



ARGO

ARGO GROUP LIMITED
ANNUAL REPORT AND ACCOUNTS

FOR THE PERIOD 14 FEBRUARY 2008 TO 31 DECEMBER 2008

MANAGEMENT AND ADMINISTRATION

DIRECTORS:

Michael Kloter (appointed 14 March 2008)
Kyriakos Rialas (appointed 14 March 2008)
Andreas Rialas (appointed 14 March 2008)
David Fisher (appointed 11 November 2008)
Kenneth Watterson (appointed 11 November 2008)

REGISTERED OFFICE:

33-37 Athol Street
Douglas
Isle of Man
IM1 1LB

PRINCIPAL BANKER:

Laiki Bank
12 Hay Hill
London
W1J 8NR

AUDITORS:

KPMG Audit LLC
Heritage Court
41 Athol Street
Douglas
Isle of Man
IM99 1HN

**NOMINATED ADVISER AND
STOCKBROKER:**

Panmure Gordon (UK) Limited
Moorgate Hall
155 Moorgate
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CONTENTS

Directors' report (including Chairman's statement)	3
Statement of directors' responsibilities in respect of the consolidated financial statements	9
Directors	10
Independent auditors' report	11
Consolidated income statement	12
Consolidated balance sheet	13
Consolidated statement of changes in shareholders' equity	14
Consolidated cash flow statement	15
Notes to the consolidated financial statements	16

DIRECTORS' REPORT

The directors present their report and the audited accounts of the Group for the period ended 31 December 2008.

Principal activity

The principal activity of the Company is that of a holding company and the principal activity of the wider Group is that of an investment management business.

Results, review of the business and future prospects

The Consolidated Income Statement is set out on page 12. The Chairman's statement includes information about the Group's business and performance during the period and an indication of future prospects.

Chairman's statement

Key Highlights for the period 14 February 2008 to 31 December 2008

- Revenues of USD16.6 million
- Operating profit of USD9.3 million
- Returns from the Group's two flagship funds each dropped by -39.86% and -26.88% last year though this was in line with emerging market benchmarks
- The Argo Global Special Situations Fund was voted best Single Manager in Emerging Markets by HFMWeek magazine in May 2008
- The successful launch of a new fund to profit from fresh market opportunities
- The acquisition of the Argo business and subsequent admission to AIM
- Successful completion of the development of two retail parks in Romania and further progress on a commercial development project in Ukraine

Introduction

Argo is pleased to report steady revenues and operating profits against an uncharacteristically difficult trading environment. The Company was incorporated in February 2008 in the Isle of Man and, having acquired the Argo business, successfully listed on the AIM market in November 2008.

Argo's primary business is to deliver a diversified approach to investing in emerging markets. Its investment objective is to provide investors with absolute returns in the five funds that it manages by investing in, inter alia, fixed income, special situations, local currencies and interest rate strategies, private equity, real estate, quoted equities, high yield corporate debt and distressed debt, although not every fund invests in each of these asset classes. Argo has a performance track record dating back to 2000.

Financial performance

For the period between 14 February 2008 (date of incorporation) to 31 December 2008, the Group generated revenues of USD16.6million with management and performance fees accounting for USD9.0 million and USD7.5 million, respectively. The Group had an operating profit of USD9.3 million and profit after tax of USD6.8 million. Earnings per share were USD0.09.

2008 has been a year of two halves, with the first six months characterised by high growth in terms of performance fees and assets under management ("AUM"), which rose to above USD1 billion. Conversely, the second half of 2008, especially following the collapse of Lehman Brothers on 15 September, saw redemptions, a fall in management fees and greatly reduced performance fees. Argo's AUM was USD664.4 million as at 31 December 2008.

Market background

The second half of 2008 was a period of extreme turbulence for global financial markets, which went into a tailspin following the collapse of Lehman Brothers in mid-September. The challenging market conditions had an adverse effect on the hedge fund industry, which was dealt a double blow in the form of falling investment returns and reduced access to leverage.

DIRECTORS' REPORT (continued)

Market background (continued)

According to industry reports, hedge funds suffered their worst ever returns and significant asset outflows last year. Virtually all hedge funds focused on emerging markets reported significant losses last year while some were forced to liquidate their portfolios altogether. The HFRX Total Emerging Markets Index was down 25.08% in 2008 while the Dow Jones World Emerging Markets Index was down 56.33 % over the same period.

While the crisis did not originate in emerging markets, nevertheless these economies suffered massive liquidity withdrawals with investors repatriating capital from markets traditionally perceived as riskier. However, we believe that many emerging market economies have relatively strong economic fundamentals, putting them in a position to stage a recovery from the current market deterioration. Most emerging market countries have in recent years improved their current account surpluses, built healthy foreign exchange reserves and run comparatively low debt/GDP ratios. So far in 2009, emerging markets have shown their ability to rebound faster than many developed markets.

Operational review

The Group successfully acquired the Argo businesses from its previous holding company, Absolute Capital Management Holdings Limited on 13 June 2008. At the time of the acquisition, the Company undertook to list the Group on AIM within six months from the date of the acquisition. This commitment was made in order to offer existing shareholders greater liquidity and transparency. The Company kept to its undertaking despite the turmoil in the markets and floated on AIM on 18 November 2008.

In May 2008, the Argo Global Special Situations Fund SP ("AGSSF"), which is a segregated portfolio of the Argo Capital Investors Fund SPC, was voted "Best Single Manager in Emerging Markets" by HFMWeek magazine and nominated "Best Event Driven Hedge Fund on a Risk Adjusted Basis" by Hedge Funds Review magazine. The Argo Fund Limited ("TAF") was nominated "Best Fixed Income Hedge Fund on a Risk Adjusted Basis" over the same period by Hedge Funds Review magazine.

To enhance its product offering and satisfy investor demand for a diversified fund, Argo launched its fifth fund during the period. The Argo Multi Strategy Fund ("AMSF") was launched in September 2008 as a multi-asset class portfolio to give investors further diversification and greater exposure to Argo's best ideas and competencies. It is the Company's intention to rename the Fund the Argo Distressed Credit Fund to better reflect its current investment mandate. Although the Fund began trading at a difficult time, it was well positioned to capitalise on the many dislocated credit opportunities that emerged in the later part of last year.

To protect the interest of all TAF shareholders against the significant deterioration in global markets during the second half of 2008, the Fund's board of directors decided to implement a 'gate' on redemptions effective 19 November 2008. Under the terms of the gate, the Fund would meet redemption requests amounting to 10% of TAF's total number of shares at each next dealing date until all redemptions are satisfied. By deferring redemptions, the Company was able to provide liquidity to investors while protecting the Fund from engaging in forced selling, which would have only served to diminish returns further.

