

8. INDEPENDENT MARKET RESEARCH REPORT



20 November 2023

The Board of Directors
Kucingko Berhad
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Dear Sirs and Madams

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Independent Assessment of the 2D Animation Production Industry

We are an independent business consulting and market research company based in Malaysia. We commenced our business in 1993 and, among others, our services include the provision of business plans, business opportunity evaluations, commercial due diligence, feasibility studies, financial and industry assessments, and market studies. We have also assisted in corporate exercises since 1996, having been involved in initial public offerings, takeovers, mergers and acquisitions, and business regularisations for public listed companies on the Bursa Malaysia Securities Berhad (Bursa Securities) where we acted as the independent business and market research consultants. Our services for corporate exercises include business overviews, independent industry assessments, management discussion and analysis, and business and industry risk assessments.

We have been engaged to provide an independent assessment of the above industry for inclusion in the prospectus of Kucingko Berhad for the listing of its shares on the ACE Market of Bursa Securities. We have prepared this report independently and objectively and have taken all reasonable consideration and care to ensure the accuracy and completeness of the report. It is our opinion that the report represents a true and fair assessment of the industry within the limitations of, among others, the availability of timely information and analyses based on secondary and primary market research as at the date of this report. Our assessment is for the overall industry and may not necessarily reflect the individual performance of any company. We do not take any responsibility for the decisions, actions or inactions of readers of this document. This report should not be taken as a recommendation to buy or not to buy the securities of any company.

Our report may include information, assessments, opinions and forward-looking statements, which are subject to uncertainties and contingencies. Note that such statements are made based on, among others, secondary information and primary market research, and after careful analysis of data and information, the industry is subject to various known and unforeseen forces, actions and inactions that may render some of these statements to differ materially from actual events and future results

Yours sincerely

Wooi Tan
Managing Director

Wooi Tan has a degree in Bachelor of Science from the University of New South Wales, Australia and a degree in Master of Business Administration from the New South Wales Institute of Technology (now known as the University of Technology, Sydney), Australia. He is a Fellow of the Australian Marketing Institute and the Institute of Managers and Leaders. He has more than 20 years of experience in business consulting and market research, as well as assisting companies in their initial public offerings and listing of their shares on Bursa Malaysia Securities Berhad.

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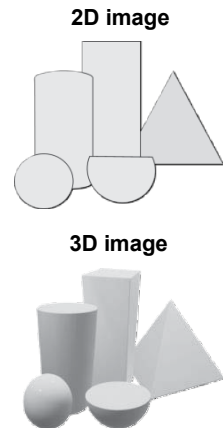
Date of Report: 20 November 2023

INDEPENDENT ASSESSMENT OF THE 2D ANIMATION PRODUCTION INDUSTRY

1. INTRODUCTION

- Kucingko Berhad together with its subsidiaries, (herein referred to as Kucingko Group) is mainly involved in the provision of two-dimensional (2D) animation production services serving customers mainly in the United States (US), Canada, France and Australia, which will be covered in this report.
- This report focuses on 2D animation production and it excludes gaming, unless stated otherwise. All references to gross domestic product (GDP) refer to nominal GDP unless stated otherwise, and all data and statistics are based on the latest available to the public as at the date of this report. This report primarily discusses the 3-year compound annual growth rate (CAGR) data as it represents more recent industry performance compared to the 5-year CAGR data. Nevertheless, 3-year and 5-year CAGR data are provided, where available.
- Animated content can be produced in 2D or three-dimensional (3D) formats as follows:

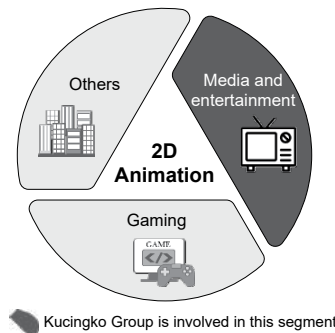
- **2D animation** refers to animation that is created by manipulating flat images or drawings in 2D space namely width and height. 2D animations have a relatively simplistic style compared to 3D animations. Kucingko Group is involved in 2D animation production.
- **3D animation** refers to animation that is created by manipulating images in 3D space namely width, height and depth. Unlike 2D animation, 3D animation is often used for creating complex and realistic animations with more dynamic and immersive visuals. In comparison to 2D animation, the production of 3D animated content is more skilled resource intensive, and subsequently more expensive to produce.



