

# **DEMINOR ACTIVE GOVERNANCE FUND**

**SEMI-ANNUAL REPORT 2008**

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**Deminor Active Governance Fund**

Semi open-end mutual fund, established on 2 November 2006

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## Key figures

	<u>30/06/2008</u>	<u>31/12/2007</u>
<b>Net Asset Value EUR x 1.000</b>		
Net Asset Value of the Fund	49,501	58,319
Total Units outstanding	590,560	599,216
<b>in EUR</b>		
Net Asset Value per unit	83.82	97.33
Dividend per unit	-	-
	<u>01/01/2008</u>	<u>01/01/2007</u>
	<u>30/06/2008</u>	<u>30/06/2007</u>
<b>Profit and loss summary EUR x 1.000</b>		
Income from investments	984	664
Capital gains/-losses	-8,548	4,520
Expenses	-446	-1,128
Total investment result	<u>-8,010</u>	4,056
<b>Result per unit EUR *</b>		
Total Units outstanding	590,560	476,125
Income from investments	1.67	1.39
Capital gains/-losses	-14.47	9.49
Expenses	-0.76	-2.37
Total investment result	<u>-13.56</u>	8.52

\* The calculation of the result per unit is based on the number of the outstanding units as of the end of the period under review.

## Profile

The Deminor Active Governance Fund ("The Fund") is a semi-open end mutual fund ("fonds voor gemene rekening") under the laws of the Netherlands. It is transparent for Dutch corporate income tax purposes. Investors can invest in the Fund directly, or indirectly, through the Feeder. The Feeder is a limited liability company ("naamloze vennootschap") under the laws of the Netherlands and is structured to meet the criteria of a fiscal investment institution ("fiscale beleggingsinstelling") within the meaning of section 28 of the said Dutch Corporate Tax.

The Fund does not have legal personality. It comprises a contractual arrangement governed by the placing documents among the Manager, the Depository and each Unitholder. The Units are governed by the placing documents. Upon the first subscription of Units, a prospective investor agrees to be bound by the terms of the placing documents.

The Fund Assets are managed by the Manager and held in the name of the Depository for the account (ten titel van beheer) of the Unitholders. Unitholders have no proprietary interest in respect of the Fund's Assets. Pursuant (and subject) to the Placing Documents, Unitholders are beneficially entitled to the Fund's Assets pro rata the number of their respective Units. According to the placing documents, a Unitholder can not be held liable (i) by third parties for any of the Fund's obligations, and (ii) by the Manager and the Depository for any of the Fund's obligations for any amount in excess to the amount of its Subscription Amount. The Fund is established for an indefinite period of time and may only be dissolved and liquidated pursuant to a resolution to that effect by the Manager and the Depository.

# Fund Manager Report as per 30 June 2008

## Introduction

We are pleased to present you herewith the annual report of Deminor Investment Management regarding the activities of the Deminor Active Governance Fund (DAGF) for the financial half year ended on 30 June 2008. The present report relates to the DAGF Master Fund (hereinafter the Fund).[1]

At the end of June 2008, the investment portfolio represented 61.8% of the Fund Assets. This is the consequence of a prudent investment policy due to the negative evolution on the financial markets. During the last months of 2007, the Fund Manager had already decided to lower the equity exposure of the Fund. Considering the evolution since the beginning of 2008, the Fund Manager decided that it was necessary to remain cautious while at the same time concentrating on active cases to unlock shareholders value (see below the description of active engagements during the first half of 2008).

Total assets of the Fund amounted to €49.5 million at the end of June 2008 (€58.3 million at the end of 2007 and €52.5 million one year ago).

## Investment and operational review-Portfolio return

The first half of 2008 was still extremely difficult on the financial markets. The situation significantly worsened compared to the last months of 2007. Most European stock market indices lost between 20% and 25% over the first six months of 2008. Those losses were mainly explained by the consequences of the sub-prime crisis and by increasing worries about the evolution of the global economy (fears of a recession in the US, inflation, oil prices, US dollar, etc.).

Although the Fund's investment philosophy consists in selecting and investing in companies offering value improvement potential through active engagement, this overall negative evolution on the markets and in the economy in general has inevitably had repercussions on the Fund's performance.

However, thanks to the combination of a cautious asset allocation and a selection of investments with interesting value potential in combination with opportunities for shareholder activism, the Fund managed to outperform most stock market indices during the first half of 2008.

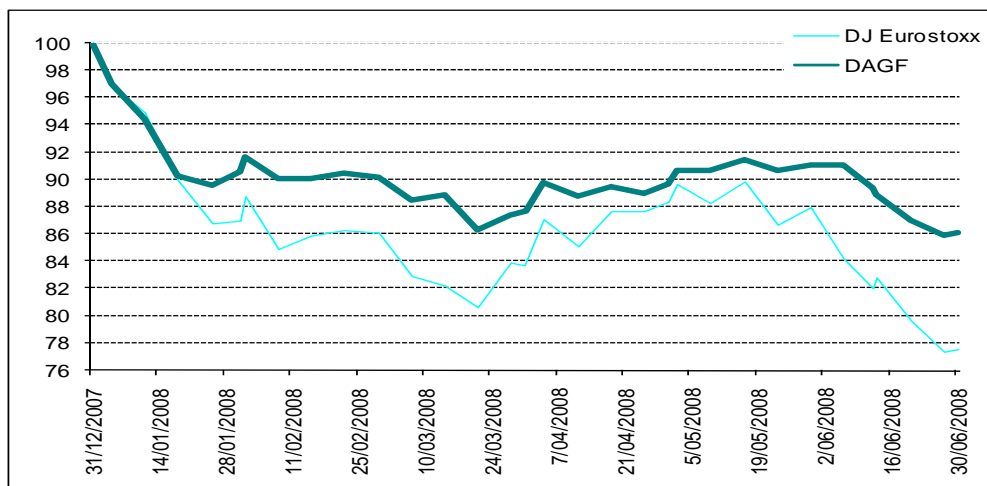
The Fund Manager also gradually repositioned the Fund's market exposure in order to protect it from adverse macro economic factors. This repositioning implied the use of hedging techniques and investments in convertible bonds in order to reduce the volatility and downside risks while still keeping a significant part of the medium term upside potential.

The cash level was raised to 38.2% at the end of June 2008 (from 19% as of 31 December 2007).

In those difficult circumstances, the Fund's year-to-date return was negative and amounted to -13.9% for the first half of 2008. This is however much better than most European stock indices.

