of Shares in the Company if the Option has been exercised and Shares allotted in respect of the Option before the record date for determining entitlements to the issue. The Company must give at least seven (7) Business Days' notice to Option holders of any new issue before the record date for determining entitlements to the issue in accordance with the Listing Rules.

### *Adjustments*

If between the date of issue and the date of exercise of an Option the Company makes one or more rights issues (being a pro-rata issue of Shares in the capital of the Company that is not a bonus issue), the Exercise Price of Options on issue will be reduced in respect of each rights issue according to the following formula:

$$NP = OP - \frac{E [P - (S + D)]}{(N + 1)}$$

Where:

- NP** = the new Exercise Price of the Option;
- OP** = the old Exercise Price of the Option;
- E** = the number of Shares into which one Option is exercisable;
- P** = the average market price per Share (weighted by reference to volume) recorded on ASX during the 5 trading days ending on the day before the ex rights date or ex entitlements date (excluding special crossings and overnight sales);
- S** = the subscription price for Share to be issued under the pro rata Issue;
- D** = the amount of any dividend or distribution due but not yet paid on the existing Shares (except those securities to be issued under the pro rata Issue);
- N** = the number of existing Shares with rights or entitlements that must be held to receive a right to one new security under the pro rata Issue.

No change will be made to the number of Shares to which the Option Holder is entitled.

If the Company makes a bonus issue of Shares, the number of Shares issued on exercise of each Option will be increased by the number of Shares which the holder of the Option would have received if the Option had been exercised before the record date for the bonus issue of Shares. No change will be made to the Exercise Price.

### *Reconstructions and Alteration of Capital*

Any adjustment to the number of Outstanding Options and the Exercise Price under a re-organisation of the Company's share capital must be made in accordance with the Listing Rules applying to a reorganisation of capital at the time of the reorganisation.

### *ASX Listing*

The Company must make an application for quotation of Shares issued on exercise of the Options on ASX in accordance with the Listing Rules. Shares so issued will rank equally with other issued Shares of the Company.

## **7.3 ASX Quotation of the Options**

Within 7 days after the date of this Prospectus, the Company will apply to ASX for the Options to be quoted on ASX.

If ASX does not give permission for quotation of the Options within 3 months after the date of this Prospectus (or any later date permitted by law), none of the Options will be issued and if any have been issued, the issue will be void, unless ASIC grants an exemption permitting the issue. It is expected that quotation of the Options will initially be on a deferred settlement basis.

#### **7.4 Bonus Issue and Allotment of Options**

No Options or other securities will be issued on the basis of this Prospectus later than the expiry date of this Prospectus being the date 13 months after the date of this Prospectus.

It is currently anticipated that this issue will occur on 17 October 2012. Holding statements in relation to the Options will be despatched as soon as practicable after the issue of the Options.

It is the responsibility of Shareholders to determine their allocation prior to trading in the Options. Shareholders who sell any Options before they receive their holding statements will do so at their own risk.

#### **7.5 Rights Attaching to the Shares on Exercise of the Options**

The rights attaching to any Shares issued upon exercise of the Options will be governed by the Constitution, the Corporations Act and the Listing Rules.

Shareholders have the right to obtain a copy of the Company Constitution, free of charge, from the Company until the expiry of this Prospectus. To obtain a copy of the Constitution please contact the Company Secretary on +61 2 8114 1888.

The rights attaching to each Share include:

- (a) the right to vote at a general meeting of Shareholders (whether present in person or by any representative, proxy or attorney) on a show of hands (one vote per shareholder) and on a poll (one vote per Share on which there is no money due and payable) subject to the rights and restrictions on voting which may attach to or be imposed on Shares (at present there are none);
- (b) the right to receive dividends, according to the amount paid up on the Share; and
- (c) the right to receive, in kind, the whole or any part of the Company's property in a winding up, subject to priority given to holders of Shares that have not been classified by ASX as "restricted securities" and the rights of a liquidator to distribute surplus assets of the Company with the consent of members by special resolution.

