IMAX CHINA HOLDING, INC.

Incorporated in the Cayman Islands with limited liability

Stock code : 1970

Annual Report 2015

I feel movies
I live movies
I love movies

IMAX® MOVIES

IMAX

Chairman's Statement

LETTER TO SHAREHOLDERS

Dear Shareholders,

It is with great pleasure that I present to you IMAX China's first-ever annual results. The IMAX business in China has come a long way since installing its first theatre at the Shanghai Science & Technology Museum in 2001. With a network now spanning 307 theatres across 109 cities, we have witnessed growth that has far exceeded any expectations I had made on my first trip to China, 15 years ago. Our early involvement in the cinema industry in China has afforded us tremendous brand value and has helped cement IMAX as the go-to format for blockbuster movies in China.

Looking back, 2015 was undoubtedly a historic year for IMAX China. We added a record 75 new theatres to the network, signed agreements for 74 new theatres, delivered one of the strongest box office years in our Company's history and, of course, successfully listed on the Stock Exchange of Hong Kong. Going public during tumultuous markets is never an easy decision; however, when your business is performing at the level it has, the decision becomes much simpler.

BOX OFFICE

During 2015, we exhibited 31 films in the PRC, eight of which were local language titles. We exhibited an additional 10 films that were Hong Kong and Taiwan releases only. These 41 films generated a record $312 million in IMAX box office, up roughly 54% from 2014. By way of comparison, the industry as a whole saw total box office grow almost 49%. Equally as important, our per-screen average grew 10% to $1.34 million, which exceeds the per screen average of $1.22 million which we had achieved in 2012, 2013 and 2014. This per-screen figure is particularly impressive in light of our significant network growth over the same period.

Driving much of this growth was the record-breaking performance of a number of films, including both Hollywood and Chinese titles. In April, we released *Furious 7*, which achieved almost $39 million in IMAX box office, breaking the all-time record for an IMAX-format film in China. Several months later, the domestic film *Monster Hunt* was released and went on to become our highest grossing local language film ever at over $27 million. *Monster Hunt*'s record did not last long – in December, we released *Mojin*, which delivered $28 million in IMAX box office, becoming our highest grossing domestic film to date. In addition to being our highest grossing film, *Mojin* also became the highest indexing local language film. On just 1% of the screens, IMAX represented 11% of the box office opening weekend. Our top 5 highest grossing films of all time in Greater China were released in 2015, which we believe is a testament to the current strength of our business in China.

As we look to 2016, we couldn't have asked for a better start. Between *Mojin*, *Star Wars*, *Kung Fu Panda 3* and now *Monkey King 2* breaking a number of IMAX box office records, including best opening weekend ever over Chinese New Year, we believe we are well on our way to having another record year in 2016.

NETWORK

For the full year, we added 75 screens to the network, ending the year with a total theatre count of 307, 290 of which are commercial theatres. We also signed deals for an additional 74 new theatre systems, bringing our total backlog to 215 theatres. Of this backlog, we expect 34

Chairman's Statement (Continued)

theatres to be installed in Tier 1 Cities. Many assume that our network is predominately based in Tier 1 Cities; however, the majority of our network and expansion over the last several years has been in Tier 2, Tier 3 and Tier 4 markets. In fact, of the 307 theatres installed in China, only 40 are currently located in Tier 1 Cities. It is reassuring to see that our business, despite its premium nature, is able to maintain similar economics across a spectrum of cities in China.

We also signed important new partnerships with a variety of other exhibitors in 2015, including CGI Holdings Limited (formerly CJ CGV Holdings, Ltd.) for 25 theatres in 2015, a 15-theatre deal with Omnijoi Cinema Development Co., Ltd., and our first ever deal with Hengdian Entertainment Co., Ltd. for 5 theatres. We are very pleased with the continuing interest in IMAX theatres from both existing partners as well as new ones, as exhibitors seek to differentiate their theatres with the ultra-immersive IMAX cinematic experience. And when I think about the 1,000 zone cap we have set for ourselves in the region, including backlog, we are already more than half way there.

FINANCIALS AND NEW BUSINESS

For the full year 2015, we delivered $110.6 million in total revenues, up 41% from 2014. Our gross profit was $72.3 million, or 65% of total sales. This compares to the 59% we achieved in 2014. On an adjusted basis, our net income came in at $43.4 million, up 67% from last year. Our strong results for 2015 reflect the continuing demand for the IMAX format amongst growing consumer spending, coupled with continued operating leverage resulting from a rapidly expanding network and strong box office. We ended the year with $91 million of cash, $57 million of which were net proceeds from our initial public offering.

While we expect the majority of our cash to be used to further expand the network and purchase systems from our corporate shareholder, IMAX Corporation, we are continually looking at new investment opportunities, such as our China film fund. The fund will be a joint venture between IMAX China and China Media Capital. The plan is for each party to invest $25 million into the fund, whose purpose is to invest in commercial Chinese content. Not only will we be able to capitalize on our investment by having films to release throughout our network, but also by having partial ownership of the film and greater influence on the production of such films, we can ensure that these films are ones that will be best received by our audiences. The fund is still in its inception phase, so we hope to provide further information as the year progresses.

LOOKING AHEAD

Our business is clearly performing on all fronts – we are adding theatres at a record pace, growing box office and per-screen averages, and most importantly, delivering differentiated experiences that resonate with a Chinese consumer that is increasingly interested in experience-driven consumption over shopping and retail. Despite concerns over a macro-economic slow-down in the region, we continue to see business that has never been better and a commitment from our exhibitors that has yet to waver. As we look at development plans in China, our partners are building out the malls of the future, and these malls are being filled with restaurants, bars, live entertainment, indoor parks and, of course, cinemas. We couldn't be more thrilled with being such an integral part of these developments and of the future of entertainment in China.

With that, I would like to thank our Shareholders for their continued support and belief in our business. I would also like to extend my utmost gratitude to the employees of IMAX China, who make all of this possible.

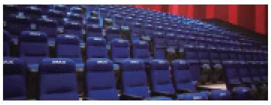
Richard L. Gelfond
Chairman, IMAX China Holding, Inc.

Exclusive licensee of the IMAX brand in the theatre and films business in Greater China with access to global partnerships

Sole commercial platform for the release of IMAX format films in Greater China, which is the second largest and fastest growing major cinema market in the world

One of the strongest entertainment brands in Greater China[1]

Unique cinematic experience and end-to-end cinematic solution

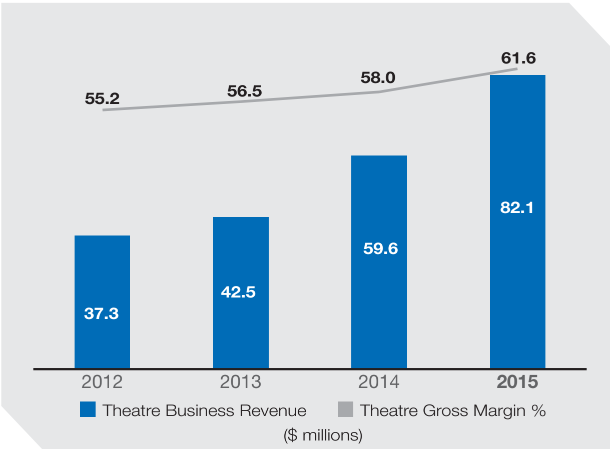


Largest non-conventional theatre network with highest average box office per screen in Greater China and significant ticket price premium

Note

1. According to a survey conducted by Milward Brown Research

We Have Two Principal Business Segments:



THEATRE BUSINESS

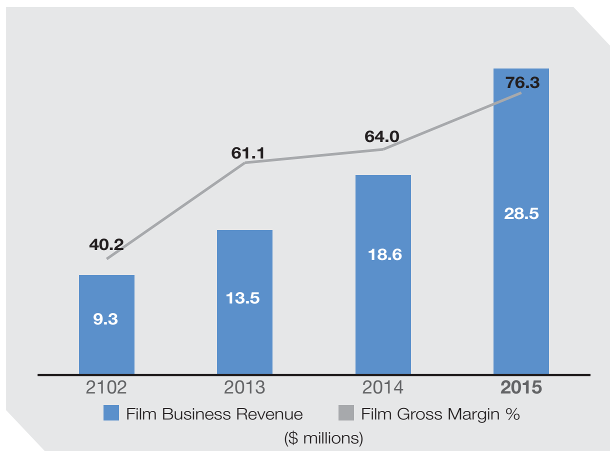
Our theatre business involves the design, procurement and provision of premium digital theatre systems at our exhibitor partners' movie theatres, as well as the provision of related project management and ongoing maintenance services.

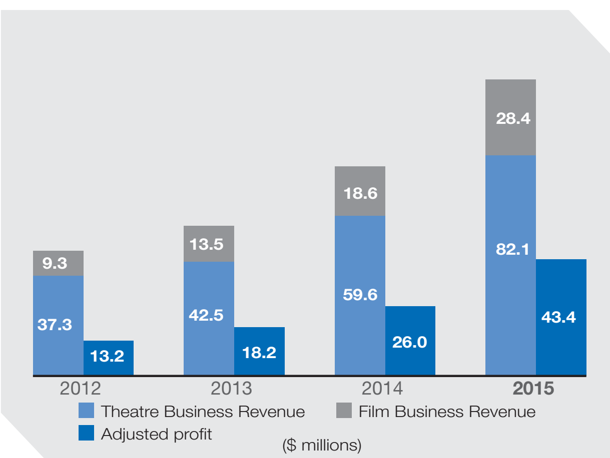
We generate revenue by charging fees to exhibitors for the IMAX theatre system and associated services, brand and technology licensing and maintenance services.

FILMS BUSINESS

Our films business involves the digital re-mastering of Hollywood and Chinese language films into the IMAX format through a proprietary IMAX DMR conversion process and the exhibition of these films on the IMAX theatre network in Greater China.

We generate revenue by sharing a fixed percentage of our studio partners' box office generated from IMAX format films. This arrangement enables us to share in the box office success of a film while limiting our exposure to the significant capital investment required in making a film and the regulatory requirements governing the production and distribution of films in Greater China.





2015 RESULTS

For the full year 2015, we delivered total revenues of $110.6 million, up 41.4% from the year prior. This resulted in adjusted profit of $43.4 million, or 39.2% of revenues. Our expanding margins are primarily the result of a growing network, coupled with a scalable business model.