[1] The Deminor Active Governance Fund is comprised of a Master Fund and a Feeder Fund. All investments in the Fund Assets are undertaken by the Master Fund. The Feeder Fund has as only objective to invest in Units of the Master Fund. The assets of the Feeder Fund therefore consist of an indirect investment in the Master Fund's assets.

The following graph shows the evolution of the DAGF compared to the evolution of the DJ Eurostoxx index since the beginning of 2008:



The Fund's performance does not take into account any possible outcome of pending legal procedures that have been launched as part of the Fund's active engagement policy (see further below).

#### Active engagement during the first half of 2008.

The Fund's investment philosophy consists in investing in undervalued companies with value improvement potential with the objective to unlock this value by implementing an active shareholder engagement strategy.

During 2007, the Fund was actively involved and engaged with several companies. Different kinds of engagement strategies were implemented in function of the specific circumstances of each company. In what follows, we give an overview of the most important public cases in which the Fund was involved.

- **Cegedel**

In January 2008, Cegedel reacted to an article in the Luxembourg press about discussions relating to a possible merger with Soteg and Saar Ferngas, a company controlled by ArcelorMittal. In May 2007, Cegedel had announced that it was holding talks with Soteg in order to explore a combination of both companies. There had been no news since that announcement.

The Luxembourg government is the controlling shareholder of Cegedel with 45%. The government also holds a significant stake in Soteg while ArcelorMittal holds 20% of Soteg and 76.9% of Saar Ferngas.

DAGF is looking for guarantees on (1) the strategic rationale behind a merger at 3 instead of 2, (2) the transparency on the discussions and on the process leading to a combination and (3) the terms of the merger (or takeover) that must reflect the true fair value of Cegedel.

Several letters were sent to the board of directors of Cegedel in order to raise those concerns and to ask for guarantees. DAGF also sent letters to all large known shareholders of Cegedel, including the Luxembourg government, to insist on the need to take all necessary measures to preserve the interests of all Cegedel shareholders.

DAGF met with the executive committee of Cegedel to discuss about the situation and the position of minority shareholders. The Fund also participated actively in the annual general meeting of Cegedel in May 2008 and asked several questions on the pending discussions related to a merger involving Cegedel.

- **RTL Group**

Early 2008, DAGF sent a letter to the Luxembourg market authority (CSSF) and to the Minister of Justice in which it raised concerns about the decision by Bertelsmann to postpone its takeover bid on remaining RTL Group shares (around 10% of all outstanding shares). DAGF questioned the position of the CSSF which considered that Bertelsmann could not proceed with a takeover followed by a squeeze out. This position is contrary to the CSSF's decision in November 2006 to authorize a takeover bid on Quinsa launched by its controlling shareholder (AmBev) and which was also meant to be followed by a squeeze out. DAGF believes that the opinion of the CSSF in the RTL Group case is not consistent with its own doctrine.

Since the first announcement by Bertelsmann of its intention to take RTL Group private, DAGF has publicly supported a transaction that (1) would solve the existing conflict between RTL Group shareholders and Bertelsmann and (2) would be based on RTL Group's fair value.

DAGF participated in the annual general meeting of RTL Group in April 2008 where it met with the parties involved in this case. It also held discussions with Bertelsmann in order to better understand its position and find solutions to remove the obstacles to a fair exit for RTL Group shareholders.

The solution clearly lies with the Luxembourg authorities (government and parliament) who can remove the legal uncertainty created by the CSSF. A draft bill of law including a new legal provision that would solve this situation has already been presented to the parliament even several months before Bertelsmann made its announcement in December 2007. In spite of DAGF's suggestions, the authorities still seem to refuse to accelerate the discussions and vote on this specific provision.

- **Electrabel**

The hearings took place in the procedure related to the squeeze-out of Electrabel shareholders launched by Suez in July 2007. The decision in the procedure launched by DAGF and Trafalgar Asset Management was expected before the end of June. At a last hearing before the summer holidays, the court informed us that the judgement could not be rendered (although it had been scheduled) and was postponed until after the summer (early September).

In the meantime, there are still discussions at political levels concerning a possible extension of the lifetime of Belgium's nuclear power plants. Those who were strongly opposed to such an extension now seem to be willing to reconsider their position. The positive impact of such extension on Electrabel's valuation was one of DAGF's main arguments in the procedure before the Court of Brussels. In total, DAGF claims an additional amount of around €200 per Electrabel share. In case of positive outcome of the legal procedure, it would therefore also have a significant positive impact for DAGF's NAV.

- **ArcelorMittal**

In the legal procedure against ArcelorMittal, the court in Luxembourg had proposed a calendar for the exchange of arguments between the plaintiffs and the defendants. The court recently granted an extension to the defendants who have now until 16 October 2008 (instead of 16 June 2008) to file their first court briefs. According to this new calendar proposed by the Court, the last exchange of court briefs would take place in April 2009. DAGF, together with SRM and Trafalgar Asset Management, immediately complained about this extension. They are now awaiting the reaction of the court.

Arcelor minority shareholders are claiming damages corresponding to the losses that resulted from a change in the share exchange ratio for the merger between Arcelor and Mittal Steel. The "new" ratio imposed to Arcelor shareholders was 27% lower than the one agreed and disclosed in 2006 as part of the takeover of Arcelor by Mittal Steel. The objective of the legal procedure is to recover the important losses suffered by Arcelor shareholders following the merger in November 2007. As it is the case for Electrabel, a positive outcome of the legal procedure would have a positive impact for DAGF's NAV.

- **Caisses Régionales du Crédit Agricole**

DAGF invested in several Caisses Régionales du Crédit Agricole (cooperative banks) through *Certificats Coopératifs d'Investissement* (CCI). Those financial instruments do not carry voting rights but they give right to a share in the reserves (contrary to cooperative shares). The CCI usually show a significant discount towards the banks' (consolidated) equity.

Following the announcement of write-downs and the impact of Basel II on its solvency ratios, Crédit Agricole S.A. announced that it had structured a plan that would require the financial contribution of the Caisses Régionales du Crédit Agricole. The Caisses Régionales control Crédit Agricole S.A. through a non-listed holding ("La Boëtie") although Crédit Agricole has the power to monitor and supervise the Caisses Régionales (prudential supervision). Crédit Agricole claims that the Caisses Régionales currently have capital surpluses which enable them to contribute to Crédit Agricole's own solvency.

