KAB STRATEGY LIMITED

DISCLOSURE AND MARKET DISCIPLINE

KAB Strategy Limited

MAY 2013

ACCORDING TO CHAPTER 7 (PAR.34-38) OF PART C AND ANNEX XII OF THE CYPRUS SECURITIES AND EXCHANGE COMMISSION'S DIRECTIVE DI144-2007-05 of 2012 FOR THE CAPITAL REQUIREMENTS OF INVESTMENT FIRMS

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1 Introduction

KAB Strategy Limited (the "Company") was incorporated in Cyprus on 28 September 2005 as a private limited liability company under the Cyprus Companies Law, Cap. 113, with a view of eventually providing a general electronic exchange platform for financial institution services to high net worth individuals and institutions in China and the Middle East.

In 2005, the Company received authorisation from the Cyprus Securities and Exchange Commission (hereafter the “CySEC”) to operate as a Cypriot Investment Firm under license number 058/05 and registration number HE 165975.

The Company currently offers the following investment and auxiliary services:

Investment Services
Reception and transmission of orders in relation to one or more financial instruments
Execution of orders on behalf of clients
Portfolio management

Auxiliary Services
Safekeeping and administration of financial instruments, including custodianship and related services
Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction
Investment research and financial analysis or other forms

2 Scope of Application

This report has been prepared in accordance with the requirements of Directive DI144-2007-05 of 2012 of the Cyprus Securities and Exchange Commission for the Capital Requirements of Investment Firms. It relates to the year ended 31 December 2012 and is prepared on an individual (solo) basis. The Company will make this report available on its website.

The Directive is based on three pillars:

1. Pillar I has to do with the standards that set out the minimum regulatory capital requirements required for credit, market and operational risk

2. Pillar II covers the Supervisory Review Process which assesses the internal capital adequacy processes. Under this pillar, investment firms have to evaluate and assess their internal capital requirements

3. Pillar III covers transparency and relates to the obligation of investment firms to publicly disclose information with respect to their risks, their capital and the risk management structures, policies and procedures they have in place

3 Risk Management Objectives and Policies

Board of Directors

The Company's Board of Directors carries the ultimate responsibility for overlooking the operations of the Company and ensuring that all risks to which the Company is exposed are adequately and appropriately managed.

In addition, the following functions are responsible for the management and control of the Company's risks:

Control Committee

The main task of the Control Committee is to monitor the fund manager's investment philosophy and strategy, day-to-day trading operations and customer account status. The Committee also assesses and manages the investment and operational risks. In addition, it regularly reviews the macro-trend analysis of businesses and prospects, analyzes data and other information provided, makes strategic recommendations to fund managers and offers other professional advice and recommendations.

Risk Management

The Risk Management function operates independently and is responsible for monitoring:

- The adequacy and effectiveness of the Company's risk management policies and procedures
- The level of compliance by the Company and its relevant persons with the arrangements, processes and mechanisms adopted to manage and control risks
- The adequacy and effectiveness of measures taken to address any deficiencies in those policies, procedures, arrangements, processes and mechanisms, including failures by the relevant persons of the Company to comply with such arrangements, processes and mechanisms or follow such policies and procedures

In addition, the Risk Manager carries the responsibility for preparing the following reports:

- In the event of any deficiency, a report is immediately submitted to the Board of Directors indicating whether the appropriate measures have been taken to remedy the deficiency in question
- On a frequent basis and at least annually, a report is made to the Board stating the different risks faced by the Company during the reference year and discussing the measures taken to manage these risks, while also commenting on the adequacy of the said measures and the need for further action

Internal Audit

The Internal Audit function ensures that there is adequate planning, control and recording of all audit and review work performed, that there is timely reporting of findings, conclusions and recommendations to the Board of Directors, and that matters or risks highlighted in the relevant reports are followed up and resolved satisfactorily. The internal auditors report directly to the Board of Directors though a written internal audit report prepared annually.

Compliance and Money Laundering Officer

The Compliance and Money Laundering Officer is independent of all operational and business functions and reports directly to the Board of Directors. More specifically, this officer has the following duties:

- To review changes in legislation and assess the implications for the Company
- To develop specific compliance procedures and provide guidance to management on compliance issues
- To assure that legal and regulatory responsibilities are understood and are taken into account when new activities or changes in the business are under consideration
- To perform ad-hoc projects or reviews as requested by the supervisory authorities, the General Manager or the Head Office
- To train and educate staff with regards to their and the Company's responsibilities
- To advise management on the best way to achieve cost-effective compliance
- To report breaches of the rules to the related regulatory authorities and assist monitoring teams during inspection visits
- To invite and accept personnel reports prepared with relation to any suspicious issues that may arise
- To immediately report to the Board of Directors and the Internal Auditor once confirming the matter's existence, providing solutions and/or recommendations

The Company's risk policies, measurements and reporting methodologies are subject to regular review, particularly prior to the commencement of the provision of new services or products, or when there are significant changes to the products, services or relevant legislation, rules or regulations that might impact its risk exposure.

