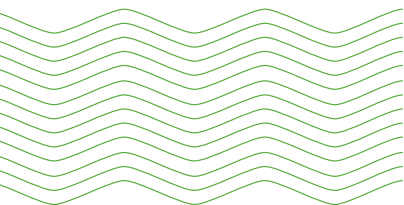




Owner's manual



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Introduction

This booklet has been prepared to help you understand our business at Argo and our past performance, strategy and philosophy together with our future opportunities and challenges.

This document and more information is available at our internet site:
www.argoinvestments.com.au

For a more detailed update on our progress, you should refer to our latest annual report.

We will be happy to send a copy of our most recent annual report to anybody who requests one.

Disclaimer:

The information in this manual is intended as general information only. We are not providing a securities recommendation or financial product advice of any nature. If you are considering making an investment decision, we suggest you seek independent professional financial advice which would take into account your individual circumstances.

“Argo shares allow individual investors, companies, trusts and superannuation funds to invest in a professionally managed investment in a diversified portfolio of Australian shares at a competitive cost.”

“This portfolio generates an income stream for Argo shareholders which is paid to them in dividends, which, over time, have grown faster than inflation. It is also designed to provide long-term capital growth as our investments in Australian companies grow in value.”



Chris Harris
Chairman

“Argo's success has been built on stability, security and consistently strong performance for over 60 years.”



Rob Patterson
Managing Director

Argo: a brief profile

Argo Investments Limited is a listed investment company with its shares traded on the Australian Securities Exchange (ASX code: ARG).

Since its formation over 60 years ago, Argo has built a diversified portfolio of shares, selected for their profitability and long-term growth prospects at very cost-effective prices.

The portfolio is under constant surveillance and is added to as favourable opportunities arise. All companies in which we have a shareholding are monitored closely. If doubts arise over their future long-term performance and profitability, shares in those companies are sold, and the proceeds reinvested in other long-term investments which are considered to be more appropriate.

Our experienced and stable management aims to provide safe, steady and satisfactory progress rather than spectacular rewards in the short term from high-risk investments.

Argo has paid a dividend every year since it was formed in 1946. It has grown to be one of Australia's largest listed

“Argo is owned by, and run carefully for, its shareholders.”

investment companies and is ranked by market capitalisation in the Top 100 companies listed on the Australian Securities Exchange.

To assist in maximising long-term dividend and capital growth, administration costs are kept to a minimum - currently around 0.12% per annum of assets. No upfront, management or exit fees are charged. Investors only incur stockbroking fees when buying or selling Argo shares.

Argo is owned by, and run carefully for, its shareholders.

The Argo philosophy

The business was formed in 1946 by Alf Adamson, a chartered accountant, who was the leading authority on company valuations for many years.

Argo began as a boutique investor for Alf Adamson's clients and for those of a solicitor but quickly gained a reputation for canny investment performance thanks to Adamson's tireless search for undervalued companies. He was helped by a coterie of well-informed legal and stockbroking friends.

Adamson believed true value was about growing profits and income yield - dividend as a percentage of the market price - as the dominant factors in measuring the value of a company, with the safety of capital essential.

Safety is a function of solid asset backing and a sound financial position demonstrated by a strong balance sheet. Good management is an essential component.

Adamson's ongoing contribution to Argo was in the development of a corporate culture based on practical ways of adding value to a long-term growth portfolio.

Argo has only had two chief executives in its long history, ensuring the culture of value continues to work as markets rise and fall. Our Managing Director, Rob Patterson, learned the investment business from Alf Adamson personally.

The executive and management team at Argo continues this proven strategy. The Argo business model is aimed at longevity rather than changing fashionable theories.

While new paradigms and media attention on “hot” stocks attract some investors into the stock market, Argo focuses on a time-tested, value-driven business model.

Argo's intellectual property is based on investment fundamentals. History has shown that fundamentals have a way of eventually providing rich rewards.

How to invest in Argo

Argo is a public company owned by more than 60,000 shareholders.