In a further prudent step to protect the interest of all investors, AGSSF's board of directors initially took steps to defer redemptions facing AGSSF. In line with the Fund's Offering Memorandum, a gate can be triggered when redemption requests exceed 20% of the Fund's total number of shares. Under the terms of the gate, which was implemented on 27 January 2009, AGSSF would satisfy redemption requests amounting to 20% of its net asset value ("NAV") at the first dealing date and 10% thereafter.

However, following the announcement of AGSSF's gate, further redemption requests amounting to around 30% of the Fund's assets were received. As a result, the Fund's board of directors approved the launch of a new subsidiary, AGSSF Holdings Limited ("AHL") to hold approximately 40% of AGSSF's existing net assets. This represents assets that are currently more difficult to liquidate. Redemptions received would be satisfied in a mixture of cash and shares in AHL. AHL is managed by Argo Capital Management (Cyprus) Limited, a subsidiary of Argo.

The directors of both Funds, in coordination with the administrator HSBC, have written to the relevant fund investors providing them with detailed information pertaining to the implementation of the gates and the creation of AHL.

ARGO GROUP LIMITED

DIRECTORS' REPORT (continued)

Fund performance

Performance across the range of Argo Funds was mixed last year. All the Funds performed well in the first half of 2008 but experienced losses in the second half of the year comparable with the rest of the industry. Argo reacted swiftly to the market dislocation by rebalancing the portfolios, holding onto the Funds' low leveraged assets that were expected to rebound faster and the higher beta assets that were oversold. The Group also increased efforts to generate interest in the Funds' less liquid assets. Additionally, the Company repositioned the Argo Funds so as to allow them to capitalise on the market's dislocation and eventual recovery.

AMSF, a new fund which began trading in October 2008, performed relatively well. Despite making some investments prior to the October collapse, the Fund was able to take advantage of the many dislocated credit opportunities that the market threw up in the later part of 2008.

Argo Funds

Fund	Launch date	2008 Year total	Since inception	Annualised performance	Sharpe ratio	Down months	AUM
		%	%	CAGR %			US\$m
The Argo Fund	Oct-00	-39.86	92.37	9.24	0.47	10 of 99	187.7
Argo Global Special Situations Fund	Aug-04	-26.88	21.47	5.22	0.18	11 of 53	237.5
Argo Multi-Strategy Fund	Oct-08	0.49	0.49	2.15	-0.14	1 of 3	13.3
Argo Real Estate Opportunities Fund	Aug-06	-2.13	27.69	10.6	n/a	6 of 30*	152.7
Argo Capital Partners Fund	Aug-06	-37.51	41.67	16.1	n/a	n/a	73.16
Total							664.36

* NAV only officially measured twice a year, March and September.

The Argo Real Estate Opportunities Fund Limited ("AREOF") continued to make progress on its three main retail centre developments last year. During the year, the construction of the 4,000 sqm extension to the original 47,000 sqm European Retail Park in Sibiu, Romania, was completed and leased to international retailers with a further 30,000 sqm extension undertaken, subsequently completed and re-launched in November 2008. The construction of the Suceava Shopping City joint venture development project in Suceava, Romania, was also completed on schedule and on budget in April 2008. In addition, Phase 1 of the 83,000 sqm hypermarket-anchored retail park and shopping center, Riviera Shopping City in Odessa, Ukraine, began construction in January 2008. The development is 70% complete and on course to finish between the first quarter and summer of 2009.

As at 30 September 2008 (the most recent audited year end accounts), AREOF reported an adjusted NAV of EUR122.6 million and an annual return of -2.13%.

Meanwhile, the Argo Capital Partners Fund experienced a substantial write down in the value of its assets last year, reporting a negative return of -37.51% (gross) for the year ended 31 December 2008. Nevertheless, the Fund is still performing well and its underlying assets remain robust. Since 31 August 2007, the Fund was fully funded at \$54m and closed to new subscriptions.

DIRECTORS' REPORT (continued)**Outlook**

While the performance of the Funds was negatively affected in the last six months of last year, the Group hopes to make up lost ground as and when credit markets begin a sustained recovery. Since October 2008, Argo has been focused on rebalancing the portfolios to allow the Funds to participate in the new credit opportunities that are emerging in the emerging markets space as a result of the global market dislocation.

In common with most other investment management businesses, Argo's principal cost driver is compensation of permanent employees. In a move to trim operating costs, the Company has reduced staff salaries by 15% as of April 2009 and will continue to monitor the expense base closely.

In a further move to cut costs, the Company closed its Sao Paulo office in the fourth quarter of 2008. Investments in Latin America will continue to be covered by the Group's investment teams operating out of its Buenos Aires and London offices.

In order to capitalise fully on the new opportunities in the market, the Group has dedicated AMSF to investment in stressed and distressed credit opportunities. The positive performance across AMSF, TAF and AGSSF so far in 2009 has also encouraged the Group to resume its asset raising activities. In order to assist this effort, the Company is contemplating investing a substantial part of its liquidity into the Group's Funds.

In February and March 2009, TAF and AGSSF successfully realised two of their less liquid investments with positive results, namely, an Argentine distressed position that came out of bankruptcy and the exercise of a capital protection clause of an investment in preference shares of a Nigerian bank. In April 2009, a further investment was realised through the funds' position in one of Ukraine's largest banks.

We expect to continue the process of moving the Group on from the events of last year and focus on delivering attractive returns to investors while rebuilding assets under management.

Directors and their interests

The directors, who served throughout the period and held office at 31 December 2008, along with their beneficial interests (including those of connected parties) in the ordinary shares of the Company are as follows:

	31 December 2008
	Ordinary shares
	No.
Michael Kloter (appointed 14 March 2008)	-
Kyriakos Rialas (appointed 14 March 2008)	8,768,363
Andreas Rialas (appointed 14 March 2008)	15,638,146
David Fisher (appointed 11 November 2008)	-
Kenneth Watterson (appointed 11 November 2008)	-

Kyriakos Rialas' interest is represented by the shareholding of Wisynco Investments Inc., the beneficiaries of which include Kyriakos Rialas and his family.

Andreas Rialas' interest is represented by a direct interest in 460,833 shares and the holding of 15,177,313 shares by Farkland Ventures Inc. (a company belonging to Rialco Trust) the beneficiaries of which are potentially Andreas Rialas and his family.

Biographical details of the current directors are set out on page 10.

Corporate Governance Statement

Whilst the Company is not obliged by the listing rules to do so, the board intends, where appropriate for a company of its size and nature, to comply with the main provisions of the Principles of Good Governance and Code of Best Practice set out in the Combined Code.