Top Ten IMAX Films in the PRC in 2015

1
Furious 7,
Hollywood
Release

2
Mojin – The Lost Legend,
China Local
Language
Release

3
Monster Hunt,
China Local
Language
Release

4
Jurassic World,
Hollywood
Release

5
Avengers: Age of Ultron,
Hollywood
Release

6
The Hobbit: The Battle of Five Armies,
Hollywood
Release

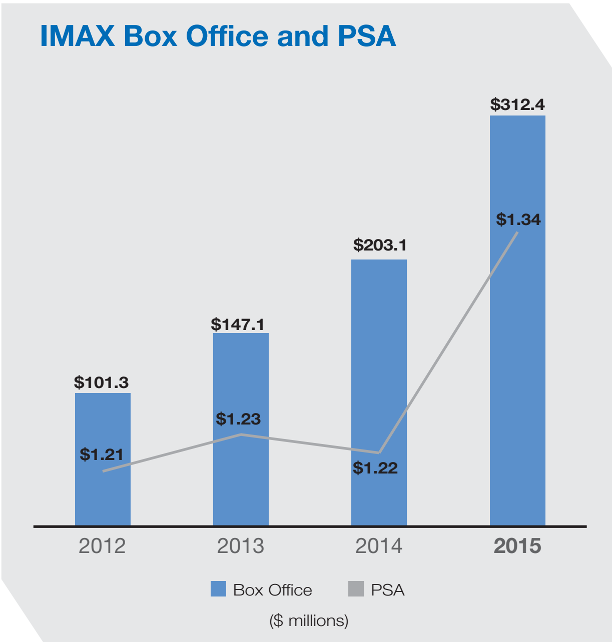
7
The Martian,
Hollywood
Release

8
Ant-man,
Hollywood
Release

9
Terminator Genisys,
Hollywood
Release

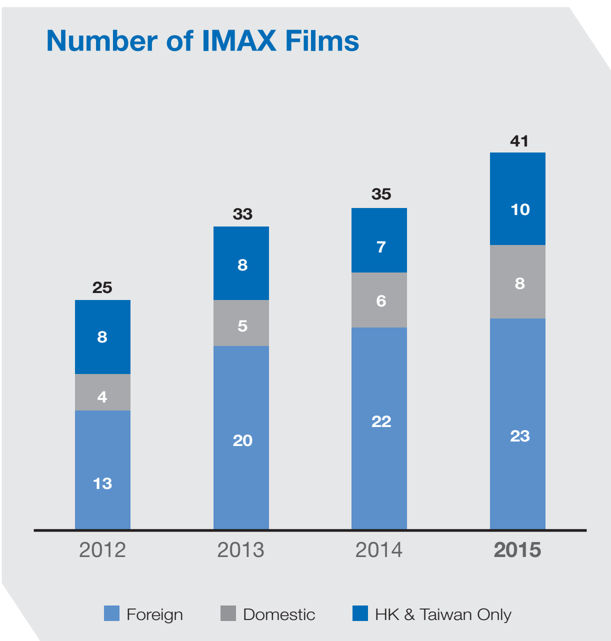
10
Mission: Impossible – Rogue Nation,
Hollywood
Release

Box Office Performance



We generated a record **$312** million in IMAX box office, up roughly 54% from 2014. By way of comparison, the industry as a whole saw total box office grow roughly 49%.

Equally as important, our per-screen average grew 10% to $1.34 million, which exceeds the historical average of $1.22 million which we had achieved in 2012, 2013 and 2014.



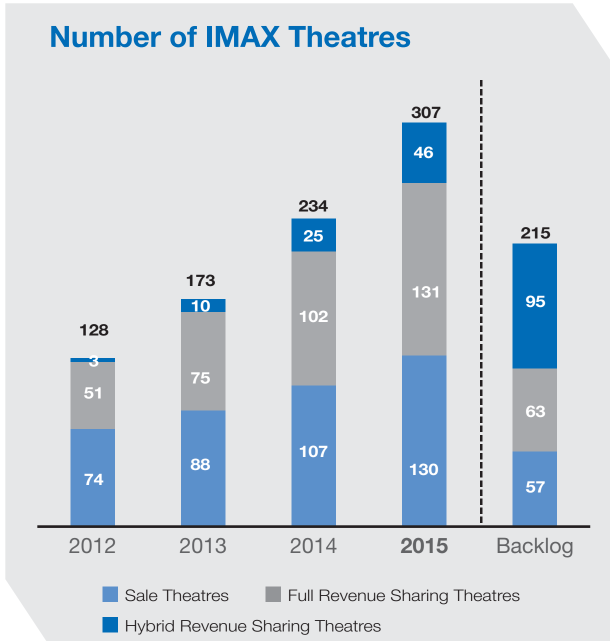
Strong Slate of Hollywood Films Complemented by a Growing Portfolio of Chinese Language Films….

We played 41 films across our Greater China network in 2015, 31 of which were played in the PRC. Over the years, we have continued to increase the number of local Chinese-language films exhibited across our network to supplement our Hollywood content. We believe we will continue to increase our local language offerings as local content garners bigger production budgets and more IMAX-type films are produced.

Moreover, we have benefited from a liberalized Hollywood film quota, which permitted an additional 14 3D or IMAX films to be released in the PRC each year beyond the previous quota of 20 Hollywood films.

Significant Expansion and Robust Prospects for Future Growth

We installed **75** new IMAX theatres in China in 2015, and signed deals for an additional **74** theatres. This is up from 2014, during which we installed 62 screens and signed agreements for 40 new theatre systems.



307 IMAX theatres in Greater China with a further **215** theatres in our backlog across **109** cities

With a network now spanning 109 cities in China, our footprint is quite robust. Of our 307 theatres just 40 are in Tier 1 Cities.

Not only have we been aggressively expanding into Tier 2, Tier 3 and Tier 4 Cities over the years, but we have also been able to grow our per screen averages despite expansion into smaller cities.

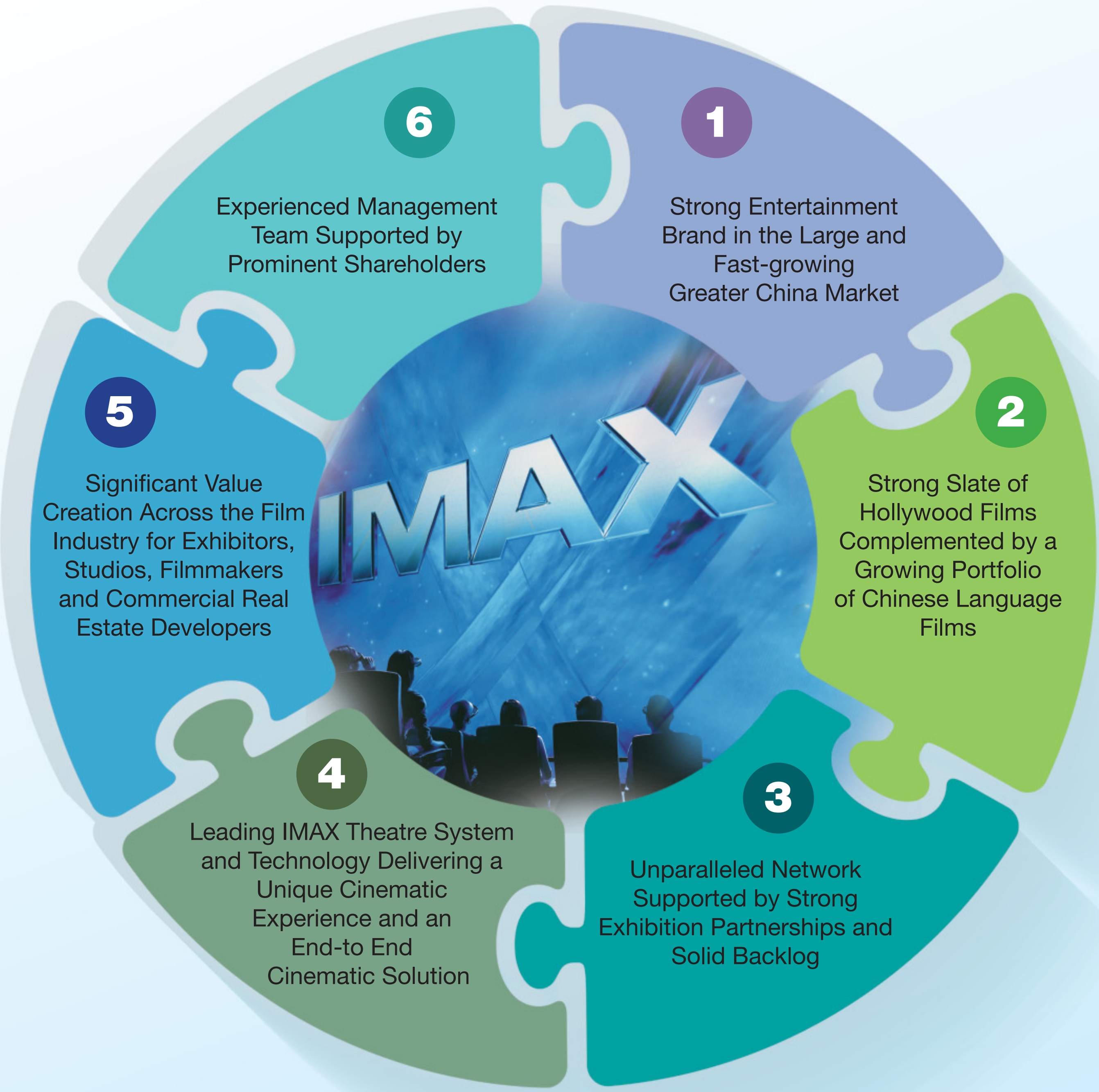
The IMAX Experience

An Integrated, End-To-End Solution

There is no one thing that makes IMAX such an immersive movie experience; it is a precise mix of several technologies, architecture and content optimization — many of them, unique to IMAX. This is called the IMAX Experience® and is the culmination of the following elements:

- IMAX manufactures the highest-resolution cameras in the world and provides them to many of the most ambitious and accomplished filmmakers, globally
- IMAX's Digital Re-Mastering process (DMR), which enhances the image and sound of the movie
- IMAX's customized theatre design, which puts moviegoers in the action
- IMAX's powerful sound system, which delivers laser-aligned sound you can feel
- IMAX's next-generation laser and xenon projection systems, which deliver lifelike crystal-clear images lifelike,
- IMAX's Quality Assurance and globally-recognized brand which stands for the ultimate movie going experiences

Key Investment Highlights



IMAX

Board of Directors & Experienced Management Team

Richard Gelfond
Non-executive Director and Chairman

Experience
- 21 years at IMAX and industry experience

Greg Foster
Non-executive Director

Experience
- 14 years at IMAX and 22 years of industry experience

RuiGang Li
Non-executive Director

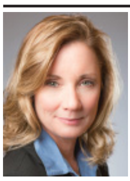
Experience
- Founding Chairman of China Media Capital

Yue-Sai Kan
Independent Non-executive Director

Experience
- Established Yue-Sai Kan Productions
- Sold Yue-Sai, a Chinese cosmetics business, to L'Oreal in 2004

John Davison
Independent Non-executive Director

Experience
- Chief Financial Officer and Executive Vice President of Four Seasons Holdings Inc.

