7 February, 2011

Argo Investing in Australia

Argo Investments Limited
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Dear Shareholder,

The Directors of Argo Investments Limited ("the Company"), a leading Australian listed investment company with total assets of $3.9 billion, are pleased to report an improved result for the six months ended 31 December, 2010, a summary of which follows:-

*	Operating profit after tax	$90.0 million
*	Operating earnings per share based on above	14.8 cents
*	Interim fully franked dividend per share	13.0 cents
*	Net tangible asset backing per share at balance date	$6.28

Financial Result

Operating profit after tax rose 25.6% to $90.0 million, compared with $71.6 million in the previous corresponding half-year.

Dividend income strengthened during the period as a number of companies increased their dividend payments due to improved earnings. In addition, positive one-off transactions included the dividend received when DuluxGroup Ltd. demerged from Orica Ltd. and the Woolworths Ltd. share buy-back dividend. Also, the merger of Milton Corporation Ltd. and Choiseul Investments Ltd. resulted in the early declaration of their interim dividends and contributed to Argo's improved first half result. These interim dividends normally would have been accounted for in the second half of the financial year.

The Company welcomed the improvement in investment revenue, which was also assisted by a strong recovery in interest income, due to a larger cash balance which benefited from higher interest rates.

Operating earnings per share was 14.8 cents, compared with 12.2 cents in the previous corresponding half-year.

The Company has previously advised that it adopted Accounting Standard AASB 9 *Financial Instruments* as at 7 December, 2009. After that date, realised gains on the sale of long-term investments are accounted for through the capital profits reserve, rather than as part of profit. Therefore, for the half-year under review, no realised gains on the sale of long-term investments are included as profit whereas $11.1 million was included in the previous corresponding period, which resulted in an operating profit after net realised gains on the sale of long-term investments for the half-year ended 31 December, 2009 of $82.7 million.

As Argo is a long-term investor, the Directors are pleased that it is now no longer a requirement to include realised gains on the sale of long-term investments as profit and believe that the presentation allowed by Accounting Standard AASB 9 *Financial Instruments* better reflects the Company's investment objectives.

Interim Dividend

The Directors have declared an improved fully franked interim dividend of 13 cents per share, compared with 12 cents per share in the previous corresponding period.

The fully franked interim dividend, totalling $79.2 million, will be paid on 7 March, 2011. The shares will trade ex-dividend on 15 February, 2011 and the record date to establish shareholder dividend entitlements is 21 February, 2011.

Dividend Reinvestment Plan

The Company's Dividend Reinvestment Plan (DRP) will operate for the dividend payable on 7 March, 2011.

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 21 February, 2011. Any variation to an existing election must also be lodged by this date.

Net Asset Backing

Reflecting the improved performance in equity markets over the reporting period, net tangible asset backing per share was $6.28 as at 31 December, 2010 compared with $5.82 as at 30 June, 2010.

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 was to be deducted, the net tangible asset backing per share would be $5.65 as at 31 December, 2010 compared with $5.32 as at 30 June, 2010.

Investment Portfolio

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

For the last 10 years, Argo's investment portfolio has produced a compound annual return of 9.8% as measured by the movement in net asset backing per share plus dividends paid. This return is after payment of all administration costs and tax and compares with a compound annual return of 8.7% from the S&P ASX All Ordinaries Accumulation Index, which makes no allowance for these items.

During the period, the larger equity purchases were $13.1 million in Australian United Investment Company Ltd., $12.8 million in Australia and New Zealand Banking Group Ltd., $10.2 million in BHP Billiton Ltd., $6.0 million in Asciano Group, $5.5 million in Woodside Petroleum Ltd. and $5.4 million in Washington H. Soul Pattinson and Company Ltd. We also received shares in DuluxGroup Ltd. following its demerger from Orica Ltd. and additional shares in Milton Corporation Ltd. following its merger with Choiseul Investments Ltd.

A few smaller holdings were sold and we reduced our holding in Macquarie Group Ltd. Takeovers were accepted for our holdings in Aevum Ltd., Centennial Coal Company Ltd., Corporate Express Australia Ltd., Dexion Ltd., Intoll Group and Westpac Office Trust.

A list of the Company's principal equity investments as at 31 December, 2010 is set out below:-

	Market Value $M
BHP Billiton Ltd.	332.0
Rio Tinto Ltd.	204.6
Westpac Banking Corporation	192.0
Wesfarmers Ltd.	147.6
Milton Corporation Ltd.	133.3
Australian United Investment Company Ltd.	132.7
Australia and New Zealand Banking Group Ltd.	127.4
Commonwealth Bank of Australia	124.3
Macquarie Group Ltd.	123.9
National Australia Bank Ltd.	118.1
Woolworths Ltd.	109.6
Origin Energy Ltd.	90.0
Telstra Corporation Ltd.	89.3
Woodside Petroleum Ltd.	72.4
QBE Insurance Group Ltd.	63.4
Orica Ltd.	51.4
Computershare Ltd.	48.0
Santos Ltd.	47.5
Diversified United Investment Ltd.	43.0
Foster's Group Ltd.	42.3

Outlook

Despite a volatile year, the Australian market finished the 2010 calendar year on a positive note. The resource sector and associated industries performed particularly strongly with the re-emergence of the two speed domestic economy becoming evident. The additional stimulus in the U.S. and continued robust growth from China led to strong upward movements in both commodity prices and the Australian dollar. While fears of a double dip recession in the U.S. have receded, uncertainty over European sovereign debt continues to simmer.

A series of recent natural disasters, including the floods and Cyclone Yasi, have ravaged the eastern states of Australia and will impact the prospects for certain sectors of the economy during 2011. Economists are revising down their economic growth forecasts for the nation and the direct costs of cleaning up and rebuilding will be significant. Flow on effects are likely to include some food inflation and labour scarcity as rebuilding competes with the continuing mining and LNG construction booms. The net effect is likely to be inflationary and may lead to some longer term policy challenges for the Reserve Bank.

Corporate activity continued to recover in the second half of calendar 2010 and is likely to increase during 2011. If markets remain steady, we anticipate that there will be an increase in the number of companies applying to list on the Australian Securities Exchange.

We look forward to continued modest growth in Australian corporate profits and dividends in the period ahead. With current cash reserves of about $225 million and no debt, Argo remains well placed to take advantage of opportunities as they present themselves in the share market.

Share Purchase Plan

The terms and conditions of a Share Purchase Plan will be announced to the Australian Securities Exchange shortly and the offer documents mailed to shareholders on 7 March, 2011.

Yours faithfully,
ARGO INVESTMENTS LIMITED

C.L. Harris	J. Beddow
Chairman	Chief Executive Officer