Jade Road Investments Ltd

21 January 2021

Applying experience in Asian SMEs

Jade Road Investments Ltd provides finance to Asia-based Small and Medium Enterprises (SMEs), a business segment materially underserved by the region's traditional banks and investors. By targeting that broad subsector, Jade Road can access an immense market in which it can leverage both its capital, and its investment manager's direct relevant experience.

The proposition is at a relatively early stage of roll out, with cash in place to finance further investments from a burgeoning pipeline. The existing portfolio is reported to have navigated the challenges presented by COVID-19. New investment should enable Jade Road to ratchet up net returns and visible cashflows, which would support its plan to deliver progressive shareholder distributions.

Name change reflects the Company's heritage and identity

Jade Road changed its name from Adamas Finance Asia Ltd on 18 January 2021. Its strategy is to build a brand which better reflects its Asian heritage, the wider investment scope which had underpinned its portfolio construction since it appointed a new Investment Manager, Harmony Capital Investors Limited, in May 2017, and its intention to connect Western and Middle East investment capital with Far East markets. This Note recaps Jade Road's recent history and outlook. We covered individual investments in detail in previous updates.

JADE ROAD

Strategic progress reflected in results

The Company saw a **six-fold plus increase in gross portfolio income in FY19 to USD2.24m**, in line with the ongoing repositioning of its investment portfolio. That period was pre COVID-19, but Jade Road does not expect any material impact on portfolio valuations for FY20. Each investment is actively managing its operational exposure to mitigate any potential impact. H1 20 gross income was USD1.19m (H1 19: USD1.25m).

The Company plans to build its investment portfolio significantly over the next few years towards a multiple of its current size. At this stage, however, each new acquisition could move the dial significantly and in addition, the portfolio is still weighted towards legacy holdings which are not fully aligned with the revised investment approach. The core strategy is to build a base of income generating assets that covers overheads, management fees and finance costs, with a growing surplus to fund dividends.

Valuation gap

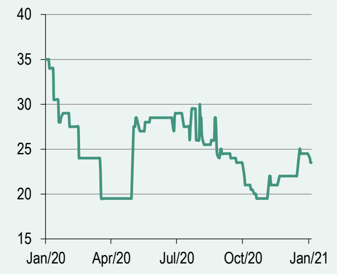
The current value reflects some of the inherent uncertainty in an early-stage investment strategy. Yet the variables and risks appear more than offset by a huge 66% discount to underlying 90c proforma NAV/share, itself based on a conservative assessment of fair value.

That gap should close with positive newsflow on investments and progress to stabilise the outlook for the remaining non-core legacy holdings, in particular the Chinese dolomite quarry operation Future Metal Holdings (FMHL).

Company Data

EPIC	JADE
Price (last close)	24p
52 weeks Hi/Lo	36.0p/19.5p
Proforma NAV/share	66p
Market cap	£27m

Share Price, p



Source: ADVFN

Description

Jade Road Investments Ltd intends to be the leading London-quoted, pan-Asian focused investment vehicle. It provides finance to a diversified portfolio of established and emerging SMEs across Asia. Its stated objective is to provide shareholders with attractive risk adjusted income, with potential for income and capital growth, from unique access to income generating assets.

Jade Road appointed Harmony Capital Investors Limited (Harmony Capital) as investment manager in May 2017. Harmony Capital has an established track record as an Asia based investor, with local networks and expertise, and disciplined risk

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Background

Jade Road holds a diversified portfolio of pan-Asian investments and the cash to finance these entities' ongoing growth and new investments from its pipeline. The portfolio includes holdings acquired by both the previous investment manager and by Harmony Capital since its appointment in May 2017.

The Company will continue to invest in its assets to build their potential, although it may seek exits when it can achieve suitable terms for an IPO or a trade sale. The portfolio fits an investment strategy designed to build a well-diversified revenue base to cover all overheads, management fees, shareholder distributions and a surplus to support further acquisitions.