The Directors recognise the value of the Principles of Good Governance and Code of Best Practice as set out in the Combined Code to the extent appropriate taking into account the size of the Company and the nature of its business.

DIRECTORS' REPORT (continued)

Remuneration Committee

The Remuneration Committee was established in November 2008. Membership comprises at least two members, each being an independent non-executive director. The Remuneration Committee now comprises David Fisher (chair), Ken Watterson and Michael Kloter.

In accordance with authority delegated by the board of directors the terms of reference of the Remuneration Committee covers the following:

- To determine and agree with the board of directors the framework or broad policy for the remuneration of the chief executive and such other members of the executive management as it is designated to consider;
- To review the framework or broad policy for remuneration to ensure it remains appropriate and relevant and in formulating proposals, be sensitive to the need for an appropriate balance between long and short-term elements of pay.

The Remuneration Committee did not meet formally during the period due to the fact that it was established very near to the period end.

Audit Committee

The Audit Committee was established in November 2008. Membership comprises at least two members, each being an independent non-executive director. The Audit Committee now comprises Ken Watterson (chair), David Fisher and Michael Kloter. The board is satisfied that the members of the Audit Committee have recent and relevant financial experience.

The Audit Committee is a sub-committee of the board and makes recommendations to the Board which retains the right of final decision. The Audit Committee has primary responsibility for reviewing the consolidated financial statements and the accounting policies, principles and practice underlying them, liaising with the external auditors and reviewing the effectiveness of internal controls.

The terms of reference of the Audit Committee covers the following:

- Duties in relation to external reporting including reviews of consolidated financial statements, shareholder communications and other announcements;
- Duties in relation to the external auditors, including appointment/dismissal, approval of fees and discussion of audit findings;
- monitor and review of the effectiveness of the Company's financial reporting and controls and its systems for internal control and risk management.

The Audit Committee and the Board have considered the need for an internal audit function and concluded that, for the Group at its current stage of development, such a function is not required. It should be noted, however, that the investment manager, Argo Capital Management (Cyprus) Limited, has an internal audit function, being a requirement of its license under the regulations of the Cyprus Securities and Exchange Commission. Similarly, the investment adviser, Argo Capital Management Limited, is reviewed by an external compliance consultant as part of its duty to satisfy its responsibilities under the FSA regulations.

The Audit Committee did not meet formally during the period due to the fact that it was established very near to the period end.

Dividends

The board is not recommending a dividend for the period ended 31 December 2008.

Donations

During the period the Group made charitable donations of US\$3,512.

Creditor payments policy

It is the Group's policy and practice to agree commercial terms of business with suppliers prior to the supply of goods and services. In the absence of any dispute, the Group pays, wherever possible, in accordance with those agreed terms. The number of days' purchases of the Group represented by trade creditors at 31 December 2008 was 40.

DIRECTORS' REPORT (continued)

Statement of disclosure to auditor

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditors are unaware. Each director has taken all the steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Auditors

The auditors, KPMG Audit LLC, were appointed on 18 August 2008 and have expressed their willingness to continue in office as auditors. A resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Signed on behalf of the board

Kyriakos Rialas
Chief Executive Officer

Date: 21 April 2009

Michael Kloter
Non-Executive Chairman

Date: 21 April 2009

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for preparing the Directors' Report and the consolidated financial statements in accordance with applicable law and regulations.

The directors are responsible for preparing consolidated financial statements for each financial year which give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In addition, the directors have elected to prepare the consolidated financial statements in accordance with International Financial Reporting Standards.

In preparing these consolidated financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- prepare the consolidated financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the consolidated financial statements comply with applicable laws. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

DIRECTORS

Michael Kloter

Non-Executive Chairman

Michael holds a law degree from the University of Geneva, Switzerland, and a lawyer's licence of the Canton of Zurich, Switzerland. After gaining professional experience as a clerk at the District Court of Zurich and experience in a business law practice in Zurich, Switzerland he founded his own law firm in Zurich in 1995. Since then he has practised as a business lawyer and acts as director for a number of companies, including as non-executive director for mobilezone holding ag and Hansa Group AG.

Kyriakos Rialas

Chief Executive Officer

Kyriakos has 23 years of professional investment and managerial experience in the financial services sector. He has overall responsibility for risk management, legal, regulatory and general management of the Argo business. Prior to joining Argo, he was General Manager of Emporiki Bank in Cyprus from 1999 to 2003 where he managed a portfolio of syndicated loans worth US\$1 billion. Kyriakos has also worked for the Treasury department of the Bank of Cyprus Group and London Forfaiting Cyprus where he was Finance Director, overseeing subsidiaries in India, Russia, Thailand and Hong Kong. Before that he worked for Capital Intelligence in bank analysis and rating for emerging markets. He has a degree in Engineering from the University of Cambridge and qualified as a Chartered Accountant with KPMG in London. He started his banking career in the fixed income division of SG Warburg & Co in London.

Andreas Rialas

Chief Investment Officer

Prior to founding Argo, Andreas worked for Deutsche Bank for three years where he was involved in emerging markets proprietary trading and trade finance specialist products. Before that, he was at London Forfaiting (Asia) Ltd as Head of Secondary Debt Trading in emerging markets. Andreas has travelled extensively in both Eastern and Western Europe visiting and cultivating relationships with banks. He originated and syndicated many pioneering syndicated loan and trade finance transactions for Eastern European borrowers in the Baltic States, Bulgaria, the Czech Republic, Croatia, Kazakhstan, Macedonia, Romania, Russia, Slovakia and Ukraine. In his role as Head of Secondary Debt Trading at London Forfaiting, he developed extensive knowledge of the Asian Debt Markets and was responsible for the secondary trading in Europe of primary assets originated by the Hong Kong subsidiary of London Forfaiting (Asia) Ltd. He studied law at the University of London, graduating in 1991 and subsequently trained to be an English Barrister specialising in banking law qualifying in 1993.

David Fisher

Non-Executive Director

David Fisher is Chairman of the Investment Committee of Innova Capital, one of Central Europe's leading private equity firms; of EnerCap Partners, a new renewable energy fund in Central Europe; and of Da Vinci CIS Private Sector Growth Fund Limited. He has over 30 years of experience in business, finance and law.

