

11. INDEPENDENT BUSINESS AND MARKET RESEARCH CONSULTANT REPORT AND THE LETTER THEREON

(Prepared for inclusion in the Prospectus)

F R O S T & S U L L I V A N

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17 FEB 2005

The Board of Directors
Satang Jaya Holdings Berhad
149-A, Jalan Aminuddin Baki
Taman Tun Dr. Ismail
60000 Kuala Lumpur

Dear Sirs:

The Independent Market Research Report on the Competitive Analysis of Safety & Survival Equipment for the Aircraft Maintenance, Repair and Overhaul Market in Malaysia

The purpose of the IMR prepared by Frost & Sullivan (M) Sdn Bhd (herewith known as "Frost & Sullivan") is for the inclusion in the Prospectus of Satang Jaya Holdings Berhad dated 23 February 2005 in relation to the proposed listing of and quotation for the entire issued and paid-up share capital of Satang Jaya Holdings Berhad on the Second Board of the Bursa Malaysia Securities Berhad.

Frost & Sullivan has prepared this report in an independent and objective manner and has taken adequate care to ensure the accuracy and completeness of the report. We believe that this report presents a true and fair view of the industry to date within the limitations of among others, secondary statistics and primary research. Our research has been conducted with an "overall industry" perspective and may not necessarily reflect the performance of individual companies in this industry. Frost & Sullivan will not be responsible for the decisions and/or actions of the readers of this report. Frost & Sullivan will also not take responsibility for any incorrect information provided to us throughout the course of our research – both secondary statistics and primary research. Quantitative market information is based primarily on interviews, and therefore is subject to subjectivity. This report should also not be considered as a recommendation to buy or not to buy the shares of any company or companies.

Yours Sincerely



Sanjay Singh

Director

Industrial Technologies, Asia Pacific

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COMPETITIVE ANALYSIS OF SAFETY & SURVIVAL EQUIPMENT FOR THE AIRCRAFT MAINTENANCE, REPAIR AND OVERHAUL MARKET IN MALAYSIA

Introduction

The service and maintenance of safety and survival equipments in the aircraft maintenance repair and overhaul (“MRO”) market is a highly regulated sector of the aerospace industry in Malaysia. The regulations stipulate that all aircrafts need to be certified of its airworthiness or “fit-to-flight” before departure or taking off. This includes that safety and survival equipments on board the aircraft must be certified for its functionality.

There is no specific law that governs the activities in the servicing and maintenance of safety and survival equipments in the aerospace industry. Nevertheless, there are regulations to ensure that safety measures on the aircraft are not compromised and are adhered to. These regulations are governed by the Royal Malaysian Air Force Technical Airworthiness Management Manual (“TAMM”) for the defense sector, and the Department of Civil Aviation Malaysia (“DCA”) and Original Equipment Manufacturer (“OEM”) requirements for the civil or commercial aviation sector. Figure 1 shows an extraction of the Civil Aviation Regulations Act 1996 under the Civil Aviation Act 1969 in Malaysia that governs the safety and survival equipment of the domestic civil aviation industry.

Figure 1: Civil Aviation Regulations Act 1996 Part V, Airworthiness and Equipment of Aircraft, Chapter 3, under the Civil Aviation Act 1969 (Extract)

Section	Description
Section 32(3)	In any particular case, the Director General may direct that a Malaysian aircraft shall carry such additional or special equipment or supplies as he may specify for the purpose of facilitating the navigation of the aircraft, the carrying out of search and rescue operations or the survival of the persons carried in the aircraft.
Section 34(3)	A Malaysian aircraft shall not commence a flight if any of the equipment, including radio apparatus, required by or under these Regulations to be carried in the circumstances of the intended flight, is not carried or is not in a fit condition for use.

Source: Department of Civil Aviation, His Majesty's Government Gazette

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The range of safety features and standard of requirements are determined primarily by the aircraft type and the flight mission. A higher level of safety feature and requirements are stipulated upon aircrafts operating under the defense aviation. Flights with defense and rescue missions are also closely monitored to ensure that a high standard of aviation safety is adhered to at all times.

There are typically two main categories of aircrafts – aircrafts that operate in the defense sector, and aircrafts that operate in the commercial or civil aviation sector. Safety measures and equipments upheld by the aircrafts in the two categories are different and lie in the specification of the types of aircraft.

The specification for the defense sector is of a higher level than the ones used in commercial aircrafts, as it encompasses military and rescue missions. The use of explosives is also involved. The high-risk nature of military flight operations necessitates strict scheduled maintenance in ensuring functionality at all times. Safety and survival equipments for defense industry include emergency beacon, flare gun, safety helmet, ejection seat, emergency parachute, aircraft brake parachute, interchangeable lens torchlight, survival knife, camouflage life jacket as well as marine and jungle survival packs. Commercial flight safety and survival equipments include seatbelts, lifejackets, life rafts, oxygen cylinders and fire extinguishers.