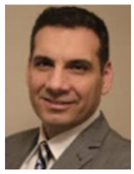


Dawn Taubin
Independent Non-executive Director

Experience
- Former Chief Marketing Officer of DreamWorks Animation
- Former President of Marketing at Warner Bros Pictures

Jiande Chen
Chief Executive Officer
Executive Director

Experience
- 4 years at IMAX and 15 years of industry experience



Jim Athanasopoulos
Chief Financial Officer and
Chief Operating Officer
Executive Director

Experience
- 15 years at IMAX, 4 years at IMAX China and industry experience

Don Savant
President, Theatre Development and
Film Distribution

Experience
- 15 years at IMAX, 17 years of industry experience in China and 20+ years of industry experience

Mei-Hui Chou (Jessie)
Chief Marketing Officer and
Head of Human Resources
Executive Director

Experience
- 9 years at IMAX and 18 years of industry experience

Michelle Rosen
General Counsel

Experience
- 7 years at IMAX and industry experience

Honggen Yuan
Senior Vice President,
Theatre Development

Experience
- 14 years at IMAX and industry experience

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IMAX CHINA HOLDING, INC.
Annual Report 2015

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Jiande Chen, *Chief Executive Officer*
Jim Athanasopoulos, *Chief Financial Officer and Chief Operating Officer*
Mei-Hui Chou (Jessie), *Chief Marketing Officer and Head of Human Resources*

Non-executive Directors

Richard Gelfond (Chairman)
Greg Foster
RuiGang Li

Independent Non-executive Directors

John Davison
Yue-Sai Kan
Dawn Taubin

AUDIT COMMITTEE

John Davison (Chairman)
Dawn Taubin
Richard Gelfond

REMUNERATION COMMITTEE

Yue-Sai Kan (Chairman)
John Davison
Greg Foster

NOMINATION COMMITTEE

Richard Gelfond (Chairman)
Yue-Sai Kan
Dawn Taubin

JOINT COMPANY SECRETARIES

Michelle Rosen
Chan Wai Ling, *FCS, FCIS*

AUTHORISED REPRESENTATIVES

Jim Athanasopoulos
Chan Wai Ling, *FCS, FCIS*

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants

CORPORATE HEADQUARTERS

Suite A401–410, Tomorrow Square
399 West Nanjing Road
Huangpu District, Shanghai 200003
People's Republic of China

REGISTERED OFFICE

c/o Maples Corporate Services Limited
PO Box 1093
Boundary Hall, Cricket Square
Grand Cayman, KY1-1102
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Fund Services (Cayman) Limited

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

COMPLIANCE ADVISOR

Somerley Capital Limited

STOCK CODE

1970

COMPANY WEBSITE

www.imax.cn

Highlights

FINANCIAL HIGHLIGHTS

- 2015 Greater China box office reached $312.4 million, a 53.8% increase over 2014;
- Annual per screen averages (PSAs) in Greater China grew to $1.34 million, a 10% increase over the prior year;
- Total revenues grew 41.4% to $110.6 million, as a result of record box office and theatre system installations;
- Gross profit for 2015 was $72.3 million, which resulted in a gross margin of 65.4%, up from 59.4% in the prior year;
- Adjusted EBITDA of $64.8 million grew 58.5% year-over-year, resulting in EBITDA margins of 58.6%, up from 52.2% in the prior year;
- 2015 adjusted profit grew 66.9% year-over-year to $43.4 million, resulting in adjusted profit margins of 39.2%;
- Installed a record 75 new installations in 2015, bringing its total network to 307 theatres. Of these installations, 25 were sales-type arrangements, 29 were full revenue sharing arrangements and 21 were hybrid revenue sharing arrangements;
- Signed contracts for 74 theatres in 2015, bringing backlog to 215 systems; and
- Received $57.0 million in net proceeds from its initial public offering on 8 October 2015, resulting in cash balance of $90.7 million as of 31 December 2015.

2016 OUTLOOK

- The Company expects to install roughly 100 new theatres for the year 2016. Of these installations, 39 are expected to be sales arrangements, 45 are expected to be full revenue sharing arrangements and 18 are expected to be hybrid revenue sharing arrangements;
- The Company anticipates its selling, general and administrative expense to grow at or below historical growth rates; and
- The Company expects its adjusted effective tax rate to be approximately in line with 2015.

KEY SHAREHOLDER DATES FOR 2016

Annual general meeting	13 June 2016
Release of announcement of interim report and results in respect of the six months ending 30 June 2016	21 July 2016


IMAX®

Management Discussion and Analysis

Management Discussion and Analysis

OVERVIEW

The Company is a leading cinematic technology provider, the exclusive licensee of the IMAX brand in the theatre and films business and the sole commercial platform for the release of IMAX format films in Greater China.

On 8 October 2015, the Company completed a Global Offering and the Company's Shares were listed on the Stock Exchange.

History and Introduction

We are a leading cinematic technology provider, the exclusive licensee of the IMAX brand in the theatre and films business and the sole commercial platform for the release of IMAX format films in Greater China. Standing for the highest quality and most immersive motion picture entertainment experience, the IMAX brand is one of the strongest entertainment brands in Greater China.

The IMAX business commenced operations in the PRC in 1998, when IMAX Corporation started offering its theatre systems to museums and science centres. Over the years, the focus of the business has moved from institutional theatres to commercial theatres and, as at 31 December 2015, there were 307 IMAX theatres in Greater China with an additional 215 theatres in backlog. The majority of the IMAX theatres currently in Greater China are commercial theatres.

We believe that we are a key participant in the Greater China film industry with wide-spread recognition and consumer loyalty through our early entry and historical successes, including *Avatar* in 2010, *Transformers: Age of Extinction* in 2014, *Furious 7* in 2015 and *Monster Hunt* in 2015. A significant majority of our revenue is generated in the PRC, and we expect the PRC to be the principal source of our growth in the future. Our goal is to deliver the IMAX experience to an even wider audience in both the PRC and Greater China as a whole, being the second largest and the fastest growing major cinema market in the world by total box office revenue.

We have two principal business segments, namely the theatre business and the films business.

Theatre Business

Our theatre business involves the design, procurement and provision of premium digital theatre systems at our exhibitor partners' movie theatres, as well as the provision of related project management and ongoing maintenance services.

We generate revenue by charging fees to exhibitors for the IMAX theatre system and associated services, brand and technology licensing and maintenance services. Under sales arrangements, we typically charge a significant upfront fee and smaller ongoing fees (which are the greater of an annual minimum payment or a small percentage of the theatre's box office), as well as an annual maintenance fee. Historically, all of our arrangements were sales arrangements. In recent years, however, we have entered into an increasing number of revenue sharing arrangements, pursuant to which we provide theatre systems to our exhibitor partners in return for ongoing fees principally based on a more significant percentage of the box office they generate from IMAX format films with no or a relatively smaller upfront payment. This revenue sharing business model enables our exhibitor partners to expand their IMAX theatre network more rapidly by reducing their upfront costs, while aligning our interests with theirs and allowing us to share in the box office they generate from IMAX format films without us having to incur the capital required to build and operate a movie theatre.

In addition to increasing the proportion of revenue sharing arrangements, we intend to further expand the IMAX theatre network and increase our coverage across Greater China by leveraging our relationships with exhibitor partners to enter into new markets as well as attracting new partners.

Films Business

Our films business involves the digital re-mastering of Hollywood and Chinese language films into the IMAX format through a proprietary IMAX DMR conversion process and the exhibition of these films on the IMAX theatre network in Greater China.

Management Discussion and Analysis (Continued)

We generate revenue by sharing a fixed percentage of our studio partners' box office generated from IMAX format films. This arrangement enables us to share in the box office success of a film while limiting our exposure to the significant capital investment required in making a film and the regulatory requirements governing the production and distribution of films in Greater China.

While we expect to continue to generate the majority of our revenue in the films business from Hollywood films, in the foreseeable future, we intend to steadily grow our portfolio of Chinese language films to complement our existing film slate by building on our long term partnerships with local studios and filmmakers.

IMAX Technology

IMAX theatre systems bring together IMAX DMR conversion technology, advanced projection systems, curved screens and proprietary theatre geometry as well as specialised sound systems to create a more intense, immersive and exciting experience than a traditional movie theatre. They are the product of over 40 years of research and development by IMAX Corporation, our Controlling Shareholder. As the exclusive licensee of the IMAX brand and technology in Greater China, we have full access to the most advanced IMAX theatre systems based on proprietary technology produced by IMAX Corporation.

Our Partnerships

We have strong and successful partnerships with a number of key players across the Greater China film industry. These include over 30 exhibitors, including the largest exhibitor in the world, Wanda Cinema, as well as other established market players such as CGI Holdings Limited (formerly CJ CGV Holdings, Ltd.) and Shanghai United Cinema Line

Co. Ltd.. We also work with leading producers, directors and studios in Greater China, such as Huayi Brothers Media Corporation, Bona Film Group Limited, Wanda Media Co. Ltd. and Filmko Holdings Co., Ltd., to convert Chinese language films into the IMAX format for release on the IMAX theatre network. These films have included *Journey to the West: Conquering the Demons, Flying Swords of the Dragon Gate, Monster Hunt, The Monkey King* and *Mojin: The Lost Legend*. In addition, we work with large commercial real estate developers, such as Wanda Plaza, China Resources and Longfor, to identify new IMAX theatre locations.

Our Competitive Strengths

We believe that our success to date and potential for future growth are attributable to the following competitive strengths:

- A strong entertainment brand in the large and fast-growing Greater China market;
- Strong slate of Hollywood films complemented by a growing portfolio of Chinese language films;
- Unparalleled network supported by strong exhibitor partnerships;
- Leading IMAX theatre system and technology delivering a unique cinematic experience;
- Significant value creation across the film industry for exhibitors, studios, filmmakers and commercial real estate developers; and
- Experienced management team supported by prominent shareholders.

Our Business Strategies

Our goal is to deliver the unique IMAX experience to an even wider audience in both the PRC and Greater China as a whole through the following strategies:

- Expanding the IMAX theatre network in the PRC;
- Increasing the number of revenue sharing arrangements with our exhibitor partners;
- Strengthening our cooperation with PRC studios and filmmakers;
- Maintaining our position as a provider of leading cinema technology;
- Continuing to invest in the IMAX brand in Greater China; and
- Leveraging the IMAX brand to develop and invest in complementary businesses.

The management discussion and analysis is based on the Company's consolidated financial statements for FY2015 prepared in accordance with IFRS and must be read together with the consolidated financial statements and the notes which form an integral part of the consolidated financial statements.