Portfolio overview

Company	Description	Valuation 30 Jun '20 USDm	Valuation 31 Dec '19 USDm
Future Metal Holdings Limited	The largest magnesium dolomite quarry in Shanxi Province, China	45.3	44.7
Fook Lam Moon Holdings	Convertible bond issued to Jade Road by Hong Kong food & beverage business	27.8	27.5
Meize Energy Industries Holdings Limited	Designs and manufactures blades for wind turbines	8.2	8.2
Infinity Capital Group	Senior secured loan to developer of luxury residential properties in Niseko, Japan	2.2	2.1
Infinity TNP/Tellus Niseko	Wholly owned subsidiary of ICG owns seven units in luxury hotel condo	7.3	7.3
DocDoc	Leading pan-Asian virtual network of physicians, clinics, and hospitals	2.3	2.2
GCCF & Other Investments	Private equity investment	8.8	8.9
		101.9	**100.9**
Corporate debt		(3.5)	(1.9)
Other Liabilities		(1.2)	(2.2)
Cash		3.0	4.1
		100.2	**100.9**

Source: Jade Road interim statement

Jade Road raised **USD1.7m** earlier this year via subscriptions to its corporate bond and another £1.9m (gross) from an equity issue which closed this month. Other acquisitions are undergoing detailed review, from a pipeline of potential opportunities in IT, fintech, healthcare and online commerce.

Catalysts for rerating include greater certainty and visibility regarding the timing and scale of recent additions to the portfolio and potential sales of some longer held assets. The latter is important, as these remain a material component of Jade Road's portfolio valuation and their performance will influence EPS and NAV.

Hence, some certainty regarding their ultimate destination will permit a new focus on prospects for the core portfolio, which we expect will grow via acquisition over the next 18 months.

Three-year strategy: first phase to restructure legacy portfolio

Harmony Capital initially set out a three-year strategy to reposition and relaunch Jade Road. The Investment Manager has taken an active approach to rehabilitating legacy assets to unlock value and will continue to seek opportunities to monetise assets which no longer fit the revised investment policy. Cash will be reinvested in new income-generating assets.

Strategic Steps

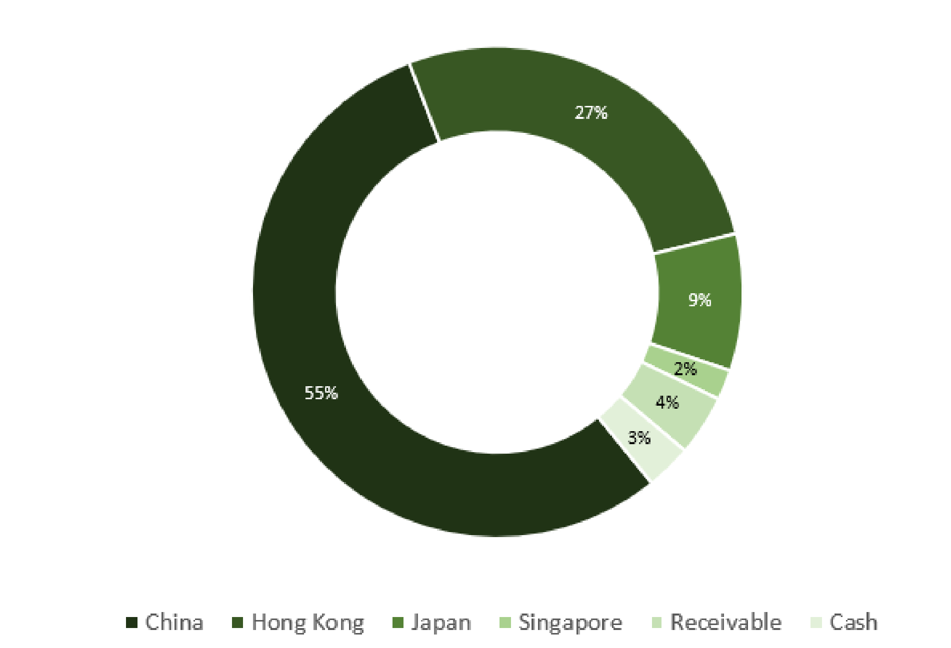
Phase 1 Ongoing	Disposal of non-core holdings Restructuring of Legacy Portfolio Execute Investment Strategy to build New Portfolio of Pan-Asian investments providing income and capital gain
Phase 2 Underway	Continued build out of new portfolio (secured loans with warrants, convertible bonds, pre-IPO finance, mezzanine debt etc.) Target dividend payments Primary Share placements
Phase 3 36 months+	Build strategic investments in fintech, healthcare, consumer and real estate Steady State New Portfolio (+15% Gross IRR Target at Portfolio level) Stabilised Dividend Yield