2. OVERVIEW OF THE 2D ANIMATION PRODUCTION INDUSTRY

- 2D animation is focused on creating motion pictures of drawn images. It involves creating a series of still images and playing them in rapid sequence to create the illusion of movement. Animated content is widely used in various sectors to convey a particular story, message or information, as well as in gaming (electronic games) as follows:

- Animation is used in the **media and entertainment** industry to produce various types of audiovisual content, including television (TV) series, short films, feature films, documentaries and music videos, which are primarily for entertainment. These animated contents can be distributed through a variety of media, including physical media such as digital versatile disks (DVD) (less common nowadays), TV, cinemas and electronic devices such as mobile phones, tablets, computers and smart TV using the internet. While the content shown on TV and in cinemas is based on a set schedule, users can access online streaming or download content whenever and wherever they want.

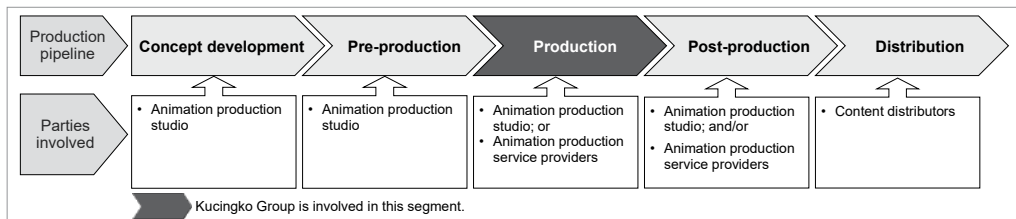


8. INDEPENDENT MARKET RESEARCH REPORT (CONT'D)



- In the **gaming** sector, animation is used extensively to provide interaction between the player and the game. Animation is a fundamental component of the gaming sector as the visual elements including interactive character movements, background and special effects, are essential for an immersive and engaging experience. In addition, animation is used to tell stories and convey emotions in games, helping to create a narrative that draws the player into the game world. It can be used to create non-interactive cinematic sequences within a game, dialogue sequences and other elements that contribute to a more engaging gaming experience.
- **Other** sectors include education, government and corporate. In education, animation is used to create interactive and engaging visual content. Governments and corporations use animation to create training materials, instruction briefs, marketing content and others. Animation can be an effective tool in conveying complex or technical information in an easily digestible and engaging format, which can improve learning outcomes, increase audience engagement and enhance overall communication effectiveness.
- Kucingko Group is involved in the provision of 2D animation production services for the media and entertainment industry.

2.1 2D animation production pipeline and value chain



- The pipeline of 2D animation production begins with **concept development**, where the main idea of the animation and storyline is developed. This stage involves generating as well as developing the conceptual story structure and character design. The second phase of the 2D animation production pipeline is **pre-production**, which involves the development of detailed technical aspects of the 2D animation including the creation of concept art, storyboard, scripting, character design as well as other audio and visual elements that form the animation. This is followed by the **production** phase, which involves the actual creation of images. The 2D animation incorporating all relevant audio and visual elements will then be reviewed and undergo final editing during the **post-production** phase before it is **distributed** to the market.
- Generally, the key parties involved in the production of 2D animation are as follows:
 - **Animation production studios**, where they are responsible for the entire process of creating an animation, from initial concept development to final delivery. This includes tasks such as script writing, storyboarding, character design, layout, sound and post-production.
 - **Animation production service providers**, where they typically undertake outsourced production and post-production work for animation studios, and are responsible for transforming the concept and storyline into actual animated content. Generally, they are responsible for asset creation to prepare all the individual elements required for the animation, such as character rigging, backgrounds and other visual elements. The elements created are then used

8. INDEPENDENT MARKET RESEARCH REPORT (CONT'D)



for the framing process. Framing involves creating keyframes that depict the essential movements and expressions required for the scene, and in-between frames that fill up the gaps between two keyframes. Subsequently, the compositing process combines all the individual elements including characters, backgrounds and special effects into a final scene. This is achieved by layering the elements on top of each other using specialised software to create a cohesive and seamless image. In addition, the vocal, sound and music elements will also be integrated into the scene at this stage to enhance the overall viewing experience.