Argo directors and staff are shareholders too and together own a substantial number of Argo shares. This makes us very motivated to make the company perform with a strong focus on long-term shareholder returns and security.

Investors can become shareholders by purchasing Argo shares through any stockbroker. If you are not familiar with the process of buying shares, the Australian Securities Exchange offers a free advisory service which helps you select a stockbroker.

Some shareholders entrust us with their savings for life. We can be the investment of choice for trustees managing estates or for charitable institutions where safety is paramount. Our aim is to build wealth carefully.

Investment performance

Although safety is the objective, the Argo philosophy has generated a combination of dividend income and capital growth averaging 14.7% compound per year for the 10 years to 30 June 2007, assuming reinvestment of all dividends and entitlements.

This compares with 13.1% for the All Ordinaries Accumulation Index. (Source: Goldman Sachs JBWere).

There has never been a year in which Argo has missed paying a dividend or has not made a profit.

Like our founder, we would never consider trading a good night's sleep for a few extra percentage points of return.

Argo's objective: capital and dividend growth

Argo's objective is to maximise long-term secure returns to shareholders through a balance of capital and dividend growth from a diversified Australian investment portfolio.

Capital growth

The value of Argo shares has increased through long-term capital growth of its portfolio of investments listed on the Australian Securities Exchange.

We concentrate on Australian shares because our research criteria dictates that we closely monitor the performance of each of our investments through regular company visits and contact with management.

This does not mean that we have no international exposure. Our portfolio is weighted towards Australian industrial companies, including banks, many of which have substantial overseas operations.

More than half the portfolio's value is concentrated in our Top 20 stocks - the powerhouse generating the bulk of our dividends. We acquired them over many years and a number of them have paid for themselves many times over through regular dividends and capital growth.

The emphasis on industrial stocks is based on our experience that even during periods of sharemarket

weakness, dividends continue to be received. Diversified and industrial company earnings

have been more sustainable because their businesses tend to be self-perpetuating while resource companies, which are largely concerned with diminishing reserves, need to spend vast amounts of capital on exploration to ensure their future.

“More than half the portfolio's value is concentrated in our Top 20 stocks.”

Understanding Argo's results

Dividend growth

Argo has historically only paid dividends to shareholders out of income received from its investments.

So, to keep increasing dividends, we have needed to increase income continuously from our long-term portfolio. This is achieved by supplementing our dividend income from investments with income from other activities such as sub-underwriting, securities lending and selling call options.

This discipline of needing to increase income prevents us from chasing the market to excessive levels. It also prevents us from investing in shares which appear to offer blue-sky potential but do not have fundamental earnings capacity.

Argo's dividends can also be paid out of realised eligible capital gains with many Australian shareholders benefiting from the capital gains tax discount applicable to them.

Argo's operating profit comes from the various forms of income generated by our investment portfolio. This income is more reflective of the strength of corporate Australia and its ability to pay dividends, rather than any movements in the sharemarket.

Recent changes in accounting standards require us to also include in our profit for the year any realised gains or losses on sale of long-term investments. Being a long-term investor, we do not consider these gains are part of our operating activities and therefore identify them separately from the operating profit.

The unrealised gains or losses on our investment portfolio, which reflect the ongoing movement in the sharemarket values of our investments, do not form part of our profit and are reflected in our balance sheet.

In summary: -
Argo's **operating profit** reflects the income stream earned from our investments, after deducting our running costs.

Profit for the year also includes any realised gains or losses on the sale of long-term investments, which mainly result from takeovers.

"...operating profit reflects the income stream earned from our investments..."

The capital appreciation or depreciation of the ongoing investments is reflected in the movement of the **net**

tangible asset backing of Argo shares (as discussed on page 12) and does not affect our profit.

How Argo invests: research, research, research.

Just as location, location and location are the three most important criteria for buying property, successful share investment depends on research, research and more research.

Argo's investment team makes the day-to-day decisions on buying particular shares. The team includes Argo's executive management plus a number of specialist research analysts.

The research team has two objectives: first, to monitor the core holding of leading stocks and smaller companies; and secondly, to find new, successful investments. We are always seeking new ideas.