Source: Company

Investment targets more developed economies

The strategic goal for the next two to three years is to increase the income from the portfolio so that the Company can generate dividends eventually whilst also further diversifying the geographic exposure in the portfolio and continue to reduce the exposure to China.

Geographic spread



Source: Company

Jade Road's investment strategy targets uncorrelated returns via a diverse portfolio of pan-Asian assets. Investment will be weighted towards more developed countries like Japan, Singapore, Hong Kong, Australia, and China amongst others. Harmony Capital believes that these provide particularly attractive opportunities e.g., associated with national objectives such as the China's Belt and Road Initiative.

From a corporate perspective, Jade Road sees strong appeal in the vibrant start-up environment in regions such as Hong Kong and Singapore and expects this to provide opportunities via its Investment Manager's wide Asian network.

Both within the new core portfolio and over the medium-term, Jade Road plans to limit single country and industry exposures to 20% of the overall portfolio and reduce portfolio exposure to China towards 30-40% in the near term. The latter will be achieved as Jade Road continues to restructure its legacy portfolio. As the Company achieves critical mass the new portfolio would be split across Asia with exposure to developing and mature economies. The most recent investments fit this mandate and provide immediate attractive income. That reaffirms the potential for dividends and capital growth over the medium term.

Security and downside protection

The attitude to risk reflects the experience of Jade Road gained during the Global Financial Crisis. This seasoned the approach to management of downside scenarios. It seeks to structure investments, including the use of hybrid instruments, to address risks not initially apparent.

In a market in which Asian SMEs are increasingly starved of capital, Jade Road has seen opportunities to negotiate and invest in structured instruments. Its preference for income-generating assets puts an emphasis on credit instruments such as secured debt or non-mandatory convertible bonds when structuring investments, which it believes will result in a better constructed portfolio with downside protection near term.

Although Jade Road will consider investments in more complex SMEs, it will target structures which combine:

- Income and capital gains
- Amortisation/early repayment of capital
- Debt with covenants that provide the ability to influence decisions at a Board level at an early stage
- Legal enforceability for an external investor

Investments are, thus, typically structured to pay a cash coupon and capture upside returns on exit e.g., upon completion of an IPO. Investments are also structured to ensure that they are appropriately secured. Jade Road is not deterred by complex investments and will provide both expansion capital for growth companies and rescue finance to rehabilitate distressed entities.