Shares issued upon the exercise of Options will only participate in a future dividend or other shareholder action if such Shares have been issued on or prior to the applicable record date for determining entitlements.

Subject to the Corporations Act and the Listing Rules, Shares are fully transferable and are quoted on ASX.

The Constitution may be varied with the approval of Shareholders in general meeting by special resolution.

#### **7.6 Overseas Shareholders**

The Options are not offered in any jurisdiction in which, or to any person to whom it would be unlawful to make such an offer.

The Bonus Issue is not being extended, and does not qualify for distribution or sale, and the Options may not be issued to a Shareholder with a registered address outside Australia, other than Shareholders with a registered address in New Zealand and any other jurisdiction in which it is lawful to make the offers of Options in accordance with this Prospectus.

#### **Important notice for New Zealand investors**

This offer to New Zealand investors is a regulated offer made under Australian and New Zealand law. In Australia, this is Chapter 8 of the Corporations Act and the Corporations Regulations. In New Zealand, this is Part 5 of the Securities Act 1978 and the Securities (Mutual Recognition of Securities Offerings - Australia) Regulations 2008.

This offer and the content of the Prospectus offer document are principally governed by Australian rather than New Zealand law. In the main, the Corporations Act 2001 and the Corporations Regulations (Australia) set out how the offer must be made.

There are differences in how securities are regulated under Australian law. For example, the disclosure of fees for collective investment schemes is different under the Australian regime. The rights, remedies, and compensation arrangements available to New Zealand investors in Australian securities may differ from the rights, remedies, and compensation arrangements for New Zealand securities.

Both the Australian and New Zealand securities regulators have enforcement responsibilities in relation to this offer. If you need to make a complaint about this offer, please contact the Financial Markets Authority, Wellington, New Zealand. The Australian and New Zealand regulators will work together to settle your complaint.

The taxation treatment of Australian securities is not the same as for New Zealand securities.

If you are uncertain about whether this investment is appropriate for you, you should seek the advice of an appropriately qualified financial adviser.

The offer may involve a currency exchange risk. The currency for the securities is not New Zealand dollars. The value of the securities will go up or down according to changes in the exchange rate between that currency and New Zealand dollars. These changes may be significant. If you expect the securities to pay any amounts in a currency that is not New Zealand dollars, you may incur significant fees in having the funds credited to a bank account in New Zealand in New Zealand dollars.

If the securities are able to be traded on a securities market and you wish to trade the securities through that market, you will have to make arrangements for a participant in that market to sell the securities on your behalf. If the securities market does not operate in New Zealand, the way in which the market operates, the regulation of participants in that market, and the information available to you about the securities and trading may differ from securities markets that operate in New Zealand.

## **7.7 Taxation**

The Directors do not consider that it is appropriate to give Shareholders advice regarding the taxation consequences of being granted Options under this Prospectus as it is not possible to provide a comprehensive summary of the possible taxation positions of all Shareholders. The Company, its advisers and officers, do not accept any responsibility or liability for any taxation consequences to Shareholders in respect of the Bonus Issue.

Shareholders should consult their own professional tax adviser in connection with the taxation implications of the Bonus Issue.

## **7.8 Directors' Discretion**

The Directors may at any time decide to withdraw this Prospectus.



## 8. Effect of the Bonus Issue

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No funds will be raised by the Bonus Issue. The Bonus Issue is not expected to have a material impact on the Company's financial position other than the decrease in cash reserves of approximately \$50,000 resulting from the expenses of the Bonus Issue as set out in section 9.6.

As at the date of this Prospectus the capital structure of the Company, assuming the exercise of all Options, is set out below:

Shares	344,844,354
Options	114,948,118
<b>Fully diluted capital</b>	<b>459,792,472</b>

The Directors intend to apply any funds raised on the exercise of any Options for further investment consistent with the Company's investment objectives as set out in section 5.1.