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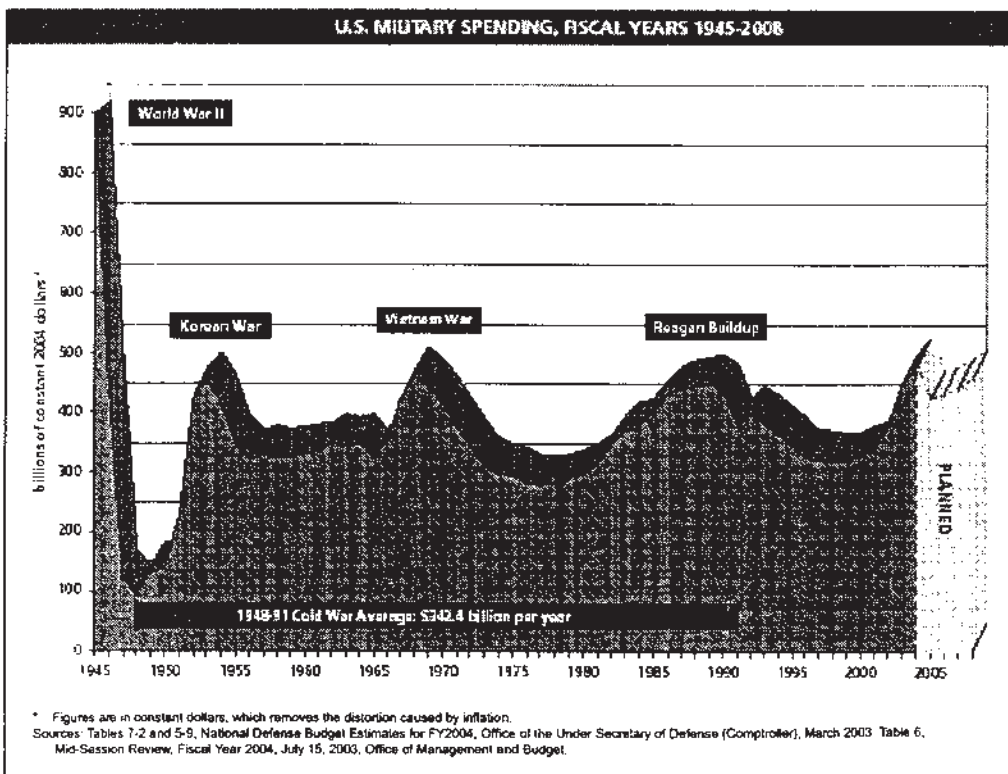
1. Global Market Overview

Defence Sector

The global defense sector has experienced a relative higher growth in military spending since the September 11, 2001 incident in the United States of America (the "US"). The potential threat of terrorism globally has sparked an increased urgency in national security.

The military spending trend for both developed and developing nations have been generally stable over the years in the absence of war. Historical trends also indicate that military spending experiences a sudden increase when there is an outbreak of war. The US remains the highest military spending nation in the world and sets the pace for global military trend. Figure 2 illustrates the military spending trend by the US over the years from 1945-2008.

Figure 2: U.S. Military Spending for the period 1945 to 2008



Source: Centre for Defense Information (Extract)

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Generally, developing nations (such as Malaysia) experience a more consistent budget spending on the defense sector as compared to the developed nations. The annual national budget for every country includes substantial allocation of budget spending on the development, operations and maintenance of the defense sector. The increasing modernization of the defense sector globally has further emphasized on the importance of military spending over the years, and will result in further growth for the defense sector.

Commercial Sector

The commercial aviation sector experienced a turbulent period for the past few years. The calamities and misfortunes of global events have almost become a constant in the commercial aviation sector. The sector suffered the woes of a global economic downturn during the late 1990s which resulted in low or negative profitability for the airlines. There were signs of recovery in 2000 with the global economy picking up, only to be short-lived by the shock of the terrorist attacks of September 11, 2001 in the US. Since then, isolated incidences of terrorist attacks and potential threats of terrorism have made a further dent in the sector's prospects of a fast recovery.

Signs of recovery surfaced again in late 2002 and the rising confidence of air travel seemed promising then. But the airlines suffered another setback with the outbreak of a mysterious pneumonia virus, the Severe Acute Respiratory Syndrome ("SARS"), in early 2003 followed by the Iraq war. The widespread of SARS and the fear of a prolonged war in Iraq resulted in very low travel patterns across the world. Airlines were forced to cutback on capacities and flight schedules to cut back on carrier costs.

Air travel pattern has been gradually restored beginning of 2004 to pre-SARS and pre-Iraq war level after the containment of the SARS virus and with the end of the Iraq war. The current air travel pattern in the Asia Pacific region has been restored to pre-SARS level. The studies by Boeing also indicated that sales of commercial aircrafts worldwide in 2003 have outperformed the pre-crisis level in 2000, with strong demand forecasted from 2004-2009, citing Asia as the main contributor.

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Figure 3: Sales of Boeing Commercial Aircrafts Worldwide

Year	USD 'million
1999	31,171
2000	35,056
2001	28,387
2002	22,408
2003	38,475

Source: Data from Boeing 2003, 10K Form

In addition, according to the latest statistic released by the International Air Transport Association (“IATA”), year-to-date results registered an increase of actual passenger traffic growth of 22 percent for Asia Pacific, 10.4 percent for Europe and 15.4 percent for North America (statistic covers the period between January 2004 to November 2004 over the same period in 2003).

The recent Global Market Forecast (“GMF”) study conducted by Airbus predicts that the world’s major airlines will require delivery of a total of 20,121 passenger jets with 100 seats or more by 2023. The demand for aircrafts is largely dependent on flight frequencies. The GMF study also forecast the number of frequencies offered on passenger routes to increase by about 200 percent by 2023, whilst the average seats per aircraft will increase by 19 percent from 181 to 215.

The strong rebound of the global passenger traffic in 2004 has recorded a growth of about 11 percent over 2003. Asian and Pacific airline’s international traffic rose to 9 percent above 2000 levels. It is expected that after the strong rebound, global passenger traffic will follow more normal long-term growth trend, with growth averaging at 5.3 percent per year, over the twenty-year period of 2004-2023. This will result in the increase of number of seats by at least 4.5 percent per year for the same forecast period. The projected annual growth in Asia Pacific air traffic will necessitate a significant jump in required capacity to 1.4 million seats by 2023, from 463,000 in 2000.

The projected sky-rocketing demand from the Asia Pacific region will require an estimated 4,241 aircrafts and 774 aircrafts in the 250-400 and over-400 seats categories respectively. The Asia Pacific region is the single largest market globally for aircrafts exceeding 400 seats capacity, accounting for approximately 62 percent of the worldwide demand for aircrafts in similar category, such as the flagship 555-seat A380.

