

11. EXPERTS' REPORT
(Prepared for inclusion in this Prospectus)

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24 MAR 2004

Board of Directors
Pelangi Publishing Group Berhad
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80400 Johor Bahru

**RE: INDEPENDENT MARKET CONSULTANT REPORT FOR PELANGI PUBLISHING GROUP
BERHAD**

This Report has been prepared for inclusion in the Prospectus to be dated 31 March 2004 pursuant to the proposed listing of Pelangi Publishing Group Berhad ("Pelangi Publishing") on the Second Board of the Malaysia Securities Exchange Berhad.

This research is undertaken with the purpose of providing an overview of the Publishing Industry in Malaysia as well as the operations of the Group within the industry. The research methodology for the research includes both primary research, involving in-depth trade interviews and telephone interviews of pertinent companies, as well as secondary research such as reviewing press articles, periodicals, trade/government literatures, in-house corporate databases, Internet research as well as online databases.

Infocredit D&B (Malaysia) Sdn Bhd ("Expert") has prepared this Report in an independent and objective manner and has taken all reasonable consideration and care to ensure the accuracy and completeness of the Report. In addition, the Expert acknowledges that if there are significant changes affecting the content of the Expert's Report after the issue of the Prospectus and before the issue of securities, then the Expert has an on-going obligation to either cause the Report to be updated for the changes and, where applicable, cause the Company to issue a Supplementary Prospectus, or withdraw our consent to the inclusion of the Report in the Prospectus.

An Executive Summary is highlighted in the following sections.

For and on behalf
INFOCREDIT D&B (MALAYSIA) SDN BHD



Tan Sze Chong
Managing Director

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EXECUTIVE SUMMARY

1 INDUSTRY OVERVIEW & PROSPECTS OF PELANGI PUBLISHING

1.1 ECONOMIC OVERVIEW

1.1.1 GLOBAL ECONOMY

The global economic outlook showed signs of recovery after a string of adverse shocks occurred in the first half of 2003. The recovery was accompanied by forward looking indicators such as the strengthening of equity markets, a rebound in business and consumer confidence, reduction of interest rates in the Euro area and the United States of America ("USA") and signs of pick-up in investments particularly in the USA, Japan and the Asian emerging markets.

There are regional variations in economic growth. The USA had remained as the main engine of global growth but emerging markets in Asia, notably China is set to lead the global economic rebound especially now that the Severe Acute Respiratory Syndrome ("SARS") crisis has ceased. The recovery is expected to be more buoyant than the rest of the world, as growth is expected to reach 6.4% by 2004. The robust growth will be driven by rising labour productivity, a rebound in global trade and the information technology ("IT") sector. Although domestic demand growth is becoming broadly based, the recovery for these countries remains dependent on external demand. The prospect of a foreseeable weaker global recovery is a potential risk. Growth forecast for emerging markets in Asia is 6.2% for 2004.

The USA is forecast to chart a stronger Gross Domestic Product ("GDP") growth of 3.9% in 2004, while the Euro area is expected to further improve by 1.9% in 2004. Japan, which has shown further signs of bottoming out, has entered into a recovery mode and is projected to grow by 1.4% in 2004. China, India and Newly Industrialised Asian Economies (Hong Kong SAR, Korea, Singapore, Taiwan) are expected to pose strong GDP growth in 2004 at 7.5%, 5.9% and 4.2%.

Even in an optimistic year, there are several global downside risks facing the global economy. Softer equity prices and weaker growth in trading partners are also potential threats to growth. Although growth in China as a trading partner should provide some support to the downside, a loss of growth momentum in the demand for electronic products could dampen outlook further. This in turn would hurt industrial production, consumption and investment.

