

APP SYSTEMS YEAR END DINNER
VENUE : INDOCHINE WATERFRONT, BAR OPIUME, 1 EMPRESS PLACE
DATE : 17 DECEMBER 2005

Address by Mr SL Lee, Managing Director

Friends, colleagues, ladies and gentlemen, Good evening.

May I thank members of the Lifestyle Committee for their great effort and initiative in organizing tonight's dinner party. Like previous years, they shown resourcefulness and good taste in selecting this excellent venue for tonight's function.

Recently, I read an interesting story and I thought of sharing this with you tonight.

A martial art student kneel in front of his master in a ceremony to receive his black belt. After years of relentless training, the student has finally reached a pinnacle of achievement in the discipline.

"Before granting the black belt, you must pass one more test" says the master.

"I'm ready" replies the student expecting another final round of sparring.

"What is the meaning of the black belt?" asks the master.

"The end of my journey" says the student. "A well deserved reward for all my hard work."

The master hesitated and was not satisfied. Finally, he says "you are not ready for the black belt. Return in one year."

A year later, the student kneels again in front of the master.

"What is the meaning of the black belt?" the master asks.

"A symbol of distinction and the highest achievement in our art," says the student. The master ponders for a while and answered. "You are still not ready to receive the black belt. Return in one year's time."

The next year, the student kneels in front of his master and he asks the same question. "What is the meaning of the black belt?"

"The black belt represents the beginning, the start of a never-ending journey of discipline, hard work, and the pursuit of an ever-higher standard." says the student. The master smiles and answered, "Yes, you are now ready to receive the black belt and begin your work."

'Well, are you ready to receive your black belt?"

Last year, we achieved a very important milestone in our Company's history. We crossed the \$25M sales revenue for the first time. I then set a target, to grow the business at 20% compound annual growth and to achieve \$50M in sales revenue by year 2008.

Like the black belt student, the Company's continuous pursuit of new peak requires sustained discipline, hard work and stamina and a will to succeed.

We will continue to focus on the 3 potential growth areas:-

1. Expand regional markets
2. Diversify our product lines
3. Continue to identify suitable Company for acquisition.

This year, we see regional efforts are showing results. Sales from Malaysia improve by 40%. By year end, revenue in Malaysia will exceed \$10M ringgit. With the new wafer fab being built by Infineon in Kulim, we expect revenue from Malaysia to improve further. This year our Bumi subsidiary Company, ARQ, have also done fairly well. The Company was successful in increasing our sales to the Universities and Research Institutes, CH Ng and his team have done an excellent job there.

To further support our Malaysia operation, we have to increase our resources there, including staffing and also our infrastructure facilities. We will provide more intensive training, including seconding our experienced staff from Singapore for short period and to position and secure a strong foothold at Infineon.

We also see a similar trend emerging in Thailand. After changes made to our team there, we see a big improvement in performance. Indeed our new Manager Thaweewat and his team have done well. Achieving a growth rate of 80% compare with 2004. We see good growth potential here. Besides our traditional Optics and other general industries, we also make good progress at the Universities and Research Institutions. Currently, we have a staff strength of only 3 persons. By next year, we will increase this to more than six. Current office space is not sufficient and we will move to bigger premises.

In the Philippines, our new Sales Manager Edwin has also done an excellent job there. Sales revenue more than double that of year 2004. This year we added a second Sales Engineer. We also officially registered our Trade Office in Manila. While we focus our effort on a few major customers here, we should allocate more resources to expand our effort at major Universities and R&D Institutes here. We can learn from similar effort by ARQ in Malaysia.

Sales from Indonesia remain flat. More than a year after his major victory, President Bambang is still struggling with his economic restructuring plan. Hopefully, after his recent cabinet reshuffle, we will be able to see improvement to their economy next year. This year, we increase another sales staff for greater coverage there.

In growth term, Singapore fare the worst. Revenue declines by more than 10% for the year. Fortunately, improved regional contribution helps to bring total sales revenue almost same as last year. Competition from new players in the market will slowly erode our market share as well as our margin. We need to put in extra effort to defend our market share. We need more innovative ways to achieve this. As cost increases each year, and margin decline, we need to improve our sales productivity. To maintain our competitive edge, we will continue to focus on building a strong service support infrastructure. Next year, we will expand our facilities to repair AE products. We will also set up a Regional Service Centre here to repair and service the Noah thermal Electric chillers. We will continue to send our Engineers to our Principal's factory to

improve their skills and knowledge. We will improve our productivity here and also reduce turn-around time for service repair. To reinforce the importance we put on service support, we launched a new service hotline 6-CallAPP. This initiative will further enhance the branding of APP and also shows our serious commitment to service.

While our Sales team are actively maintaining and defending our Turf, we will encourage them to seek new opportunities, whether it's an interesting idea or a new product line. An example of such effort is Eric Soh's initiative to bring a new product line from Sanmi. Within a short period of time, we sold 2 systems to Philippines and actively promoting in Thailand. We are close to selling more systems there.

We will continue to widen our product range. A new initiative is required to accelerate the process of identifying and selection.

To continue our Regional expansion, we will set up offices in India and Vietnam next year. Unlike China, both these territories receive support from many of our principals to market their products.

AE and Leybold and a few others have in-principle given us the green light. Recent news that AMD and Intel intend to set up Fab and R&D facilities in India is very timely for our expansion plan. As for Vietnam, it is a newly emerging market offering good potential for some of our products.

In July this year, we acquire a 50% stake in Protec Systems. They are the agent for Polycold product in S.E. Asia. Polycold is a strategic product use in the General Vacuum Industries, including Optics, Web-coaters, data storage, etc. The product has no serious competitors. We expect Polycold to yield a steady income for Protec. We will make available our Regional resources to them.

Following our 100% buy-out of Opto Precision from PSB Corp., we have made substantial changes to the management team. We have now in place a very young and effective team. We are now able to produce precision optical coatings on plastic, glass and metal substrate for a wide range of products, with high degree of consistency and quality. The foundation for the company is now secured and we are ready to bring the company to the next phase of growth.

As we expand our business here as well as in the region, our operation will become more complex and information management and dissemination will become a critical element in our decision making process.

By January next year, our new ERP system will be implemented. This will create a more efficient work process and at the same time allow information to flow seamlessly across departments. Information bottleneck will be removed. Like the super highway, we need to develop new skills and learn to navigate at a much faster speed. We want to and we will be moving faster than our competitors.

Whatever goal we set, whatever infrastructure facilities we provide, we will never be able to achieve our long term objective if we do not manage our human resources well. While we will not be able to adopt same kind of generous policy of the MNC, we will continue to seek ways to improve our HR policy. We may make mistake along the way. We may implement policies that may not be popular, we will make whatever changes that is necessary to ensure our long term goal is successful. We have invested more,

and will invest more on training and skill upgrading. We will offer the same opportunities for all our regional staff. We want you to grow with the Company.

We will focus on creating a disciplined and highly motivated workforce, skillful in their area of work, resourceful, team builder and entrepreneurial in character.

I am sure all of us want to do better for tomorrow than today.

Thank you and enjoy your evening.