- **Content distributors** are involved in promoting and distributing the final animation to viewers. The animated content can be distributed via various channels such as TV, cinema screening, physical media such as DVD, as well as online streaming and download platforms.
- Kucingko Group is involved in the 2D animation production segment as an animation production service provider.

2.2 Methods of 2D animation production

- Two of several methods to produce 2D animated content are as follows:
 - **Traditional animation**, also known as cell animation, refers to the production of animation where each frame is manually drawn by hand and photographed against a mainly static background to create a smooth and continuous illusion of motion. This animation technique involves drawing each element of the frame such as the characters, background, and other elements by hand. As each frame is slightly different from the previous one, this process can be very time-consuming.
 - **Digital animation** refers to the production of animated content using computer software. Typically, the frames of a digital animation are drawn by the animator using a digital pen and tablet, where any changes and corrections can be made easily. Unlike traditional animation, digitally created frames can be used repetitively as they can be edited and manipulated using specialised software for the desired motion of the animated elements, such as the walk cycle of a character. In addition, effects such as shadows, lighting and other special effects, as well as sound elements including special sound effects, voiceovers and music, can be integrated into the animation using computer software.

Once the frames are created, they are rendered into a video file of various qualities such as high-definition quality, as well as various file formats such as Moving Picture Experts Group-4 Part 14 (MP4) and movie file extension (.mov) for further editing and enhancement. Kucingko Group is involved in using digital animation for its 2D animated content.

3. DEMAND DEPENDENCIES

3.1 Traditional media and digital platforms

- Growth in the distribution of content through traditional media channels such as TV broadcasting and cinema screenings, and digital platforms such as internet streaming and downloads, will provide opportunities to operators in the 2D animation production industry. Demand for 2D animated content was traditionally driven by TV, which includes free-to-air broadcasting and pay-to-view channels, as well as cinemas and public screenings. The rise of digital technology and the ubiquitous use of the internet have opened up more

8. INDEPENDENT MARKET RESEARCH REPORT (CONT'D)



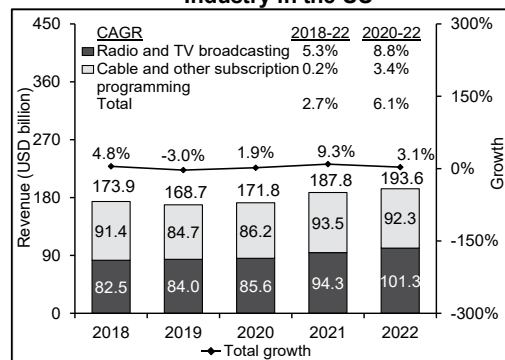
convenient and popular means to distribute 2D animated content to a global audience. As a result, the demand for 2D animated content expanded into digital platforms including streaming services such as Netflix, Amazon Prime Video, Disney+, HBO Max/Max, Tencent Video and iQIYI, online video platforms such as YouTube and Vimeo, as well as social media platforms such as Facebook, Twitter and Instagram. The shift in consumer behaviour and growth in new distribution platforms have created more opportunities for 2D animated content to be distributed promptly and consumed by a larger global audience.

- The following provides some indication of the performance of the broadcasting industry in the US, Canada, France and Australia, as Kucingko Group mainly serves customers in these countries. Among others, their 2D animated content is distributed through traditional media such as TV, and streaming platforms such as Netflix and Disney+.

3.2 The US

- The US is a major hub for content distribution, housing many large media and entertainment companies including major film studios, TV networks and streaming platforms. Its broadcasting industry comprises radio and TV broadcasting, as well as cable and other subscription programming.

Revenue of the Broadcasting (except internet) Industry in the US



(Source: US Census Bureau)

- Between 2020 and 2022, the revenue of its broadcasting industry grew at a CAGR of 6.1%. This would provide opportunities for operators in the production of 2D animated content. In the first half (H1) of 2023, revenue of the broadcasting industry in the US declined by 3.0% compared to the corresponding period in 2022, which may be attributed to the growing popularity of online streaming services.

