Dragon Capital (Cyprus) Limited
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Dragon Capital (Cyprus) Limited

Disclosures in accordance with the Cyprus Securities and Exchange Commission Directive DI144-2007-05

As at 31 December 2010

authorised as Cypriot Investment Firm Regulated by the Cyprus Securities and Exchange Commission, License Number 112/10

May 2011

This report pertains to the "Disclosure and Market Discipline of Investment Firms" regulatory obligation as stipulated in Chapter 7 of Cyprus Securities and Exchange Commission's (CySEC's) Directive DI144-2007-05.
Under this regulatory obligation the firm is required to disclose information relating to the capital it holds and each material category of risk it faces in order to assist users of its accounts and to encourage market discipline. These disclosures aim to provide information on the risk exposures faced by the firm and the risk assessment process it has in place to monitor these exposures. The risk management objectives and policies of DRAGON CAPITAL (CYPRUS) LIMITED, hereinafter "The Company" are disclosed for each applicable category of risk, including the risks referred to under points 1 to 14 of the Appendix XII of CySEC's Directive DI144-2007-05 as these apply to Company's current risk exposures.

If risks referred to under points 1 to 14 do not apply, no reference is made.

Frequency
The Firm will be making these disclosures annually.

Media and Location
The disclosure will be published on our website: http://dragon-capital.com/en/about-us/dccl.

1. Overview

The E.U. Capital Requirements Directive (CRD) created a revised regulatory framework (commonly known as Basel II) governing how much capital firms are required to maintain.

The main purpose of the Basel II revisions was to make the framework more risk sensitive and representative of actual risk management practices. The new framework consists of three Pillars:
Pillar I sets out the new minimum capital requirements firms are required to meet;
Pillar II requires firms to assess their capital requirements in light of any specific risks not captured in the Pillar One calculations; and
Pillar III seeks to improve market discipline by requiring firms to publish certain details of their risks, capital and risk management.

In Cyprus, the CRD was implemented through the CySEC Directive for the Capital Requirements of Investment Firms of 2007, and the CySEC Directive for Large Exposures of IFs of 2007 (collectively, the Directive). Dragon Capital (Cyprus) Limited ("the Company") has prepared these disclosures in accordance with the requirements of the Directive. The Directive provides that an investment firm may omit one or more of the disclosures if it believes that the information is immaterial. Materiality is based on the criterion that the omission or misstatement of information would be likely to change or influence the decision of a reader relying on that information for the purpose of making economic decisions.

Where the Company has considered a disclosure to be immaterial, it has stated this in the document.

The Directive also permits investment firms to omit one or more of the required disclosures if it believes that the information is regarded as confidential or proprietary. The Directive defines proprietary as if sharing that information with the public would undermine its competitive position. It may include information on products or systems which, if shared with competitors, would render an investment firm's investments therein less valuable.

Confidential information is defined thus: information shall be regarded as confidential if there are obligations to customers or other counterparty relationships binding an investment firm to confidentiality. Where the Company has omitted information for either of these two reasons, it has stated this in the relevant section and the reasons for this.

2. Location and Frequency of Disclosure

The Company intends to make its Pillar III disclosures annually in a document other than the financial statements. The disclosures will be uploaded on the website of the Company.
These disclosures are based on the position of the Company as at 31st December 2010 after the audit for the financial statements, and are the first such disclosures made under the Directive.
The Company has commissioned auditors PricewaterhouseCoopers Ltd to verify its Pillar III disclosures. The Company is required by the Directive to provide a copy of the auditor's verification report to CySEC within five months of the (2010) year end.

3. Scope of Disclosure

The Company is making the disclosures on an individual basis.

4. Capital Management

The primary objective of the Company's capital management is to ensure that the Company complies with externally imposed capital requirements and that the Company maintains healthy capital ratios in order to support its business and to maximise shareholders' value.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities.

The Cyprus Securities and Exchange Commission requires each investment firm to maintain a minimum ratio of capital to risk weighted assets of 8%. The CySEC may impose additional capital requirements for risks not covered by Pillar I.