The Top 20 we know very well. We communicate with their management regularly, we monitor specialist broking analysts' opinions on them and we keep our ears to the ground, knowing from experience that "where there's smoke there's fire".

Monitoring the Top 20 never ceases. Even though we are proud of our blue-chip core investments, there are no guarantees that will be the case in three months or three years.

Each research analyst is allotted a number of stocks within certain industry groups. Their responsibilities include selecting "best buys" and "best sells" monthly. We rarely sell but the point of the exercise is a discipline to indicate possible concerns.

Before we buy shares in any company we have undertaken considerable research. Besides reports from the major broking houses and investment banks, our analysts travel the country, meeting management on site - in their head offices, looking at factories, warehouses, building projects, retail premises and back offices. They cross check information to build a credible picture. They talk to competitors, employees, clients, suppliers and stockbrokers.

Talking to all players in an industry provides an excellent informal cross-check of the veracity of what is really going on. Who is facing a headwind and why, who has won or lost a major contract and who has to raise capital to conclude a deal, and by when. All affect the long-term performance of the business which is our main concern.

The daily market price of shares is of less concern than our goal of identifying well-run businesses with the potential and ability to generate growing and sustainable profits to fund increasing dividend payments. A short-term weakness in the share price of a solidly performing company presents us with an opportunity to buy.

We only invest in companies after consideration of their management ability. Management can be judged by how they are regarded by their staff, customers and suppliers. Managers who conduct themselves with little regard for their people will often contaminate attitudes and practices throughout the company.

When the investment team meets to discuss a buying opportunity, it has a comprehensive idea of the company's management, business, financial position and prospects for growth. They discuss, challenge and debate with each other to get the best result for shareholders.

The investment team also "analyses the analysts" - keeping track of the mountain of research provided to us by brokers from everywhere.

We have a wide range of good broking contacts. Their information is vital. Their ability to provide us with worthwhile opportunities in new floats or share placements is invaluable.

The bottom line of our research process is: "understand the company and be patient."

Anyone can buy shares; knowing when you need to sell can be even more important and usually harder to achieve. Argo's strategy is to sustain a high level of current market knowledge, maintained by ongoing research and analysis.

Smaller companies: their role

In addition to market leaders, our strategy includes looking to invest in smaller companies with sound management and good prospects for earnings growth in the medium to longer term.

This diversification reduces the risk within the total portfolio.

We have to back our own research and judgement because good smaller companies are

often overlooked by the investment industry until they have reached a critical size. By the time they have become a popular “buy” recommendation, Argo can be well established on the share register with a stake.

Our investment team has a very good track record in selecting quality smaller companies which can provide strong returns as they grow into larger companies or, in some instances, are absorbed by bigger competitors. We began buying shares in Macquarie Bank, for instance,

when it was still a private company and before it evolved into Australia’s largest investment bank.

Each year, in

our experience, some of the companies in which we own shares are taken over. Such takeovers have generated large gains in value for Argo shareholders over the years through an increased share price.

“...takeovers have generated large gains in value for Argo shareholders.”

How Argo grows

The primary way that Argo grows is through capital appreciation of the investment portfolio and through the reinvestment of proceeds of corporate takeovers.

Argo also has a history of making new issues of shares to existing shareholders in addition to the regular Dividend Reinvestment Plan and Share Purchase Plan offers.

As a listed investment company (LIC), Argo has a natural interest in other LICs and how they are faring.

Because we know the investment industry so well and have a long-term focus, we have a liking for other LICs - particularly when their shares are at a big discount to their real value.

Occasionally, LICs can fall out of favour with the investment community for one reason or another.

At such times, LICs can become cheap and when we see companies with quality investment portfolios selling at attractive discounts, our strategy is to accumulate such excellent but unfashionable shares. Occasionally this has led to value-adding mergers.

The value of Argo shares

Every month we publish the underlying value of the company, the Net Tangible Asset backing (NTA) of Argo shares.

NTA is simply the value of what we own divided by the number of shares on issue. Most of what we own is our portfolio of investments which are valued on the market daily.