Given the shift in consumer habits, online streaming and downloads have become increasingly important in influencing the demand for content, including 2D animated content. The large global subscriber bases of these streaming platforms would provide growth opportunities for 2D animation production service providers serving customers in the US. Some of the streaming platforms with head offices in the US include the following:

Platforms	Paid subscribers (mil) ⁽¹⁾	Platforms	Paid subscribers (mil) ⁽¹⁾
Netflix	247	Amazon Prime Video	n.a.
Disney+	113	HBO Max/Max	n.a.
Hulu	49		

mil= million; n.a.= not available. (1) As of 30 September 2023. (Source: Vital Factor analysis)

3.3 Canada

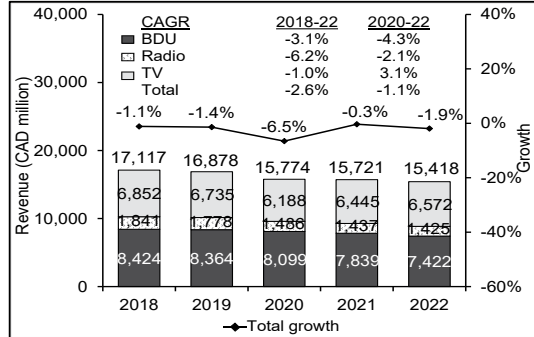
- Canada is also a major country for content distribution, where its broadcasting industry comprises broadcasting distribution undertakings (BDU), TV and radio segments. BDU encompasses cable, internet protocol TV (IPTV), direct-to-home and multipoint distribution services. Between 2020 and 2022, the revenue of the broadcasting industry in Canada declined at an average annual rate of 1.1%, mainly attributed to the BDU and radio segments.

8. INDEPENDENT MARKET RESEARCH REPORT (CONT'D)



- In 2022, the revenue of the TV segment grew by 2.0% mainly due to increased discretionary services, while the BDU segment declined by 5.3% partly attributed to the increasing use of online streaming services such as Netflix and Amazon Prime Video (Source: Canadian Radio-TV and Telecommunications Commission (CRTC)).

Revenue of the Broadcasting Industry* in Canada

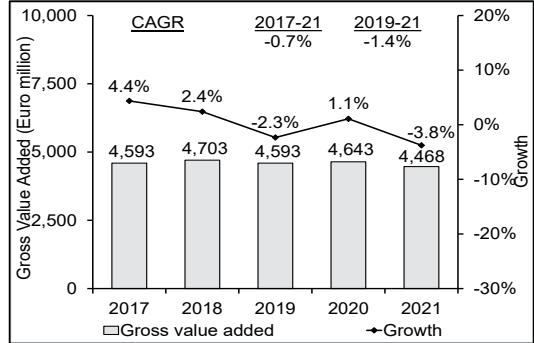


* Excludes internet-based audio and video services. (Source: CRTC)

3.4 France

- Gross value added is a measure of a sector's contribution to the overall economy. In France, the gross value added of programming and broadcasting activities which covers radio and TV segments, declined by 3.8% in 2021 following a growth of 1.1% in 2020.

Gross Value Added of Programming and Broadcasting Activities* in France

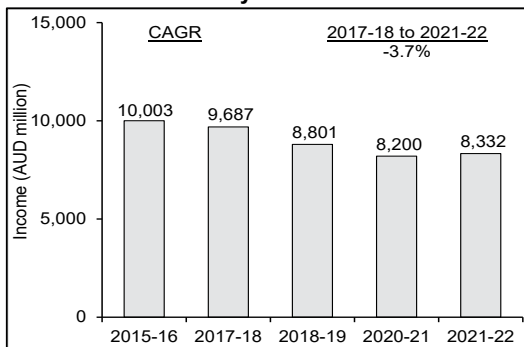


Latest available information. * Includes internet broadcasting. (Source: The National Institute of Statistics and Economic Studies (INSEE), France)

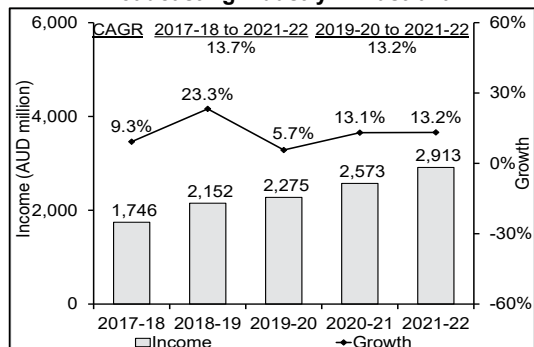
3.5 Australia

- In Australia, statistics are commonly reported based on the financial year of 1 July to 30 June. In Australia, the income of the broadcasting industry covering radio and TV segments, grew by 1.6% in the financial year ended June 2022 (2021-22). Meanwhile, the income of the internet publishing and broadcasting industry in Australia grew by 13.2% in 2021-22. This builds on the longer-term trend of Australians increasingly shifting their viewing habits to online options (Source: Australian Communications and Media Authority)