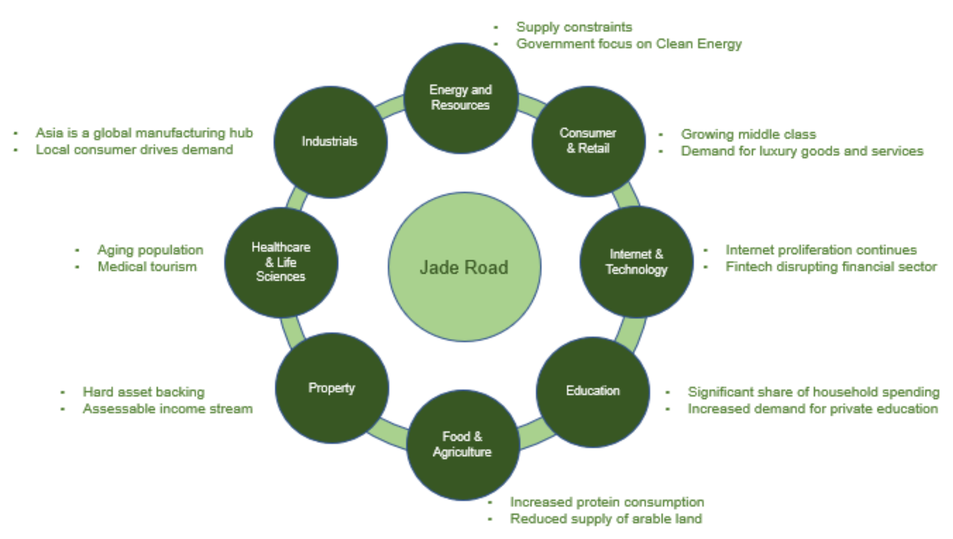
Downside protection is supplemented by industry and geographical diversification to avoid concentration at the portfolio level. Jade Road expects this to generally result in better risk management outcomes, particularly in times of market turbulence.

Strategic focus on Asia's key growth industries

The strategy is to focus on the industries set out below, identified as major areas of growth in Asia in the coming years, although Jade Road is sector agnostic. This illustrates the layered nature of an approach which seeks to capitalise upon relative maturities of respective geographies, industries, and demographics.

As Asia's prosperity and middle class have grown, this, in turn, has driven growth in consumption areas such as Education, and Healthcare & Life Sciences. Jade Road expects to see an increased deal flow from areas associated with these consumption factors, amongst others. These powerful and supportive drivers are shown on the next graphic:

Macro tailwinds



Source: Company

Ready for growth

We believe that Jade Road is the only UK-quoted investment vehicle with a defined focus on small and medium-sized enterprises (SMEs) throughout Asia, across capital structures.

It targets companies with enterprise value of USD5m to USD500m and is biased towards businesses with recurring revenues. That puts it in a strong position to capitalise upon a reported active pipeline of potentially attractive investment opportunities, at prospective yields in line with prior investments. Since June 2020, the Company saw a cash increase, mainly driven by an equity raise. Debt was c USD3.5m at the half year.

In H1 20 Jade Road increased the value of subscriptions to its corporate bond to c USD3.6m, when it raised another USD1.7m gross from High-Net-Worth individuals and Middle Eastern family offices. In H2 2020 it raised a total of GBP1.9m (USD2.6m) before expenses via the Open Offer and Placing following the issue of 8,356,663 shares at 25p. Jade Road's Directors directly participated in the equity raise as Placees.

The bulk of this cash will be used to fund new investments currently under review. Jade Road's view is that one impact of the pandemic will be to increase demand for capital from its target investment segment, Asia's 270m plus SMEs (*source: Statista*). In common with other parts of the world, SMEs represent a significant component of the Asia Pacific economy (over 98% of all local enterprises according to some estimates) and a vital component of economic activity.

We have previously referred to data from the International Finance Corporation which identified that significant numbers of South East Asian SMEs lack adequate access to finance, and The Asian Development Bank Institute (ADBI) has confirmed that most SME finance in Asia is sourced internally. Where external finance is sought, ADBI states that SMEs are likely to approach non-bank sources. Bank finance for SMEs is far less prevalent in Asia vs western economies. That provides alternative providers such as Jade Road with a wide pool of potential investments.

In August 2020, the Company confirmed its intention to continue to take advantage of opportunities to repurchase shares at attractive levels under its Share Buyback Programme. This gives it the authority to purchase up to a total of USD700,000 in its own stock and under the latest share buyback, executed 16 September 2020 the Company bought back 300,000 shares at the average price of GBP 0.26 pence. In H2 2020, Jade Road registered with the Dubai International Financial Centre, to enable it to undertake increased promotional activities within the UAE.