During 2010 the Company had fully complied with all externally imposed capital requirements as shown in the table below.

	2010
	(USD, '000)
Total Capital (Own Funds)	**3 072**
Risk weighted assets – Credit Risk	7
Risk weighted assets – Market Risk	469
Risk weighted assets – Operational Risk	27
Total Risks	*503*
Surplus Capital Against Total Risks	2 569
Total Capital Adequacy Ratio	***48,86%***

5. Risk Management

5.1. The Company's Risk Management Framework

The Company's risk management framework aims to establish, implement and maintain adequate policies and procedures designed to manage any type of risks relating to the Company's activities. The current risk management framework sets the process applied in the activities of and across the Company, designed to identify potential events that may affect its business, to manage risks to be within its risk appetite, and to provide reasonable assurance regarding the achievement of its mission and its objectives.

Communication of information at all relevant levels of the Company is defined by the organizational structure which clearly specifies reporting lines and allocates functions and responsibilities; the Company maintains internal reporting at various risk types, frequency, and depth of reports.

The Board has responsibility for the monitoring of the internal control mechanisms of the Company. The following are part of the responsibilities of the Board of Directors in relation to risk management according to the Internal Operation Manual of the company:

- The regular review (at least annually) of written reports concerning compliance, risk management and internal audit polices, procedures and work;
- To carry out regular reviews about the Company's risk management polices and procedures as implemented by the management.

The Board meets on a regular basis, and receives updates on risk and regulatory capital matters from management.

The Company has designed its risk management framework to be proportionate to the scale, nature and complexity of the business, and is comprised of the following components:
- Risk Management Department;
- General Manager;
- Board of Directors;
- Investment Committee.

5.2. Risk Categorisation

Credit Risk
Credit risk is the risk that the Company suffers losses as a result of customers and/or counterparties defaulting on their contractual obligations. This risk primarily arises from client and counterparty trading.

The principles which govern the Company and its credit risk responsibilities and procedures are as follows:
- The Company operates within a well defined credit granting criteria;
- The Company has clear established process in place for approving new trading limits and amendments and reviews of limits already in existence;
- Risk Management must set trading limits before counterparties can begin trading;
- Only Head of Risk Management can approve the limits, which must be validated prior by the Company's risk committee;
- The Company has procedures in place which allow for timely monitoring of trading limits;
- The Company has escalation procedures in place for managing and resolving trading limit breaches.

The Company uses for accounting purposes the following definitions for "past due" and "impaired":
- A financial asset is past due when counterparty has failed to make a payment when it was contractually due. The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A debt is impaired if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the liability (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the debt or the group of debts, that can be reliably estimated;
- An allowance for debt impairment is established if there is objective evidence that the Company will not be able to collect all amounts due according to the original due dates. The amount of provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate.

During the year there were no past due or impaired balances within financial assets classified in the loans and receivables category. It should also be noted that in 2010 the Company did not make any allowances/provisions for debt impairment.

Market Risk
Market risk is the risk associated with changes in market prices, i.e. changes in equity and fixed income instruments, which may have a direct impact on the Company's net income.

With regards to managing its exposure to market risk, the Company performs daily mark-to – market valuations on unsettled trades (which includes pending settlement) and traded positions, with the additional measure of stop-loss methodology in place. This very process of managing the exposure to market risk is performed independent of the business with the function housed within Risk Management.

Liquidity Risk
At present due to low volumes and product coverage the Company is of the opinion that liquidity risk exposure does not come into play at present.

Operational Risk
Operational risk is the risk of loss arising from fraud, unauthorized activities, error, omission, inefficiency, systems failure or external events. The Company manages its operational risk exposure, primarily through:

- Operational work-flow charts, which illustrate the entire work-flow from inception to closure, which identify manual and electronic processing, thus allowing the Company to make informed and balanced decision with regards to the effectiveness of current controls;
- Incident management logs, which document all incidents, financial and possible financial impact and the subsequent follow up / action plan;
- Risk reviews and Assessment, performed by Risk Management Department.