SIGNIFICANT FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We believe that our financial condition and results of operations have been and will continue to be affected by the following factors:

Expansion of the IMAX Theatre Network in Greater China

The continued expansion of the IMAX theatre network in Greater China is essential to our success. More particularly, the rate at which we are able to expand the IMAX theatre network has been and will continue to be an important driver of our results of operations and growth.

Network Expansion

Under our theatre business, we generate revenue primarily through charging exhibitors either upfront fees or ongoing fees based on a percentage of the box office for the installation of IMAX theatre systems and associated services, brand and technology licensing and maintenance services. Under our films business, we generate revenue by charging fees based on a fixed percentage of our studio partners' box office generated from IMAX format films. As a result, the bigger the IMAX theatre network, the more opportunities we have to increase our revenue and profit across our two principal business segments.

The larger the IMAX theatre network becomes, the greater the value proposition becomes to studios in terms of overall IMAX box office potential for their films and the resulting additional revenue they may generate from the IMAX platform. This in turn helps us to continue to attract top Hollywood and Chinese language films from studios which we believe value a differentiated platform for release of their films. As we continue to attract top IMAX formatted films, the greater the value proposition also becomes to our exhibitor partners in terms of driving ticket sales and generating additional box office for them by providing the audiences with a premium, differentiated experience. This in turn helps us to attract new exhibitor partners and repeat business with our existing exhibitor partners, which increases our revenue from sales and revenue sharing arrangements and also further increases the size of the IMAX theatre network, thus resulting in a self-reinforcing cycle.

We believe our films business is largely scalable because conversion costs for delivering IMAX format films are fixed. As we grow the IMAX theatre network, the revenue generated by every additional IMAX theatre in our films business should result in increased operating profit without a proportionate increase in variable costs, enabling us to achieve greater economies of scale.

In recent years, our theatre network and revenues have grown significantly. The number of IMAX theatres in Greater China increased from 128 IMAX theatres as at 31 December 2012 to 307 IMAX theatres as at 31 December 2015. The revenue from our theatre business increased from US$37.3 million for FY2012 to US$82.1 million for FY2015, and the revenue from our films business increased from US$9.3 million for FY2012 to US$28.5 million for FY2015. Total revenue increased from US$46.6 million in FY2012 to US$110.6 million for FY2015.

Backlog

Our ability to expand the IMAX theatre network is driven by our ability to sign new theatre agreements with exhibitor partners and replenish our backlog as theatres are installed. The installation of theatre systems in newly-built and retrofitted multiplexes depends primarily on the timing of the construction of these projects by exhibitors and/or commercial real estate developers, which is not under our control. Although revenue from our backlog is recognised following the installation of the relevant IMAX theatre systems and not at the time of signing, continuously replenishing our backlog is crucial to our long-term success as it underpins the continued growth of the IMAX theatre network. The number of IMAX theatre systems in our backlog increased from 122 as at 31 December 2012 to 215 (including 2 laser upgrades) as at 31 December 2015, and the carrying value of our backlog increased from US$89.2 million as at 31 December 2012 to US$127.6 million as at 31 December 2015.

As part of our strategy to expand the IMAX theatre network, we have mapped out a number of “IMAX zones” across Greater China. Each zone represents an area in which, based on our analysis, an exhibitor could potentially open an IMAX theatre without negatively affecting the business and financial results of the nearest IMAX theatre. We estimate each IMAX zone will typically only contain one IMAX theatre, subject to certain exceptions based on the location of the zone and any carve-outs in the agreements we entered into with exhibitors. The number of zones may continue to grow as the population and/or consumer demand in a geographical area increases to a level where it becomes commercially viable for us to add an IMAX theatre and create a new IMAX zone without negatively affecting the business and financial performance of the nearest IMAX theatre. As at 31 December 2015, we had identified approximately 1,000 IMAX zones across Greater China.

We had installed IMAX theatres in 109 different cities in the PRC as at 31 December 2015. Historically we focused on Tier 1 and Tier 2 Cities and building the IMAX theatre network in more developed cities and regions. We plan to further penetrate major Tier 1 and Tier 2 Cities by continuing to work with our exhibitor partners and commercial real estate developers to identify new zones for IMAX theatres. We also plan to further expand the IMAX theatre network in Tier 3 and Tier 4 Cities where we currently have a smaller presence and therefore a significant number of vacant zones to capture growth opportunities presented by those markets.

Box Office Success of IMAX Format Films

Film Slate

Our financial performance is affected by the number of films released in the IMAX format in Greater China (known as the "slate") and the box office performance of those films. We source films produced by Hollywood and Chinese studios and filmmakers and convert those films into the IMAX format using IMAX DMR conversion technology developed by IMAX Corporation. In FY2012, FY2013, FY2014, FY2015, 17, 25, 28 and 31 IMAX format films, respectively, were released and generated revenue for us in the PRC. Examples of such Hollywood films[(1)] include *Avatar*, *Transformers: Age of Extinction*, *Interstellar*, and *Furious 7* as well as Chinese language films such as *Flying Swords of the Dragon Gate*, *Journey to the West: Conquering the Demons*, *The Monkey King*, *Dragon Blade*, *Monster Hunt* and *Mojin: The Lost Legend*. IMAX Corporation has entered into contractual arrangements with Hollywood filmmakers and studios to convert a number of films into the IMAX format for release in FY2016 and FY2017, including some of the most highly anticipated films such as *Star Wars: The Force Awakens*, *Captain America: Civil War*, *Batman v Superman: Dawn of Justice*, *Warcraft and Spider-man*. However, while it is our intention that these films be released to the IMAX theatre network in the PRC, given the restrictions imposed by film quotas for Hollywood films in the PRC and censorship rules, we cannot assure you that all of these IMAX format Hollywood films will be made available.

Securing a slate of desirable Hollywood and Chinese language films in the IMAX format is critical to driving higher total box office and average box office per screen for IMAX theatres than non-IMAX theatres. The strength of the movie slate we choose is also important to maintaining the ticket price premium that IMAX theatres typically command. With this in mind, we carefully select films for conversion into the IMAX format that we believe will be best received by local audiences, and then we work closely with the studios and filmmakers to enhance the viewing experience, which in addition to conversion into the IMAX format may include unique aspect ratios and utilisation of IMAX cameras for image capture. As a result, the average box office per screen for IMAX theatre is significantly higher than that of conventional theatres in the PRC. The historical average box office per screen of IMAX theatres in Greater China was US$1.22 million in FY2012, FY2013, FY2014 and US$ 1.34 million in FY2015. This compares to average box office per screen of approximately US$0.2 million for all screens in the PRC for FY2012, FY2013, FY2014, and FY2015, according to EntGroup Inc, an independent third party consulting firm. Higher average box office per screen for IMAX theatres make them more attractive to exhibitors, which enables us to grow the IMAX theatre network and generate revenue from new installations.

In addition, because the number of IMAX theatres under revenue sharing arrangements has grown considerably from 54 as at 31 December 2012 to 177 as at 31 December 2015, and because our backlog as at 31 December 2015 also included an additional 158 IMAX theatre systems under revenue sharing arrangements, strong box office performance of films is doubly important. We believe that a key factor in the box office success of our films is not only selecting the right Hollywood and Chinese language films, but also ensuring the right balance of Hollywood and Chinese language films for our slate. Finally, in our films business, we are paid a direct share of the IMAX box office for Hollywood films and Chinese language films released in the IMAX format in Greater China by the studios releasing those films. Accordingly, if IMAX format films perform well, our films business revenue increases.

(1) Hollywood films include all imported films subject to the annual quota imposed by the PRC government.

Film Release Date and Film Mix

Censorship rules and film quotas restrict the number of Hollywood films that can be shown in the PRC each year. Accordingly, balancing the release dates for IMAX format films released in Greater China as well as the mix of Chinese language films and Hollywood films released in the PRC is an important factor affecting our business. Over the past few years, PRC regulatory bodies have supported gradual liberalisation of the film industry and introduced a number of government initiatives to foster growth of the film industry, including a 2012 agreement with the United States to permit an additional 14 3D or IMAX format films to be released in the PRC each year beyond the previous quota of 20 Hollywood films. Since a significant portion of our revenue is derived from the box office of Hollywood films released in IMAX format in the PRC, an increase in the number of Hollywood films that can be released in the PRC has had in the past, and is likely to continue to have in the future, an impact on our results of operations. However, the 2012 agreement with the United States is expiring in 2017 and will need to be renegotiated. The scope of any renegotiation may include the quota of Hollywood films to be released in the PRC and Hollywood studios' take rate on these films. If the number of Hollywood films to be released in the PRC increases over and above the current quota and/or if the Hollywood studios' take rate increases, it will likely have a positive effect on our business. However, we cannot assure you that Hollywood film quota or Hollywood studio take rate will increase or that any renegotiation will benefit us.

Release dates for Hollywood films have generally been set with a shorter lead time before a particular Hollywood film is released in the PRC. In addition, at certain times during the year, Chinese language films are released with less competition from Hollywood films. As a result, supplying IMAX theatres with Chinese language films in the IMAX format is important to ensure that there are IMAX format films showing in IMAX theatres at all times, as well as to cater to local consumer demand for Chinese language films. Chinese language films also have proven to be very successful at the box office. According to EntGroup Inc., as at 31 December 2015, 7 of the top 10 box office films in the PRC in calendar 2015 are Chinese language films. We also share a higher percentage of box office for Chinese language films compared to Hollywood films primarily due to Chinese studios retaining a much higher percentage of box office than Hollywood studios. Chinese language films make up a significant share of total PRC box office, amounting to 51.6% in FY2012, 41.3% in FY2013, 55.0% in FY2014 and 62.0% in FY2015. IMAX format Chinese language films as a percentage of our Greater China box office increased in FY2015 to 25.2% versus historical levels of 19.8% in FY2012, 15.3% in FY2013 and 15.2% in FY2014.

Proportion of Revenue Sharing Arrangements

We generate revenue through charging fees to exhibitors for the IMAX theatre system. Historically, we entered into sales arrangements with exhibitor partners under which the majority of fees were paid around the time of installation of the IMAX theatre system, and substantially all of our revenue from such sales were recognised at the same time. In recent years, we have entered into an increasing number of revenue sharing arrangements, whereby we charge a smaller or no upfront fee at the time of the IMAX theatre system installation. We recognise as revenue any initial payments we receive as well as a percentage of the box office revenue when box office results are reported to us by the exhibitors.

Our revenue sharing arrangements drive our revenue by providing us with a percentage of recurring box office generated from our exhibitor partners for IMAX format films over the 10 to 12 year term of the agreement and allow us to benefit from future growth in the box office of IMAX theatres in Greater China. However, as the percentage we are able to share from our exhibitor partners' box office varies among exhibitors and may change from contract to contract, any increased revenue from having more revenue sharing arrangements may be affected.