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Based on the forecasted total demand for aircrafts, the total value of the market for new aircrafts in the Asia-Pacific region between 2004 and 2023 is estimated at USD513 billion, according to the GMF study conducted by Airbus. This will account for approximately 27 percent of the potential USD1.9 trillion aircraft sales worldwide.

Figure 4: Total Demand for Large Aircraft 2004-2023

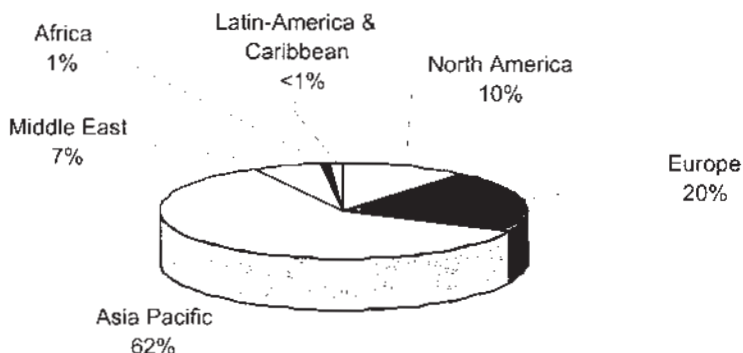
Region	Aircraft Demand
North America	127
Europe	253
Asia	774
Middle-East	88
Africa	17
Latin-America & Caribbean Islands	3
Total	1262

Source: Airbus Global Market Forecast Report, 2004

Figure 5 below illustrates the projected market share of aircrafts according to regions by the year 2023. The chart illustrates that the commercial aviation sector in the Asia Pacific region will experience the highest growth until year 2023 as compared to the rest of the region. The projected high growth is driven by the demand for larger aircraft fleets resulting from soaring air travel patterns in the Asia Pacific region – by both flight origination and flight destination.

Figure 5: Projected Market Share of Large Aircrafts by Regions in 2023

Demand for Large Aircraft Fleet in 2023



Source: Data from Airbus Global Market Forecast, 2004

2. Malaysia Market Overview

Defence Sector

The Malaysian Government views the local defence MRO activities as an economic sector. These MRO activities include sourcing of spare parts, repair, overhaul, upgrading and the modernization of military equipments.

The Defence Industry Division of the MoD is responsible for the development of the local defence industry. One of the most significant developments put forward by the MoD include the privatization of the facilities and service providers to the Malaysian defense sector. To date, the privatization of Naval Dockyard in Penang and Airod Sdn Bhd as a privatized MRO service provider to the defense sector have been completed.

The process of contractisation in the defense sector also marks a significant development in the Malaysian defense sector since coming into effect in 1997. The process involves the outsourcing of service and maintenance of aircrafts to highly selected privatized companies. This contractisation process is part of the Government's plan to further develop the local MRO market in both the defense and commercial sector.

The contractisation process was introduced by the Royal Malaysian Air Force ("RMAF" or the "air force") to primarily curb the effects of servicemen departure from the force upon their national service completion. This negative effect, if left unattended, may result in a premature "brain drain" within the RMAF. This will cause disruption and discontinuity of crucial roles in the air force.

The contractisation effected serves three primary objectives. The first objective is to retain the technical expertise of the departed servicemen within the defense aviation sector. The second involves the efforts by the Malaysian Government to develop the local defense aviation sector by nurturing the downstream activities in the sector. Lastly, it aims to provide a platform for local service providers of aircraft service and maintenance to gain a foothold in the commercial aviation sector.

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In the defence aviation sector, technical certification is highly exclusive and difficult to achieve. A serviceman in the air force is required to undergo years of training before being awarded a technician certificate. The minimum requirement set by RMAF for a given serviceman to service any defence aviation equipment is approximately at seven years of working experience in a similar capacity. Hence, it is crucial to retain such exclusive expertise, for the service and maintenance of RMAF equipments, in the local defense aviation sector.

The introduction of contractorisation in the defense aviation sector is also a significant development by both the Ministry of Finance ("MoF") and the Ministry of International Trade and Industry ("MITI") to nurture the downstream activities of the local aerospace industry. The second Malaysia Industrial Master Plan ("IMP 2") for the period 1996-2005 subsequently identified the local aerospace industry as one of the strategic industries to undergo development. The aim was to develop Malaysia into an aviation hub. The development that followed was concentrated on the downstream activities of the aerospace industry and to promote independence as outlined in the National Defence Policy (also known as Dasar Pertahanan Negara).

As part of the contractorisation development, invitations were extended to highly selected companies with the exclusive technical expertise in the defense aviation sector. Invitations are only extended to after a highly selective and rigorous filtering process to ensure the competitiveness and quality of services that can be provided by the parties involved. To date, only five service providers in Malaysia have been identified by the MoD and RMAF as part of the contractorisation development process and the Government's commitment to further develop the defense aviation sector. Each of these service providers has its respective significant role, as outlined in Figure 6.

Figure 6: Companies under the contractorisation of the defence aviation sector

	Service Provider	Specialization
1.	Airod Sdn Bhd	Air-frame
2.	SME Aviation Sdn Bhd	MRO
3.	Sapura Technologies Sdn Bhd	Simulators
4.	Satang Jaya Sdn Bhd	Safety and survival equipment
5.	Zetro Aerospace Corporation Sdn Bhd	Avionics

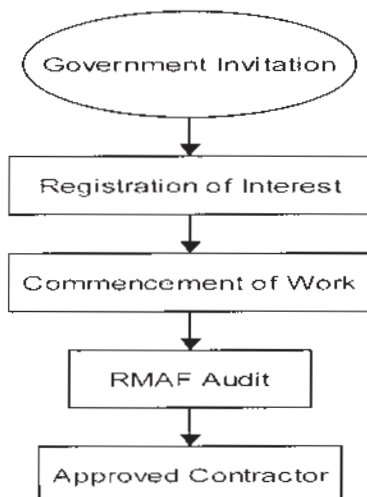
Source: Frost & Sullivan, May 2004

The contractorisation process is different from that of contractual tenders. Figure 7 shows the contractorisation process, which indicates that the process begins with an exclusive invitation from the Government as opposed to open tenders adopted in outsourcing of contracts.