1.1.2 THE MALAYSIAN ECONOMY

Table 1.2 : Main Indicators of the Malaysian Economy, 1997-2004f

MAIN INDICATORS (%)	1997	1998	1999	2000	2001	2002	2003e	2004f
GDP at Constant Price	7.3	-7.4	6.1	8.3	0.4	4.1	4.5	5.5-6.0
Agriculture	0.7	-2.8	0.5	2.0	1.8	3.0	2.3	3.0
Manufacturing	10.1	-13.4	11.7	19.1	-6.2	4.0	6.5	7.2
Mining and quarrying	1.9	0.4	6.9	1.9	1.6	3.7	4.5	3.5
Construction	10.6	-24.0	-4.4	1.0	2.3	2.3	2.5	2.6
Services	9.9	-0.4	4.5	5.7	5.7	4.1	4.2	5.5

Notes: e = estimates f = forecasts

Sources: Department of Statistics, Bank Negara Malaysia

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The Malaysian economy registered stronger growth at 5.1% in the third quarter of 2003 from 4.5% in the second quarter 2003¹. The improved performance was mainly driven by the private sector and a low interest rate environment. The pick-up of the private sector was the result of increase consumption and investment coupled with growth in productivity². Going forward, the outlook for the following year is set towards strengthening the country's economic position. Malaysia's GDP is expected to accelerate from 4.5% in 2003 to about 6% in 2004, driven by improving export performance, domestic consumption and private investments. Furthermore, the RM7.3 billion economic stimulus package unveiled on 21 May 2003, swift conclusion of the Iraq war and the end of the SARS epidemic had regained consumer confidence.

External trade performance showed improvements during the first half of 2003 recording a 4.3% growth compared to 2.0% within the corresponding period in 2002³. The upsurge was brought about by an upturn demand for rubber products, which increased to 10.7% and the recovery of global electronics demand particularly from the East Asian countries. Bank Negara Malaysia ("BNM") projects a higher export growth of 5.2% in 2003 compared with 3.6% for 2002. This is in view of the country's success in attracting export-oriented projects, particularly in the electrical machinery and appliance production sectors. According to the Ministry of International & Trade Industry, total exports of these products increased by 16.1% year-on-year reaching RM92.3 billion in 2002. Public sector investment and consumption have taken a more passive role in 2002 compared to 2001. The Ministry of Finance expects the private sector to take a more aggressive role in 2003 with private sector investment projected to grow by 14.4% or 13.1% of the GDP.

BNM's forecast is based on the assumption of modest world economic growth, some pick-up in the global electronics industry, firm commodity prices and further expansion in intra-regional trade. This forecast is lower than its previous forecast of 6.5% in October 2002. BNM is also cutting its intervention rate by 50 basis points to 4.50% as a pre-emptive measure to support domestic growth potential. Together with the other measures in the economic package to increase disposable income, it is expected to enhance the potential for supporting the growth prospects. With economic fundamentals remaining strong, proactive policy measures such as fiscal and monetary expansion to stimulate domestic demand, and the diversified and resilient economic base has allowed the growth momentum to be sustained despite the SARS outbreak and the uncertain external environment.

Growth in domestic-oriented industries continued to pick up, registering an increased of 11.5% in 2003 after a sluggish 0.8% growth in 2002. This was brought about by higher consumption level of plastic products where plastic parts for household appliances contributed to the strong growth due to increased in disposable income from the stimulus package and a growing consumer confidence. Meanwhile, the export-oriented industries showed better performance in the first half of 2003, recording a 4.3% growth compared to 2.0% within the corresponding period in 2002. The upsurge was brought about by an upturn demand for rubber products, which increased to 10.7%. Wood-based products recorded a slight output growth of 1.7% in the first half of 2003 with major contribution from the plywood industry.

¹ Source: BNM Press Release on Third Quarter 2003 dated 19 November 2003

² Source: BNM Press Release on Third Quarter 2003 dated 19 November 2003

³ Source: Economic Report 2003/2004

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1.1.3 MANUFACTURING IN MALAYSIA

Table 1.3 : Principal Statistics of Manufacturing Industries in Malaysia, 1998-2003

	1998	1999	2000	2001	2002	2003
Number of Establishments	2,989	3,095	3,259	3,358	3,542	3,633
Sales Value (Ex-Factory) RM Billion	220.5	256.9	333.3	308.9	307.5	341.1
Number of Employees	887,300	969,766	1,048,553	974,551	970,315	1,007,656
Salaries & Wages Paid RM Billion	13.8	15.1	17.5	18.0	18.1	19.2

Note:

The data were collected through the Monthly Manufacturing Survey. This survey covered 73 out of a total of 137 manufacturing industries, of which 11 had been fully enumerated while, for the remaining 62, only larger establishments above certain employment were covered.

Sources: Department of Statistics

In 2003, the number of companies engaged in the manufacturing sector was 3,633. The number of employees employed by the manufacturing sector stood increased by 3.84% to 1,007,656 in 2003. At the same time, the productivity in terms of average sales value per employee edged up by 6.8%.