As a Partner at Innova and as the Chief Investment Officer for CARESBAC-Polska and the Romanian-American Enterprise Fund, David has made and managed more than 30 private equity investments in Central & Eastern Europe in the last 15 years. Formerly he was Group Vice President and General Counsel of Communications Equity Associates, a worldwide media, entertainment and communications merchant bank. He is a Chartered Director with the Institute of Directors and holds a Diploma in International Commercial Arbitration from the Chartered Institute of Arbitrators. David holds degrees from Davidson College (BA), Vanderbilt Law School (JD) and Harvard Business School (MBA). He is an American who has lived and worked in Europe for more than 15 years.

Kenneth Watterson

Non-Executive Director

Kenneth has 22 years of experience within the financial services industry. His specific areas of expertise include compliance and risk management, operations and change management. Kenneth holds a Master's degree from the University of St. Andrews and a Master's degree from London Guildhall University in Financial Regulation & Compliance Management, specialising in Corporate Governance. He has board experience within a number of UK, Isle of Man and Channel Islands companies.

REPORT OF THE INDEPENDENT AUDITORS, KPMG AUDIT LLC, TO THE MEMBERS OF ARGO GROUP LIMITED

We have audited the consolidated financial statements of Argo Group Limited for the period from 14 February 2008 (date of incorporation) to 31 December 2008 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Shareholders' Equity, the Consolidated Cash Flow Statement and the related notes. These consolidated financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Group's members, as a body. Our audit work has been undertaken so that we might state to the Group's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group and the Group's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The directors' responsibilities for preparing the consolidated financial statements in accordance with applicable laws and regulations and International Financial Reporting Standards are set out in the Statement of Directors' Responsibilities on page 9. Our responsibility is to audit the consolidated financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the consolidated financial statements give a true and fair view. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the consolidated financial statements.

In addition we report to you if, in our opinion, the Group has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' transactions with the Group are not disclosed.

We read the Directors' Report and any other information accompanying the consolidated financial statements and consider the implications for our report if we become aware of any apparent misstatements or inconsistencies within it.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the UK Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the consolidated financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements.

Opinion

In our opinion:

- the consolidated financial statements give a true and fair view, in accordance with International Financial Reporting Standards, of the state of the Group's affairs as at 31 December 2008 and of its profit for the period from 14 February 2008 (date of incorporation) to 31 December 2008; and
- the information given in the Directors' Report is consistent with the consolidated financial statements.

KPMG Audit LLC
Chartered Accountants
Heritage Court, 41 Athol Street
Douglas, Isle of Man
IM99 1HN

21 April 2009

ARGO GROUP LIMITED**CONSOLIDATED INCOME STATEMENT
PERIOD FROM 14 FEBRUARY 2008 (DATE OF INCORPORATION) TO 31 DECEMBER 2008**

	Note	Period ended 31 December 2008 US\$'000
Management fees		8,967
Incentive fees		7,473
Other income		160
Revenue	2(e)	16,600
Legal and professional expenses		(1,465)
Management and incentive fees payable	2(f)	(707)
Operational expenses		(1,479)
Employee costs	4	(4,077)
Foreign exchange loss		(691)
Amortisation of intangible assets	10	(380)
Depreciation	11	(78)
Excess of acquirer's interest in net value of identifiable net assets	9	1,556
Operating profit	6	9,279
Interest income on cash and cash equivalents		258
Unrealised loss on investments		(1,368)
Profit on ordinary activities before taxation		8,169
Taxation	7	(1,409)
Profit for the period after taxation attributable to members of the Company	8	6,760
Earnings per share (basic)	8	US\$0.09
Earnings per share (diluted)	8	US\$0.09

The Directors consider that all results derive from continuing activities.

The notes on pages 16 to 29 form part of these consolidated financial statements.

ARGO GROUP LIMITED**CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2008**

	Note	At 31 December 2008 US\$'000
Assets		
Non-current assets		
Intangible assets	10	18,110
Fixtures, fittings and equipment	11	237
Loans and advances receivable	15	235
		<u>18,582</u>
Current assets		
Investments	12	1,976
Trade and other receivables	13	2,214
Cash and cash equivalents	14	20,058
Loans and advances receivable	15	44
		<u>24,292</u>
Total assets		<u><u>42,874</u></u>
Equity and liabilities		
Equity		
Issued share capital	16	769
Share premium	16	32,772
Revenue reserve		6,760
Foreign currency translation reserve	2(d)	625
		<u>40,926</u>
Current liabilities		
Trade and other payables	17	717
Taxation payable	7	1,231
Total current liabilities		<u>1,948</u>
Total equity and liabilities		<u><u>42,874</u></u>

These consolidated financial statements were approved by the Board of Directors on 21 April 2009 and were signed on its behalf by:

Kyriakos Rialas
Chief Executive Officer

Michael Kloter
Non-Executive Chairman

The notes on pages 16 to 29 form part of these consolidated financial statements.

ARGO GROUP LIMITED**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
PERIOD FROM 14 FEBRUARY 2008 (DATE OF INCORPORATION) TO 31 DECEMBER 2008**

	Issued share capital 2008 US\$'000	Share premium 2008 US\$'000	Revenue reserve 2008 US\$'000	Foreign currency translation reserve 2008 US\$'000	Total 2008 US\$'000
As at 14 February 2008 (date of incorporation)	-	-	-	-	-
Profit for the period after taxation	-	-	6,760	-	6,760
Issue of 76,931,620 shares (US\$0.01 par) (see note 16)	769	32,772	-	-	33,541
Exchange differences on translation of foreign operations	-	-	-	625	625
As at 31 December 2008	769	32,772	6,760	625	40,926

The notes on pages 16 to 29 form part of these consolidated financial statements.

ARGO GROUP LIMITED

**CONSOLIDATED CASH FLOW STATEMENT
PERIOD FROM 14 FEBRUARY 2008 (DATE OF INCORPORATION) TO 31 DECEMBER 2008**

		Period ended 31 December 2008 US\$'000
Net cash inflow from operating activities	19	3,818
Cash flows from investing activities		
Interest received on cash and cash equivalents		258
Acquisition of the Argo businesses	9	10,057
Proceeds from disposal of current asset investments		6,199
Purchase of fixtures, fittings and equipment	11	(25)
Repayment of loans	20	(199)
Net cash inflow from investing activities		16,290
Net increase in cash and cash equivalents		20,108
Foreign exchange loss on cash and cash equivalents		(50)
Cash and cash equivalents as at 31 December 2008		20,058

The notes on pages 16 to 29 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the period from 14 February 2008 (date of incorporation) to 31 December 2008

1. CORPORATE INFORMATION

The Company was incorporated on 14 February 2008 in the Isle of Man under the Companies Act 2006 and started to trade on 13 June 2008. Its registered office is at 33-37 Athol Street, Douglas, Isle of Man, IM1 1LB and the principal place of business is at 10 Vasilissis Frederikis Street, 1066 Nicosia, Cyprus. The principal activity of the Company is that of a holding company and the principal activity of the wider Group is that of an investment management business. The functional and presentational currency of the Group undertakings is US dollars. The Group has 39 employees.