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Figure 7: Contractorisation Process Flow



Source: Frost & Sullivan, 2004

Upon invitation, the selected service providers are required to register its interest with the MoD. The process of registration of interest includes mandatory declaration of the company's manpower capabilities (includes track record of experience), sourcing of parts, technical and financial capabilities. The third part of the process is the commencement of work, of which the participating companies are required to demonstrate their capabilities within the standard set by the RMAF in their respective field of specialization. Work done at this stage is not chargeable and serves as a demonstration and assessment of technical capabilities and meeting the standard requirements. Upon completion of work, an audit will be conducted by the RMAF to assess the quality of work. Contracts are then awarded only upon meeting the high standards set by the RMAF audit committee.

The contractorisation of the service and maintenance of the local defense aviation sector allows the RMAF to concentrate fully in the welfare of national security. Unlike privatization, contractorisation does not allow for ownership of facilities. It only calls for manning the operation with qualified personnel in the military base(s) apart from their own premises, depending on circumstances. Thus, it is clear that there is no potential threat from foreign competitors in the contractorisation process due to the high security nature of the defense sector.

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In 1999, the Malaysia Defence Industry Council ("MDIC") was established to oversee the development of contractorisation activities. MDIC is formed as a steering committee to coordinate the activities of the service providers or contractors involved. Contractors will work together to further develop the defence aviation sector. The contractors are not allowed to compete against each other as the primary objective of contractorisation is to create specialization in the respective segments of the defence aviation sector.

In addition, events such as the Defence Service Asia Exhibition and Conference ("DSA") and Langkawi International Maritime and Aerospace Exhibition ("LIMA") is further indication of the Malaysian Government's continued commitment to nurturing the local defense aviation sector.

The introduction of contractorisation in the defence aviation sector also provides a platform for the local contractors to gain a foothold into the commercial aviation sector as the development of the former sector grows.

It is believed that as the development of downstream activities in the defense aviation sector grows further, this will result in the entry of smaller players. Range of services may expand due to increasing demand. Some may be outsourced to the smaller players, so that the principal contractors are able to concentrate on the core functions and shift their focus on further development of the defense aviation sector.

As a result of the overwhelming success of the contractorisation in the defense aviation sector, in 2001 the Government approved the extensions from a previous three-year contract to a current five-year contract, with a five-year renewal option. This clearly indicates the crucial role of the contractors and the Government's commitment. We believe that this will have a spill-over effect on the commercial aviation sector where the contractors can serve as local MRO service providers and begin to play a bigger role in the foreseeable future.

Commercial Sector

The commercial aviation sector in Malaysia was not spared from the calamities of the economic downturn during the late 1990s as well as the effects of SARS and terrorist attacks. According to the Malaysia Tourism Promotion Board, tourist arrivals from selected markets at the height of the SARS scare between March and July 2003 dropped by 2.65 million or 80.54 percent to 3.29 million, compared with 5.94 million in the previous corresponding period. There has been encouraging signs that the local tourism industry has rebounded from the aftermath of the SARS outbreak and the US-Iraq war with some of the sectors showing profits in their recent results.

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With the tourism industry – both local and regional – showing positive indications, air traffic is likely to increase in tandem with the restoration of confidence in air travel pattern – domestically, regionally, and globally. The Malaysian aviation passenger growth is expected to grow at an estimated rate of 5 per cent annually for the next 3 years.

The recently reported Tsunami disaster is expected to have a short term effect on tourism particularly on coastal areas of Kedah and Penang. However, it is expected that tourism in these areas would resume to normal level as soon as local authorities completes its restoration activities. In a recent published article by The Star on the 28th December 2004, the Malaysian Association of Tour and Travel Agents (Matta) and the Malaysian Association of Hotel Owners, have issued statements that there were no reports of major cancellations of travel to Malaysia and on hotel bookings since the occurrence of Tsunami.

Malaysia Airlines System Bhd (“MAS”), the leader in the domestic commercial aviation sector, has already made plans for the rebound in passenger growth. Expansion plans are already underway to increase the number of fleets and aircraft capacity of the fleets to capitalize on the projected upturn in passenger yield. The national carrier placed an order for six A380 aircrafts from Airbus in 2003, each with a capacity of 555 passengers and is expecting delivery in 2007.

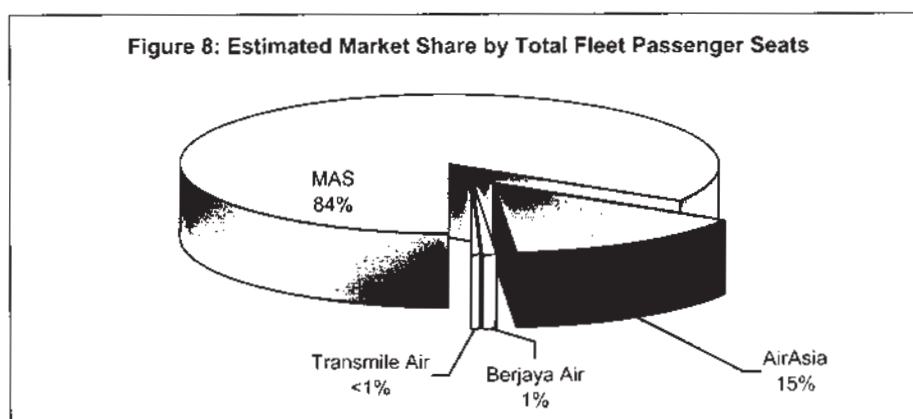
Its closest competitor, Singapore International Airlines (“SIA”), has responded to the encouraging signs and recovery of the commercial aviation sector by their commitment to the similar A380 aircrafts from Airbus but is pushing an earlier delivery in 2006.