Portfolio review

Jade Road's portfolio has performed broadly as expected despite the considerable challenges triggered by the COVID-19 pandemic. The Company remains cautious but underlying mid-year valuations were mostly unaffected. The portfolio outlook is underpinned by diversification, intrinsic downside protection, and its focus on a region with experience of previous outbreaks. By way of reference, the gross domestic product of China (where Jade Road has a significant exposure) has expanded 6.5% in the fourth quarter of 2020 and at a faster rate than before the pandemic. This makes China the only one of the world's biggest economies whose economy did not contract in 2020.

The impact of local lockdowns on Jade Road's portfolio companies was reflected in some reported reductions/delayed receipt of revenues. In response, cost bases have been reduced and measures taken to diversify revenue sources where possible. The pandemic affected almost all Asian countries and sectors. However, Jade Road expects the regional impact to recede over the next 12 months and for the operating environment for its portfolio investments to improve.

Portfolio and current outlook

Any forecast of underlying revenues and expenses would be subject to multiple scenarios. From an investment perspective, the situation is as follows:

- Jade Road plans to scale up its investment portfolio in line with its preferred target Asian SME distribution and industry weighting and conceivably raise further cash via equity issues.
- Decisions regarding the strategy for non-core assets, and their ongoing performance, could materially affect portfolio returns. The strategy is to stabilise/improve these investments and a pragmatic approach combines a willingness to inject cash, management time and strategic direction as required.
- Although we do not have firm assumptions regarding the timing of exits, portfolio growth is not on hold pending their sale. The Investment Manager would, however, expect to reinvest the proceeds to improve geographical and sector diversification, and materially improve prospective income and capital growth.

Future Metal Holdings Limited (FMHL or the 'Quarry')

FMHL is Jade Road's largest investment, with an estimated fair value at end June 2020 of USD45.3m, including loan disbursements and accrued PIK interest. Quarry production got back underway at the end of 2019, but operations were temporarily paused due to the COVID-19 pandemic.

It began infrastructure work in mid-March, including construction of a steel structure to enclose its stockpile site and land hardening to comply with local environmental requirements. Both initiatives were completed towards end Q2 2020 and the Quarry resumed production on 10 June 2020.

FMHL has since received a new three-year mining licence from the local Ministry of Natural Resources. This permits maximum dolomite production capacity of 300,000 tonnes p.a. A three-year Work Safety Permit and a Pollution Discharge Permit were also secured in H2 2020, thus, making the Quarry fully licensed to operate.

Local management is now focused on sales to domestic construction companies as the local economy picks up.

FMHL site

Source: Company

Fook Lam Moon Holdings (FLMH)

Jade Road holds a Convertible Bond of USD26.5m in FLMH, the majority shareholder in a high-end Hong Kong-based food and beverage business with a 72-year history. The bond has a five-year maturity and a USD27.8m carrying value as at 30 June 2020.

Prime locations

Source: Company

FLMH operates two restaurants in Hong Kong's Wan Chai and Kowloon districts as well as a restaurant in Macao. It also manages a high-end Cantonese restaurant, Guo Fu Lou, located in a five-star hotel in Central Hong Kong.

Although the business and its branch restaurants have been affected by the COVID-19 pandemic and social distancing measures, FLMH has benefited from prompt management action to safeguard guests and staff, including introduction of additional private dining areas. The restaurants have also engaged online distribution channels to increase accessibility to its food and beverage offerings.

Both the flagship restaurant in Wan Chai district and the Guo Fu Lou restaurant hold a Michelin Star. The main restaurant business is housed in a building which it owns, further providing it with flexibility in managing its fixed overheads.

Meize Energy Industries Holdings Limited (Meize)

Meize is a privately-owned company that designs and manufactures blades for wind turbines. Both wind turbine manufacturing plants have returned to full capacity; Ningxia in April 2020, Inner Mongolia in May 2020. In addition, a new production facility has recently been established in Jiangsu which is estimated to produce 400 sets of wind turbine blades per annum at full capacity. It produces offshore wind turbine blades which enables Meize to diversify its operations from focused supply of onshore wind turbine blades and to expand into the production of blades for offshore wind turbines.