Under the plan, Crédit Agricole S.A. would issue preference shares with the guarantee of the Caisses Régionales and would transfer the "most extreme part" of its risks related to its investments in the Caisses Régionales to the same Caisses Régionales (reciprocal guarantees). There are not many details available on this transaction but the main question for the investors in some Caisses Régionales is whether this recapitalization of Crédit Agricole is not organized to the detriment of the Caisses Régionales.

DAGF already met twice with Crédit Agricole S.A., including with the CFO. The purpose of those meetings was to better understand the plan proposed by Crédit Agricole S.A. and its financial implications for the Caisses Régionales and, indirectly, for the holders of CCI.

In the meantime, there had been rumours that some Caisses Régionales were not satisfied with the banking group's management (more particularly the activities and results of Calyon). The CEO and the Chairman threatened to resign if they no longer enjoyed the support of the board of directors. At a recent meeting, the board confirmed however its support for the management. Nevertheless, the position of the holders of CCI still needs to be addressed.

- **Agfa Gevaert**

The Belgian technology group (with three divisions: graphics, healthcare, materials) recently suffered from a downturn of its activities (particularly the healthcare division), poor cost management and questionable governance practices. In addition, Agfa suffered from a weak dollar and from the price increase of raw materials. In 2006, the management had decided to separate (split) the group's three main divisions. Private equity investors had been interested in buying those divisions but the offers were all rejected by the board. In the meantime, the company has lost 75% of its market value over the last 12 months.

The group has already taken some measures to improve its profitability and a new management has been put in place.

DAGF recently acquired a stake in Agfa when the share price hit a bottom. DAGF will monitor the management's action plan and will make sure that any transaction related to one or more of the group's division will take place in full transparency and in a professional way in order to maximise value creation for shareholders.

- **Active engagement involving other companies**

The Fund Manager also engaged with other companies included in its portfolio in order to raise several issues related to their strategy, communication, cash management and corporate governance.

With respect to Ciments Français, DAGF sent a letter to the *Autorité des Marchés Financiers* (AMF) in order to raise concerns about the poor communication of the group and the lack of transparency regarding transactions on the shares (share buybacks and acquisition by the controlling shareholder). DAGF asked the AMF to take appropriate measures.

DAGF participated in the annual general meeting of Omega Pharma and asked questions about the company's corporate governance, following the decision to bring back Mr. Coucke as CEO of the company. In March 2008, the company made several changes to its corporate governance. Several of those changes had been formally requested by the DAGF. Questions remained concerning Mr. Coucke's remuneration and a decision of the board of directors to pay him a remuneration for services as consultant in 2007. DAGF raised those issues with the *Commission Bancaire, Financière et des Assurances* (CBFA) which is in charge of supervising the information published by Belgian listed companies. Omega Pharma has already been forced to publish additional information in order to explain this decision of the board of directors. Although DAGF reduced its investment in Omega Pharma, it is still monitoring this company very closely.

The discussions that were initiated with several other companies were still ongoing at the end of June 2008. Those companies usually see the Fund Manager as a valuable partner for a constructive dialogue. In many cases, the discussions have already produced some positive results without DAGF having had to make its intervention public. Where those discussions do not lead to any improvement or no longer represent the most efficient way to achieve the Fund's objectives, the Fund Manager had to consider taking more resolute actions as illustrated by the cases described above.

As part of its investment philosophy, the Fund Manager participated in the AGMs and EGMs of companies in which the Fund invested, either by being present or represented at the meetings or by exercising the voting rights through other means (including voting by mail).

### **Financial performance and cash position at 30 June 2008.**

The decrease of the Fund capital during the first half of 2008 (€8,818,456) was due to the combination of net repurchases of units (€808,442) and undistributed losses.

Realized losses on investments amounted to €6,950,772 while unrealized losses represented €1,597,050 as of 30 June 2008. The Fund received net dividends for an amount of €700,552 and interest income for an amount of €250,812.

Total expenses amounted to €446,061 of which the major part consists of the Fund Manager's fees for an amount of €392,731. These fees were calculated by Fastnet, our independent Fund Administrator, in accordance with the Offering Memorandum. Other expenses consist of depositary fees, interest expenses, administration fees, fees paid to auditors and other advisors, publicity expenses, commissions and bank charges and depreciation of intangibles.

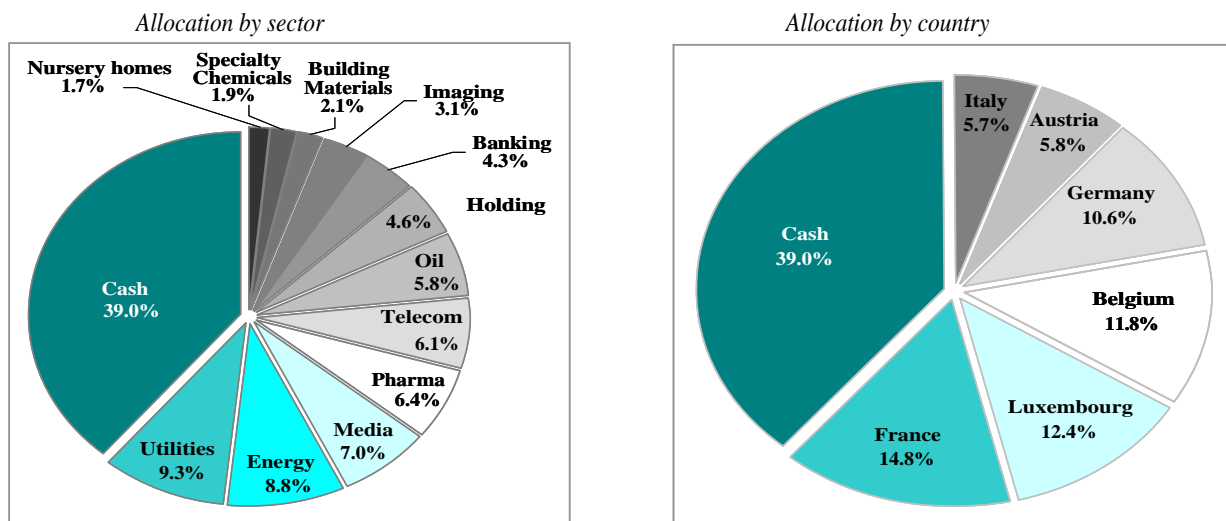
Net loss for the first half year amounted to €8,010,014. Shareholders' equity amounted to €49,501,038 which corresponds to a NAV per Unit of the Fund of €83.82.

At the end of the first half of 2008, the total cash position amounted to €20.2 million. The Fund had no financial debt outstanding as of 30 June 2008.