Other competitors in the domestic aviation sector include AirAsia Bhd (“AirAsia”), Transmile Air Services Sdn Bhd (“Transmile”), and Berjaya Air Sdn Bhd (“Berjaya Air”). Of the three, AirAsia is the most recognized budget airline or no-frills airline in Malaysia, and is also South-East Asia’s largest no-frills carrier. AirAsia broke new grounds last year in Asean’s tightly regulated aviation industry by setting up a joining venture, Thai AirAsia, with Shin Corp of Thailand. Thai AirAsia currently services seven domestic destinations in Thailand and also to Singapore. It announced its first foray into North Asia market by offering flights from Bangkok to Macau, which commenced in mid-June this year. It is currently awaiting approval for its Air Operators Certificate (“AOC”) to commence operations from Singapore’s Changi Airport. AirAsia plans to continue its focus on aggressive domestic and regional expansion after its listing on the Bursa Malaysia on 22 November 2004. In light of the rebound in air travel and AirAsia’s efforts to claim domestic and regional market share, AirAsia will increase the number of its acquired and leased aircraft in stages from the current 24 Boeing 737-300 aircrafts to 36 by June 2005. This will only signal brighter prospects ahead for the local commercial aviation sector.

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Berjaya Air captures 1 percent and Transmile hold less than 1 percent market share of the Malaysian commercial aviation sector. Transmile is principally a national cargo carrier which provides air express services through its fleet of dedicated air freighters. Berjaya Air currently only has market share for chartering flights to selected local resort destinations. Figure 8 shows the market share in the Malaysian aviation industry by total fleet passenger seats as at December 2004.



Source: Frost & Sullivan

The rebound of travel patterns, and the significant projection in the increase of aircraft acquisitions by the carriers clearly indicates higher potential and demand for the services and maintenance of aircrafts and its safety equipments in the MRO market. This will provide opportunities for the local service providers of the service and maintenance of aviation safety and survival equipments in the local commercial aviation sector, which is currently led by Satang Jaya Holdings Bhd.

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3. Competitive Analysis

Defence Sector

The defense industry in Malaysia has been undergoing a modernization process since the Sixth Malaysia Plan (“6MP”) 1991-1995. To date the Government has developed strategies to accelerate the growth of the aerospace industry cluster. According to the Eighth Malaysia Plan (“8MP”) 2001-2005, this includes developing Malaysia as a regional center for repair, maintenance, overhaul, modification and conversion activities, promoting components and parts manufacturing through joint-ventures with the world’s major aerospace companies and undertaking a comprehensive human resource development programme to supply the skilled manpower required by the industry.

The RMAF primarily outsources its MRO activities to five local private companies, namely Airod Sdn Bhd, Satang Jaya Holdings Bhd, Sapura Technologies Sdn Bhd, Zetro Aerospace Corporation Sdn Bhd, and SME Aviation Sdn Bhd (as outlined in Figure 6). None of the five companies are competing entities. Each respective company is responsible for the servicing, maintenance and overhaul of the aircrafts in the under the RMAF. The privatization of the MRO activities are expected to lower government spending, whilst creating employment opportunities for civil servicemen upon completion of their national service.

At present, Satang Jaya Holdings Bhd (“Satang Jaya”) is the sole servicing company for the testing, maintenance, and supply of parts for RMAF’s aircraft safety equipments. The safety equipments include aircraft arresting cables, aircraft arrester barrier net system, aircraft crash and salvage equipments, aviation safety fire fighting equipment, ejection seat, life raft, survival pack, emergency oxygen, cartridge/pressure activated devices, electro-mechanical safety equipments, emergency locator transmitters, compressed aviation gas cylinders, emergency parachutes, ejection seat parachutes for aircraft fighters, pilot safety helmets, and drag parachutes for aircraft landing.

Information and details pertaining to the defense industry is considered national security. Hence, Frost & Sullivan are unable to provide a detailed analysis of the market size as all relevant information is restricted by the Official Secrecy Act.

A point to note is that Malaysia is a very important potential market in South-East Asia for military and para-public aircrafts, as well as corporate and civil operators. Malaysian operators currently operate more than 60 Eurocopter civil and military aircrafts (such as the Puma, Super Puma, Ecureuil, Dauphin N2 and N3, and EC-155). The 23 Alouette IIIs in service with the RMAF and the Malaysian Army Aviation, are also part of the fleet.

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Eurocopter, a major helicopter manufacturer in Malaysia for the defense and civil aviation, considers Malaysia to be one of the leading countries in South-East Asia with the strongest potential for economic expansion in the defense industry. Helicopters are used by the army to provide support for troops, reconnaissance, and also for fire support and emergency evacuation by the Fire Services and Rescue Department.

Commercial Sector

The participants in the local commercial aviation sector are MAS, AirAsia, Berjaya Air, and Transmile Air. Currently, Satang Jaya is the sole service provider for the testing and maintenance of aircraft safety equipments in Malaysia. Satang Jaya currently caters its services for the no-frills airlines, namely AirAsia and Berjaya Air, and the national cargo carrier, Transmile Air which translates to approximately 16 percent of the Malaysian aircraft market fleet, in relation to the number of aircraft seats. MAS, on the other hand, possesses its own in-house service and maintenance capabilities for the said safety equipments. Figure 9 shows the current market size of the Malaysian commercial aviation sector by number of aircraft seats.