Wholly owned subsidiaries	Country of incorporation
Argo Capital Management (Cyprus) Limited	Cyprus
Argo Capital Management Limited	United Kingdom
Argo Capital Management Property Limited	Cayman Islands
Argo Capital Management (Asia) Pte. Ltd.	Singapore
North Asset Management Srl	Romania
North Asset Management Sarl	Luxembourg
Argo Investor Services Limited	Cayman Islands
Argo Investor Services AG	Switzerland
AREOF General Partner Limited	Cayman Islands

2. ACCOUNTING POLICIES**(a) Accounting convention**

These consolidated financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial instruments, and in accordance with International Financial Reporting Standards, as adopted by the European Union.

These accounts have been prepared on the basis that the Company is a going concern.

The International Accounting Standards Board and International Financial Reporting Interpretations Committee have issued the following standards and interpretations with an effective date after the date of these consolidated financial statements. None of these standards have been adopted early.

International Accounting Standards (IAS/IFRS)

	Effective Date
IFRS 2 Share based payments, revised 2008	1 January 2009
IFRS 5 Non-current assets held for sale and discontinued operations, revised 2008	1 July 2009
IFRS 8 Operating segments	1 January 2009
IAS 16 Property, plant and equipment, revised 2008	1 January 2009
IAS 19 Employee benefits, revised 2008	1 January 2009
IAS 23 Borrowing costs, revised 2008	1 January 2009
IAS 32 Financial instruments:presentation, revised 2008	1 January 2009
IAS 36 Impairment of assets, revised 2008	1 January 2009
IAS 39 Financial instruments:recognition and measurement	1 January 2009

International Financial Reporting Interpretations Committee (IFRIC)

	Effective Date
IFRIC 13 Customer loyalty programmes	1 July 2008

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's consolidated financial statements in the period of initial application.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the period from 14 February 2008 (date of incorporation) to 31 December 2008 (continued)

2. ACCOUNTING POLICIES (continued)

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Subsidiaries are consolidated from the date upon which control is transferred to the Company and cease to be consolidated from the date upon which control is transferred from the Company.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Company. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

(c) Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at acquisition date.

Goodwill

Goodwill arising on the consolidation represents the excess of the cost of the acquisition over the Company's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Any excess of the Company's interest in the fair value of the identifiable assets and liabilities over the cost of the acquisition (negative goodwill) is immediately recognised in the Consolidated Income Statement. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed annually for impairment. Any impairment is recognised immediately in the Consolidated Income Statement.

Intangible assets

The Group's principal intangible asset is a fund management contract recorded at directors' valuation at the date of acquisition. The directors' valuation is based on the underlying share price of the vendor and its assets under management at the time of acquisition. This intangible asset has a finite life and is amortised on a straight line basis over the period of the contract. Impairment tests are undertaken annually to determine any diminution in the recoverable amount below carrying value. The Group does not capitalise internally generated goodwill or intangible assets.

Impairment of intangible assets

At each balance sheet date the Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the period from 14 February 2008 (date of incorporation) to 31 December 2008 (continued)

2. ACCOUNTING POLICIES (continued)**(d) Foreign currency translation**

The consolidated financial statements are expressed in US dollars. Transactions denominated in currencies other than US dollars have been translated at the rate of exchange prevailing at the date of the transaction. Assets and liabilities in other currencies are translated to US dollars at the rates of exchange prevailing at the balance sheet date. The resulting profits or losses are reflected in the Consolidated Income Statement.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's foreign currency translation reserve. Such translation differences are recognised in the Consolidated Income Statement as income or as expenses in the period in which the operation is disposed of.

(e) Revenue

Revenue is recognised to the extent that it is probable that economic benefit will flow to the Group and the revenue can be reliably measured.

Management and incentive fees receivable

The Group recognises revenue for providing management services to mutual funds. Revenue accrues on a monthly basis on completion of management services and is based on the funds under management of each mutual fund.

Incentive fees generally arise monthly or annually, however for the Argo funds incentive fees may arise monthly, annually or on realisation of an investment. In addition, for the Argo Real Estate Opportunities Fund Ltd (managed by Argo Capital Management Property Ltd) incentive fees may be triggered at any time on realisation of a property asset.

(f) Management and incentive fees payable

The Group pays management and incentive fees based on a proportion of fees receivable from mutual funds. Fees payable are accrued for on a monthly basis consistent with revenue streams earned.

(g) Depreciation

Plant and equipment is initially recorded at cost and depreciated on a straight-line basis over the expected useful lives of the assets as follows:

Leasehold	33 1/3% per annum
Fixtures and fittings	10% to 33 1/3% per annum
Office equipment	10% to 33 1/3% per annum
Computer equipment and software	20% to 33 1/3% per annum

(h) Investments held at fair value through profit or loss

All investments are classified as held at fair value through profit or loss. Investments are initially recognised at fair value. Transaction costs are expensed as incurred.

After initial recognition, investments are measured at fair value, with unrealised gains and losses on investments and impairment of investments recognised in the Consolidated Income Statement. Investments held at fair value in managed mutual funds are valued at fair value of the net assets as provided by the administrators of those funds. Investments in the management shares of The Argo Fund Ltd, Argo Capital Investors SPC, Argo Capital Partners Fund Ltd and Argo Multi Strategy Fund Limited are stated at fair value, being the recoverable amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the period from 14 February 2008 (date of incorporation) to 31 December 2008 (continued)

2. ACCOUNTING POLICIES (continued)

(i) Trade date accounting

All 'regular way' purchases and sales of financial assets are recognised on the 'trade date', i.e. the date that the entity commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of the asset within the time frame generally established by regulation or convention in the market place.

(j) Financial instruments

Financial assets and liabilities are recognised on the Company's Balance Sheet when the Company becomes party to the contractual provisions of the instrument.

Non-derivative financial instruments include trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables. The initial and subsequent measurement of non-derivative financial instruments is dealt with below.

Trade and other receivables

Trade and other receivables do not carry any interest and are stated at their original invoice amount as reduced by appropriate allowances for estimated irrecoverable amounts. An estimate for doubtful debts is made when collection is no longer probable. Bad debts are written off when identified.

Cash and cash equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments which are readily convertible to known amounts of cash, subject to insignificant risk of changes in value, and have a maturity of less than three months from the date of acquisition.

For the purposes of the cash flow statement, cash and cash equivalents consist of cash in hand and bank deposits.