Management Discussion and Analysis (Continued)

Due to the smaller upfront fee we receive at the time of installation, we may require increased working capital to continue to fund the purchase and installation of IMAX theatre systems provided to our exhibitor partners under revenue sharing arrangements. However, as the network of IMAX theatres continue to grow and ramp up, we believe increases in working capital will be offset by an increase in recurring revenue we receive under revenue sharing arrangements.

Impact on Our Profitability

An increasing number of revenue sharing arrangements will allow us to enjoy recurring revenue, but our sensitivity to fluctuations in box office performance will also increase. As the amount of revenue we are able to generate under revenue sharing arrangements is largely dependent upon the box office performance of the films exhibited, our revenue may be subject to higher volatility. Should any film exhibited in IMAX theatres under revenue sharing arrangements perform poorly, the amount of the box office revenue we receive will be reduced.

The proportion of IMAX theatre systems we install under hybrid revenue sharing arrangements will have an effect on our gross profit and gross profit margin. Given that we recognise revenue (upfront fee received) and all costs associated with IMAX theatre systems under hybrid revenue arrangements at the time of system installation and such upfront fees typically cover only the costs related to the installation, we record minimal gross profit and gross profit margin for hybrid revenue sharing arrangements during the period of system installation, but we record substantially higher gross profit and gross profit margin in subsequent periods.

Revenue sharing arrangements increased from 54 arrangements earning revenue of US$7.3 million in FY2012 to 177 arrangements earning revenue of US$34.5 million in FY2015. As the level of our involvement and capital commitment is much greater with a revenue sharing arrangement, we are able to provide more input in the exhibitor's marketing campaigns for an IMAX format film or an IMAX theatre launch. Going forward, we plan to continue to promote revenue sharing arrangements to exhibitors that are able to roll out their theatre network quickly and that have a portfolio of quality theatres with box office potential or a proven track record of success with IMAX theatres. Notwithstanding our interest in adding additional revenue sharing arrangements, our exhibitor partners may have other commercial considerations and may not choose revenue sharing arrangements over sales arrangements.

General Economic and Market Conditions and the Regulatory Environment in the PRC

Continued growth in our business depends on continued economic growth, urbanisation and rising standards of living in the PRC, which we believe drives demand for entertainment. Overall economic growth and disposable income levels in the PRC have been and will continue to be affected by a number of macroeconomic factors, including changes in the global economy as well as the macroeconomic, fiscal and monetary policies of the PRC government.

Economic growth and development had a significant impact on the entertainment industry in the PRC over the past few years, as individuals and households have been able to increase the amount of money they are willing to spend on movie tickets. We believe leisure consumption will be an important growth area in the coming decade for the Chinese consumer. Box office in the PRC grew $6.8 billion in 2015 at a compound annual growth rate (CAGR) of 32.4% from FY2010 to FY2015. Notwithstanding this rapid growth, according to EntGroup Inc., at the end of 2015, the PRC has only 2.3 screens per 100,000 people, compared with 14.9 screens per 100,000 people in the United States as at the end of 2014. EntGroup Inc. estimates that by 2017, the PRC will be the largest film market in the world with total box office of US$11.6 billion and over 40,000 screens.

As a majority of new IMAX theatres are located in large shopping malls, we are also affected by fluctuations in the PRC property market. Periods of high economic growth are typically accompanied by additional development. The opposite occurs during periods of lower economic growth or significant market disruptions. While we believe the cinema industry has historically been more resilient to economic downturns than other industries, should the PRC property market experience a slow down, commercial real estate developers could be negatively affected which could result in a decrease in the general demand for new IMAX theatres and, therefore, negatively affect our business and prospects.

Our Ability to Maintain Our Pricing and Profit Margins

A significant portion of our operating costs are fixed for our films business and theatres business under revenue sharing arrangements, such as DMR conversion costs and theatre system depreciation. As a result, our ability to maintain our pricing and our profit margin is an important factor driving our results. As we expand the IMAX theatre network and cooperate with more exhibitor partners, we may be expected to offer volume discounts to existing exhibitors who increase their commitment for more IMAX theatre systems, or who contract to install a large number of IMAX theatre systems upfront. We may strategically offer other discounts or concessions to certain exhibitors to maintain or gain market share. Given our relatively fixed cost base, any material decrease in revenue we generate due to adjustments in pricing will have an adverse impact on our profitability.

Seasonality Effects

Our business is seasonal which skews the profitability of our theatre business towards the second half of the year. Most of our exhibitors choose to install IMAX theatre systems towards year-end in preparation for the traditional Chinese New Year holiday period when major Chinese language films are due to be released. As a result, we typically record higher levels of revenue and profit under our theatre business during the second half of the year.

Currency Fluctuations

We generate the majority of our revenues in Renminbi. However, we purchase IMAX theatre equipment and films from IMAX Corporation in U.S. dollars or in Renminbi based on the U.S. dollar exchange rate. In addition, some of our employees are paid in U.S. dollars. Any significant increase in the value of the U.S. dollar against the Renminbi will increase our cost and negatively affect our profitability. We have not entered and currently do not intend to enter into any forward contracts to hedge our exposure to exchange rate fluctuations and our results are potentially affected by fluctuations in exchange rates.

In addition, fluctuations in the exchange rates between the U.S. dollar and other currencies, primarily the Renminbi, affect the translation into U.S. dollars when we prepare our financial statements. Foreign currency transactions are translated into the U.S. dollar using the exchange rates prevailing at the annual average rate for our statement of comprehensive income and closing rate for our balance sheet. Foreign currency gains and losses are recorded in our combined statement of comprehensive income.

DESCRIPTION OF SELECTED LINE ITEMS IN THE STATEMENT OF COMPREHENSIVE INCOME ITEMS

Revenue

We derived a majority of our revenue from our two principal business segments — the theatre business and the films business.

Theatre Business

Our theatre business segment contains three sub-segments which are based on our business arrangements:

- sales arrangements, which are comprised of the design, procurement and provision of IMAX theatre systems to exhibitors in exchange for upfront fees;
- revenue sharing arrangements, which are comprised of the provision of IMAX theatre systems to exhibitors in exchange for a certain percentage of box office receipts and a relatively small upfront payment; and
- theatre system maintenance, which is comprised of the maintenance of IMAX theatre systems in the IMAX theatre network.

We also derive an immaterial amount of other revenue from the aftermarket sales of 3D glasses, screen sheets and other items.

Films Business

Our films business comprises the conversion of Hollywood and Chinese language films to the IMAX format and the release of such films to the IMAX theatre network.

The following table sets forth the breakdown of revenue by business segments:

	FY2015		FY2014	
	US$'000	%	US$'000	%
Theatre Business				
Sales	**37,038**	**33.5%**	28,662	36.6%
Revenue Sharing Arrangements	**34,498**	**31.2%**	22,755	29.1%
Theatre System Maintenance	**9,346**	**8.5%**	7,214	9.2%
Sub-total(1)	**82,119**	**74.3%**	59,627	76.2%
Films Business	**28,472**	**25.7%**	18,591	23.8%
Total	**110,591**	**100%**	78,218	100.0%

Note:

(1) Theatre business also includes other revenue of US$1.2 million and US$1.0 million in FY2015 and FY2014, respectively.

Cost of Sales

Our cost of sales primarily comprise costs of IMAX theatre systems under sales arrangements and hybrid revenue sharing arrangements, depreciation for full revenue sharing arrangements and certain one-time costs at system installation such as commissions and marketing costs for IMAX theatre launches.

The following table sets out the cost of sales for our business segments for the years indicated as well as the percentage of respective revenue they represent:

	FY2015		FY2014	
	US$'000	**%**	US$'000	%
Theatre Business				
Sales	**11,468**	**31.0%**	9,143	31.9%
Revenue Sharing Arrangements	**15,296**	**44.3%**	12,097	53.2%
Theatre System Maintenance	**3,989**	**42.7%**	3,245	45.0%
Sub-total(1)	**31,572**	**38.4%**	25,071	42.0%
Films Business	**6,739**	**23.7%**	6,687	36.0%
Total	**38,311**	**34.6%**	31,758	40.6%

Note:
(1) Theatre business also includes cost of sales in respect of other revenue of US$0.8 million and US$0.6 million in FY2015 and FY2014, respectively.

Gross Profit and Gross Profit Margin

The following table sets out the gross profit and gross profit margin for our business segments for the years indicated:

	FY2015		FY2014	
	US$'000	**%**	US$'000	%
Theatre Business				
Sales	**25,570**	**69.0%**	19,519	68.1%
Revenue Sharing Arrangements	**19,202**	**55.7%**	10,658	46.8%
Theatre System Maintenance	**5,357**	**57.3%**	3,969	55.0%
Sub-total(1)	**50,547**	**61.6%**	34,556	58.0%
Films Business	**21,733**	**76.3%**	11,904	64.0%
Total	**72,280**	**65.4%**	46,460	59.4%

Note:
(1) Theatre business also includes gross profit in respect of other revenue of US$0.4 million, in FY2015 and FY2014, respectively.

Management Discussion and Analysis (Continued)

Selling, General and Administrative Expenses

The following table sets out our selling, general and administration expenses we incurred and as a percentage of revenue for the years indicated:

	FY2015		FY2014	
	US$'000	**%**	US$'000	%
Employee salaries and benefits	**6,923**	**6.3%**	5,258	6.7%
Share based compensation expenses	**3,020**	**2.7%**	1,149	1.5%
Travel and transportation	**1,128**	**1.0%**	978	1.3%
Advertising and Marketing	**1,256**	**1.1%**	941	1.2%
Professional Fees	**868**	**0.8%**	866	1.1%
Other employee expense	**306**	**0.3%**	680	0.9%
Facilities	**931**	**0.9%**	493	0.6%
Depreciation	**241**	**0.2%**	267	0.3%
Foreign exchange loss other expenses	**19**	**0.0%**	619	0.8%
IPO related costs	**9,167**	**8.3%**	—	—
Total	**23,859**	**21.6%**	11,251	14.4%

Note:

(1) Our selling, general and administrative expenses would have been US$14.7 million or 13.3% of our revenue for FY2015 if we were to exclude non-recurring IPO related costs.

Other Operating Expenses

Other expenses primarily include the annual license fees payable to IMAX Corporation in relation to the trademark and technology licensed under the Technology Licence Agreements and the Trademark Licence Agreements, charged at an aggregate of 5% of our revenue. Our other operating expenses for FY2015 and FY2014 were US6.1 million and US$4.0 million, respectively.

Interest Income and Expense

Interest income represents interest earned on various term deposits we hold. None of the term deposits had a term of more than 90 days. Our interest income for FY2015 and FY2014 was US$0.4 million and US$0.2 million, respectively.

