

May 8th, 2024

Tam Jai International
Unit B, 9/F, D2 Place One
9 Cheung Yee Street, Lai Chi Kok
Kowloon, Hong Kong

To the Board Members of Tam Jai International:

I hope this letter finds your team well. As a shareholder and a value-oriented asset manager based in Hong Kong, we believe that Tam Jai International (“TJI” or “the Company”) has all the success factors to become a leading catering company in the region. While we express our support as your friendly and long-term shareholder, we also have some recommendations to enhance the Company’s prospects. We hope that you will consider them.

1. Special Dividend to Increase Shareholder Value

We recommend that TJI consider paying a special dividend to improve its return on equity (ROE) and to further attract investor interest in the Company.

TJI raised HKD1.05 billion in its initial public offering in 2021. As of September 2023, HKD560 million had been utilized. With roughly HKD450 million in cash available from the IPO proceeds and a robust free cash flow, the current cash on the balance sheet amounts to HKD1.34 billion. We believe that allocating a portion of the cash toward a special dividend payment would reward existing shareholders and attract new investors, as well as improve the Company’s ROE.

After considering the Company’s growth prospects, capital requirements, free cash flow generation, and financial stability, we believe that a special dividend ranging from HKD50 to 75 million would be feasible. Given that the ROE of industry peers averages in the low teens, an increase in TJI’s ROE following a special dividend payment would give the Company a high rank among its peers. The table below gives the results of a sensitivity analysis of various special dividend options.

Table 1: TJI's Return on Equity with Various Special Dividend Payouts

Special Dividend (millions of HKD)	Regular Dividend per Share ¹ (HKD)	Special Dividend per Share (HKD)	Total Dividend Yield ²	Percentage of Earnings per Share	Percentage of Adjusted Free Cash Flow ^{3,4}	Return on Equity
0	0.101	0	10.6%	100%	79%	11.9%
25	0.101	0.020	12.7%	120%	95%	12.2%
50	0.101	0.035	14.3%	135%	106%	12.4%
75	0.101	0.055	16.5%	155%	122%	12.8%
100	0.101	0.076	18.6%	175%	138%	14.5%
Peer Average ⁵						12.5%

1. Assuming that TJI achieves an earnings per share (EPS) of HKD0.101 and adopts a regular pay-out ratio of 100% of EPS

2. Assuming that TJI's current share price is HKD0.95

3. Adjusted free cash flow = net cash generated from operating activities – CAPEX – lease rentals paid

4. Assuming that TJI achieves an adjusted free cash flow of approximately HKD170 million in FY24

5. Of the top three players, excluding TJI, in terms of market capitalization

2. Scrip Dividend to Avoid Slippage for Long Term Shareholders

We propose the implementation of a scrip dividend at TJI, aimed at improving long-term value for shareholders. The scrip dividend would serve as an attractive alternative to cash dividends. It would address the challenges faced by shareholders seeking to increase their positions, as reinvesting dividends in the form of scrip eliminates potential slippage from brokerage and other fees. This would also incentivize long-term shareholders to remain invested and enjoy the benefits of low-cost compounding.

3. Improved ESG Practices

We applaud the Company's efforts to improve its ESG practices over the years. After reviewing the Company's latest ESG Report, we have several recommendations to further improve supply and procurement:

Supplier-related matters:

- **Supplier Audit:** We suggest improving the transparency and disclosure of supplier audit practices, including frequency and incident management, to demonstrate commitment to product quality and responsible supplier management.


- **Supplier Management:** We advise reviewing supplier management processes and ensuring that in-time measures are implemented to address product quality during supplier changes.

Green procurement-related matters:

- **Green Procurement Standards:** TJI has committed to sourcing 25% of total trade items through green procurement by 2026. To ensure transparency, we recommend that the Company discloses the specific standards and criteria used to define green procurement, including the types of suppliers covered. Currently, TJI's green policy applies to only 1% of its key suppliers, but it is unclear whether this baseline aligns with the 25% commitment, given the Company's extensive network of over 800 suppliers across regions.
- **Measuring Progress:** To strengthen its ESG practices, TJI should disclose its baseline measurements and describe how it will track and ensure progress toward the 25% target within the next two years. By establishing best practices and a clear roadmap, TJI should not only meet its sustainability goals but also serve as an example for its peers.

We hope that TJI will consider our recommendations. Should you have any questions, please do not hesitate to contact us. Thank you!

Sincerely,



Ronald Chan
Chief Investment Officer
Chartwell Capital Limited



Timothy Wong
Analyst
Chartwell Capital Limited