Figure 9: Aircraft seats dominated by local carriers

Airline	Aircraft Type	Aircraft Units	Number of Seats per Aircraft	Total Number of Seats
	B747-400	17	398	6,766
	B747-200 Freighter	8	8	64
	B777-200	15	290	4,350
	A330-200	5	243	1,215
	A330-300	10	309	3,090
	B737-400	39	150	5,850
	F50	10	54	540
	DHC6 Twin Otter	5	23	115
AirAsia	B737-300	24	158	3,792
Berjaya Air	DeHavilland Dash7	4	55	220
Transmile	Miscellaneous Freighter Aircrafts	16	7	112
	TOTAL	153	2,093	26,114

Source: Frost & Sullivan

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Given that Satang Jaya is the current sole service provider for testing and maintenance of safety equipments for AirAsia, Berjaya Air and Transmile Air, it can be identified as having secured 16 percent of the current market share as part of the MRO aviation market in Malaysia. Figure 8 (on page 12) indicates that MAS remains the dominant airliner in the domestic market by total passenger seats from the total aircraft units by controlling 84 per cent of the total domestic passenger seating capacity. AirAsia holds 15 percent, Berjaya Air possess 1 percent and Transmile Air possess less than 1 percent of the market share. The chart also projects the potential market share held for the servicing and maintenance of MAS aircrafts which can be a huge potential opportunity for Satang Jaya. The projected growth in air travel pattern (especially budget traveling), regional tourism industry and higher capacity aircraft orders also indicate a promising sign for this are of the MRO market – both domestically and globally.

Key Players in the Industry

The contractorisation scheme implemented by the MoD and RMAF has largely influenced the number of players in the testing, service and maintenance of aircraft equipments in the defense aviation sector. Due its nature of exclusivity (by invitation only) and high technical standards of requirement, the barriers of entry are high. Each contracted service provider in under the contractorisation scheme has its respective specialized role. To date, Satang Jaya remains the only identified and exclusive provider of testing, service and maintenance of safety equipments for the Malaysian defense aviation sector.

As for the Malaysian commercial aviation sector, the service and maintenance of aircraft safety equipments is also dominated by Satang Jaya. MAS provides in-house service and maintenance of its aircraft safety equipments as well as outsourcing its MRO activities to the respective OEMs. Satang Jaya captures the market share for the no-frills or budget airlines in the local commercial aviation sector. There are opportunities for Satang Jaya to penetrate the remaining market share retained by MAS.

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Key Industry Drivers

Figure 10 presents the top industry drivers for the service and maintenance of safety equipments in the aerospace industry in Malaysia from 2005 to 2009.

Figure 10: Market Drivers Ranked in Order of Impact, 2005-2009.

Rank	Market Driver	Short-Term Impact	Medium-Term Impact
		2005-2006	2007-2009
Defence Aviation			
1.	Ministry of Defence modernization plans stimulates market growth	Medium	Medium
2.	National Defence Policy to be self-reliant spurs market development	Medium	Medium
Commercial Aviation			
1.	Lower pricing spurs demand Changing Cost Structure Creates Opportunities	High	High
2.	for Independent Filler and MRO Service Providers	High	Medium
3.	Airlines will offer more seats per flight	Medium	High
4.	Highest traffic growth in developing countries	Medium	High
5.	Asia-Pacific airlines will dominate the market for large aircraft	Low	Medium


Source: Frost & Sullivan

Ministry of Defence Modernization Plan Stimulates Market Growth

The modernization of the fleet of aircrafts and its related equipments is required to strengthen and continuously improve the nation's first line of defence. The impact of modernization activities is expected to create more opportunities for the local safety and survival equipment service provider. The market is expected to grow moderately over the forecasted period as modernization plan are implemented in stages.

National Defence Policy to be Self-reliant Spurs Market Development

Efforts by the National Defense Policy to enhance the development and independence of the local MRO aviation market in the defense sector, will lead to the outsourcing of non-core practices to the smaller contractors. This will ensure that the principal contractors (such as Satang Jaya in the service and maintenance of aircraft safety equipments) remain focus on the principal activities required by the MoD and RMAF. The exclusive contractors selected under the contractorisation programme are expected to lead and oversee the developments in the Malaysian defense sector. The impact of this factor is expected to be moderate throughout the forecasted period.

11. INDEPENDENT BUSINESS AND MARKET RESEARCH CONSULTANT REPORT AND THE LETTER THEREON (Cont'd)F R O S T  S U L L I V A N*Lower Pricing Spurs Demand*

A recent study conducted by Airbus indicated that if the current trend of price-cutting persists, then cheap airfares will remain as the main demand driver for the commercial aviation sector. The pre-crisis period demand is by far and large driven by convenience of which consumer may choose and airline purely on what is the most convenient way to reach their targeted destination. Due to the uncertainties of the global activities and economic performance, consumers are more cautious with spending and traveling. The lowering of operating costs to meet current low pricing is expected to push more airlines into outsourcing activities, of which includes the service and maintenance of the aircrafts' safety equipments. Such pricing trend has resulted in more budgeted or "no-frills" airline entering the domestic and regional commercial aviation sector.


AirAsia dominates the local market share of the low-cost flight market. However, reports have shown that there might be three more of such airlines that will be based in Singapore, serving the same region. Upon the entry of more no-frills competitors, it is expected to heighten the competition within this region for low-cost flights. Henceforth, low-pricing is expected to be the main driver for the short-term to medium-term during the whole forecasted period.

Changing Cost Structure Creates Opportunities for Independent Filler and MRO Service Providers

After the economic downturn caused by events such as the terrorist attacks of September 11, the US-Iraq war, and the outbreak of the SARS epidemic, airline operators are being forced to re-evaluate their business model. Owning all aspects of the airline operator business no longer appears viable as it exposes the airline operators to more risks. Airline operators are becoming more receptive to outsourcing certain non-core areas of their business. One of the most likely business operations to be outsourced is the service and maintenance of aircraft safety equipments.