## Composition of the investment portfolio and NAV

The Fund Assets are invested in European equity instruments spread over various sectors (see left hand graph below) and various countries (see right hand graph below).

### Current DAGF Allocation - as of June 30, 2008



The Net Asset Value (NAV) per Unit amounted to €83.82 at the end of June 2008.

### Risk review

The Fund's risks are subject to a regular review by the Portfolio Managers and the Risk & Compliance Officer, who report to the Board of Directors. The Risk & Compliance monitors compliance with the investment restrictions such as set forth in the Offering Memorandum.

The various risks to which the Fund is subject are described in more detail in the Offering Memorandum.

The main risks to which the Fund was subject during the first half of 2008 were essentially the risks resulting from the negative evolution of and the higher volatility on financial markets since July 2007, massive sales by investors who want to reduce their equity exposure which put additional pressure on the stock prices and the growing uncertainty regarding the evolution of the economy.

The Fund Manager accepts market risk as a result of its investment strategy. It may protect the Fund against market risk, currency or sector risk at any given time on the basis of its own assessment of the portfolio's risk profile. The Fund Manager attempts to protect the Fund against specific company risk by investing in companies which present sound business fundamentals.

A well-balanced diversification of its portfolio, as illustrated by the sector and country allocation of the Fund's (see graphs above), also contributes to risk mitigation.

The Beta of the invested part of the portfolio at the end of June 2008 amounted to 0.54 (0.63 at the end of March 2008 and 0.67 at the end of December 2007). The distribution of the Betas can be presented as follows:

<b>Equity Beta</b>	<b>100%</b>
<b>0.0 - 0.3</b>	11.8%
<b>0.3 - 0.6</b>	54.6%
<b>0.6 - 0.8</b>	5.7%
<b>0.8 - 1.0</b>	20.2%
<b>1.0 - 1.4</b>	7.7%

The VAR analysis of the portfolio can be presented as follows (5 % interval):

<b>VaRs</b>	<b>2 Days</b>	<b>5 Days</b>	<b>7 Days</b>	<b>10 Days</b>
<b>% of total value</b>	<b>1.21%</b>	<b>1.91%</b>	<b>2.25%</b>	<b>2.69%</b>

The theoretical weighted average unwinding period of the invested part of the portfolio was 3.53 days at the end of June 2008 (2.35 days at the end of December 2007).

### **Important events occurred after the end of the reporting period**

On 23 July 2008, the Government of Luxembourg announced that a Memorandum of Understanding (MoU) had been signed with E.On, RWE Energy, ArcelorMittal and Electrabel with respect to the merger between Cegedel, Soteg and Saar Ferngas. According to this MoU, the merger includes the launch of a takeover on all Cegedel shares held by the public (around 18% of the share capital) at a price of €178.44 per share. The whole transaction is subject to conditions that have not yet been realized.

### **Expectations for the future and investment objective**

The outlook for the second half of 2008 still remains uncertain as shown by the negative developments on the stock market since the beginning of the year and the concerns about the economy. Nevertheless, the Fund will keep screening the market for additional investment opportunities that offer interesting perspectives in terms of value creation. The Fund will also further implement its active engagement strategies that were initiated so far.

The Fund Manager's objective is to achieve long term capital appreciation. Given the specific investment strategy of the Fund such as set forth in the Offering Memorandum, the Fund's returns may substantially deviate from market returns.

The Fund Manager has as objective to increase the Fund's assets in the future.

Amsterdam, 25 August 2008

The Fund Manager  
*Deminor Investment Management B.V.*

# Investment Policy

The investment objective of the Fund is to achieve capital growth by investing primarily in listed companies within Europe that are fundamentally sound, but whose shares or other financial instruments trade at discount towards peers or estimated intrinsic values and where shareholder engagement or other external factors can lead to improved performance and creation of value for the shareholders, independent of overall market trends.

The Fund aims at producing long-term positive returns over multiple market cycles through a combination of traditional value analysis, governance assessment and active engagement.

The Fund will pursue an active voting policy as part of its active engagement programs.

When fully invested, the Fund will typically have 10 to 15 core investments in target companies that it envisages to actively engage. The Fund will initially focus on Listed Companies in with Europe with market capitalisations between EUR 200 million and 1.5 billion.

The number of core investments or their respective market capitalisation may increase as the Fund's assets under management grow over time. In addition, outside the group of core investments, the Fund may take positions in listed companies where external factors can lead to improved performance and value creation. Positions will typically be held between 6 and 36 months, with a clearly defined exit once the previously defined value creation target is realized or regarded no longer possible, though it may be a much shorter or longer period depending on particular circumstances. Holdings may represent a substantial part of the total share capital of the target companies. The Manager may take advantage of short term market price movements to increase or decrease the Fund's positions.

The Fund may use derivatives (primarily listed options and futures), or other techniques (short selling) to hedge market, sector and currency risk.

The Manager will act as the manager (beheerder) of the Fund, subject to the terms of the placing documents. The Manager will act in the interest of the Unitholders. The Manager is governed by its Board of Directors. Certain members of the Board of Directors have been designated to act as the Fund's portfolio managers. The Board of Directors comprises one person who will be the Fund's risk & compliance officer. Investment decisions will be made by the Board of Directors on the basis of proposals submitted to it by the portfolio managers. The Board of Directors may instigate one or more committees, including an investment committee. If instituted, the investment committee shall inter alia approve or disapprove proposed investments of the Fund and monitor the compliance by the Fund with the placing documents, in particular the compliance with the Fund's investment strategy and restrictions. Absent an investment committee, the Board of Directors will perform the tasks and duties of the investment committee. Any reference to the investment committee throughout this offering memorandum shall apply to the Board of Directors if so and so long no investment committee has been instituted.