If all of the Options are exercised by the Expiry Date, the effect on the Company would be as follows (based on the number of Shares on issue as at the date of this Prospectus and assuming no other changes to the Company's capital structure (including any changes during the period from the date of this Prospectus up to the Record Date resulting from the Company's current on-market Share buyback program) or financial position during that period):

- (a) the current number of Shares on issue would increase by approximately 114,948,118 Shares to approximately 459,792,472 Shares; and
- (b) the cash reserves of the Company would increase by approximately \$120.7 million.

The Directors and the Investment Manager do not guarantee that any Options will be exercised or that those funds will be raised.

If the Options are exercised and the funds are raised then the Company will have further capital to invest in accordance with the investment objectives of the Company.

## 9. Additional Information

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### 9.1 Reporting and Disclosure Obligations

The Company is a disclosing entity for the purposes of the Corporations Act and, as such, is subject to regular reporting and disclosure obligations. Broadly, these obligations require the Company to:

- (a) prepare and lodge with ASIC both yearly and half yearly financial statements accompanied by a directors' statement and report and an audit or review report;
- (b) within 14 days after the end of each month, tell ASX the net tangible asset backing of its quoted securities as at the end of that month; and
- (c) immediately notify ASX of any information concerning the Company of which it is, or becomes, aware and which a reasonable person would expect to have a material effect on the price or value of securities in the Company, subject to certain limited exceptions related mainly to confidential information.

Copies of documents lodged at ASIC in relation to the Company may be obtained from or inspected at an office of ASIC.

As a company listed on ASX, the Company is subject to the Listing Rules which require (subject to certain exceptions) immediate disclosure to the market of any information concerning the Company of which it becomes aware which a reasonable person would expect to have a material effect on the price or value of its securities. Information that is already in the public domain in relation to the Company has not been reported in this Prospectus other than that which is considered necessary to make this transaction complete. Copies of documents lodged with ASX in relation to the Company may be downloaded from ASX.

The Company will provide a copy of the following documents free of charge to any person who requests them in the period starting from the date of this Prospectus and ending on the Expiry Date:

- the annual financial report for the year ended 30 June 2012 being the annual financial report most recently lodged with ASIC;
- any half-year financial report lodged with ASIC by the Company after the lodgement of the most recently lodged annual financial report and before the lodgement of the copy of the Prospectus with ASIC; and
- any continuous disclosure notices given by the Company to ASX after the lodgement of the annual financial report referred to above and before the lodgement of this Prospectus with ASIC, being the following documents:

<b>Date</b>	<b>Description of announcement</b>
13/09/2012	Notice of AGM – 2012
18/09/2012	Weekly NTA
25/09/2012	Weekly NTA

This Prospectus is issued pursuant to Section 713 of the Corporations Act. This enables listed disclosing entities to issue a prospectus with more limited disclosure than would be required of a full-form prospectus where the Company has been a listed disclosing entity for a period of at least 12 months.

## 9.2 Interests of Directors in the Company

As at 18 September 2012 the number of Shares in which Directors and their Associates have a Relevant Interest is as follows:

<b>Director</b>	<b>Ordinary Shares</b>
Richard Warburton AO LVO	650,000
John Ballard	1,100,000
Hamish Douglass	750,000
Andy Hogendijk	225,000
Chris Mackay	19,213,299

The Directors and their Associates will receive the same entitlement to the Options as all other Shareholders under the Bonus Issue.

The Company's Independent Non-executive Directors were remunerated by the Company and received the following amounts for the year ended 30 June 2012:

<b>Director</b>	<b>Directors' Fees</b>
Richard Warburton AO LVO	\$85,000
John Ballard	\$62,000
Andy Hogendijk	\$75,000

The Non-Independent Non-executive Directors, Mr Mackay and Mr Douglass, are not remunerated by the Company. Mr Mackay and Mr Douglass are employees of, and remunerated by, the Investment Manager in accordance with the Investment Manager's remuneration policy. Details of Mr Mackay and Mr Douglass' remuneration are set out in the Company's Annual Report for the year ended 30 June 2012.