6. Capital Resources

6.1. Company's Own Funds

The own funds of the Company are comprised entirely by Tier 1 capital. As at the 31st of December 2010, the level of own funds was at USD 3,072 mln. Table 1 below shows a breakdown of the own funds as at 31/12/10. The Capital Adequacy Ratio at that time was 48,86%. The calculations of Capital Adequacy Ratio contain the information disclosed in the audited financial statements for the year end 2010.

Own Funds	**(USD, '000)**
Share Capital	10
Share premium	20 051
Reserves	(1 318)
Deducting holdings of share capital of non-consolidated entities	(15 671)
Total Own Funds	***3 072***

6.2. Non-consolidated entities

The Company has shareholdings of non-trading nature in two entities: Sablink Limited (registered No. HE 173077) - 10,13%; and Starspace Limited (registered No. HE 195668) - 56,64%. Sablink and Starspace conduct activities of a different nature than those of investment companies therefore they are not a subject to Pilar III Disclosure.

The Company's audited financial statements do not contain financial information as the parent of a group. The Company has taken an advantage of the exemption under IAS 27 "Consolidated and

Separate Financial Statements" and the Cyprus Companies Law, Cap.113, from the requirement to prepare consolidated financial statements as the Company and its subsidiary are included in financial statements of Dragon Capital Holding Limited.

7. Credit, Market and Operational Risk Capital Requirements

The capital requirements for the three risks covered by Pillar I of the Directive are as follows:

Total Capital (Own Funds)	**3 072**
Risk weighted assets – Credit Risk	7
Risk weighted assets – Market Risk	469
Risk weighted assets – Operational Risk	27
Total Risks	***503***

Following we will analyze the exposures and calculation of capital requirements for each risk mentioned in the above table.

7.1. Credit Risk

The table below shows the exposure to credit risk.

	Exposure to credit risk
	2010
	(USD, '000)
Risk weighted assets:	
Cash	12,5
Fees Receivable & Other Assets	162,5
Total risk weighted assets	175
Credit Risk (8% of total risk weighted assets)	***7***

Standardised Credit Risk Exposure Class
The exposure classes under which the assets of the Company have been allocated under the Standardised approach are as shown in the Table below. There were no exposures to other risk classes available under the Standardised Approach.

Standardised Credit Risk Exposure Class	Net Position (USD, '000)	Risk Weighted Exposure (USD, '000)	8% of Risk Weighted Exposure (USD, '000)
Corporates	31,9	31,9	2,6
Institutions	12,5	2,8	0,2
Admin bodies	94,4	18,9	1,5
Other Items	36,1	36,1	2,9
TOTAL	***175***	***89,7***	***7,2***

Exposures by Geographical Distribution, (USD, '000)

Country	Corporates	Institutions	Admin bodies	Other Items	Total
Cyprus		11,5	94,4	32,34	138,26
Czech Republic		1			1
Poland					0
USA				3,8	3,8
Ukraine	31,9				31,9
Total	***31,9***	***12,5***	***94,4***	***36,1***	***175***

Exposures by Industry or Counterparty Type, (USD, '000)

Industry/ Counterparty Type	Corporates	Institutions	Admin bodies	Other Items	Total
Banking		12,5			12,5
Finance	31,9		92,2		124,1
Others			2,2	36,1	38,3
Total	***31,9***	***12,5***	***94,4***	***36,1***	***175***

Exposures by Residual Maturity, (USD, '000)

Maturity	Corporates	Institutions	Admin bodies	Other Items	Total
Less than 1 year	31,9		2,2	36,1	70,2
Other maturities (if applicable)					
Indefinite maturity		12,5	92,2		104,7
Total	***31,9***	***12,5***	***94,4***	***36,1***	***175***

Credit Assessments

The Company uses external ratings of Fitch as one of the eligible External Credit Assessment Institutions recognized by CySEC. The Company has chosen to use Fitch Ratings for all assets classes under the Standardised Approach. The use of Fitch Rating is in compliance with the requirements of the Directive, and is used consistently for all exposures in a specific asset class. These ratings are used for all relevant exposure classes if the exposure is rated under these ratings.