Trade payables

Trade payables are not interest bearing and are stated at their nominal value.

(k) Loans and borrowings

All loans and borrowings payable are initially recognised at cost, calculated as the fair value of the consideration received less issue costs where applicable. After initial recognition, all interest-bearing loans and borrowings are subsequently measured at amortised cost. Amortised cost is calculated by using the effective interest method, taking into account any issue costs, and discounts and premiums on settlement.

All loans and borrowings receivable are initially recognised at cost and subsequently measured at amortised cost.

(l) Current taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those enacted or substantially enacted by the balance sheet date.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the Consolidated Income Statement because it excludes items of income or expense that are taxable or deductible in other periods or because it excludes items that are never taxable or deductible.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the period from 14 February 2008 (date of incorporation) to 31 December 2008 (continued)

2. ACCOUNTING POLICIES (continued)

(m) Deferred taxation

Deferred income tax is provided for using the liability method on temporary timing differences at the balance sheet date between tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised in full for all temporary differences. Deferred tax assets are recognised for all deductible temporary differences, carried forward unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry-forward of unused tax credits and unused losses can be utilised.

The carrying amount of deferred income tax assets is revalued at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

(n) Accounting estimates, assumptions and judgements

The preparation of the consolidated financial statements necessitates the use of estimates, assumptions and judgements. These estimates, assumptions and judgements affect the reported amounts of assets, liabilities and contingent liabilities at the balance sheet date as well as affecting the reported income and expenses for the year. Although the estimates are based on management's knowledge and best judgment of information and financial data, the actual outcome may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that and prior periods, or in the period of the revision and future periods if the revision affects both current and future periods.

In the process of applying the Group's accounting policies, which are described above, management has made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements:

- Management and incentive fees
- Intangibles

It has also been assumed that, when available, the audited financial statements of the funds under the Group's management will confirm the net asset values used in the calculation of management and performance fees receivable.

(o) Operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term. Benefits, such as rent free periods, received and receivable as incentives to take on operating leases are spread on a straight line basis over the lease term, or, if shorter than the full lease term, over the period to the review date on which the rent is first expected to be adjusted to the prevailing market rent.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the period from 14 February 2008 (date of incorporation) to 31 December 2008 (continued)

3. SEGMENTAL ANALYSIS

The Group operates as a single asset management business, and the directors do not consider the different sources of revenue and geographic regions within the business as separate business segments within the meaning of IAS 14 Segment Reporting.

The risks and returns to the Group across the different income sources and geographic regions are not significantly different and it is the clients themselves who have the different risk/return profiles. All of the Group's clients are consuming the same service – asset management - and the fund managers may manage funds across two or more different income sources and geographic regions. On this basis the directors consider the Group to be a single segment investment management business.

4. EMPLOYEE COSTS

	2008
	US\$'000
Wages and salaries	3,789
Social security costs	234
Other	54
	<u><u>4,077</u></u>

5. KEY MANAGEMENT PERSONNEL REMUNERATION

Included in employee costs are payments to:

	2008
	US\$'000
Directors and key management personnel	<u><u>1,376</u></u>

6. OPERATING PROFIT

Operating profit is stated after charging:

	2008
	US\$'000
Auditors' remuneration	80
Directors' fees	1,013
Operating lease payments	<u><u>336</u></u>

ARGO GROUP LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

For the period from 14 February 2008 (date of incorporation) to 31 December 2008 (continued)

7. TAXATION

Taxation rates applicable to the parent company and the Cypriot, UK, Singaporean, Luxembourg, Swiss and Romanian subsidiaries range from 0% to 28%.

Income Statement

	2008
	US\$'000
Taxation charge for the period on Group companies	<u>1,409</u>

The charge for the period can be reconciled to the profit per the Consolidated Income Statement as follows:

	2008
	US\$'000
Profit before tax	<u>8,169</u>
Applicable Isle of Man tax rate for Argo Group Limited of 0%	-
Timing difference	144
Non-deductible expenses	7
Non-taxable income	(15)
Other adjustments	25
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	<u>1,248</u>
Tax charge	<u>1,409</u>

Balance Sheet

	2008
	US\$'000
Corporation tax payable	<u>1,231</u>

8. EARNINGS PER SHARE

Earnings per share is calculated by dividing the net profit for the period by the weighted average number of shares outstanding during the period.

	2008
	US\$'000
Net profit for the period after taxation attributable to members	<u>6,760</u>
	No. of shares
Weighted average of ordinary shares for basic earnings per share	76,931,620
Effect of dilution	-
Weighted average number of ordinary shares for diluted earnings per share	<u>76,931,620</u>

ARGO GROUP LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the period from 14 February 2008 (date of incorporation) to 31 December 2008 (continued)

9. BUSINESS COMBINATIONS

At an Extraordinary General Meeting held in the Cayman Islands on 13 June 2008 the shareholders of Absolute Capital Management Holdings Limited passed a resolution to distribute the Argo division of its group to shareholders, to be managed and owned independently under the newly formed Argo Group Limited.

The demerger was completed by making a distribution of shares of Argo Group Limited to the shareholders of Absolute Capital Management Holdings Limited. The total purchase consideration was 76,931,619 ordinary shares of US\$0.01 each with an aggregate fair market value (determined by a calculation of assets under management) of \$33,541,727 apportioned as follows:

Argo Capital Management (Cyprus) Ltd	\$13,501,195
Argo Capital Management Ltd	\$12,063,619
Argo Investor Services Ltd	\$4,048,125
Argo Capital Management Property Ltd	\$3,928,787
Argo Capital Management (Asia) Pte. Ltd	\$1

The Argo businesses acquired as part of this transaction contributed the following to the consolidated net profit on ordinary activities after tax: Argo Capital Management (Cyprus) Ltd US\$8,450,936 (profit), Argo Capital Management Ltd US\$415,745 (profit), Argo Investor Services Ltd US\$1,836,600 (loss), Argo Capital Management Property Ltd US\$62,645 (profit) and Argo Capital Management (Asia) Pte Ltd US\$390,517 (loss).