The provision of service and maintenance of safety equipments is regarded as a "filler" or supporting industry. This business driver is expected to have a high impact in the short to medium terms of the forecast period.

11. INDEPENDENT BUSINESS AND MARKET RESEARCH CONSULTANT REPORT AND THE LETTER THEREON (Cont'd)

F R O S T  S U L L I V A N*Airlines Will Offer More Seats per Flight*

Commercial carriers constantly undergo cost restructuring exercises to increase profitability and increase fleet flexibility to remain competitive. Commercial carriers have a higher interest in passenger yield for a given flight. The demand for increased passenger seating for a given aircraft will result in production of higher capacity aircrafts. This will result in increasing demand for service and maintenance of safety equipments of in the commercial aviation sector. The impact is expected to be moderate in the short-term period and increase over the medium period as air traffic growth increases.

Highest Traffic Growth in Developing Countries

The Asia Pacific region currently has the highest traffic growth in the world. The globalization and liberalization of economies have led manufacturers to relocate its production facilities to lower-production cost countries. In light of this, the Malaysian commercial aviation industry is expected to benefit from the higher air traffic pattern, and this will necessitate acquisition of new aircrafts in the medium to long-term and increase passenger capacity per aircraft in the short-term. Such trend will have a spill-over effect to the safety equipments industry. The impact of this factor is expected to be moderate in the short-term and increases in the medium term throughout the forecasted period.

Asia-Pacific Airlines Will Dominate the Market for Large Aircrafts

A recent study conducted by Airbus has shown that the Asia-Pacific airlines will dominate the market for large aircrafts by 62 percent by 2023 (Figure 5 on page 6). The impact of this factor is expected to be low in the short-term and will progress in the medium-term throughout the forecasted period.

11. INDEPENDENT BUSINESS AND MARKET RESEARCH CONSULTANT REPORT AND THE LETTER THEREON (Cont'd)

F R O S T & S U L L I V A N

Key Industry Restraints

Figure 11 presents the top industry restraints for the service and maintenance of safety equipments in the MRO market in Malaysia from 2005 to 2009. The figure also indicates the impact of each market restraint by magnitude of low, medium or high.

Figure 11: Market Restraints Ranked in Order of Impact, 2005-2009.

Rank	Market Restraints	Short-Term Impact	Medium-Term Impact
		2005-2006	2007-2009
1.	Provision of a Comprehensive "One-Stop-Solution" Centre to Airline Operators by MRO Service Providers	Low	Medium
2.	Reduction of Opportunities for Independent MRO and "Filler" Providers by Original Equipment Manufacturers (OEMs)	Low	Low

Source: Frost & Sullivan

MRO Service Providers to Provide a Comprehensive "One-Stop-Solution" centre to Airline Operators

As more airline operators in the Asia Pacific become open to the idea of outsourcing, good opportunities for independent MRO service providers may develop. Airline operators want a comprehensive solution that takes care of scheduled heavy maintenance and engine checks over a fixed number of years that can range from two to ten years, depending on parts and type of aircraft. The ability to provide a "one-stop-solution" centre is one of the biggest challenges faced by MRO service providers today. The use of latest aircrafts by major airlines will in effect leave MRO service providers lagging behind centres set-up by the OEMs. This means that the outsourcing contracts will most likely come from budget or "no-frills" airline that acquires and leases second-hand refurbished aircrafts. The same will be the impact for "filler" service providers such as the maintenance and service of safety equipments. In Malaysia, Airod is the only independent MRO service provider, and it is highly unlikely that it can provide a total-solution in the short to medium term. However, Airod may be able to claim itself as a total-solution provider by outsourcing "filler" services to complement its current operation or future through merger and acquisition activities.

11. INDEPENDENT BUSINESS AND MARKET RESEARCH CONSULTANT REPORT AND THE LETTER THEREON (Cont'd)

F R O S T  S U L L I V A N

Original Equipment Manufacturers (OEMs) Reduce Opportunities for Independent MRO and “Filler” Providers

These OEMs have a significant advantage in the marketplace since they have vast market knowledge and design contact with airline operators and military customers in the Asia Pacific region. OEMs also have direct access to technical data and a wealth of in-house technical expertise. Today, the leading OEMs provide MRO services and have been experiencing steady growth in their market share. Airbus has a large centre for training and spare parts in Singapore and another one in Beijing to cater for the Asia Pacific region and Australasia. Growth is forecasted to continue throughout 2003 to 2008 and further restraining independent MRO and “filler” service providers' market share.

4. Industry Outlook

Entry of New Players

The barriers to entry for the service and maintenance of safety equipments of the MRO market are high for both the defense industry and commercial aviation sector.

The contractorisation programme effected by the Malaysian Government remains exclusive for the current contractors. The standards of requirements are high. Each contractor under the contractorisation programme has their respective specialization in servicing and development of the Malaysian defense sector. New entrants are only possible by invitation of the Malaysian Government. The contractorisation programme does not instill competition between the principal contractors under the programme, but creates synergy by segregating each principal contractor to their respective specialized task.

Currently Satang Jaya remains the sole principal provider of service and maintenance of safety equipments in the defense aviation sector.

New entrants are also possible by means of outsourcing by the principal contractor. The outsourced contractors will serve to complement the existing value chain of the servicing and maintenance of aircraft safety equipments provided by the principal contractor, Satang Jaya.

As for the service and maintenance of safety equipments in the commercial aviation sector, the issue of licenses is strictly controlled by the DCA. Qualification will require meeting high standards of requirement, good track record of experience, and OEM certification. To date, Frost & Sullivan has only identified Satang Jaya as the only local privatized company to provide servicing and maintenance of the safety equipments in the commercial sector.