Income of the Broadcasting (except internet) Industry in Australia



Income of the Internet Publishing and Broadcasting Industry in Australia



Note: 2021-22 is the latest available data. There is no available data for 2016-17 and 2019-20 for the broadcasting industry. (Source: Australian Bureau of Statistics)

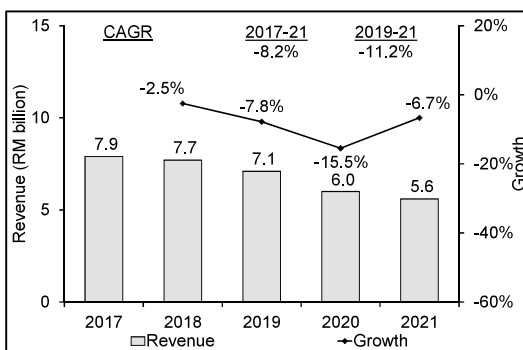
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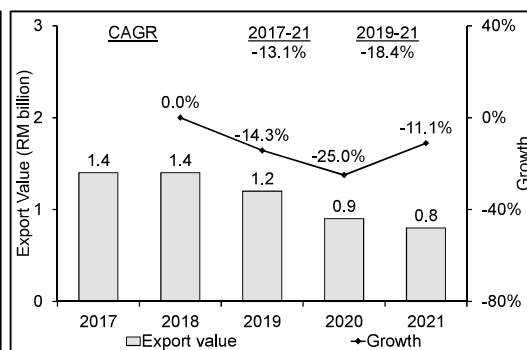
4. DIGITAL CREATIVE CONTENT INDUSTRY IN MALAYSIA

- In Malaysia, 2D animation production is part of the broader digital creative content industry, which includes companies that utilise technologies for the development, production and distribution of digital content, and complementary tools, products, services and platforms. Between 2019 and 2021, being the latest available information, the revenue and export value of digital creative content in Malaysia have been declining at an average annual rate of 11.2% and 18.4% respectively. In the first half of 2022, the revenue of the digital creative content industry in Malaysia reached RM2.8 billion, while the export value reached RM0.4 billion (Source: Malaysia Digital Economy Corporation (MDEC)).

Revenue of Digital Creative Content in Malaysia



Export Value of Digital Creative Content in Malaysia

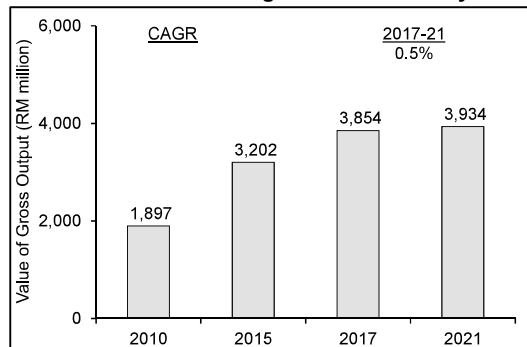


Latest available information. (Source: Malaysia Digital Economy Corporation (MDEC))

- The declining revenue was mainly due to competition from over-the-top platforms (platforms offering content directly to consumers via the internet) and an increasingly crowded broadcast market. On the export front, the declining export value was mainly due to the impact of the COVID-19 pandemic. In addition, the Children’s Online Privacy Protection Rule also impacted the distribution of content on YouTube, affecting mainly studios that cater to the children segment. (Source: MDEC)

- Motion picture, video and TV programme production encompass activities including production, distribution, projection and supporting activities such as film editing, cutting and dubbing. Sound recording and music publishing activities encompass production, release, promotion and distribution of sound recordings, which includes the acquisition and registration of copyrights for musical compositions, as well as the promotion and authorisation of their use. (Source: Department of Statistics Malaysia (DOSM))

Value of Gross Output of Motion Picture, Video and TV Programme Production, Sound Recording and Music Publishing Activities in Malaysia



Latest available information. (Source: DOSM)

- Between 2017 and 2021, being the latest available information, the value of gross output of motion picture, video, TV programme production, sound recording and music publishing activities grew marginally at a CAGR of 0.5% to RM3.9 billion in 2021.