Fair Value Adjustment

On April 8, 2014, the Company announced an investment into the Company (the "**IMAX China Investment**") by CMC Capital Partners ("**CMC**") and FountainVest Partners ("**FountainVest**"). The IMAX China Investment provided for the sale and issuance of 20% of the shares of the Company (the "**Redeemable Class C Shares**") to entities owned by CMC and FountainVest in equal tranches of US$40.0 million on 8 April 2014 and 10 February 2015.

The shareholders' agreement in connection with the IMAX China Investment (the "**Class C Shareholders' Agreement**") terminated upon completion of the Company's Global Offering on the Listing Date. However, while the Class C Shareholders' Agreement was in effect, certain conversion options (the "**Conversion Options**") were embedded within the Class C Shareholders' Agreement that required bifurcation, separate valuation and marked to market value when the shares were issued on the above dates as well as at FY2014 and the Listing Date. The Conversion Options were marked to market using a Monte Carlo simulation.

The Conversion Options were valued at US$12.4 million and US$12.8 million on issuance of the Redeemable Class C Shares in April 2014 and February 2015 respectively. As at the Listing Date, we had marked the options to market and recorded a US$209.9 million non-cash charge through fair value adjustment in FY2015 as compared to US$0.6 million in FY2014. The loss was the result of an increase in the equity value of the Company which was the key assumption used in the valuation and was not based on observable inputs. The equity of the Group was determined using a discounted cash flow with consideration given to other comparable companies, including IMAX Corporation.

Accretion of amortised cost of financial instrument

Transaction costs of US$2.8 million related to the Redeemable Class C Shares sold to CMC and FountainVest and the fair value of the conversion option of US$12.4 million at inception and US$12.8 million at February 2015 were netted against the US$80.0 million proceeds and were amortised using the effective interest rate method over a 5 year period representing the period of time provided under the Class C Shareholders' Agreement for a qualified initial public offering to occur. They accreted to the carrying value of the Redeemable Class C share value. The charge amounted to US$1.7 million in FY2014, and US$3.8 million in FY2015.

Income Tax Expenses

We are subject to PRC and Hong Kong income tax. We are also subject to withholding taxes in Taiwan. The enterprise income tax ("**EIT**") rate generally levied in the PRC and Hong Kong is 25% and 16.5%, respectively. Our effective tax rate differs from the statutory tax rate and varies from year to year primarily as a result of numerous permanent differences, subsidies, investment and other tax credits, the provision for income taxes at different rates in different jurisdictions, the application of Hong Kong's territorial tax system, enacted statutory tax rate increases or reductions in the year, changes due to our recoverability assessments of deferred tax assets.

Our income tax expense for FY2015 and FY2014 was US$11.0 million and US$6.3 million, respectively. Our effective tax rate was -6.4% and 21.6% during FY2015 and FY2014, respectively. In FY2015, we recorded a loss before income tax of US$170.9 million, which was the result of a fair value adjustment of the bifurcated conversion option amounting to US$209.9 million associated with our Redeemable Class C Shares and the accretion of amortised cost of financial instrument of US$3.8 million. Such adjustments were made to reflect the mark to market revaluation of the bifurcated Conversion Option prior to its exercise on the Listing Date. The revaluation was due to an increase in our equity value, which did not impact our taxable income for the year. In addition, listing expenses in FY2015 of US$9.2 million related to the initial public offering will not be set up as a deferred tax asset and will be deducted only when their deductibility in the PRC can be reasonably assured. Without taking into account such one-time, non-cash and non-deductible adjustments, our effective tax rate for FY2015 would have been 21.2%.

YEAR TO YEAR COMPARISON OF RESULTS OF OPERATIONS

Consolidated Statements of Comprehensive (Loss) Income

The following table sets out items in our consolidated statements of comprehensive (loss) income and as a percentage of revenue for the years indicated:

	FY2015		FY2014	
	US$'000	**%**	US$'000	%
Revenues	**110,591**	**100.0%**	78,218	100.0%
Cost of sales	**(38,311)**	**34.6%**	(31,758)	(40.6%)
Gross profit	**72,280**	**65.4%**	46,460	59.4%
Selling, general and administrative expenses	**(23,859)**	**(21.6)%**	(11,251)	(14.4%)
Other operating expenses	**(6,050)**	**(5.5)%**	(4,045)	(5.2%)
Operating profit	**42,371**	**38.3%**	31,164	39.8%
Accretion of amortised cost of financial instrument	**(3,790)**	**(3.4)%**	(1,732)	(2.2%)
Fair value adjustment	**(209,884)**	**(189.8)%**	(577)	(0.7%)
Interest income	**436**	**0.4%**	221	0.3%
Interest expense	**—**	**—**	(10)	0.0%
(Loss) profit before income tax	**(170,867)**	**(154.5)%**	29,066	37.2%
Income tax expense	**(10,998)**	**(9.9)%**	(6,285)	(8.0%)
(Loss) profit for the year	**(181,865)**	**(164.4)%**	22,781	29.1%
Other comprehensive loss:				
Change in foreign currency translation adjustments	**(2,207)**	**(2.0)%**	(199)	(0.3%)
Other comprehensive loss, net of tax	**(2,207)**	**(2.0)%**	(199)	(0.3%)
Total comprehensive (loss) income for the year	**(184,072)**	**(166.4)%**	22,582	28.9%

Adjusted Profit

Adjusted profit is not a measure of performance under IFRS. This measure does not represent and should not be used as a substitute for, gross profit or profit for the year as determined in accordance with IFRS. This measure is not necessarily an indication of whether cash flow will be sufficient to fund our cash requirements or whether our business will be profitable. In addition, our definition of adjusted profit may not be comparable to other similarly titled measures used by other companies.

The following table sets out our adjusted profits for the years indicated:

	FY2015 US$'000	FY2014 US$'000
(Loss) profit for the year	**(181,865)**	22,781
Adjustments:		
Share-based compensation	**3,020**	1,149
Accretion of amortised cost of financial instrument	**3,790**	1,732
Fair value adjustment of conversion option	**209,884**	577
IPO related costs	**9,167**	—
Tax impact on items listed above	**(643)**	(261)
Adjusted profit	**43,353**	25,978

FY2015 COMPARED WITH FY2014

Revenue

Our revenue increased 41.4% from US$78.2 million in FY2014 to US$110.6 million in FY2015 driven by a US$22.5 million and US$9.9 million increase respectively in theatre business revenue and films business revenue explained further below.

Theatre Business

Revenue from our theatre business increased 37.7% from US$59.6 million in FY2014 to US$82.1 million in FY2015.

Management Discussion and Analysis (Continued)

The following table provides a breakdown of IMAX theatres in operation in Greater China by type and geographic location as at the dates indicated:

Commercial	As at 31 December		
	2015	2014	Growth (%)
The PRC	**278**	203	36.9%
Hong Kong	**4**	4	—
Taiwan	**8**	8	—
	290	215	34.9%
Institutional[(1)]	**17**	19	(10.5)%
Total	**307**	234	31.2%

Note:

(1) Institutional IMAX theatres comprise museums, zoos, aquaria and other destination entertainment sites that do not exhibit commercial films. Two institutional IMAX theatres located in Taiwan were closed in 2015.

The following table sets out the number of IMAX theatre systems installed by business arrangements in FY2015 and FY2014:

	FY2015	FY2014
Sales arrangements	**26**	20
Revenue sharing arrangements	**51**	42
Total theatre systems installed	**77[(2)]**	62[(1)]

Note:

(1) We installed 62 new IMAX theatre systems (including digital upgrades) in 2014 and closed one IMAX theatre under sales arrangements in the same year.

(2) We installed 75 new IMAX theatre systems plus 2 laser upgrades (1 sale and 1 revenue sharing arrangement) in 2015.

Sales arrangements

Theatre business revenue from sales arrangements increased 29.2% from US$28.7 million in FY2014 to US$37.0 million in FY2015, resulting primarily from the revenue recognition in FY2015 of 5 additional system sales over FY2014. We recognised sales revenue on 20 new theatre systems in FY2014 with a total value of US$26.7 million, compared to 25 new theatre systems in FY2015 with a total value of US$32.3 million. In addition, we installed 1 laser upgrade at a total value of US$1.5 million. There were no upgrades in 2014.

Average revenue per new system under sales arrangements was unchanged in FY2015 and FY2014 at US$1.3 million.

Revenue sharing arrangements

Revenue from revenue sharing arrangements increased 51.6% from US$22.8 million in FY2014 to US$34.5 million in FY2015, primarily due to a greater number of IMAX theatres operating under revenue sharing arrangements in FY2015 compared to FY2014 and higher box office revenue per screen. We had 127 theatres operating under revenue sharing arrangements at the end of FY2014, as compared to 177 at the end of FY2015, which represented an increase of 39.4%.

Revenue from full revenue sharing arrangements increased 53.1% from US$14.2 million in FY2014 to US$21.6 million in FY2015. This growth is consistent with a greater number of full revenue sharing IMAX theatres in FY2015, which increased 28.4% year over year, from 102 IMAX theatres in FY2014 to 131 IMAX theatres in FY2015 and higher box office revenue per screen.

Revenue from hybrid revenue sharing arrangements increased 49.2% from US$8.6 million in FY2014 to US$12.9 million in FY2015, primarily driven by upfront payments recognised on 21 system installations under hybrid revenue sharing arrangements in FY2015 as compared to 15 in FY2014. The increase was also driven by percentage of box office revenue recognised on a larger IMAX theatre network in FY2014, which increased 84.0% from 25 IMAX theatres in FY2014 to 46 IMAX theatres in FY2015.

Theatre system maintenance

Theatre system maintenance revenue increased 29.6% from US$7.2 million in FY2014 to US$9.3 million in FY2015. Maintenance revenue increased in FY2015 commensurate with the increase in the number of theatres in the IMAX theatre network.

Films Business

Revenue from our films business increased 53.1% from US$18.6 million in FY2014 to US$28.5 million in FY2015, primarily due to an increase in the box office revenue generated by IMAX format films. The box office revenue generated by IMAX format films increased 53.8% from US$ 203.1 million in FY2014 to US$312.4 million in FY2015, as a result of continued growth of the IMAX theatre network and higher box office revenue per screen.

Box office revenue per screen increased 10.0% from US$1.22 million for FY2014 to US$1.34 million in FY2015 as a result of the strong performance of the Company's film slate and the improved performance of recently opened theatres. In FY2014, we generated our box office revenue primarily from the exhibition of 35 IMAX format films, as compared to 41 IMAX format films in FY2015.

The following table sets out the number of films we released in the IMAX format in FY2015 and FY2014 in Greater China:

	FY2015	FY2014
Hollywood films	23	22
Hollywood films (Hong Kong and Taiwan only)	10	7
Chinese language films	8	6
Total IMAX films released	**41**	35

Cost of Sales

Our cost of sales increased 20.6% from US$31.8 million in FY2014 to US$38.3 million in FY2015. This increase was due to the increase in costs for both our theatre and films business segments as a result of increased business activity.