Argo's shares can trade above or below their NTA.

We prefer to see the shares trading somewhere in the vicinity of the NTA.

When the shares are trading at a price higher than the NTA, it means investors are placing a value on our management expertise and the future performance of our investment portfolio.

Bonus issues

Bonus share issues were traditionally used by Argo as a way of increasing dividends to shareholders.

When the regulators abolished par value for shares some years ago, any tax advantage disappeared - making bonus issues an expensive way of increasing payouts to shareholders. Bonus share issues are now simply more like a share split and, to increase shareholder returns, we prefer to increase the dividend per existing share.

Buy-backs

If a company cannot find reasonable opportunities to invest its surplus capital to increase earnings per share, a better use of the money can be to buy-back its own shares.

Higher earnings per share tends to increase the price of the company's shares.

There can be tax incentives attached to off-market capital buy-backs with high tax-effective franked dividends and low (taxable) return of capital payments. Argo has participated in a number of buy-backs by other companies.

Argo periodically buys its own shares on the market - but only when they are selling well below net tangible asset backing. When we buy Argo shares, we immediately cancel them, thus increasing the underlying value of the remaining shares.

Solid financial position

Argo has no debt. Our constitution allows it but we choose to remain debt-free.

There are little capital demands on a company like Argo. We have no stock in trade or debtors to finance and our desks and computers were paid for long ago.

Rather than a shortage of capital, our problem can be reinvesting funds that regularly

“Argo has no debt.”

flow into the business from takeovers, the Dividend Reinvestment Plan and the Share Purchase Plan.

Good buying is not always possible particularly when the market is running hot. At any time we may have substantial funds waiting to find a suitable home - commonly about 5% of our assets. We like to provide ourselves with plenty of options because the stockmarket can present opportunities quickly which we take up to improve Argo's profitability.

How franking credits work

Argo receives a lot of franked dividends.

“Franked” means tax has been paid so tax does not need to be paid again in Argo’s hands. When our profit is distributed to shareholders by way of dividends, shareholders receive the resulting franking credits.

Argo pays company tax at the rate of 30%, but due to the franked dividends we receive, our effective tax rate is much much lower.

Everybody has a different tax position so it is hard to generalise but for a taxpayer on a personal tax rate of 30%, Argo’s fully franked dividends will be tax-free.

For those on a lower tax rate, say 20%, they may be able to claim a tax refund.

For registered charitable institutions on a zero tax rate, they can claim a cash refund of the franking credits.

For those on the highest marginal tax rate of 46.5%, they will need to pay tax of 16.5% on the grossed-up dividend payment.

“...useful in managing a tax-effective income strategy.”

This is a necessarily simple example to illustrate the concept of franking credits only

and we recommend you seek professional tax advice appropriate to your particular circumstances.

Franking credits can be very useful in managing a tax-effective income strategy for any individual, company or superannuation fund.

Argo’s board of directors

The board monitors and guides the affairs of Argo. It sets the direction and standards.

Responsibility for managing and progressing the profitable operation of the business is delegated to the managing director.

The policy of the board is to have a majority of independent, non-executive directors and for a separation of the roles of chairman and chief executive officer.

The board maintains an appropriate mix of skills and experience. Board vacancies are filled by the board identifying candidates with appropriate expertise and appointing the most suitable person. Directors, other than the managing director, must be reappointed by shareholders within three years.

An Audit Committee of three non-executive directors considers matters relating to financial affairs, internal and external audits and matters referred to it by the board.

A Corporate Governance Committee of three non-executive directors recommends to the board any opportunities to further enhance our corporate governance procedures.

A Nomination and Remuneration Committee of three non-executive directors advises the board on performance, remuneration and succession planning for the managing director and senior executives.

To ensure that directors only deal in Argo shares at appropriate times, they can only buy or sell shares in the six weeks following the half-yearly and annual profit announcements and the Annual General Meeting or with the prior consent of the board.

Other features of Argo

1. Compound earnings

An investment in Argo gives shareholders the opportunity to participate in compound growth through their earnings earning earnings.