Other than as set out in this Prospectus, no Director of the Company holds, at the time of lodgement of this Prospectus with ASIC, or has held in the two years before lodgement of this Prospectus with ASIC, an interest in:

- the formation or promotion of the Company;
- the Bonus Issue; or
- any property acquired or proposed to be acquired by the Company in connection with the formation or promotion of the Company or the Bonus Issue.

Other than as set out in this Prospectus, no amount (whether in cash, Shares or otherwise) has been paid or agreed to be paid, nor has any benefit been given, or agreed to be given to any Director or proposed Director of the Company:

- to induce a person to become, or qualify as, a Director of the Company; or
- for services provided by a Director or proposed Director of the Company in connection with the formation or promotion of the Company or the Bonus Issue.

The Investment Manager provides investment management services to the Company under an investment management agreement pursuant to which it is entitled to receive management fees and performance fees. To the extent that any Options are exercised, the management fees and performance fees earned by the Investment Manager may increase.

The Investment Manager is a wholly owned subsidiary of Magellan Financial Group Limited, which, as at 18 September 2012, held 50,198,707 Shares in the Company.

### **9.3 Interests of Professionals**

Except as set out in this Prospectus, no person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or interest of this Prospectus holds at the time of lodgement of this Prospectus with ASIC, or has held in the two years before lodgement of this Prospectus with ASIC, an interest in:

- the formation or promotion of the Company;
- the Bonus Issue; or
- any property acquired or proposed to be acquired by the Company in connection with the formation or promotion of the Company or the Bonus Issue,

nor has anyone paid or agreed to pay or given or agreed to give any benefit to such persons in connection with the formation or promotion of the Company or the Bonus Issue.

### **9.4 Legal Proceedings**

The Company is not and has not been, during the 12 months preceding the date of this Prospectus, involved in any legal or arbitration proceedings which have had or may have a significant effect on the financial position of the Company. As far as the Directors are aware, no such proceedings are threatened against the Company.

### **9.5 Investor Considerations**

If you are in doubt as to the course of action you should follow, you should seek advice on the matters contained in this Prospectus from a stockbroker, solicitor, accountant, solicitor or other financial adviser immediately.

The potential tax effects relating to the Bonus Issue will vary between Shareholders. Shareholders are urged to consider the possible tax consequences of participating in the Bonus Issue by consulting a professional tax adviser.

### **9.6 Expenses of the Bonus Issue**

Expenses of the Bonus Issue including ASIC and ASX fees, share registry costs, printing costs and professional costs are estimated to be approximately \$50,000.

### **9.7 Consents**

Magellan Asset Management Limited has given, and before lodgement of this Prospectus has not withdrawn, its consent to be named in this Prospectus as the Investment Manager of the Company.

Magellan Financial Group Limited has given, and before lodgement of this Prospectus has not withdrawn, its consent to be named in this Prospectus in the form and context in which it is named.

Boardroom Pty Limited has given, and before lodgement of this Prospectus has not withdrawn, its consent to be named in this Prospectus as Share Registrar of the Company in the form and context in which it is named.

Taylor Collison Limited has given, and before lodgement of this Prospectus has not withdrawn, its consent to be named in this Prospectus in the form and context in which it is named.

None of, Magellan Asset Management Limited, Magellan Financial Group Limited, Boardroom Pty Limited or Taylor Collison Limited

- (a) has authorised or caused the issue of the Prospectus;
- (b) has made, or purported to have made, any statement in this Prospectus, except this section; and
- (c) assumes responsibility for any part of this Prospectus except for statements in this section.

Each of these entities to the maximum extent permitted by the law, disclaim any responsibility or liability for any part of this Prospectus other than a statement included in this section.

**9.8 Statement of Directors**

Each Director of the Company has given and has not withdrawn their consent to the issue of this Prospectus and to its lodgement with ASIC under the Corporations Act.

**9.9 Governing Law**

This Prospectus is governed by the laws of New South Wales.