Management Discussion and Analysis (Continued)

Theatre Business

The cost of sales for our theatre business increased 25.9% from US$25.1 million in FY2014 to US$31.6 million in FY2015, primarily due to the installation of a total of 12 additional IMAX theatre systems under sales arrangements and hybrid revenue sharing arrangements and maintenance associated with the growth in the IMAX theatre network.

Sales arrangements

Cost of sales from our theatre business under sales arrangements increased 25.4% from US$9.1 million in FY2014 to US$11.5 million in FY2015, primarily due to the installation of 20 IMAX theatre systems under sales arrangements in FY2014 as compared to 26 in FY2015 which included one laser upgrade.

Revenue sharing arrangements

Cost of sales from our theatre business under revenue sharing arrangements increased 26.4% from US$12.1 million in FY2014 to US$15.3 million in FY2015, primarily due to the cost associated with the installation of 15 IMAX theatre systems under hybrid revenue sharing arrangements in FY2014 as compared to 21 in FY2015, as well as an increase in depreciation and IMAX theatre marketing expenses associated with than increase in the number of IMAX theatres under full revenue sharing arrangements.

Cost of sales from full revenue sharing arrangements increased 23.2% from US$5.7 million in FY2014 to US$7.0 million in FY2015, primarily due to higher depreciation expenses from a greater number of IMAX theatres under full revenue sharing arrangements and higher associated marketing costs.

Cost of sales from hybrid revenue sharing arrangements increased 29.3% from US$6.4 million in FY2014 to US$8.3 million in FY2015, primarily due to the costs recognised on 15 theatre system installations under hybrid revenue sharing arrangements in FY2014 as compared to 21 in FY2015.

Theatre system maintenance

Cost of sales from our theatre business with respect to theatre system maintenance increased 22.9% from US$3.2 million in FY2014 to US$4.0 million in FY2015 commensurate with the additional costs associated with servicing a larger IMAX theatre network in FY2015 versus FY2014.

Films Business

The cost of sales for our films business remained relatively constant at US$6.7 million in FY2014 to FY2015.

Gross Profit and Gross Profit Margin

Our gross profit in FY2014 was US$46.5 million, or 59.4% of total revenue, compared to US$72.3 million, or 65.4% of total revenue, in FY2015. Both the theatre and films business segments contributed to the increase in gross profit. The increase was largely attributable to the growth of the IMAX theatre network and higher box office revenue per screen.

Theatre Business

The gross profit for our theatres business increased 46.3% from US$34.6 million in FY2014 to US$50.5 million in FY2015. During the same period, our gross profit margin increased from 58.0% to 61.6%. The increases in our gross profit and gross profit margin were primarily driven by (i) a US$6.1 million increase in gross profit under sales arrangements due to the installation of 6 additional IMAX theatre systems under sales arrangements in FY2015 including one laser upgrade as compared to FY2014; (ii) a US$8.5 million increase in gross profit generated from our revenue sharing arrangements due to the increased box office revenue from an IMAX theatre network that expanded from 127 theatres as at the end of FY2014 to 177 theatres as at the end of FY2015; and (iii) a US$1.4 million increase in gross profit from theatre system maintenance resulting from a larger IMAX theatre network in FY2015 as compared to FY2014.

Sales arrangements

The gross profit for our theatre business from sales of new IMAX theatre systems increased 31.0% from US$19.5 million in FY2014 to US$25.6 million in FY2015, primarily due to our installation of 6 additional IMAX theatre systems under sales arrangements including one laser upgrade in FY2015 as compared to FY2014. Our gross profit margin remained relatively stable at 68.1% in FY2014 and 69.0% in FY2015.

Revenue sharing arrangements

The gross profit for our theatre business from revenue sharing arrangements increased 80.2% from US$10.7 million in FY2014 to US$19.2 million in FY2015. Our gross profit margin was 46.8% in FY2014 as compared to 55.7% in FY2015. The increases in gross profit and gross profit margin were primarily driven by the continued growth in the IMAX theatre network under revenue sharing arrangements and higher box office revenue per screen in FY2015 versus FY2014.

The gross profit for full revenue sharing arrangements was US$8.4 million in FY2014 and US$14.6 million in FY2015. The gross profit margin was 59.8% in FY2014 and 67.6% in FY2015. Gross profit margin increased primarily because the number of IMAX theatre systems in operation under full revenue sharing arrangements increased by 28.4% in FY2015 as compared to FY2014, and we recorded a higher average box office per screen, while one-time costs associated with full revenue sharing arrangements, such as marketing costs and commissions, increased only marginally.

The gross profit for hybrid revenue sharing arrangements was US$2.3 million in FY2014 and US$4.6 million in FY2015. The increase was driven by the upfront payments recognised on 21 new system installations under hybrid revenue sharing arrangements in FY2015 and an increase in box office revenue from a larger theatre network. The gross profit margin was 25.7% in FY2014 as compared to 35.6% in FY2015. Gross profit margin was higher in FY2015 primarily due to the box office percentage revenue recognized in FY2015 on the 25 hybrid revenue sharing arrangements installed prior to FY2015 and stronger per screen box office revenue. The costs related to these theatres were recognized in prior years when the installation occurred.

Theatre system maintenance

The gross profit for our theatre system maintenance increased 35.0% from US$4.0 million in FY2014 to US$5.4 million in FY2015 as a result of the growth of the IMAX theatre network. Our gross profit margin increased from 55.0% in FY2014 to 57.3% in FY2015.

Management Discussion and Analysis (Continued)

Films Business

The gross profit from our films business increased 82.6% from US$11.9 million in FY2014 to US$21.7 million in FY2015, primarily due to an increase in our overall box office revenue from US$203.1 million in FY2014 to US$312.4 million in FY2015 as a result of a larger IMAX theatre network in FY2015 and a strong film slate that helped increase box office revenue per screen from US$1.22 million in FY2014 to US$1.34 million in FY2015. The gross profit margin for our films business increased from 64.0% in FY2014 to 76.3% in FY2015, primarily due to the increase in the IMAX theatre network and our leveraging the fixed DMR conversion costs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 112.1% from US$11.3 million in FY2014 to US$23.9 million in FY2015, primarily due to: (i) US$9.2 million increase in costs directly related to our Global Offering in FY2015; (ii) a US$1.7 million increase in salaries and benefits and other staff costs as a result of increased head count and salary increases to manage the growing IMAX theatre network; (iii) an increase in stock based compensation of US$1.9 million related to previous grants issued in FY2014 and cash awards granted to certain PRC employees that increased in value commensurate with increase in value of the Company; (iv) an increase in facilities costs of US$0.4 million to reflect additional office space required to accommodate expansion and growth of the business, partially offset by (v) decrease in foreign exchange loss and other expenses as a result of a foreign exchange loss of less than US$0.1 million in FY2015 related to the translation of foreign currency denominated monetary assets and liabilities as compared to a foreign exchange loss of US$0.6 million in FY2014.

Income Tax Expense

Our income tax expense increased 75.0% from US$6.3 million in FY2014 to US$11.0 million in FY2015. The increase in income tax expense was primarily due to an increase in our operating profit before income tax from US$31.2 million in FY2014 to US$42.4 million in FY2015. Calculated based on our adjusted profit, our adjusted effective tax rate was 20.1% in FY2014 as compared to 21.2% in FY2015 as a result of a larger proportion of our revenue being earned in the PRC (which has a higher EIT rate than Hong Kong) in FY2015 as compared to FY2014.

Profit for the Year

We reported a comprehensive loss for the year of US$184.1 million in FY2015 as compared to a profit of US$22.6 million in FY2014. Loss for the year in FY2015 included: (i) a US$209.9 million non-cash charge (US$0.6 million in FY2014) associated with the fair value adjustment of conversion option; (ii) a US$3.8 million non-cash charge (US$1.7 million in FY2014) associated with the accretion of amortised cost of financial instrument; (iii) US$9.2 million in IPO related cost (US$ nil in FY2014) and, (iv) US$3.0 million charge (US$1.1 million in FY2014) for share-based compensation.

Adjusted Profit

Adjusted profit, which consists of profit/loss for the year adjusted for the impact of share-based compensation, accretion of amortised cost of financial instrument, fair value adjustment of conversion option, IPO related cost, and the related tax impact, was US$26.0 million in FY2014 as compared to adjusted profit of US$43.4 million in FY2015, an increase of 66.9%.

LIQUIDITY AND CAPITAL RESOURCES

	As at 31 December	
	2015	2014
	US$'000	US$'000
Current assets		
Other assets	**1,736**	1,430
Film assets	**35**	85
Inventories	**6,364**	3,432
Prepayments	**984**	824
Financing receivables	**3,783**	3,915
Trade and other receivables	**35,640**	25,287
Cash and cash equivalents	**90,689**	48,320
Total Current assets	**139,231**	83,293
Current liabilities		
Trade and other payables	**12,172**	39,900
Accruals and other liabilities	**4,152**	5,119
Taxes payable	**6,217**	9,313
Deferred revenue	**12,762**	8,292
Total Current Liabilities	**35,303**	62,624
Net Current Assets	**103,928**	20,669

As at 31 December 2015, we had net current assets of US$103.9 million compared to net current assets of US$20.7 million as at 31 December 2014. The increase in net current assets in FY2015 was mainly attributable to: (i) US$71.3 million in primary proceeds raised as part of our successful initial public offering; (ii) receipt in February 2015 of the second US$38.0 million installment of our IMAX China Investment net of costs; and (iii) increased operating profit of US$42.4 million in FY2015 as compared to US$31.2 million in FY2014. Financing and operational proceeds were primarily used to pay down historic trade payables to IMAX Corporation, as well as fund the costs of our initial public offering and pre-IPO special dividend in accordance with the terms of the Class C Shareholders' Agreement.

We have cash and cash equivalent balances denominated in various currencies. The following is a breakdown of our cash and cash equivalent balances by currency as at the end of each year:

	As at 31 December	
	2015	2014
Cash and cash equivalents denominated in US$	**$66,041**	$23,398
Cash and cash equivalents denominated in RMB (in thousands)	**¥158,498**	¥151,709
Cash denominated in Hong Kong dollars HK$ (in thousands)	**$1,430**	$3,378

CAPITAL MANAGEMENT

Our objectives when managing capital are to safeguard our ability to continue as a going concern in order to provide returns for Shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

We consider our capital structure as the aggregate of total equity and long-term debt less cash and short-term deposits. We manage our capital structure and makes adjustments to it in order to have funds available to support the business activities which the Board intends to pursue in addition to maximising the return to Shareholders. The Board does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Group's management to sustain future development of the business.

In order to carry out current operations and pay for administrative costs, we will spend our existing working capital and raise additional amounts as needed. Management reviews our capital management approach on an on-going basis and believes that this approach, given the relative size of the Group, is reasonable.