3.1 Credit risk

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the reporting date.

The Company has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history and monitors on a continuous basis the ageing profile of its receivables. In addition, the Company has policies to limit the amount of credit exposure to any financial institution.

Moreover, the Company ensures that the credit risks posed by all counterparties belonging to the same group of companies are aggregated for purposes of measuring its credit risk exposure. Credit risk exposures are netted only if supported by appropriate executed netting agreements or other appropriate protections.

The Cyprus government has been negotiating with the European Commission, the European Central Bank and the International Monetary Fund, as well as third parties, in order to obtain financing. As a result of the ongoing negotiations and the difficulties faced by the two largest banks in Cyprus, there are uncertainties relating to the Company's bank deposits maintained with the local bank institutions. As at 31 December 2012, the Company's deposits with local bank institutions amounted to USD 252 thousand.

3.2 Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Company has procedures with the object of minimizing such losses such as maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities.

3.3 Market price risk

Market price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices. The Company's available-for-sale financial assets and financial assets at fair value through profit or loss are susceptible to market price risk arising from uncertainties about future prices of the investments. The Company's market price risk is managed though diversification of the investment portfolio.

3.3.1 Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Company's measurement currency.

The Company is exposed to foreign exchange risk arising from various currency exposures with respect to the Hong Kong Dollar and the Euro. The Company's management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

3.3.2 Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. Borrowings issued at variable rates expose the Company to cash flow interest rate risk. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. The Company's management monitors the interest rate fluctuations all a continuous basis and acts accordingly.

3.4 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

The Company’s management regularly reviews the Company’s operations to ensure that the risk of losses resulting from fraud, errors, omissions and other operational and compliance matters, is adequately managed. Operational matters include:

a. Physical and functional segregation of incompatible duties such as trade, settlement, risk management and accounting

b. Effective segregation of the Compliance and Internal Audit functions from line operational duties and related supervisory functions, and direct reporting of their actions to management

c. Maintenance and timely production of proper and adequate accounting and other records, and the ability to detect fraud, errors, omissions and other non-compliance with external and internal requirements

d. Security and reliability of accounting and other information, such as exception reports which should accurately highlight unusual activities and facilitate the detection of fraud, errors and significant trends

e. Staffing adequacy, including personnel with proper and sufficient skills and experience to minimize the risk of loss due to the absence or departure of “key” staff members

f. Implementation of appropriate and effective electronic data processing and data security policies and procedures to prevent and detect the occurrence of errors, omissions or unauthorized insertion, alteration or deletion of, or intrusion into, the Company’s data processing system (electronic or otherwise) and data (covering all confidential information in the Company’s possession, such as clients’ personal and financial information and price sensitive information)

g. Daily and weekly back-up of the Company’s server, which includes client personal information and client transaction details, among others

h. Use of error reports for the purpose of locating system errors and taking immediate action to resolve them

3.5 Other risks

The general economic environment prevailing in Cyprus and internationally may affect the Company's operations to a great extent. Economic conditions such as inflation, unemployment, and development of the gross domestic product are directly linked to the economic course of every country and any variation in these and the economic environment in general may create chain reactions in all areas, thus affecting the Company.

4 Capital Base

The Own Funds of the Company as at 31 December 2012 consisted solely of Tier 1 capital and are analyzed in Table 1 below:

Table 1: Eligible Own Funds

Eligible Own Funds	**As at 31/12/2012 (USD '000)**
Tier 1 Capital	
Paid up Share Capital	1.437
Reserves	328
Income from current year (audited)	547
Total Tier 1 Capital	**2.312**
Total Own Funds (before deductions)	
Deductions	
Intangible assets	(531)
Total Deductions	**(531)**
Total Eligible Own Funds	**1.781**

Share capital

The Company's share capital consisted of 1.000.002 ordinary shares of USD1,43658 (€1) each. The Company manages its capital to ensure that it will be able to continue as a going concern while increasing the return to its shareholders.