## 10. Definitions and Interpretation

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### 10.1 Defined Terms

In this Prospectus:

**AFSL** means Australian Financial Services License.

**Application Form** means the 'Application for Shares on Exercise of Options'.

**ASIC** means the Australian Securities & Investments Commission.

**Associate** has the same meaning as in the Corporations Act.

**ASX** or **Australian Securities Exchange** means the ASX Limited ACN 008 624 691 or the securities exchange operated by ASX Limited.

**Bonus Issue** means the issue of approximately 114,948,118 Options to Shareholders under this Prospectus.

**Business Day** has the meaning given in the Listing Rules.

**Company** means Magellan Flagship Fund Limited ACN 121 977 884.

**Constitution** means the constitution of the Company.

**Corporations Act** means the *Corporations Act (2001)*(Cth).

**Corporations Regulations** means the *Corporations Regulations (2001)*(Cth).

**Directors** or **Board** means the directors of the Company.

**Expiry Date** means the expiry date of the Options, being 5.00pm (Sydney time) on 31 October 2017.

**Exercise Price** means the amount payable to the Company by the Option holder upon exercise of an Option, being one dollar and five cents (\$1.05).

**Investment Manager** means Magellan Asset Management Limited ACN 120 593 946.

**Listing Rules** means the listing rules of ASX.

**Option** means an option to acquire a Share granted pursuant to this Prospectus.

**Option holder** means a registered holder of an Option.

**Outstanding Options** means any Options which have not been exercised at a particular time.

**Prospectus** means this prospectus, as modified or varied by any supplementary document issued by the Company and lodged with ASIC from time to time.

**Record Date** means 10 October 2012.

**Relevant Interest** has the meaning set out in the Corporations Act.

**Share** means a fully paid ordinary share in the Company.

**Shareholder** means a registered holder of a Share.

**Share Registrar** means Boardroom Pty Limited ACN 003 209 836.

**Terms of Options** means the terms and conditions of the Options.

## 10.2 Interpretation

In this Prospectus the following rules of interpretation apply unless the context otherwise requires:

- (a) words and phrases not specifically defined in this Prospectus have the same meaning that is given to them in the Corporations Act and a reference to a statutory provision is to the Corporations Act unless otherwise specified;
- (b) the singular includes the plural and vice versa;
- (c) a reference to an individual or person includes a corporation, partnership, joint venture, association, authority, company, state or government and vice versa;
- (d) a reference to any gender includes both genders;
- (e) a reference to clause, section, annexure or paragraph is to a clause, section, annexure or paragraph of or to this Prospectus, unless the context otherwise requires;
- (f) a reference to "dollars" or "\$" is to Australian currency; and
- (g) in this document, headings are for ease of reference only and do not affect its interpretation.

Dated: 27 September 2012

A handwritten signature in black ink, appearing to read 'R. Warburton', followed by a period.

**Richard Warburton AO LVO**  
**Chairman**

## 11. Corporate Directory

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### **Directors**

Richard Warburton AO LVO  
John Ballard  
Hamish Douglass  
Andy Hogendijk  
Chris Mackay

### **Company Secretaries**

Leo Quintana  
Nerida Campbell

### **Registered Office**

Level 7, 1 Castlereagh Street  
Sydney NSW 2000  
Telephone: +61 2 8114 1888  
Email: [info@magellangroup.com.au](mailto:info@magellangroup.com.au)  
Fax: +61 2 8114 1800

### **Investment Manager**

Magellan Asset Management Limited  
Level 7, 1 Castlereagh Street  
Sydney NSW 2000  
Telephone: +61 2 8114 1888  
Fax: +61 2 8114 1800  
Email: [info@magellangroup.com.au](mailto:info@magellangroup.com.au)

### **Share Registrar**

Boardroom Pty Limited  
Level 7, 207 Kent Street  
Sydney NSW 2000  
Telephone: +61 2 9290 9600  
Fax: +61 2 9279 0664  
Email: [enquiries@boardroomlimited.com.au](mailto:enquiries@boardroomlimited.com.au)

### **Securities Exchange Listing**

Australian Securities Exchange (ASX)

ASX code: MFF

### **Website**

[www.magellangroup.com.au/mff](http://www.magellangroup.com.au/mff)