8. INDEPENDENT MARKET RESEARCH REPORT (CONT'D)

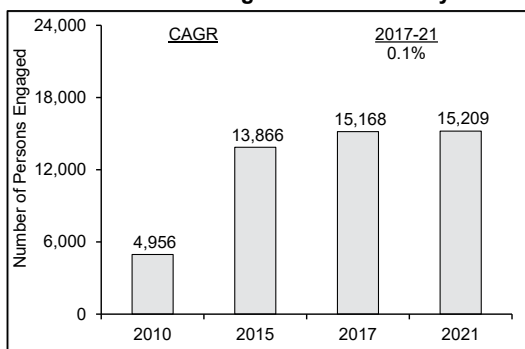


5. SUPPLY DEPENDENCIES - MALAYSIA

5.1 Availability and cost of skilled talent

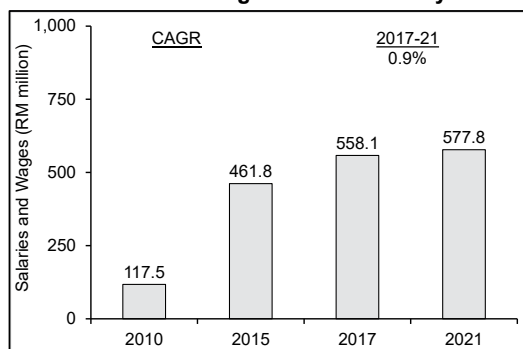
- The quality of 2D animation production largely depends on the skills and capabilities of the production staff. In addition, salaries and wages typically represent a significant proportion of the 2D animation production costs.
- Between 2017 and 2021, being the latest available information, the number of persons engaged in motion picture, video, TV programme production, sound recording and music publishing activities in Malaysia grew minimally at a CAGR of 0.1%. During the same period, salaries and wages grew at a CAGR of 0.9%. This represented a CAGR of 0.8% in terms of average salaries and wages per person engaged between 2017 and 2021 (Source: Vital Factor analysis).

Persons Engaged: Motion Picture, Video, TV Programme Production, Sound Recording and Music Publishing Activities in Malaysia



Latest available information. (Source: DOSM)

Salaries and Wages: Motion Picture, Video and TV Programme Production, Sound Recording and Music Publishing Activities in Malaysia



Latest available information. (Source: DOSM)

- According to the Mid-Term Review of the Twelfth Malaysia Plan (12MP), the government planned to introduce programmes aimed at increasing the awareness of creative career pathways, and enhance the industry bridging programme with local and global digital content studios. Additionally, a feasibility study on the establishment of an accreditation scheme for the creative industry will be undertaken. These efforts are expected to contribute to the development of skilled creative talent, which will benefit operators in the 2D animation production industry.

5.2 Government initiatives and incentives

- Government initiatives and incentives are important in building and supporting the animation industry ecosystem in respect of funding, promotion and marketing, as well as talent and infrastructure development. The following are some of the initiatives and incentives introduced by the MDEC to support the digital creative content industry:
 - **Digital Content Grant** is aimed at supporting local creative content companies in developing, producing and marketing their digital content in animation, games, comic and creative technology content through funding;
 - **Digital Creative Content Creator Studio** is an industry bridging programme that provides training allowance incentives for Malaysia-based studios to offer internship placements to Malaysian youth. In 2022, 15 companies and 124 participants were involved in the programme (Source: Ministry of Economy);

8. INDEPENDENT MARKET RESEARCH REPORT (CONT'D)

- **Enterprise Development Programme (EDP)** is a continuous development programme that offers free or at-cost courses that are conducted in partnership with local and international partners offering subjects ranging from technical workshops to creative industry business management and operations;
- **Digital Content Creators Challenge (DC3)** is a competition-based initiative aimed to help content creators develop and produce world-class digital content, and increase the creation of intellectual properties. The winners will receive prize money to develop and commercialise the proposed digital creative content, with the support of industry experts through a mentorship program; and
- **'Kre8tif!'** is a business networking platform with events to connect industry players from Southeast Asia with global buyers. It also serves as a platform for sharing experiences and insights, as well as pitching ideas.