In terms of sales value, there were 47 or 64.4% out of the 73 industries covered in the manufacturing survey that recorded sales value of RM1 billion and above for the year 2003. This is 61.6% of the 73 industries covered in the Monthly Manufacturing Survey. Collectively, the sales value for these 47 industries in 2002 was RM330.7 billion. This total of RM330.7 billion represented 97.0% of the overall sales value reported for the period under review in 2003.

Listed in Table 1.4 are five industries, which registered the highest sales value during 2003 (with comparative data for the same period of 2002):

Table 1.4 : Top Five Contributors of Manufacturing Industries in Malaysia, 2002-2003

No.	Industry	Sales Value (RM Billion)		% Change
		January-December		
		2002	2003	
1	Semi-Conductors and Other Electronic Components and Communication Equipment and Apparatus	92.5	100.2	8.3
2	Radio and Television Sets, Sound Reproducing and Recording Equipment	28.0	28.7	2.5
3	Crude Oil Refineries	22.7	28.0	23.3
4	Manufacture of Industrial Gases	13.0	16.6	27.7
5	Manufacture & Assembly of Motor Vehicles	12.1	14.3	18.2

Sources: Department of Statistics

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The manufacturing sector continues to be the major engine of growth for the Malaysian economy, which registered an average annual growth rate of 9.1% for the period from 1996-2000 against the target growth rate of 10.7% under the 7MP. In 2001, manufacturing output tumbled due to the slowdown in global economy and a sharp plunge in the demand for electronic products. Given the high contribution of the electronics industry to the manufacturing sector (40.3%), the decline in world demand of the electronic products has adversely affected manufacturing output. However, the domestic-oriented industries were resilient due to the expansion in the manufacturing output of construction-related sectors, resource-based industries, transportation equipments and consumer products. After 11 consecutive months of decline, the manufacturing output finally staged a rebound during the first quarter of 2002 and went on with three straight months of positive growth since April 2002.

On the external, the slump in the worldwide semiconductors sector has shown signs of bottoming out and the book-to-bill ratio of North America's electronics equipment has stayed above one in four straight months since March 2002. After an inventory adjustment in both the domestic and global electronics industry in 2001, new orders replenishing depleted stocks of electronic products have started to pick-up. Imports of intermediate goods have increased by 3.3% in the first quarter of 2002, showing an encouraging growth in manufacturing output for the months ahead.

Under the Eighth Malaysia Plan ("8MP"), the annual average growth rate for the manufacturing sector is expected at 8.9% for the period of 2001 to 2005. However, the growth rate was only 0.2% in 2001 due to a slump in global demand for electronic products. As export-oriented industries will continue to dominate the manufacturing sector, the sector's growth is expected to be export-led, projected to earn up to 89% of the country's foreign exchange earnings by 2005.

The outlook for the manufacturing sector remains positive despite a fall in foreign investments in recent years. To speed up recovery of the global economy, some MNCs have relocated its labour-intensive and low-end operations to the lower cost countries such as China and Thailand. However, some companies have moved its high-end operations to Malaysia to tap on the superior manufacturing facilities, competitive tax, incentive scheme and well-trained labour force. The fiscal stimulus packages and low interest rate regime has helped to ensure a brighter prospect for the manufacturing sector in 2003.

1.1.4 THE KNOWLEDGE ECONOMY IN MALAYSIA

The concerted efforts of the Government to broaden the economic base and develop new sources of growth have resulted in a gradual shift from a production-intensive economy to a knowledge-intensive economy. In September 2001, the Government launched the Knowledge-based or K-based Economy Master Plan that outlines the seven strategic thrusts comprising recommendations to accelerate the shift towards the knowledge-based economy. The strategic thrusts focus on areas that are salient to the transformation to the new economy, encompassing human resource development, institutional framework, info-structure and infrastructure, science and technology capacity, role of the private sector, a knowledge-based civil service as well as bridging the knowledge and digital divides.

