

9 August, 2004

Dear Shareholder,

The Directors of Argo Investments Limited, a leading Australian listed investment company with total assets of \$2.2 billion, are pleased to advise a record profit for the year ended 30 June, 2004.

### **Financial Result**

Net profit after tax increased 5.4% to a record \$78.6 million compared with \$74.6 million in the previous year. However, last year's result included \$3.2 million of de-merger dividends and \$5.4 million of special dividends, whereas in the current year only \$1.6 million of special dividends and no de-merger dividends were received.

The underlying net profit increased 16.7% this year, after excluding the impact of de-merger and special dividends.

Other factors contributing to the record 2003-2004 profit performance included:-

- strong growth in income from ordinary dividends, interest and trust distributions, including approximately 3 months income from the \$195 million of capital raised in the 1 for 10 rights issue at \$4.40 per share in March 2004;
- the management expense ratio for the year being maintained at less than 0.2% of average assets at market value.

This result reflects the analytical strength and disciplined approach utilised by management in evaluating and selecting long-term investment opportunities. The policy of investing only in Australian companies enables our investment analysts to maintain a strong and ongoing contact with those companies in which we invest.

Earnings per share was steady at 18.7 cents reflecting the dilution impact of the March 2004 rights issue.

### **Dividends**

Following an increase of 0.5 cent per share in the interim dividend, the Directors have declared the following fully franked dividends payable on the capital enlarged by the March 2004 rights issue:-

- a steady final dividend of 8.5 cents per share;

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- a special dividend of 0.5 cent per share (last year 0.5 cent per share);
- a 0.5 cent per share LIC capital gain dividend (last year 1 cent per share). This dividend will give rise to an attributable part of 0.71 cent per share, which will allow eligible shareholders to claim a portion of the attributable part as a deduction in their 2004/2005 income tax returns.

These dividends, totalling 9.5 cents per share, fully franked at the 30% tax rate, will be paid on 8 September, 2004 and absorb \$43.0 million. The shares are expected to trade ex-dividend on 17 August, 2004 and the record date to establish shareholder dividend entitlements is 23 August, 2004.

Total fully franked dividends for the year amount to a steady 18 cents per share, resulting in \$77.6 million being distributed to shareholders.

### **Dividend Reinvestment Plan**

The Company's Dividend Reinvestment Plan (DRP) will operate for the dividends totalling 9.5 cents per share payable on 8 September, 2004.

The Directors have resolved that the shares will be allotted at a discount of 2.5% from the market price of Argo shares, as defined by the DRP, to eligible shareholders participating in the DRP.

Eligible shareholders, being those shareholders with registered addresses in Australia or New Zealand, who wish to participate in the DRP and who have not already lodged their intention, must do so by 23 August, 2004. Any variation to an existing election must be lodged by this date.

### **Net Asset Backing**

Net tangible asset backing per share rose to a record \$4.84 as at 30 June, 2004, compared with \$4.29 as at 30 June, 2003 after adjusting for the 1 for 10 rights issue at \$4.40 per share in March 2004.

As a long-term equity investor, Argo does not intend to dispose of its long-term investment portfolio. However, if estimated tax on unrealised portfolio gains were to be deducted, the net tangible asset backing per share would be \$4.31 as at 30 June, 2004 compared with \$3.91 as at 30 June, 2003 after adjusting for the rights issue.

### **Investment Portfolio Performance**

The Company's widely diversified portfolio of investments in approximately 170 Australian publicly listed corporations produced a total return of 17.7% (as measured by the movement in net asset backing per share plus dividends reinvested) for the year ended 30 June, 2004, compared with 22.3% from the ASX All Ordinaries Accumulation Index. The higher Index performance for the year reflects the particularly strong rise in prices of energy and natural resource stocks, areas where we have not traditionally had a market weight exposure due to their historic price and profit volatility.

Argo's long term investment philosophy dictates that our portfolio performance should be considered over longer periods of time. Using the same measurement criteria as described above, the following longer term annual compound total returns to 30 June, 2004 were achieved:-

	<b>Argo</b>	<b>All Ordinaries Acc. Index</b>
5 years	10.8% p.a.	8.6% p.a.
10 years	12.9% p.a.	9.6% p.a.

A list of the Company's principal investments as at 30 June, 2004 is set out below:-

	<b>Market Value</b>
	<b>\$M</b>
Macquarie Bank Ltd.	129.2
Milton Corporation Ltd.	109.3
National Australia Bank Ltd.	94.6
Australia and New Zealand Banking Group Ltd.	77.8
Telstra Corporation Ltd.	73.9
Wesfarmers Ltd.	71.3
Westpac Banking Corporation	63.0
Australian United Investment Co. Ltd.	61.4
BHP Billiton Ltd.	56.1
St. George Bank Ltd.	53.0
Commonwealth Bank of Australia	52.5
Foster's Group Ltd.	33.9
Amcor Ltd.	33.0
AMP Ltd.	31.9
Insurance Australia Group Ltd.	26.7
Rinker Group Ltd.	25.9
Australian Gas Light Company	25.4
Rio Tinto Ltd.	24.3
Coles Myer Ltd.	23.8
Orica Ltd.	22.1

### **Share Purchase Plan**

The Share Purchase Plan (SPP) will be offered in September 2004 to allow eligible shareholders the opportunity to purchase additional Argo shares up to a maximum value of \$2,500. The maximum amount that a shareholder can invest in any twelve month period pursuant to the SPP is \$5,000 and it is the Directors' current intention to offer the SPP to shareholders each half-year at which time up to \$2,500 can be invested.

The record date to establish SPP entitlements is 23 August, 2004 and the shares are expected to trade ex the SPP entitlements on 17 August, 2004.

An application form advising the issue price and other relevant information will be mailed to all eligible shareholders on 8 September, 2004 at the time of the payment of the abovementioned dividends. The offer will close on 1 October, 2004.

Some features of the SPP are as follows:

- Participation in the SPP is entirely at the option of shareholders and is open to all shareholders who hold shares before they trade ex the SPP entitlement and are named in Argo's share register on the relevant record date, other than shareholders who have

registered addresses in countries outside Australia where regulatory requirements make participation by the shareholder unlawful or impracticable. The Directors have determined that shareholders whose registered addresses are outside Australia and New Zealand will be unable to participate in the SPP. Entitlement to the SPP is non-renounceable.

- Shares will be offered at a discount of 2.5% from the market price of Argo shares, as defined by the SPP.
- No brokerage or other transaction costs will be payable by shareholders in respect of the application for, and allotment of, shares purchased through the SPP.

### **Current Outlook**

Argo continues to be in a strong financial position with no debt and \$281 million available for investment at 30 June, 2004.

Although both the Australian and global economic outlooks appear favourable at the present time, going forward domestic and international economies may be influenced by higher energy and mineral costs, together with interest rate and currency pressures.

Management will therefore continue to take a cautious approach. The current company reporting period is being closely monitored with a view to identifying further attractive investment opportunities.

### **Annual General Meeting**

The Annual General Meeting will be held at the Adelaide Convention Centre, North Terrace, Adelaide on Thursday 28 October, 2004 at 10.00 a.m.

### **Information Meetings**

For the benefit of shareholders unable to attend the Annual General Meeting in Adelaide, informal meetings will be held in Melbourne on Friday 29 October, 2004 at 10.00 a.m. at the Australian Stock Exchange Ltd. Theatre, 530 Collins Street, Melbourne and in Sydney on Monday 1 November, 2004 at 10.00 a.m. at the AAP Centre Theatre, 259 George Street, Sydney.

Yours faithfully,



R.J. Patterson  
Managing Director