These are expected to benefit operators in the digital creative content industry, including 2D animation production service providers such as Kucingko Group.

- In addition, the introduction of the **Film in Malaysia Incentive (FIMI)** by the National Film Development Corporation Malaysia (FINAS) offers a 30% cash rebate on all qualifying Malaysian production expenditure (QMPE) for production and/or post-production activities in Malaysia. There is an additional cash rebate of up to 5% available, subject to passing the cultural test for production activities in Malaysia. FIMI applies to various formats, including feature films, TV series, feature animations, animation series and documentaries, for both domestic and foreign companies. For foreign production companies to qualify for this incentive, they must either engage in co-production or appoint a domestic service provider to carry out production and/or post-production activities, and achieve the specified minimum QMPE threshold. This provides opportunities for 2D animation production service providers in Malaysia as more foreign production companies seek to leverage the incentive to reduce their production costs.

6. COMPETITOR LANDSCAPE**6.1 Operators in the industry**

- To provide an indication of the performance of companies in the animation production industry, the following Malaysian companies were selected based on the following criteria:
 - involved in the provision of animation production services, including 2D and/or 3D animation;
 - having operations in Malaysia; and
 - availability of relatively recent financial information.

Companies listed in descending order of revenue	FYE/ FPE ⁽¹⁾	Rev ⁽²⁾ (RM mil)	GP ⁽²⁾ (RM mil)	NP/(NL) ⁽²⁾ (RM mil)	GP ⁽²⁾ Margin (%)	NP/(NL) ⁽²⁾ Margin (%)
Lemon Sky Animation S/B ^(a)	FYE Dec-22	80.2	40.5	14.7	50.6	18.3
Kucingko Group	FYE Dec-22	23.5	n.a.	8.0	n.a.	34.0
Lil Critter Workshop S/B ^(b)	FYE May-23	12.9	5.5	0.1	42.6	1.0
Polygon Pictures Malaysia S/B ^(c)	FYE Dec-22	11.7	2.0	1.0	16.7	8.2

8. INDEPENDENT MARKET RESEARCH REPORT (CONT'D)

Companies listed in descending order of revenue	FYE/ FPE ⁽¹⁾	Rev ⁽²⁾ (RM mil)	GP ⁽²⁾ (RM mil)	NP/(NL) ⁽²⁾ (RM mil)	GP ⁽²⁾ Margin (%)	NP/(NL) ⁽²⁾ Margin (%)
Animasia Studio S/B ^(d)	FYE Dec-22	9.0	n.a.	-1.0	n.a.	-11.6
Fly Studio S/B ^(e)	FYE Mar-23	7.9	1.0	0.1	12.7	1.4
Anima Vitae Point S/B ^(f)	FPE Dec-22	6.9	n.a.	1.3	n.a.	18.8
Warnakala Studios S/B ^(g)	FYE Jan-23	6.7	1.4	-0.2	21.4	-2.4
OLM Asia S/B ^(h)	FYE Mar-23	4.0	0.8	-0.6	20.5	-15.7

FYE= Financial Year Ended; FPE= Financial Period Ended; Rev= Revenue; GP= Gross Profit; NP= Net Profit; NL= Net Loss; mil= million; S/B= Sendirian Berhad; n.a.= not available; **Notes:** (1) Latest available financial information; (2) Derived from animation production services including 2D and 3D animation, as well as other business activities.

- (a) Involved in the provision of creative art, 2D and 3D animation production services, electronic gaming, as well as education and training. A subsidiary of iCandy Interactive Limited, a company incorporated in Australia and listed on the Australian Securities Exchange.
- (b) Involved in intellectual property development and creative content production for broadcast by using animation and puppetry.
- (c) Involved in the production of computer graphics animation and related support services. A subsidiary of Polygon Pictures Holdings Inc., a company incorporated in Japan.
- (d) Involved in animation production and general trading.
- (e) Involved in the production of graphic design for multimedia broadcasting and advertisement.
- (f) Involved in developing and producing computer-generated imagery for entertainment. Based on the financial period from 1 June 2022 to 31 December 2022.
- (g) Involved in creating and producing multimedia content on conventional and modern media platforms.
- (h) Involved in the development of animation graphics. A subsidiary of Imagica Group Inc., a company incorporated in Japan.