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Within the ICT agenda, the penetration rate in Internet usage has surged from 10.6 per 100 population in 2000 to 20.0 per 100 population in 2003 for urban areas as at end-June 2003. As for the rural areas, the progress is also almost two-fold from 1.3 to 2.5 per 100 population as at end-June 2003. Internet connectivity is also being extended to 750 locations for rural schools through the SchoolNet Programme, public libraries as well as clinics throughout the country. In the Government sector, the establishment of the electronic-government (e-Government) is an initiative towards accelerating information flows and expediting transactions, such as through the e-Procurement and e-Payment. A growing young population, high literacy rate and increasing PCs usage will also spur Internet usage in the country.

In the education sector, the move towards educational excellence in Malaysia is aimed at improving the quality of workforce. At both primary and secondary levels, the ongoing ICT-driven projects in schools and smart schools will enable students to tap into the wealth of knowledge arising from the expansion in Internet connectivity. The extension of these projects nationwide will reduce the digital divide between the urban and rural areas.

The Government's decision to teach Mathematics and Science in the English language beginning 2003 will provide students with access to the greater wealth of knowledge in the fields of science and technology as well as enhancing proficiency in the language. The implementation of single-session schools further ensures that students have effective access to both academic as well as co-curriculum activities and nurture a balanced and all-round development. Such programmes will also equip students with the required knowledge to achieve excellence in education while creating easily trainable and higher quality workforce.

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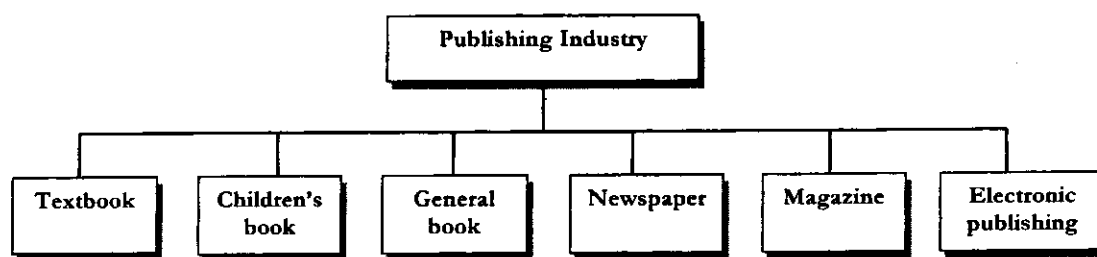
1.2 BROAD INDUSTRY ASSESSMENT – PUBLISHING INDUSTRY

1.2.1 INDUSTRY CLASSIFICATION

The publishing industry is a highly diverse industry. Publication rides on the backbone of information or content, which is by nature ubiquitous in form. Webster⁴ defines the term “publishing” as the business or profession of the commercial production and issuance of literature, information, musical scores or sometimes recordings or arts. It however does not cover printing or producing of a family history bound in book form without commercial intent.

The publishing industry can be broadly classified into six different sub-groups. The classifications are textbook, children’s book, general book, newspaper, magazine and electronic publishing.

Figure 1.1: The Publishing Industry by Product Classification



Source: Department of Statistics, Infocredit D&B Research

The publishing industry is difficult to be classified due to the broad variation of publications produced, varying from language, genre, topics, markets covered to media type. The complexity is aggravated by the convergence of the conventional⁵ and electronic publishing industry, sparked by the rapid growth of the Internet and alternative content delivery channels. In the publishing industry, distribution represents the key fundamental activity, whereas all others are considered as supporting activities.

Based on the Malaysian Industrial Classification (“MIC”) code system, the publishing industry falls under the code of 34200 - printing, publishing and allied industries. However, this includes printing and allied services, which is not covered in this study. As such, the International Standard Industrial Classification (“ISIC”) system will be used to classify the segments within the publishing industry.

⁴ Source: Webster's new world dictionary and thesaurus, Macmillan, 1996

⁵ Note: Conventional Publishing includes all major hardcopy printed media defined within ISIC 2211, 2212 and 2219 (see Table 1.5)

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Table 1.5 : Definition of the Malaysian Publishing Industry