Dividend reinvestment plan

Argo's Dividend Reinvestment Plan (DRP) allows eligible shareholders to plough their dividends back into the company.

The DRP enables dividends to be taken as extra shares - usually at a small discount from the market price and with no brokerage fees.

Share purchase plan

From time to time, Argo offers existing eligible shareholders the opportunity to "top-up" their shareholdings through the Share Purchase Plan (SPP).

This plan allows Argo to raise additional capital for investment opportunities without brokerage charges for eligible shareholders.

In any 12-month period, the SPP can allow eligible shareholders to buy up to \$5,000 worth of new shares, usually at a small discount from the market price.

2. Instant diversity

Argo shares can be a way for beginners, passive investors and DIY super funds to enter the sharemarket. Through Argo, shareholders obtain a spread of investments in some of Australia's many listed companies without the need for experience in managing a portfolio.

Our shareholders include professional people, many of whom simply don't have the time to monitor their investments, retirees and younger people.

Argo shares provide a highly diversified portfolio in a single investment.

Tax records are simplified as shareholders receive a franked dividend from just one company and only need to do one set of capital gains tax calculations.

3. In good times & bad

Argo can benefit whether the share market is rising or falling.

Because we invest for the long term, we can benefit from a sinking stock market much as a regular purchaser of petrol who benefits by only buying when the price is down. So when the market plummets - as it will from time to time - we are busy identifying value-for-money buying opportunities.

In a rising market it is usually more difficult to buy well. Although gratifying to watch our investments reach new highs, attractive purchasing opportunities can become scarce.

We see ourselves as vigilant partners in the many excellent businesses in which we are invested. Argo's success is governed by the long-term progress of these companies rather than by the day-to-day movements of their shares.

Because we take a long-term view, short-term share price changes are meaningless for us, except to the extent that they offer us an opportunity to increase our ownership at attractive prices.

Other features

4. Peace of mind

Emotions and investment are not a good mix. As many investors discovered during the collapse of the high-tech stocks, the sharemarket can generate powerful emotions that can destroy peace of mind.

Bull markets (going up strongly) can be exhilarating, giving investors the delusion that they can do no wrong. They feel they will always make money and find it irresistible to stay out of the market. The result too often, however, is finding themselves stuck with shares that may take years to reach the fancy price paid in a moment of euphoric buying, if the company survives at all.

Bear markets (falling) can spook investors, making them very uncomfortable. Not only do they feel they've got it wrong, they often experience embarrassment and shame. They find it difficult to remain invested and are tempted to cut and run.

Powerful emotions and the stock market are not a good mix for individual investors. Argo, with its decades of experience, has seen markets rise and fall, so unnecessary emotion is removed from our investment decisions.

5. No upfront or ongoing fees

There are no upfront, ongoing or exit fees payable to a manager. When you buy Argo shares, only stockbroker charges apply.

6. Minimal management costs

Argo returns are enhanced by extremely low management costs.

Our costs represent around 0.12% per annum of average assets at market value and there are no management or performance fees. That's around 12 cents for every \$100 managed.

Some of our competitors charge their investors management fees that are ten times our costs of administration. But then, they are often owned by financial institutions whose major objective is to maximise the profit they make from the fund.

The higher the management costs - the better for them - because the profitability of the manager depends upon it.

As an Argo shareholder, you own the management company, as well as the assets. We view the company, Argo, not as the ultimate owner of our shareholdings in the various businesses in which we have invested, but rather as a conduit through which our shareholders own the assets.

The future

You can be sure that the successful philosophy we have employed in running Argo to date will continue into the future.

“While we will pursue our conservative approach, our portfolio will continue to evolve to take advantage of the opportunities generated by new industries. However, more often than not, existing major companies will adapt to and potentially lead in these new areas of business.”



Rob Patterson
Managing Director

“Our portfolio will also take advantage of the globalisation of the world economy by continuing to invest in Australian companies that are taking their businesses to world markets.”



Chris Harris
Chairman



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