The Fund Manager

*Deminor Investment Management B.V.*

# Financial Report

## Deminor Active Governance Fund

### Balance sheet

(before profit appropriation)

	Note	30/06/2008 EUR	31/12/2007 EUR
<b>Investments</b>			
Shares	(4.1)	26,487,677	46,193,457
Convertible Private Bonds	(4.2)	3,776,324	1,202,760
Options	(4.3)	321,580	9,460
		<b>30,585,581</b>	47,405,677
<b>Receivables</b>			
Other receivables and prepaid expenses	(5.1)	1,287,823	-
Dividends	(5.1)	49,312	-
		<b>1,337,135</b>	-
<b>Other assets</b>			
Cash at banks	(6.1)	20,178,266	11,118,117
Intangible assets	(6.2)	66,652	76,618
Cash and cash equivalents		<b>20,244,918</b>	11,194,735
<b>Current liabilities (due within one year)</b>			
Due to security transactions	(7.1)	2,449,365	-
Other liabilities	(7.2)	217,231	280,918
		<b>2,666,596</b>	280,918
<b>Total of receivables and other assets less current liabilities</b>		<b>18,915,457</b>	10,913,817
<b>Total assets less current liabilities</b>		<b>49,501,038</b>	58,319,494
<b>Fund capital</b>			
Issued capital	(8.1)	60,038,402	60,846,844
Legal reserve	(8.2)	66,652	76,618
General reserve	(8.3)	-2,594,002	645,828
Undistributed earnings	(8.4)	-8,010,014	-3,249,796
		<b>49,501,038</b>	<b>58,319,494</b>
Net Asset Value per Unit		<b>83.82</b>	97.33

## Profit and loss account

	Note	01/01/2008 30/06/2008 EUR	01/01/2007 30/06/2007 EUR
<b>Income from investments</b>			
Dividends	(9.1)	700,552	464,248
Interest income	(9.2)	250,812	199,740
Distribution fees	(9.3)	32,505	-
		<b>983,869</b>	663,988
<b>Results on investments</b>			
Realized gains/-losses		-6,950,772	344,863
Unrealized gains/-losses		-1,597,050	4,174,788
		<b>-8,547,822</b>	4,519,651
<b>Total income</b>			
		<b>-7,563,953</b>	5,183,639
<b>Expenses</b>			
Investment management fees	(10.1)	392,731	1,041,025
Depository fee	(10.2)	2,959	2,951
Depreciation of intangible assets	(6.2)	9,966	9,938
Interest expenses		1,460	7,086
Other expenses	(10.3)	38,945	66,813
<b>Total expenses</b>			
		<b>446,061</b>	1,127,813
<b>Result of operation</b>			
		<b>-8,010,014</b>	4,055,826

## Cash flow statement

	<b>01/01/2008</b>	01/01/2007
	<b>30/06/2008</b>	30/06/2007
	<b>EUR</b>	EUR
<b>Cash flow from investment activities</b>		
Income from investments	983,869	663,988
Expenses	-446,061	-1,127,813
Depreciation of intangible assets	9,966	9,938
	<hr/>	<hr/>
Investment result	547,774	-453,887
Purchases	-43,024,608	-35,118,381
Sales	51,296,882	10,499,416
	<hr/>	<hr/>
	8,272,274	-24,618,965
Change in receivables	-1,337,135	-4,752
Change in current liabilities	2,385,678	-46,422
	<hr/>	<hr/>
	1,048,543	-51,174
<i>Cash flow from investment activities</i>	<hr/>	<hr/>
	9,868,591	-25,124,026
<b>Cash flow from financing activities</b>		
Received on shares issued	832,472	10,472,923
Paid on repurchased shares	-1,640,914	-5,497,800
Due to participants	-	-1,985,000
	<hr/>	<hr/>
<i>Cash flow from financing activities</i>	-808,442	2,990,123
<b>Change in cash</b>	<hr/>	<hr/>
	9,060,149	-22,133,903
Cash in bank	20,178,266	3,729,775
<b>Cash on 1 January</b>	11,118,117	25,863,678
Cash in bank	20,178,266	3,729,775
	<hr/>	<hr/>
<b>Cash on 30 June</b>	20,178,266	3,729,775

## Notes to the financial statements

### General information

The Deminor Active Governance Fund, has been incorporated on 2 November 2006 and has its corporate seat in Amsterdam, the Netherlands.

Investors can invest in the Deminor Active Governance Fund or indirectly, through the Feeder.

### 1 Principles of valuation of assets and liabilities

Financial statement have been drawn up in accordance with Dutch GAAP (Titel 9 Boek 2 BW).

#### *General*

Unless stated otherwise, assets and liabilities have been accounted at face value.

#### *Investments and financial instruments*

Investments are valued based on the following most important principles:

- listed securities with a regular marketability are valued at most recent stock market prices;
- any security which is neither listed nor quoted on any securities exchange or similar electronic system or if, being so listed or quoted, is not regularly traded thereon or in respect of which no regular prices are available, will be valued at its probable realisation value as determined by the Fund Manager in good faith having regard to its cost price, the price at which any recent transaction in the security may have been effected, the size of the holding having regard to the total amount of such security in issue and such other factors as the Fund Manager in its sole discretion deems relevant in considering a positive or negative adjustment to the valuation.
- Cash and deposits are valued at nominal value plus accrued interest.
- Investments, other than securities, which are not dealt in or traded through a clearing firm or an exchange or through a financial institution will be valued on the basis of the latest available valuation provided by the relevant counterparty.  
Any value other than Euros will be converted into Euros at the exchange rate which the Administrator in its absolute discretion deems applicable as at close of business on the relevant business day.

Expenses related to the purchase of investments are included in the cost of investments. These expenses are activated into the capital gains/losses due to the valuation at fair value. Sales charges, if any, are deducted from gross proceeds and will be expressed in the profit and loss account.

The Fund Manager and Depositary may, at their discretion, permit any other method of valuation to be used if they consider that such method of valuation better reflects value and is in accordance with good accounting practice.

#### *Intangible fixed assets*

The foundation and introduction expenses are capitalized at the start of the Fund and are subsequently depreciated on a straight-line basis in 5 years.

#### *Valuation foreign currency*

Assets and liabilities in foreign currencies are translated into Euros at the exchange rate at the balance sheet date. Income and expenses in foreign currencies are translated at the exchange rate as per the transaction date. All exchange differences are taken to the profit and loss account.

#### *Other assets and liabilities*

Other assets and liabilities are stated at nominal value. If required, provisions have been taken for questionable receivables.

### **Principles of result determination**

#### *General*

Income and expenditure are allocated to the financial year to which they relate.

#### *Dividends*

Dividend income is recorded on the ex-dividend date.

#### *Interest income*

Interest income and interest expenses are recognised in the income statement on an accrual basis using the original effective interest rate of the instrument and in line with the contractual terms. Interest is accrued on a daily basis.

#### *Tax position*

The Fund qualifies as a tax transparent mutual fund ('besloten fonds voor gemene rekening') for Dutch corporate tax purposes. Consequently, the Fund is not subject to Dutch corporate income tax. For Dutch tax purposes, the assets, liabilities, income, expenses and capital gains of the Fund are deemed to be assets, liabilities, income, expenses and capital gains of the Investors in the Fund pro rata to their interest in the Fund.