5 Capital Requirements

As shown in Table 2 below, the total capital requirements of KAB Strategy Limited as at 31 December 2012 amounted to USD 515 thousand, producing a capital adequacy ratio of 27,66%. The Company aims to always maintain a high ratio, well above the required minimum of 8%.

Table 2 : Capital Requirements per Category of Risk

Risk Category	As at 31/12/2012 (USD ‘000)
Credit Risk	146
Foreign Exchange Risk	138
Operational Risk	231
Total Capital Requirements	**515**
Capital Adequacy Ratio	**27,66%**

5.1 Credit Risk

The Company follows the Standardised Approach for the calculation of the minimum capital requirements for credit risk.

The following table presents the allocation of credit risk exposures by asset class, as at 31/12/2012:

Table 3 : Credit Risk Exposure by Asset Class

Asset class	Average Exposure (USD ‘000)	As at 31/12/2012 (USD ‘000)	
		Total Exposure	Capital Requirement
Institutions	1.291	1.594	25
Corporate	579	1.482	119
Other Items	38	31	2
Total	**1.908**	**3.107**	**146**

Table 4 below presents the Company’s exposures by residual maturity. We note that the Company does not keep any collaterals in relation to its credit risk exposures. Also, as at 31/12/2012 KAB Strategy Limited did not make any provisions, nor did it recognize any impairment losses.

Table 4 : Credit Risk Exposure by Residual Maturity

Asset class	As at 31/12/2012 (USD '000)		
	Residual Maturity ≤ 3 months	Residual Maturity > 3 months	Total
Institutions	1.594	-	**1.594**
Corporate	1.402	80	**1.482**
Other Items	-	31	**31**
Total	**2.996**	**111**	***3.107***

The following table presents the geographic distribution of the credit risk exposures of the Company, as at year end:

Table 5: Credit Risk Exposure by Country

Asset class	As at 31/12/2012 (USD '000)			
	Cyprus	China	Hong Kong	Total
Institutions	252	-	1.342	**1.594**
Corporate	83	1.224	175	**1.482**
Other Items	31	-	-	**31**
Total	**366**	**1.224**	**1.517**	***3.107***

Table 6 below analyses the Company's credit risk exposures by industry sector:

Table 6: Credit Risk Exposure by Industry

Asset class	As at 31/12/2012 (USD '000)			
	Financial	Private Individuals	Other	Total
Institutions	1.594	-	-	**1.594**
Corporate	254	1.224	4	**1.482**
Other Items	-	-	31	**31**
Total	**1.849**	**1.224**	**35**	***3.107***

For rating its credit risk exposures, the Company uses the credit ratings of Moody's. As at 31st of December 2012, all Corporate counterparties were unrated and therefore credit ratings were used only for exposures to Institutions. A breakdown of these exposures by Credit Quality Step is provided in Table 7 below:

Table 7: Credit Risk Exposure by CQS

Asset class	As at 31/12/2012 (USD '000)		
	CQS 1	CQS 3	Total
Institutions	1.342	252	**1.594**

5.2 Market Risk

As at year end, the Company was exposed to currency risk, arising from its exposures in the Euro and the Hong Kong dollar. The capital requirement that resulted from these exposures amounted to USD 138 thousand.

5.3 Operational Risk

The Company applies the Basic Indicator Approach for calculating the amount of capital required under the minimum regulatory capital requirements for Operational Risk. As at 31 December 2012, the minimum capital requirements under this approach, and based on the gross-income average of the last three years, amounted to USD 231 thousand.

6 Remuneration Disclosures

The remuneration policy of the Company is set by the Senior Management and the Board of Directors. The remuneration levels of management and staff are determined after taking into consideration each person's skills, knowledge and performance of his/her duties, as well as the rates that prevail in the market for similar positions. Salary increases are decided by the shareholder after receiving feedback from the executive directors with regards to the performance of each employee and the Company as a whole.

In 2012, the remuneration structure of KAB Strategy Limited included only fixed monthly salaries and not any variable cash or non-cash compensation.

Table 7 below presents the 2012 annual gross remuneration of Senior Management, executive directors and other staff whose actions have a material impact on the risk profile of the Company. Senior Management consists of the Company's General Manager, while Other Staff includes the Back Office / Administrative Officer, who also holds the position of the Marketing and Sales Manager.

Table 7: Gross Remuneration of Management Body and Other Staff

	As at 31/12/2012 (USD '000)		
	Cash-fixed	**Cash-variable**	**Total**
Senior Management & Executive Directors	109	-	109
Other Staff	22	-	22
Total	**131**	**-**	***131***