Definition	Type	Example of Publications
ISIC 2211 Publishing of books, brochures, musical books and other publications	Children's Books	Educational, Fiction, Non-Fiction
	Dictionaries	Dictionaries, Encyclopaedias, Thesaurus
	Directories	Business, Members, Yellow Pages, Guides
	General Books	Business, Fiction, Non-Fiction, Religious, Novels
	Musical Books	Theory, Reference, Song Books
	Reference Books	College, Higher Education, University
	Textbooks	Primary and Secondary Textbooks, Reference, Workbooks
ISIC 2212 Publishing of newspapers, journals and periodicals	Others	Brochures, Printed Profiles, Pamphlets, Guides, Maps, Atlases, Reports
	Newspaper	English, Malay, Chinese, Indian Daily or Weekly Newspaper
	Journals	Trade Journals, Other Journals
	Magazines	General, Consumer, Business, Special Interest
ISIC 2213 Publishing of recorded media	Other Periodicals	Newsletters, Special Interest Periodicals, Comics, Others
	Electronic media publishing	Publishing of media within ISIC 2211, 2212 and 2219 in the form of Adobe PDF (Portable Document Format), CDROM, OEB (Open e-book Format), HTML and other electronic media
ISIC 2219 Other publishing	Other publishing not elsewhere classified	Photos, Engravings and Postcards, Forms, Posters and Reproduction of Works of Art

Note:

ISIC = International Standard Industrial Classification

Source: Department of Statistics

1.2.2 INDUSTRY OVERVIEW

The earliest publication was traced back as far as 1806 in Penang, which marked the beginning of the publishing industry.⁶ The Government has played a significant role in the development of the local publishing industry, as it needs to ensure that the reading materials available locally reflect local values appropriate for the country's multi-ethnic composition and meet the requirements of the national educational curriculum. The strategic role of the publishing industry lies not only in its economic function, but also in its educational and cultural function.

Along with the improvement of the nation's income and household living standards is the emergence of the growing middle class, whose interests are reflected in their quest for information and knowledge. More young Malaysians are now in the course of completing their tertiary degrees in local colleges, universities as well as institutions overseas. Students today have also begun to consume more reading materials in pursuit of higher education and knowledge.

⁶ Source: National Language and Literary Council

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As such, a National Book Policy has been formulated in 1985, and the Dewan Bahasa dan Pustaka ("DBP")⁷ was established to spearhead the development of the local publishing industry. Starting off with a publication fund of RM20 million awarded by the Government, DBP has grown to become the largest book publisher in the country, publishing several hundred Malay book titles a year, including Government publications, textbooks, educational aids, academic textbooks and general literature⁸.

Educational materials are published in four languages – Bahasa Malaysia (Malay), English, Chinese and Tamil. As Bahasa Malaysia is the national language and the primary medium of instruction for the primary to tertiary education, Malay titles make up the 60% of the total volume of books published locally, with nearly 25% English titles and the remainder comprising a balance of Chinese and Tamil languages.

1.2.3 INDUSTRY PLAYERS

There are about 500 companies registered as "publishers" with the Companies Commission of Malaysia. These companies range from small "one-man" shops to large firms with more than fifty employees. Of the 500, around 150 or 30% are estimated to be significant players. Majority of the active players were found to be located within Klang Valley, while the remaining ones are located in the capitals of other main states. These publishers produce an estimated 5,000 new titles annually. The more established publishers in Malaysia are Pelanduk Publications Sdn Bhd, Penerbitan Pelangi Sdn Bhd, Berita Publishing Sdn Bhd, Falcon Press Sdn Bhd and Fajar Bakti Sdn Bhd.

Despite the limitation of a controlled and domestic-driven market, the local publishing industry is complex as publishers buy rights of foreign titles, print books and/or magazines for foreign publishers for export, and translate books and magazines from English into Bahasa Malaysia. The publishing sector also includes a small number of local subsidiaries of foreign and multinational companies. These local subsidiaries, drawing on their international connections, have built core competency in the publication of academic texts as well as general literature.

1.2.4 INDUSTRY LIFE-CYCLE

The demand trend of the publishing industry varies as it depends largely on the type of publishing involved. For general book publishers, one major risk is not being able to forecast the market accurately due to changing consumer preferences and short product life-cycles of "titles". The established players are in a better position to anticipate the market trend.

In contrary, the demand for the textbook and reference book market segment shows a unique characteristic as demand is known well in advance. The risk of cost fluctuations is also small as cost of paper forms a small part of the total price of a book and most costs can be fixed at the time of signing of contract. The local textbook and reference book market is dominated by a small pool of very established players.

⁷ Source: *International Federation of Library Associations and Institutions*

⁸ Source: *Dewan Bahasa dan Pustaka*