6.2 Barriers to entry

- There is no onerous licencing or regulatory barriers to entry into the 2D animation industry. Capital investments are relatively low mainly focused on computing hardware and software. Impediments to entry are mainly focused on track record, as well as the need for specialised skills in asset creation, animation and compositing. As such, acquiring and retaining talent with the required skills and expertise is crucial, which could pose challenges to new entrants in the industry. As an indication of the level of barriers to entry, there are 84 animation companies in Malaysia as of 2021, based on the latest available information (Source: MDEC).

7. MARKET SIZE AND SHARE

2021	Estimated market size in Malaysia ⁽¹⁾	Kucingko Group	
		Revenue ⁽²⁾	Market share in Malaysia ⁽³⁾
Animation industry	RM600 million	RM17.6 million	3%

Notes:

- (1) Latest available information. (Source: MDEC).
- (2) Kucingko Group's revenue for 2D animation production services for the financial year ended 31 December 2021 (Source: Kucingko Group).
- (3) (Kucingko Group's revenue divided by Malaysia's estimated animation industry market size) x 100%.

8. INDEPENDENT MARKET RESEARCH REPORT (CONT'D)**8. INDUSTRY CONSIDERATION FACTORS****Drivers of growth and opportunities**

- **Digitalisation and growth in the distribution of content** will provide opportunities to operators in the 2D animation production industry. Viewer demand for 2D animated content, which drives the demand for 2D animation production services, is largely dependent on content providers and their distribution networks. Distribution networks are crucial for reaching viewers. The digitalisation of content, widespread internet usage for downloads and streaming, as well as the increased use of mobile devices for content consumption have expanded the reach of traditional distribution channels such as TV and cinemas, as well as enabled new distribution channels including online download and streaming platforms such as Netflix, Amazon Prime Video, Disney+, HBO Max/Max, Tencent Video and iQIYI, which have a global reach.
- The prospects of the 2D animation production industry in Malaysia are dependent upon, among others, **government initiatives and incentives** that support and develop the industry ecosystem. According to the Malaysia Digital Economy Blueprint, the Government of Malaysia aims to establish Malaysia as a regional hub for digital content including animation, games and visual effects, and set out to achieve a CAGR of 8% in digital content export from 2021 to 2025. Based on the Mid-Term Review of the 12MP, the government planned to undertake a study to strengthen the ecosystem of the creative industry and establish a creative industry satellite account to facilitate better policy planning and monitoring. Under Budget 2024, a total of RM160 million has been allocated to implement various initiatives in the creative industry, comprising RM60 million for the digital content fund, RM90 million for FIMI and RM10 million for the MyCreative Matching Grant Scheme to support artists in the production of creative projects.

Threats and challenges

- 2D animation faces **competition from 3D animation**, as some customers may prefer the visual depth and realism offered by 3D animation over 2D animation. Although 3D animation production is typically more expensive than 2D animation production, technological advancements may lead to cost reductions, which could make 3D animation more competitive with 2D animation. The shift in the cost dynamics could influence the choices made by animation studios when deciding on animation styles for their projects.
- Recent **advances in generative artificial intelligence (AI) tools** have demonstrated their capability to create digital animated content. As a result, generative AI tools have the potential of reducing the labour required in animation production thus reducing the overall cost of an animation project. Lower animation project value may result in lower revenue for operators in the animation production industry. Potentially, some animation production studios may decide to carry out the animation production in-house which would reduce the demand for animation production services.
- As 2D animation production is a digital technology-based service, the production process can be carried out remotely and delivered from anywhere in the world with an internet connection. As such, **competition is global in nature**. Global competition to Malaysia will include countries like the Philippines, India, South Korea, China and others.
- The animation industry may be affected by related **strikes and work stoppages**. An example is the recent strike by the Writers Guild of America (WGA) and the Screen Actors Guild - American Federation of TV and Radio Artists (SAG-AFTRA), resulting in a stoppage of work from its members. This caused interruptions to film and TV production, including among others, animation projects.