## **2 Risk factors**

#### *General*

An investment in the Fund carries a substantial degree of risk. The value of the Fund's underlying investments is subject to market fluctuations on the financial markets and risks that are inherent to investments.

There is no assurance or guarantee that the Fund's investment policy will be successful or that the Fund will realise its investment objectives. The Net Asset Value of Units may increase or decrease over time.

Unitholders should be aware that the return (if any) on their investment in the Fund is dependent on the value of the Fund's underlying investments. If the value of the underlying investments decreases, the return on a Unitholder's investment will also decrease. There is no assurance or guarantee that the Fund shall at all times be able to repay to a Unitholder any Redemption Amount.

Without prejudice to the foregoing, the value of the Fund's underlying investments may be affected inter alia if any of the risks identified below materialises, and, as a result, the Net Asset Value of a Unit may decrease.

#### *Market risks*

The value of the Fund's underlying investments is subject to market fluctuations on the financial markets.

The prices of securities may decrease globally, or on the stock markets in Europe. The Fund accepts market risks as inherent to its investment strategy and in general does not aim to protect against it by using market neutral hedging strategies.

#### *Concentration risks*

The prices of securities of an investee company or group of investee companies within the same sector may decrease due to circumstances that affect that particular investee company or sector. As a result, the Fund may sustain significant losses if it holds a large position in a particular investee company or group of investee companies within the same sector. In addition, it may not at all time be possible to timely sell or otherwise liquidate large positions of securities or other investments.

The Fund will generally seek to spread its investments among various sectors. However, the Fund will not decline investment opportunities for the reason that they lead to an overexposure to a specific sector.

The Fund investments will also depend on the existence of investment opportunities corresponding to the Funds's specific investment policy and objective. These opportunities may therefore have an influence on the number of investments made, which may be less than 10 at certain times, and on the diversity of the investment portfolio. Derivatives or short selling techniques may be used to hedge portfolio risks.

There can be no insurance or guarantee that an optimal use of derivatives or short selling techniques will, or can, at all times be made.

#### *Currency exposure*

The value of the Fund's underlying investments may be affected by fluctuations in currency rates. The currency exchange rate of the Euro may increase in relation to the currency in which the Fund's underlying investments are denominated. Derivatives may be used to hedge currency exposure. There can be no assurance or guarantee that an optimal use of derivatives will, or can, at all times be made.

#### *Lack of Liquidity*

It may not at all time be possible to timely sell or otherwise liquidate securities or other investments for the prices quoted on the relevant stock market or for their expected value due to a lack of liquidity of those securities or investments on such markets. The Fund may invest in stocks with a limited liquidity.

#### *Redemptions risks*

Redemptions may cause the Fund to dispose of investments in order to satisfy the aggregate Redemption Amounts payable in respect thereof under less favourable conditions than the Fund would have otherwise enjoyed upon a disposal of such investments.

#### *Counterparty, settlement risks and custody risks*

An issuing institution, or counterparty to a derivative, may fail to comply with one or more of its obligations vis-a-vis the Fund and losses may be sustained by the Fund as a result thereof.

Settlement through a clearing system may not take place as expected due a failure by the Funds counterparty to deliver the relevant securities or payment in respect thereof and losses may be sustained by the Fund as a result thereof.

Losses may be sustained by the Fund as a result of negligence, fraudulent behaviour and/or the liquidation, bankruptcy or insolvency, of the Depository, the Custodian Bank and any sub-custodian banks engaged by the Custodian Bank.

#### *Inflation*

Due to inflation, the relative value of Units may decrease. The Fund will not specifically hedge inflation risk or take other measures to mitigate this specific risk.

#### *Securities borrowing*

Securities borrowing transactions may result in borrowed securities having to be returned to the lender on a date earlier than expected in which case such securities may need to be purchased in the market against prices which are higher than anticipated. Any re-call of securities by the lender may cause the Fund not being able to purchase securities in the market for redelivery in which case the Fund may incur fines or penalties, or, alternatively, it may have to pay significantly higher prices to buy back the securities.

#### *Change in legislation*

The tax and regulatory environment for investment funds is evolving and changes therein may adversely affect the Fund's ability to pursue its investment strategies. The regulatory and/or tax environment for derivative and related instruments is evolving and may be subject to modification by government or judicial action which may adversely affect the value of the investments held by the Fund. The effect of any future regulatory or tax charge on the Fund is impossible to predict.

Active engagement programs may also require the Fund to comply with specific legal or regulatory provisions the breach of which may result in fines or other sanctions. The Manager will use its best efforts to have the Fund comply with such provisions. Changes in legislation may limit the Fund's ability to effectively conduct active engagement campaigns in the future.

The Feeder will opt for the status of a fiscal investment institution ("fiscale beleggingsinstelling"), pursuant to which it will be subject to a zero per cent rate of corporate income tax. If the Feeder will not comply with one of the conditions for the fiscal investment institution regime, it may lose its status and become subject to Dutch corporate income tax on its profits.

#### *Uncertain outcome of active engagements - Litigation*

The outcome of active engagements on behalf of the Fund is dependent on various factors and is difficult to predict. In some circumstances, active engagement programs may even lead to litigation, as it is the case for the Fund's investments in Arcelor and Electrabel (please see p. 6 and 8 for more details). The outcome of litigation is typically subject to various factors outside the Fund Manager's control. It may have an adverse impact on the Fund's investment.

#### *Lack of track record*

The Manager has no track record in managing investment portfolios. The Manager is a subsidiary of Deminor International, which has extensive experience and a reputable track record in the field of corporate governance and the defence of shareholder rights. Deminor International will put its expertise available to the Manager pursuant to a service agreement. However, Deminor International's experience is no guarantee for achieving the Fund's investment objectives. The investment performance of the Fund is substantially dependent on the services of key individuals who are responsible for managing the investments of the fund. These key individuals are connected with the Manager. In the event of death, disability, departure, insolvency or withdrawal of any of these key individuals, the performance of the Fund may be adversely affected.

#### *Short selling*

The Fund may use short selling techniques. As there is no limited downside to such transactions, the Fund may incur significant losses before short positions can be closed out. The Fund's vulnerability to potential losses incurred in short selling may be enlarged due to the illiquidity of the involved securities.

Losses on short selling may exceed the Net Asset Value of the Fund causing Unitholders to lose out on their entire investment in the Fund.