The fair value of the identifiable net assets and liabilities of the Argo businesses at the date of acquisition and the consideration are detailed below:

	Argo Capital Management (Cyprus) Ltd	Argo Capital Management Ltd	Argo Investor Services Ltd	Argo Capital Management Property Ltd	Argo Capital Management (Asia) Pte Ltd	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Intangible assets – fund management contracts	7,188	7,757	-	3,889	-	18,834
Fixtures, fittings & equipment	25	313	4	11	10	363
Investments	5,500	-	4,000	-	-	9,500
Trade & other receivables	5,204	1,490	37	1,284	191	8,206
Bank & cash	3,167	5,678	218	717	277	10,057
Trade & other payables	(7,583)	(3,174)	(58)	(878)	(169)	(11,862)
Net assets acquired	13,501	12,064	4,201	5,023	309	35,098
Excess of acquirer's interest in net value of identifiable net assets	-	-	(153)	(1,095)	(308)	(1,556)
Total	13,501	12,064	4,048	3,928	1	33,542
Satisfied by:						
Shares issued	13,501	12,064	4,048	3,928	1	33,542
Total	13,501	12,064	4,048	3,928	1	33,542

Net cash inflow arising on acquisition	US\$'000
Cash and cash equivalents acquired	10,057
	10,057

Intangible assets represent the fair value of fund management contracts of the Argo businesses, essentially the Argo Funds and the Argo Real Estate Opportunities Fund Ltd (managed by Argo Capital Management Property Ltd) to which it provides management and advisory services.

The Argo Group Limited ordinary shares were admitted to trading on AIM on 18 November 2008.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the period from 14 February 2008 (date of incorporation) to 31 December 2008 (continued)

10. INTANGIBLE ASSETS

	Fund management contracts US\$'000
Cost	
Acquisition of Argo businesses (note 9)	18,834
Foreign exchange movement	(344)
At 31 December 2008	18,490
Amortisation and impairment	
Amortisation of Argo business intangible assets	380
At 31 December 2008	380
Net book value	
At 31 December 2008	18,110

The Group tests intangible assets annually for impairment, or more frequently if there are indications that the intangible assets may be impaired. The recoverable amounts of the intangible assets that have been reviewed for impairment are separately identifiable business units within the Group. The value in use approach has been used as the businesses were not considered saleable in their current form due to certain factors, the main being reliance on certain key individuals.

At the balance sheet date the carrying value of goodwill was US\$14.9m being allocated to Argo Capital Management (Cyprus) Limited and Argo Capital Management Limited as US\$7.2m and US\$7.7m respectively.

The key assumptions on which the directors have based their five year discounted cash flow analysis are a pre-tax discount rate of 15%, an inflation rate of 5% and a growth in assets under management (which determine management and performance fee income) of 15% to 20%, with 4.5% to 6% of this estimated to be from annual profits. The assumption of growth in assets under management has been based on the historic performance of the funds. The calculations use cash flow projections based on actual operating results. The result of this review has been compared to the carrying value of goodwill and accordingly the directors have concluded that there is no impairment to goodwill. As an added sensitivity, if the estimated discount rate applied to the discounted cash flows had been 25% higher or the growth rate of assets under management had been 25% lower there would still have been no impairment of goodwill as the net present value of future cash flows would still have been higher than the carrying value of goodwill.

At the balance sheet date the carrying value of the Argo Real Estate Opportunities Fund Limited management contract is US\$3.2m, net of amortisation. The intangible asset has been amortised over 5 years and 44 days, being the remaining period of the contract.

ARGO GROUP LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

For the period from 14 February 2008 (date of incorporation) to 31 December 2008 (continued)

11. FIXTURES, FITTINGS AND EQUIPMENT

	Fixtures, fittings & equipment US\$ '000
Cost	
Acquisitions through business combinations (note 9)	363
Additions	25
Disposals	(4)
Foreign exchange movement	(69)
At 31 December 2008	315
Accumulated Depreciation	
Depreciation charge for period	78
At 31 December 2008	78
Net book value	
At 31 December 2008	237

12. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Holding	Investment in management shares	2008 Total cost US\$ '000	2008 Fair value US\$ '000
10	The Argo Fund Ltd	0	0
10	Argo Capital Investors Fund SPC	0	0
10	Argo Capital Partners Fund Ltd	0	0
100	Argo Multi Strategy Fund Ltd	0	0
		0	0
Holding	Investment in ordinary shares	2008 Total cost US\$ '000	2008 Fair value US\$ '000
10,270	The Argo Fund Ltd	3,843	1,976
		3,843	1,976

13. TRADE AND OTHER RECEIVABLES

	2008 US\$ '000
Trade receivables	1,780
Other receivables	195
Prepayments and accrued income	239
	2,214

The directors consider that the carrying amount of trade and other receivables approximates to their fair value. All trade receivable balances are recoverable within one year from the balance sheet date.

ARGO GROUP LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

For the period from 14 February 2008 (date of incorporation) to 31 December 2008 (continued)

14. CASH AND CASH EQUIVALENTS

Included in cash and cash equivalents is a balance of US\$116,000 which represents a bank guarantee in respect of credit cards issued to Argo Capital Management Property Limited. Due to the nature of this balance it is not freely available.

15. LOANS AND ADVANCES RECEIVABLE

	2008 US\$'000
Deposits on leased premises - current	44
Deposits on leased premises-non-current	235
	<u>279</u>

The deposits on leased premises are retained by the lessor until vacation of the premises at the end of the lease term as follows:

	2008 US\$'000
Current:	
Lease expiring in 2009	<u>44</u>
	2008 US\$ '000
Non-current:	
Lease expiring in 2010	30
Lease expiring in 2012	205
	<u>235</u>

16. SHARE CAPITAL

The Company's authorised share capital is unlimited with a nominal value of US\$ 0.01.

Issued and fully paid	2008 No.	2008 US\$'000
Issued during the period	76,931,620	769
Closing ordinary shares of US\$ 0.01 each	<u>76,931,620</u>	<u>769</u>

During the period the Company issued one share on its incorporation and then a further 76,931,619 shares to the vendors of the Argo business at a premium of \$32,772,411 (note 9).

17. TRADE AND OTHER PAYABLES

	2008 US\$ '000
Trade and other payables	49
Other creditors and accruals	668
	<u>717</u>

Trade and other payables are normally settled on 30-day terms.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the period from 14 February 2008 (date of incorporation) to 31 December 2008 (continued)

18. OBLIGATIONS UNDER OPERATING LEASES

Operating lease payments represent rentals payable by the Group for certain of its business premises. The leases have no escalation clauses or renewal or purchase options and no restrictions imposed on them.

As at the balance sheet date, the Group had outstanding future minimum lease payments under non-cancellable operating leases, which fall due as follows.