The exposures are classified into the above exposure classes, and are then ranked into respective credit quality steps, that determine the risk-weight to be used in accordance with the provisions of the Directive.

The Company uses the same external ratings technique for the items not included in the trading book when applicable.

Interest Rate Risk on Positions not Included in the Trading Book

Interest rate risk is the risk that movements in interest rates will have an adverse impact on the Company's income or the value of its portfolios of financial instruments. The Company's Risk Manager monitors the interest rate fluctuations on a continuous basis and acts accordingly. As at the year end the Company had no interest rate risk exposures as its non-trading book positions are insensitive to interest rate fluctuations.

7.2. Market Risk

The capital requirements for market risk consist of capital requirements for position risk and foreign exchange risk.

Capital requirements for:	**(USD, '000)**
Traded debt instruments risk	286
Equity risk	107
Foreign exchange risk	76
Total Capital Requirements for Market Risk	***469***

Traded Debt Instruments and Equity Risk

The Company's trading book exposure is presented in the table below.

	Net Position (USD, '000)	**General-Risk Component**	**Specific-Risk Component**	**Total Risk-Weighted Positions**
Debt Instruments	***2 053***	***39,9***	***246***	***286***
Maturity >6<=12 months	510	3,6	-	-
Maturity >1<=2 years	181	2,3	-	-
Maturity >3<=4 years	680	15,3	-	-
Maturity >4<=5 years	683	18,8	-	-
Equity	***888***	***71***	***35,5***	***106,5***
Total position risk				***393***

Foreign Exchange Risk

The table below shows the Company's exposure to foreign exchange risk.

	Exposure to foreign exchange risk		
	Net Position		
	Assets (Long)	Liabilities (Short)	**Overall Net FX Position**
2010	(USD, '000)	(USD, '000)	**(USD, '000)**
EUR	556	38	518
GBP	434	0	434
Total foreign exchange risk			***76***

7.3. Operational Risk

In order to assess the operational risk the Company considers the Basic Indicator Approach as the most appropriate method to assess its ongoing operational risk capital requirements. Accordingly, the Company applied the average, on a two year basis, of the net income calculated in accordance with the requirements of the Directive. The net income in year 2008 was zero and for this reason this year is excluded from the calculations. The net income of the Company for the year ended 31.12.2010 consists only of income from dealing on own account.

An operational risk capital charge of USD 27 thousand has been calculated using the method mentioned above. In the following table we analyse the calculation of the capital requirements for Operational Risk with the Basic Indicator Approach.

Operational Risk Capital Requirements Basic Indicator Approach			
(USD, '000)	**2008**	**2009**	**2010**
Operating Income	n/a	0,79	357,76
Average	***179,3***		
Capital Requirement	***27***		

Equities not Included in the Trading Book
Sablink and Starspace are real estate businesses that have been acquired with the purpose of holding, managing and receiving capital gain. The Company uses its management judgment for valuation of these investments.

Financial assets designated as at fair value through profit or loss at inception are those that are managed and whose performance is evaluated on a fair value basis, in accordance with the Company's documented investment strategy. Information about these financial assets is provided internally on a fair value basis to the Company's key management personnel. The Company's investment strategy is to invest free cash resources in equity securities as part of the Company's long-term capital growth strategy.

As at 31 December 2010 the Board of Directors classified the investment in Starspace Limited with carrying value of USD 12,92 mln, which come within the International Financial Reporting Standards definition of Subsidiaries, as financial asset designated at fair value through profit or loss and accounted for in accordance with IAS 39. The Board of Directors classified the investment in Sablink Limited with carrying value of USD 2,76 mln as designated at fair value through profit or loss.

The Company conducted no disposals and revaluations in 2010 for Sablink and Starspace, therefore there are no respective cumulative realized gains or losses and no respective unrealized gains or losses.