## Notes to the balance sheet

	<b>30/06/2008</b>	31/12/2007
	<b>EUR</b>	EUR
<b>4 Investments</b>		
<i>4.1 Statement of changes in securities</i>		
Balance at 1 January	46,193,457	22,487,068
Purchases	37,522,355	67,302,748
Sales	-48,456,593	-40,757,159
Realized gains/-losses on investments	-7,283,595	-140,300
Unrealized gains/-losses on investments	-1,487,947	-2,698,900
Balance at 30 June	<u>26,487,677</u>	<u>46,193,457</u>
Historical cost	30,044,934	48,262,768
<i>4.2 Statement of changes in convertible bonds</i>		
Balance at 1 January	1,202,760	-
Purchases	2,815,462	1,200,000
Unrealized gains/-losses on investments	-241,898	2,760
Balance at 30 June	<u>3,776,324</u>	<u>1,202,760</u>
Historical cost	4,015,462	1,200,000
<i>4.3 Statement of changes in options</i>		
Balance at 1 January	9,460	-
Purchases	2,686,791	905,806
Sales	-2,840,289	-382,064
Realized gains/-losses on investments	332,823	-371,522
Unrealized gains/-losses on investments	132,795	-142,760
Balance at 30 June	<u>321,580</u>	<u>9,460</u>
Historical cost	331,545	152,220
<b>5 Receivables</b>		
<i>5.1 Other assets and prepaid expenses</i>		
Other receivables and prepaid expenses	1,287,823	-
Dividends	49,312	-
Balance at 30 June	<u>1,337,135</u>	<u>-</u>

## 6 Other assets

### 6.1 Cash at banks

These include bank balances at free disposal of the Fund.

	<b>30/06/2008</b>	31/12/2007
	<b>EUR</b>	EUR
<i>6.2 Intangible assets</i>		
Balance at 1 January	<b>76,618</b>	96,659
Depreciation intangible assets	<b>-9,966</b>	-20,041
Balance at 30 June	<b>66,652</b>	76,618

The foundation and introduction expenses capitalized at the start of the Fund are depreciated in 5 years.

## 7 Current liabilities (due within one year)

### 7.1 Liabilities due to security transactions

This includes payables from unsettled security transactions as per balance sheet date and subscriptions due to participants.

### 7.2 Other liabilities

Accrued performance fee	-	-
Accrued expenses	<b>217,231</b>	280,918
Balance at 30 June	<b>217,231</b>	280,918

## 8 Fund capital

**units**

### 8.1 Issued capital

Balance at 1 January	<b>599,216</b>	<b>60,846,844</b>	42,787,921
Issued	<b>9,757</b>	<b>832,472</b>	23,556,723
Repurchased	<b>-18,413</b>	<b>-1,640,914</b>	-5,497,800
Balance at 30 June	<b>590,560</b>	<b>60,038,402</b>	60,846,844

#### *Redemption charge*

Unitholders wishing to redeem one or more Units shall not be required to pay a Redemption Charge, save in the event that the Units proposed to be redeemed were acquired within a period of two years prior the date of Redemption. The Redemption Charge shall accrue to the Fund.

The Redemption Charge (if any) payable subject to the terms of the Placing Documents equals:

- 5% of the relevant Redemption Amount during the first year.
- 4% of the relevant Redemption Amount during the first quarter of the second year.
- 3% of the relevant Redemption Amount during the second quarter of the second year.
- 2% of the relevant Redemption Amount during the third quarter of the second year.
- 1% of the relevant Redemption Amount during the fourth quarter of the second year.

#### *Subscription*

Units may be issued at the request of a Unitholder at their respective Net Asset Value. Subject to the terms of the placing document, units are issuable on the first business day of each calendar quarter (January, April, July and October), provided no suspension event shall have occurred or is continuing. The manager is authorised to fix additional dates for subscription of units.

Units will be issued against payment of the subscription amount. The number of units to be issued will be calculated by dividing the subscription amount by the Net asset Value per unit as per the business day immediately prior to the relevant date fixed for subscription. Fractions of units may be issued up to four decimal positions.

The minimum subscription amount payable by prospective investors wishing to invest in the Fund amounts to EUR 250,000. The manager may accept investments in the Fund for any lesser amount, provided no investor be permitted to invest in the Fund for an amount that falls below EUR 50,000. Unitholders can make further applications for units in one or more multiples of EUR 25,000.

	<b>30/06/2008</b>	31/12/2007
	<b>EUR</b>	EUR
8.2 <i>Legal reserve</i>		
Balance at 1 January	<b>76,618</b>	96,659
Release	<b>-9,966</b>	-20,041
Balance at 30 June	<b>66,652</b>	76,618

The legal reserve relates to the capitalized foundation and introduction expenses.

#### *8.3 General reserve*

Balance at 1 January	<b>645,828</b>	-96,659
Transferred from Legal reserve	<b>9,966</b>	20,041
Transferred from undistributed result	<b>-3,249,796</b>	722,446
Balance at 30 June	<b>-2,594,002</b>	645,828

<i>8.4 Undistributed result</i>	<b>30/06/2008</b>	31/12/2007
	<b>EUR</b>	EUR
Balance at 1 January	<b>-3,249,796</b>	722,446
Transferred to General reserve	<b>3,249,796</b>	-722,446
Result of the year	<b>-8,010,014</b>	-3,249,796
Balance at 30 June	<b>-8,010,014</b>	-3,249,796

## Notes to the Profit and Loss account

### 9 Income from investments

#### 9.1 Dividends

This refers to net cash dividend.

#### 9.2 Interest income

This includes the interest income in respect of the liquid assets held in the context of the investment activities.

#### 9.3 Distribution fees

This includes the subscription and redemptions fees.

	<b>01/01/2008</b>	01/01/2007
	<b>30/06/2008</b>	30/06/2007
	<b>EUR</b>	EUR
<b>10 Expenses</b>		
<i>10.1 Investment management fees</i>		
Performance fee	-	677,450
Management fee	<b>377,416</b>	363,575
Other investment management fee	<b>15,315</b>	-
	<b>392,731</b>	1,041,025

#### • *Performance fee*

The Performance Fee due to the Manager equals 20% of the increase in Net Asset Value of the Fund compared to the highest Net Asset Value of the Fund at the end of any calendar quarter in the preceding two years, adjusted for Subscriptions and Redemptions and distributions to Unitholders and after deduction of all cost and expenses (including the Management Fee) above a fixed hurdle rate of one quarter of the Euribor 3 months rate plus 50 bps. The relevant Euribor 3 months rate is the rate on the first Business Day of each calendar. The Performance Fee shall be calculated on a “high water mark” basis.