	2008
	US\$ '000
Operating lease liabilities:	
Within one year	573
In the second to fifth years inclusive	969
Present value of minimum lease payments	<u>1,542</u>

19. RECONCILIATION OF NET CASH INFLOW FROM OPERATING ACTIVITIES TO PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2008
	US\$ '000
Profit on ordinary activities before taxation	8,169
Interest income	(258)
Other income	(42)
Amortisation of intangible assets	380
Depreciation	78
Decrease in payables	(10,001)
Decrease in receivables	5,538
Decrease in fair value of current asset investments	1,368
Negative goodwill	(1,556)
Net foreign exchange gain	691
Income taxes paid	(549)
Net cash inflow from operating activities	<u><u>3,818</u></u>

20. RELATED PARTY TRANSACTIONS

90% of revenue derives from funds in which two of the Company's directors, Andreas Rialas and Kyriakos Rialas, have an influence through the provision of investment advisory services.

On 16 June 2008 the demerger of the Argo businesses from Absolute Capital Management Holdings Ltd was completed. As part of the purchase consideration shares in Argo Group Limited were issued on behalf of the following related parties:

Andreas Rialas - 15,638,146 ordinary shares (representing at the time 20.3% of the issued share capital)
 Kyriakos Rialas - 8,768,363 ordinary shares (representing at the time 11.4% of the issued share capital)

During the period Argo Capital Management Limited owed Andreas Rialas US\$199,442 (£100,000) representing an unsecured, interest free loan made to Argo Capital Management Limited on 28 June 2006. This loan was repaid on 23 October 2008.

Michael Kloter, the non-executive chairman, is also partner in a legal firm which supplies services to the Group. This firm charged US\$24,220 (CHF 28,009) for services rendered to the Group in the period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the period from 14 February 2008 (date of incorporation) to 31 December 2008 (continued)

21. FINANCIAL INSTRUMENTS

(a) Use of financial instruments

The wider Group has maintained sufficient cash reserves not to use alternative financial instruments to finance the Group's operations. The Group has various financial assets and liabilities such as trade and other receivables, loans and advances, cash, short-term deposits, and trade and other payables which arise directly from its operations.

The Group's non-subsiary investments in funds were entered into with the purpose of providing seed capital for these funds.

(b) Market risk

Market risk is the risk that a decline in the value of assets adversely impacts on the profitability of the Group, either as a result of an asset not meeting its expected value or through the decline of assets under management generating lower fees. The principal exposures of the Group are in respect of its seed investments in its own funds. Lower management fee and incentive fee revenues could result from a reduction in asset values.

(c) Capital risk management

The primary objective of the Group's capital management is to ensure that the Company has sufficient cash and cash equivalents on hand to finance its ongoing operations. This is achieved by ensuring that trade receivables are collected on a timely basis and that excess liquidity is invested in an optimum manner. This is achieved by placing fixed short-term deposits or using interest bearing bank accounts.

At the period-end cash balances were held at Royal Bank of Scotland, Laiki Bank, Bank of Cyprus, United Overseas Bank, Bancpost, Bank Julius Baer & Co Ltd, UBS AG and ABN-AMRO Bank (Luxembourg).

(d) Credit/counterparty risk

The Group will be exposed to counterparty risk on parties with whom it trades and will bear the risk of settlement default. Credit risk is concentrated in the funds under management as detailed in note 12. Trade receivables are normally settled on 30-day terms.

The Group's principal financial assets are bank and cash balances, trade and other receivables and investments held at fair value through profit or loss. These represent the Company's maximum exposure to credit risk in relation to financial assets and are represented by the carrying amount of each financial asset in the balance sheet.

(e) Liquidity risk

Liquidity risk is the risk that the Group may be unable to meet its payment obligations. This would be the risk of insufficient cash resources and liquid assets, including bank facilities, being available to meet liabilities as they fall due.

The main liquidity risks of the Group are associated with the need to satisfy payments to creditors. Trade receivables and trade payables are on 30-day terms.

(f) Foreign exchange risk

Foreign exchange risk is the risk that the Group will sustain losses through adverse movements in currency exchange rates.

The Group is subject to short-term foreign exchange movements between the calculation date of fees in currencies other than US dollars and the date of settlement. The Group holds cash balances in US dollars, Sterling, Singapore dollars, Swiss Francs and Euros.

If there was a 5% increase or decrease in the exchange rate between the US dollar and the other operating currencies used by the Group at 31 December 2008 the exposure would be a profit or loss to the Consolidated Income Statement of approximately US\$800,000.

ARGO GROUP LIMITED**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

For the period from 14 February 2008 (date of incorporation) to 31 December 2008 (continued)

(g) Interest rate risk

The interest rate profile of the Group at 31 December 2008 is as follows:

	Total as per balance sheet	Variable interest rate instruments*	Fixed interest rate instruments	Instruments on which no interest is receivable
	US\$ '000	US\$ '000	US\$ '000	US\$ '000
Financial Assets				
Financial assets at fair value through profit or loss	1,976	-	-	1,976
Loans and receivables	2,258	-	-	2,258
Cash and cash equivalents	20,058	1,525	16,899	1,634
	24,292	1,525	16,899	5,868
Financial liabilities				
Financial liabilities at fair value through profit or loss	717	-	-	717

* Changes in the interest rate may cause movements.

The average interest rate at the period end was 1.29%. Any movement in interest rates would have an immaterial effect on the profit/loss for the period.

(h) Fair value

The carrying values of the financial assets and liabilities equate to the fair value of the financial assets and liabilities and are as follows:

	2008 US\$ '000
Financial Assets	
Financial liabilities at fair value through profit or loss	1,976
Loans and receivables	2,258
Cash and cash equivalents	20,058
	24,292
Financial Liabilities	
Financial liabilities at fair value through profit or loss	717

Financial assets and liabilities, other than investments, are either repayable on demand or have short repayment dates. The fair value of investments is stated at the redemption prices quoted by fund managers and is based on the fair value of the underlying net assets of the funds because, although the funds are listed, there is no active market. Redemption gates are currently imposed by the funds thereby limiting the Group's ability to realise the value of its investments in a timely manner.

22. POSSIBLE CLAIM RELATING TO LAWSUIT AGAINST FORMER GROUP COMPANY

Argo Group Limited ("Argo") has been named as an additional defendant in a lawsuit filed against Absolute Capital Management Holdings Limited (now known as ACMH Limited ("ACMH")) and others. The suit has been filed in the District of Colorado, USA, by an investor in several of ACMH's investment funds. This litigation arose after the demerger of Argo from ACMH. The plaintiff, The Cascade Fund LLLP ("Cascade"), has made a number of claims against ACMH. In the event that Cascade's litigation proves successful, Cascade is seeking to include Argo shares as part of the ACMH asset pool available to it by way of compensation.

Argo has yet to be served in this litigation. Argo considers that the courts of Colorado do not have valid jurisdiction. The directors believe that the claim against Argo is wholly without merit and Argo intends vigorously to defend its position.



ARGO