ShareInvestor – ECS management online Q&A with investors

The management of ECS would like to thank investors for their interests and feedback. In respond to your queries, management would like to address the following issues:

1. **Debts & capital management**

   In our business, working capital is necessary to fund revenue growth. ECS puts great efforts on continuously improving cash conversion cycle to lower working capital funding. At Jun05, net debt rose marginally to S$154m, from S$146m at Mar05. This compared with an increase of S$36m in 2Q05 revenue to S$492m, from S$456m in 1Q05.

   1H05 cash conversion cycle lengthened to 56.4 days, compared with 54.5 days for 2004 due mainly to a higher proportion of enterprise system sales. However, the higher funding is compensated by higher gross profit margins for enterprise systems.

   ECS constantly reviews its capital structure to lower its cost of capital to enhance shareholders' returns. Currently, ECS' average cost of debt, at below 4%, is still cheaper than equity funding. In 2Q05 ECS secured long-term loan facilities to provide funding for ECS' medium term growth.

   In evaluating funding needs, ECS is mindful of the potential dilution to existing shareholders' interest. To issue new shares at current valuations may not be favorable for existing shareholders. ECS has been able to generate positive return on capital employed in excess of the company's cost of capital, thereby creating positive shareholders' value since its listing in 2001. ECS will continue to focus on growing the business and improve on its ROE.

2. **Outlook**

   Demand remained buoyant across all of ECS' geographical markets. ECS has benefited from the market consolidation, following the merger of Ingram Micro and Tech Data, and sees firm demand continuing for Singapore and Malaysia. In Malaysia, HP's reversal from direct to indirect model is expected to sustain the strong demand momentum seen in 1H05. In China, demand from both the enterprise and consumer sectors remains firm. Revenue mix for China is expected to improve further, as ECS continues to focus on the higher value-added enterprise business. Consumer demand for Thailand remains firm, while enterprise demand is expected to pick-up gradually. Outlook for Indonesia, ECS' newest market, is also positive.

   ECS' overall turnover growth for 2005 is expected to exceed industry growth rate of about 8%. All three sectors – Enterprise Systems, Distribution and IT Services – expect higher 2H05 over 1H05. In particular, 2H05 turnover for IT

Services is expected to improve with the commencement of a number of projects.

3. China positioning, impact of yuan, RM revaluation

Over the past 18 months, ECS has put great effort in building up the China team to focus on higher value-added enterprise business in China. There is also a deliberate strategy to move away from very low-margin business. The impact of this strategy is evident in the 1H05 performance – China enterprise sales were up while distribution sales declined. More importantly, the change in revenue mix helped stabilize overall gross margins for China.

In terms of market coverage, ECS has expanded beyond the first-tier cities like Shanghai, Beijing and Guangzhou. With the expansion into 2nd tiers and 3rd tiers cities in China, distribution network now exceeded 6000 channel partners. ECS' extensive network should help cement its lead as the second largest distributor in China.

Overtime, the re-pegging of the yuan and RM should increase the purchasing power of both consumers and enterprises in China and Malaysia, which could translate into firmer demand for IT products. ECS could also benefit from translation effect upon the consolidation of the China and Malaysia results in group performance.

4. Corporate developments

ECS is always looking for ways to enhance ECS' revenue yield and shareholders' value. A key initiative is to invest and grow the accessories business. ECS estimates the Asean accessories market size to be in excess of S$200m. ECS has a focus strategy to leverage on its extensive network to increase revenue, with minimum investments and without increasing ECS' credit risk exposure. ECS' goal is to capture a meaningful market share in 3-5 years. Profit margins for accessories are better than existing businesses. While contribution from the accessories business is still insignificant at this point, ECS believes the accessories business should contribute positively to earnings over time.

5. Investor Relation

ECS acknowledges the lack of market coverage and the importance of investor relation. As such, ECS has engaged an IR consultant and started a proactive IR program since January 2005, and has been spending time meeting up analysts and fund managers. In addition to quarterly results briefing, ECS also participated in presentations with broking houses like

Philips Securities and UOB Kay Hian, and organized Q&A session with ShareInvestor, to raise ECS' profile in the investment community.

Coverage by broking houses has since increased. Currently, ECS is covered by four broking houses – DBS Securities, CIMB-GK Research, NRA Research and Westcomb Securities. ECS will continue to engage more analysts to encourage greater coverage by more broking houses. ECS will look into the possibility of posting such research on our IR website.

We note your comments on the timely announcement of corporate events and will post ECS' results announcement dates on our IR website in future. Where possible, ECS would issue press releases on some of the major contracts secured, subject to approval by our vendors and customers.

6. Dual listing

ECS has considered the possibility of a dual-listing. However, it is uncertain that ECS would automatically see a re-rating by listing on Nasdaq or GEM, while a dual-listing would necessitate higher expenses and administrative work. It is ECS' belief that by focusing on enhancing profitability and returns for shareholders, the strong fundamentals of the company should eventually be reflected in share price appreciation over time.

7. M&A possibilities

ECS is constantly looking for attractive opportunities to expand its geographical footprint in Asia, especially in growth markets like India, Philippines and Vietnam. ECS would like to stress that the company will participate in acquisitions only if they are earnings accretive. ECS would likely fund any such investment opportunities via internal resources and borrowing, if necessary.

As a major player in Asia's IT distribution industry, ECS is always exploring new business opportunities with other global players. At this point, ECS is of the opinion that it is inappropriate to speculate on possibilities of mergers with other global players.

8. Dividend policy

Since its listing in 2001, ECS has consistently paid dividends. In 2004, dividend payout was raised to 0.8 cents (tax-exempt) on the back of the strong 2004 performance. Depending on our financial performance, ECS may recommend an increase in dividend payout in the future, to reward shareholders for their support.

9. Management remunerations

Management's remunerations are tied to ECS' profitability and returns. Staff and management had put tremendous efforts to improve ECS' profitability following the painful industry consolidation in 2001-03 that negatively impacted profits across the entire IT industry. ROE has rebounded from 4.3% in 2003, to 8.5% in 2004. As disclosed in the annual reports, directors' remuneration went up by only 8%-10%, compared with the 113% jump in 2004 net profit to S$13.5m, from S$6.3m in 2003.

Summary

ECS' management philosophy is to build strong fundamentals for sustained profitable growth. In the initial years in 2000-04, ECS' focus is to build a strong regional presence, to gain vendor and customer mind share. Post industry consolidation, ECS has emerged as a leading player in the Asia-Pacific region, and is ranked among the top three players in all its key markets.

The strategic focus of ECS is now on enhancing profitability and shareholders' return. Some of the initiatives taken by management – tighter working capital control, improving revenue mix with more higher value-added enterprise sales and the latest expansion into the accessories business – all aim to leverage on ECS' extensive network to increase revenue yield, and ultimately enhance profitability and returns.

Key management, who are also major shareholders of ECS, firmly believes that with better communication to the investment community, ECS' share price should eventually reflect the strong underlying value of the company and its business.

Due to regulatory constraints, we may not be able to address all your queries. We hope this forum helped provide some answers to your concerns, and are opened to feedbacks and suggestions. We would like to thank shareholders and investors for their continued support of ECS.

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