Meize site

Source: Company

Entrance view

Source: Company

Infinity TNP

The asset, Tellus Niseko, is a premium residential project in Hirafu Village, located in the Niseko Ski Resort in Hokkaido, Japan, one of the world's most popular winter travel destinations.

High quality accommodation

Source: Company

Luxurious interiors

Source: Company

It had achieved an average of 80-90% occupancy in January 2020, however, the COVID-19 pandemic prompted travel bans which adversely affected tourism. A series of cost-saving measures and implementation of new safety and hygiene controls have been carried out. The Niseko resort has been particularly popular amongst high-net-worth international travellers and the expectations are that it will remain an attractive high-quality holiday destination post COVID-19.

Infinity Capital Group (ICG)

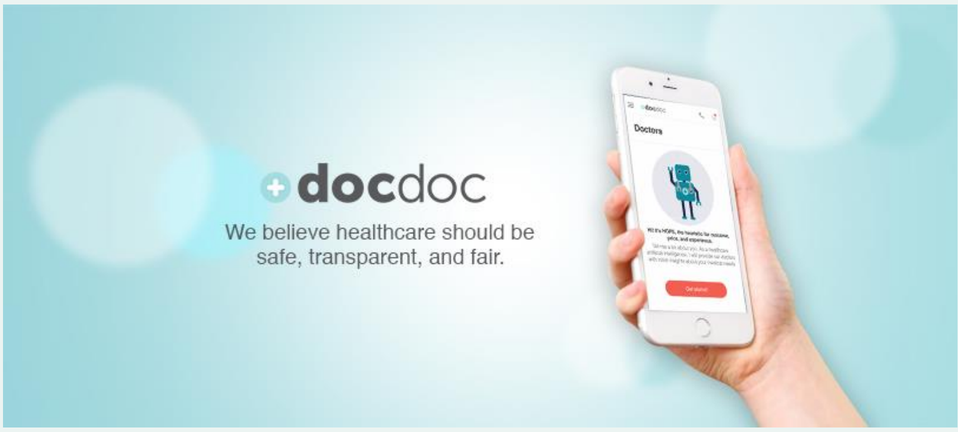
In 2018, through a secured loan, Jade Road invested in ICG which develops premium residential projects in Hirafu Village, Japan. Jade Road provided ICG with a USD4.0m senior secured loan note, fully secured by other ICG assets in Niseko. The coupon is 17.5% pa, payable in cash with the first tranche drawn imminently according to the Company. Jade Road also received detachable warrants which give it the right to subscribe for up to USD4.0m of equity in ICG or its parent company, if either one decides to undertake a liquidity event, such as an IPO.

ICG is working with local management to introduce inspection and monitoring measures similar to most other hotel properties in the region. It is tracking the domestic property market and the local pandemic response, including construction project planning and potential movement in property prices.

DocDoc Pte Ltd

DocDoc, a virtual network of physicians and hospitals has been largely unaffected by the COVID-19 pandemic. It operates in the growing ecosystem of insurance, healthcare, and technology. DocDoc entered into a revenue-sharing partnership with Kaitaming Technology in June. Kaitaming is a leading insurance agent platform. The new partnership expands DocDoc's reach into China.

DocDoc advertising



Source: Company

Financials

Income statement				
US$ '000s, y/e 31 Dec	**FY 2018**	**FY 2019**	**6 months to 30/6/19**	**6 months to 30/6/20**
Income from unquoted financial assets	216	902	571	525
Finance income from loans	148	1341	677	668
Realised (loss)/gain on disposal of investments	(4)	0		
Gross portfolio income	360	2,243	1,248	1,193
Fair value changes on financial assets at fair value through profit or loss	(1,085)	201	(166)	(14)
Provision for expected credit loss		(237)		(322)
Net portfolio income	(725)	2,207	1,082	857
Management fees	(1,650)	(1,679)	(925)	(900)
Incentive fees	0	(1,907)		(40)
Administrative expenses	(1,126)	(1,296)	(314)	(436)
Operating gain/(loss)	(3,501)	(2,675)	(157)	(519)
Finance expense	0	(98)	0	(179)
Dividend income	0	0	0	
Other income	0	0	0	
Profit/(Loss) before taxation	(3,501)	(2,773)	(157)	(698)
Taxation	0	0	0	
Profit/(Loss) for the year	(3,501)	(2,773)	(157)	(698)
Other comprehensive income:				
Exchange differences arising on translation of foreign operations	0	(81)		
Total comprehensive income/(expense) for the year	(3,501)	(2,854)	(157)	(698)
Profit/(Loss) per share				
Basic, cents	(4.36)	(3.11)	(0.18)	(0.69)
Diluted, cents	(4.36)	(3.11)	(0.18)	(0.69)