#### • *Management fee*

The Management Fee due to the Manager equals 0.375% of the Net Asset Value of the Fund (after deduction of the Performance fee of the previous quarter) per quarter and is payable at the beginning of each quarter. Other investment fees are fees directly related to the management of investments, like custody fee, transaction cost, expenses for lending securities.

#### 10.2 *Depositary fee*

The Depositary Charge of the Depositary equals EUR 5,000 (exclusive of VAT). The Depositary Charge shall be borne by the Fund.

#### 10.3 *Other expenses*

Administration fee	<b>23,669</b>	23,603
Auditor and fiscal advisor fee	<b>8,901</b>	8,877
Publicity expenses	<b>116</b>	-
Commissions and bank charges	<b>6,259</b>	3,890
Lawyers and notary fees	-	30,443
	<b>38,945</b>	66,813

#### *Related party information*

Deminor Investment Management BV is the manager of the Fund. The manager is a fully owned subsidiary of Deminor International. The manager will enter into a contract with Deminor International pursuant to which Deminor International or any of its subsidiaries will provide research, investment advice and services related to the manager. The manager of the Fund earned a management fee for the period 1 January 2008 to 30 June 2008 of EUR 377,416.

#### **Actual costs compared to prospectus**

The table hereunder presents a cost comparison between costs as described in the prospectus with the actual costs. A specific calculation of these costs is not available in advance as these costs are mostly future and variable costs and contingent upon circumstances arising.

<b>Expenses</b>	<b>Actual cost</b>	<b>Prospectus</b>	<b>Difference in %</b>
Management Fee	377,416	377,416	0%
Administration Fee	23,669	23,669	0%
Depository Fee	2,959	2,959	0%
	<u>404,044</u>	<u>404,044</u>	<u>0%</u>

Management-, Performance-, Administration and Depository Fee are charged to the Fund in accordance with the Prospectus. All other fees and expenses are negotiated by the Manager in the best interest of the Unitholders.

## **Other information**

#### *Expense ratio*

The expense ratio is calculated as following : total expenses divided by the average Net Asset Value of the Fund.

- Total expenses are the costs which are reported at the profit and loss account. The expenses related to subscriptions and redemptions covered by a mark-up or down as well as depreciation and interest expenses, will not be taken into account.
- The average Net Asset Value of the Fund is calculated as the sum of the Net Asset Value's divided by the number of Net Asset Value's. The average Net Asset Value of the Fund is based on the values at the followings date : 31 December 2007, 31 March 2008 and 30 June 2008 weighted 0,5 : 1 : 0,5.

The Expense ratio of the Fund for the period from 31 December 2007 to 30 June 2008 amounts: 0,83%.

#### *Turnover ratio*

The turnover rate is calculated as follows: total purchases and sales minus subscriptions and redemptions divided by the average NAV of the fund.

- The average Net Asset Value of the Fund is calculated as the sum of the Net Asset Value's divided by the number of Net Asset Value's. The average Net Asset Value of the Fund is based on the values at the followings date : 31 December 2007, 31 March 2008 and 30 June 2008 weighted 0,5 : 1 : 0,5

The turnover ratio of the Fund for the period from 31 December 2007 to 30 June 2008 amounts: 175,70%.

**The Fund has outsourced the following duties :**

*Administration*

The Fund has engaged Fastnet Netherlands N.V. to provide certain financial, accounting, administrative and other services to the Fund. The Administrator provides, subject to the overall direction of the Fund Manager, administrative services, for instance daily Net Asset Value calculation and general administration, of the Fund assets, register and transfer agent services. Furthermore, the Administrator provides information for the composition of the semi-annual and annual accounts. The Administrator receives a fee with a minimum of EUR 30,000 per year. The fee is based on the following applicable percentages related to the Net Asset Value:

EUR 25,000,000:	0,06%
in the range up to:	
EUR 50,000,000	0,05%
in the range up to:	
EUR 100,000,000	0,04%
in the range up to:	
EUR 200,000,000	0,03%

*Depositary activities*

Stichting Bewaarbedrijf Guestos, or any of its sub-depositaries is the Depositary. Stichting Bewaarbedrijf Guestos or any of its sub-depositaries is a foundation (stichting) under the laws of the Netherlands. Stichting Bewaarbedrijf Guestos is registered in the Trade Register at the Chamber of Commerce of Amsterdam under number 34145801. The board of directors of the Depositary presently comprises:  
Josef Gerard Marie Tabbers  
Jasper van der Sluis  
Karina Anna Christina Wirschell

The Depositary is specialised in the safekeeping of assets and liabilities of contractual investment funds such as the Fund and is known for being professional and reputable. The Depositary has no shareholders and is not affiliated with any company within the Deminor Group.

The purpose of the Depositary is limited to acting as Depositary ('bewaarder') of investment funds, including the acquisition, holding and disposal of legal title securities and other assets for the account of of such fund's investors. The Depositary shall act with due observance of the Placing Documents, solely upon the instructions of the Manager and in the interest of the Unitholders.

The Depositary shall be liable for damages to the extent such damages are the direct result of the gross negligence ('grove schuld of toerekenbare nalatigheid'), fraud or wilful misconduct ('opzet') of the Depositary in the performance or non-performance by it under the Placing Documents. The Depositary will be indemnified out of the Fund Assets for damages incurred by the Depositary for which it is not liable.

*Employees*

As previous years the Fund did not employ anyone.

*Security Lending*

The Fund has the possibility to create short positions. Therefore the Fund closed a loancontract. Due to this contract the Fund is able to loan securities and resale these to create an "open" short position. For this facility the Fund is due a lending fee.

Amsterdam, 25 August 2008

The Fund Manager  
*Deminor Investment Management B.V.*

Amsterdam, 25 August 2008

The Depositary  
*Stichting Bewaarbedrijf Guestos*

# Supplementary information

## **Distributions**

Article 15 of the Agreement of Management and Custody states:

### *Dividend policy*

The Fund's profits will, to the fullest extent possible, be re-invested and not distributed. Where distributions must be made, they shall be made pro rata to the number of Units held by a Unitholder. Distributions (if any) are declared due and payable by notification to the Unitholder and publication thereof on the Website.

Distributions (if any) will be made in cash.

## **Proposal profit destination**

The Fund Manager proposes not to distribute any interim dividend. The result of operation will be added to the General Reserve.

## **Manager's personal interest**

As per 30 June 2008 the Fund manager as well as the direction of the Fund do not have any holdings admitted in the Fund's portfolio.