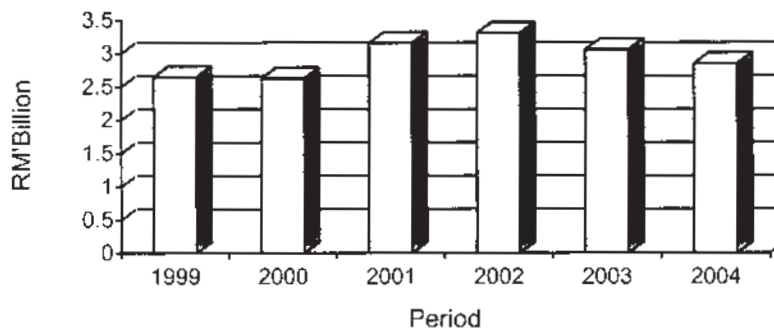
11. INDEPENDENT BUSINESS AND MARKET RESEARCH CONSULTANT REPORT AND THE LETTER THEREON (Cont'd)

F R O S T & S U L L I V A N

Government Directions

The government is pursuing continuous efforts to modernize the defense industry. Over the years the Government has allocated a relatively consistent budget allocation for the development and modernization of the local defence sector. This includes the service and maintenance of safety equipments in the defense sector. Figure 12 provides an insight into the budget allocation for internal security and defence industry development in Malaysia for the period 1999 to 2004.

Figure 12: Malaysia Internal Security & Defence Budget Allocation for the period 1999 to 2004



Source: Frost & Sullivan

The Malaysian budget allocation trend for development, operations and maintenance in the defense sector has generally been stable over the years. Budget allocation for the defense sector is expected to increase in the foreseeable future in view of the modernization programme adopted by the MoD.

On the commercial front, the establishment of Penerbangan Malaysia Berhad ("PMB") by the Ministry of Finance ("MoF") indicates the Malaysian Government's plan to further develop the local commercial aviation sector, not only for MAS but also for other local carriers. The Malaysian Government encourages the local commercial carriers to remain focus on flight services. The MRO activities of the aircrafts should ideally be outsourced to specialized local service providers. The principal contractor, Satang Jaya, under the contractorisation programme is technically qualified to provide the necessary downstream MRO services of servicing and maintenance of aircraft safety equipments to the local commercial carriers. Again, this will mark further growth in the local MRO market and provide bright opportunities for the principal contractor, Satang Jaya, as the principal service provider of servicing and maintenance of aircraft safety equipments.

11. INDEPENDENT BUSINESS AND MARKET RESEARCH CONSULTANT REPORT AND THE LETTER THEREON (Cont'd)

F R O S T  S U L L I V A N**Industry Outlook**

The prospects of the local defence sector seem promising in view of a more stable domestic and regional economy. The modernization programme will also serve to promote growth in the defense sector. The contractisation programme will only serve to strengthen the defence sector and the service and maintenance of aircraft safety equipments in the local MRO market.

The prospect for the aviation safety equipment is growing with the Asia Pacific region expected to be the main growth for global air traffic. MAS have indicated the annual growth for passenger is estimated at 5 percent, and that 30 more additional planes of various types of aircraft will be in service for the next three years. After years of negative or weak growth triggered by the current crisis, air traffic in the commercial aviation sector is expected to rebound powerfully to resume a more normal growth trend averaging just over 5 percent annually. Traffic growth will vary substantially between different air travel markets but will generally be boosted by the restoration of air travel confidence. Some have matured, but revenue passenger-kilometres ("RPKs") will grow strongly on routes serving the dynamic Asia Pacific region as well as on those operated by low-cost "no-frills" airlines. This will subsequently result in the purchase and production of higher capacity aircrafts to meet the air traffic demand, and also result in higher demand for the service and maintenance of aircraft safety equipments.

12. DIRECTORS' REPORT

(Prepared for inclusion in the Prospectus)



SATANG JAYA HOLDINGS BERHAD

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18 FEB 2005

Registered Office:

149-A, Jalan Aminuddin Baki
Taman Tun Dr. Ismail
60000 Kuala Lumpur

The Shareholders of
SATANG JAYA HOLDINGS BERHAD ("SJHB" OR THE "COMPANY")

Dear Sir/Madam,

On behalf of the Board of Directors, I wish to report after due enquiry that between the period from 31 October 2004 (being the date to which the last audited accounts of the Company and its subsidiaries and associated company ("Group") has been made up) to date hereof (being a date not earlier than 14 days before the issuance of this Prospectus), that: -

- (a) the business of the Group has, in opinion of the Directors, been satisfactorily maintained;
- (b) in opinion of the Directors, no circumstances have arisen since to the last audited accounts of the Group which have adversely affected the trading or the value of the assets of the Group;
- (c) the current assets of the Group appear in the books at values which are believed to be realisable in the ordinary course of business;
- (d) save as disclosed in Section 9.4 of this Prospectus, no material contingent liabilities have arisen by reason of any guarantees or indemnities given by the Group;
- (e) in the opinion of the Directors, they are not aware of since the last audited accounts of the Group where, any default or any known event that could give rise to a default situation, in respect of payments of either interest and/or principal sums in relation to any borrowings; and
- (f) save as disclosed in the "Proforma Consolidated Balance Sheets" and the "Accountants' Report" of this Prospectus, there have been no material changes in the published reserves or any unusual factors affecting the profits of the Group since the last audited accounts of the Group.

Yours faithfully,

For and on behalf of the Board of Directors
SATANG JAYA HOLDINGS BERHAD

COLONEL (HONORARY) JAMALUDDIN BIN HASSAN RMAF
Executive Chairman / Managing Director