Company data

Balance Sheet				
US$'000s, y/e 31 Dec	**FY2018**	**FY2019**	**6 months to 30/6/19**	**6 months to 30/6/20**
Assets				
Right of use asset	0	34	0	0
Unquoted financial assets at fair value through profit or loss	55,519	67,172	58,119	68,054
Loans and other receivables	28,902	33,720	33,258	33,885
Cash and cash equivalents	8,828	4,071	5,375	2,996
Total assets	**93,249**	**104,997**	**96,752**	**104,935**
Liabilities				
Loan payables and interest payables	0	1,909	0	3,472
Other payables and accruals	201	2,211	231	1,227
Total liabilities	201	4,120	231	4,699
Net assets	**93,048**	**100,877**	**96,521**	**100,236**
Equity and reserves				
Share capital	134,054	145,027	137,684	145,084
Treasury share reserve		(671)		(671)
Share based payment reserve	2,555	2,936	2,555	2,937
Accumulated losses	(43,561)	(46,415)	(43,718)	(47,113)
Total equity/reserves attrib. to parent owners	**93,048**	**100,877**	**96,521**	**100,236**

Company data

Cash flow

US$'000s, y/e 31 Dec	FY 2018	FY 2019	6 mths to 30 Jun 19	6 mths to 30 Jun 20
Cash flows from operating activities	-	-	-	-
Gain/(Loss) before taxation	(3,501)	(2,773)	(157)	(698)
Adjustments for:				
Dividend income	0			
Finance income	(148)	(1,341)	(677)	(668)
Finance expense	0	98	0	179
Exchange gain	0	(57)	0	19
Depreciation of right of use assets		4	0	
Loan written off	0			
Fair value changes on unquoted financial assets at fair value through profit or loss	(216)	(1,103)	(571)	(511)
Realised loss/(gain) on disposal of investments	4			
Share-based expenses	236	381	0	
Decrease/(Increase) in other receivables	2,981	603	(3,259)	408
Increase/(Decrease) in other payables and accruals	(1,680)	1,925	34	(1,072)
Net cash used in operating activities	**(2,324)**	**(2,263)**	**(4,630)**	**(2,343)**
Cash flows from investing activities	-	-	-	-
Dividend income received	0			
Sale proceeds of unquoted financial assets at fair value through profit or loss	0			
Purchase of unquoted financial assets at fair value through profit or loss	(2,065)	(1,723)	(2,453)	(207)
Loans granted	0	(2,000)		
Net cash generated in investing activities	(2,065)	(3,723)	(2,453)	(207)
Cash flows from financing activities	-	-	-	-
Finance expense paid	0			
Loans granted	0	1,900		1,720
Payment of loan interest				(245)
Loans repayment	0			
Purchase of treasury shares		(671)		
Share buy backs			(129)	
Net proceeds from issue of shares	0		3,759	
Net cash used from financing activities	**0**	**1,229**	**3,630**	**1,475**
Net increase/(decrease) in cash & equivalents	**(4,389)**	**(4,757)**	**(3,453)**	**(1,075)**
Cash and net debt at the beginning of the year	13,217	8,828	8,828	4,071
Cash and net debt at the end of the year	**8,828**	**4,071**	**5,375**	**2,996**

Company data

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