CASH FLOW ANALYSIS

The following table shows our net cash generated from operating activities, net cash used in investing activities and net cash generated from financing activities for the years indicated:

	FY2015 US$'000	FY2014 US$'000
Net cash (used in) provided by operating activities	**(156)**	28,220
Net cash used in investing activities	**(14,062)**	(27,515)
Net cash provided by financing activities	**56,602**	37,418
Effects of exchange rate changes on cash	**(15)**	(17)
Increase in cash and cash equivalents during year	**42,369**	38,106
Cash and cash equivalents, beginning of year	**48,320**	10,214
Cash and cash equivalents, end of year	**90,689**	48,320

Cash from Operating Activities

FY2015

Our net cash used in operations was approximately US$0.2 million in FY2015. We had loss for the year of US$181.9 million in FY2015 and positive adjustments for fair value adjustment of conversion option of US$209.9 million, amortisation of film assets of US$5.5 million, depreciation of property, plant and equipment of US$4.8 million and accretion charges associated with the Redeemable Class C Shares of US$3.8 million, reduced by our taxes paid of US$12.3 million, our net investment in film assets of US$5.4 million and changes in working capital of US$27.4 million. Changes in working capital primarily comprised: (i) an increase in trade and other receivables of US$10.4 million; (ii) a decrease in trade and other payables of US$27.7 million; and (iii) an increase in inventories of US$2.9 million, partially offset by: (i) an increase in deferred revenue of US$11.1 million; (ii) an increase in taxes payable of US$9.3 million; and (iii) an increase in financing receivables of US$4.9 million.

FY2014

Our net cash provided by operations was approximately US$28.2 million in FY2014. We had profit for the year of US$22.8 million and positive adjustments for amortisation of film assets of US$4.7 million, depreciation of property, plant and equipment of US$3.9 million, non-cash invested capital of US$3.8 million, accretion charges associated with the Redeemable Class C Shares of US$1.7 million and changes in working capital of US$1.0 million, reduced by our taxes paid of US$6.8 million and our investments in film assets of US$4.7 million. Changes in working capital primarily comprised: (i) an increase in taxes payable of US$9.3 million; (ii) an increase in trade and other payables of US$7.8 million; and (iii) a decrease in financing receivables of US$2.7 million, partially offset by: (i) an increase in trade and other receivables of US$7.0 million; (ii) an increase in inventories of US$2.7 million; and (iii) a decrease in deferred revenue of US$8.2 million.

Cash Used in Investing Activities

FY2015

Our net cash used in investing activities was approximately US$14.1 million for FY2015, primarily related to investments in IMAX theatre equipment amounting to US$13.5 million installed in our exhibitor partners' theatres under full revenue sharing arrangements.

FY2014

Our net cash used in investing activities was approximately US$27.5 million for FY2014, primarily related to: (i) investments in IMAX theatre equipment amounting to US$10.6 million installed in our exhibitor partners' theatres under full revenue sharing arrangements; and (ii) the acquisition of certain IMAX theatre system and maintenance contracts in Greater China from IMAX Corporation for US$16.7 million.

Cash From Financing Activities

FY2015

Our net cash generated from financing activities was approximately US$56.6 million for FY2015. The increase was primarily related to: (i) US$71.3 million in proceeds from our initial public offering; and (ii) receipt of the second US$38.0 million instalment in net proceeds from our sale of 20% of the equity interest in our Company to entities owned and controlled by CMC and FountainVest. The sale price was US$80.0 million and payable in two equal instalments. The first instalment was received on 8 April 2014 and the second instalment was received on 10 February 2015. The net cash increase generated from financing activities was partially offset by: (i) US$47.6 million special dividend paid to pre IPO shareholders in accordance to our Redeemable Class C Shareholder Agreement Share; and (ii) US$5.1 million in initial public offering listing share issuance costs not categorized in selling, general and administrative expenses.

FY2014

Our net cash generated from financing activities was approximately US$37.4 million for FY2014. The increase was primarily related to our sale of 20% of the equity interest in our Company to entities owned and controlled by CMC and FountainVest. The sale price was US$80.0 million and payable in two equal instalments. The first instalment was received on 8 April 2014. Share issuance of costs US$2.6 million partially offset the net cash generated from these financing activities.

CONTRACTUAL OBLIGATIONS AND CAPITAL COMMITMENTS

Lease Commitments

We have lease commitments in FY2016 and FY2017 amounting to US$2.1 million and US$1.6 million respectively related primarily to leased office and warehouse space in Shanghai and Beijing. These have increased from previous years due to additional leased office space required to accommodate our growth and expansion.

Capital Commitments

As at 31 December 2015, we had capital expenditures contracted but not provided for of US$0.7 million (2014: US$nil).

CAPITAL EXPENDITURES AND CONTINGENT LIABILITIES

Capital Expenditures

Our capital expenditures primarily relate to the acquisition of IMAX theatre systems and acquisition of films. During FY2015 and FY2014, our capital expenditures were US$19.6 million and US$15.0 million, respectively.

Going forward, with respect to our theatre business, we plan to allocate a significant portion of our capital expenditures to the continued expansion of the IMAX theatre network under revenue sharing arrangements to execute on our existing contractual backlog and future signings. For our films business, in order to further our strategy with respect to securing more Chinese language film content and enhancing longer term partnerships in the PRC cinema industry for the IMAX theatre network, we plan to build out an IMAX screening theatre and expand our DMR conversion facility to convert Chinese language films into the IMAX format. We expect to incur capital expenditures of approximately US$25.0 million in FY2016, which will be primarily used to expand the IMAX theatre network under full revenue sharing, fund DMR conversion costs, expand our office space in the PRC and invest in a China film fund.

Contingent Liabilities

We have historically been involved in lawsuits, claims and proceedings which arise in the ordinary course of business. In accordance with our internal policies, we will make a provision for a liability when it is both probable that a loss has been incurred and the amount of the loss can be reasonably estimated. In March 2013, IMAX Shanghai Multimedia received notice from the Shanghai office of the General Administration of Customs that it had been selected for a customs audit as a result of its unintentional exclusion of freight and insurance from the customs value of certain imports into the PRC which resulted in an understated amount of value added taxes and duties on such imports. We are unable to assess the potential impact, if any as of the date of this report.

Except as disclosed above or as otherwise disclosed herein, as at 31 December 2015, we did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities. The Directors confirm that there has been no material change in our commitments and contingent liabilities since 31 December 2015.

WORKING CAPITAL

We finance our working capital needs primarily through cash flow from operating activities. Cash flow generated from operating activities was US$28.2 million in FY2014, and used in operating activities was US$0.2 million in FY2015. As the IMAX theatre network continues to grow, we believe our cash flow from operating activities will continue to increase and fund existing business operations and any initial capital expenditures required under revenue sharing arrangements.

STATEMENT OF INDEBTEDNESS

As at 31 December 2015:

- we did not have any bank borrowings or committed bank facilities;
- we did not have any borrowing from IMAX Corporation or any related parties; and
- we did not have any hire purchase commitments or bank overdrafts.

Since 31 December 2015, being the latest date of our audited financial statements, there has been no material adverse change to our indebtedness.

RECENT DEVELOPMENTS

No important event affecting the Group has occurred since 31 December 2015.

OFF BALANCE SHEET ARRANGEMENTS

We had no off-balance sheet arrangements as at 31 December 2015.

KEY FINANCIAL RATIOS

The following table lays out certain financial ratios as at the dates and for the periods indicated. We presented adjusted gearing ratio and adjusted profit margin because we believe they present a more meaningful picture of our financial performance than unadjusted numbers as they exclude the impact from share-based compensation, accretion of amortised cost of financial instrument, fair value adjustments, IPO related costs, and the related tax impact.

	2015	2014
Adjusted gearing ratio(1)	**40.9%**	99.6%
Adjusted profit margin(2)	**39.2%**	33.2%

Notes:

(1) Gearing ratio is calculated by dividing total debt by total equity and multiplying the result by 100. Total debt as at 31 December 2014 represents the Redeemable Class C Shares of US$26.8 million but without taking into account the value of the bifurcated conversion option of US$12.9 million as at 31 December 2014. Total equity as at both 31 December 2014 was adjusted to exclude the impact of the revaluation of the bifurcated conversion option associated with the Redeemable Class C Shares.

(2) Adjusted profit margin is calculated by dividing adjusted profit for the year by revenue and multiplying the result by 100.

Adjusted Gearing Ratio

Our adjusted gearing ratio decreased from 99.6% as at 31 December 2014 to 40.9% as at 31 December 2015, primarily due to an increase in equity associated with the receipt of both US$71.3 million in IPO proceeds and the US$40.0 million proceeds from the second closing of the sale of 20% of the equity interest in our Company to minority investors as well as an increase in operating profit in FY2015 from FY2014.

Adjusted Profit Margin

Our adjusted profit margin increased from 33.2% as at 31 December 2014 to 39.2% as at 31 December 2015, primarily due to strong box office performance, an expanding network of IMAX theatres and greater scalability of our operating costs in FY2015, particularly in our films business.

DIVIDEND POLICY AND DISTRIBUTABLE RESERVES

The proposal of payment and the amount of our dividends will be made at the discretion of our Board and will depend on our general business condition and strategies, cash flows, financial results and capital requirements, the interests of our Shareholders, taxation conditions, statutory and regulatory restrictions and other factors that our Board deems relevant. Any dividend distribution shall also be subject to the approval of our Shareholders in a Shareholders' meeting. We do not presently intend to declare any dividends.

In addition, as our Company is a holding company registered in the Cayman Islands and our operations are conducted through our subsidiaries, two of which are incorporated in the PRC, the availability of funds to pay distributions to Shareholders and to service our debts depends on dividends received from these subsidiaries. Our PRC subsidiaries are restricted from distributing profits before the losses from previous years have been remedied and amounts for mandated reserves have been deducted.

As at 31 December 2015, the Company had a total equity of US$98.9 million. Under the Companies Law of the Cayman Islands, subject to the provisions of memorandum of association of the Company or the articles of association (the "Articles of Association"), the Company's share premium account may be applied to pay distributions or dividends to shareholders provided that immediately following the date of distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

MATERIAL ACQUISITIONS OR DISPOSALS

Except as disclosed in "History and Reorganisation" in the Prospectus, we have not undertaken any material acquisition or disposal for the year ended 31 December 2015.

SIGNIFICANT INVESTMENTS

We are entitled to IMAX Hong Kong Holding's share of any distributions and dividends paid by TCL-IMAX Entertainment in respect of profit from Greater China as a result of a preferred share we hold in IMAX Hong Kong Holding, which holds 50% of TCL-IMAX Entertainment, a 50:50 joint venture between IMAX Hong Kong Holding (which is indirectly wholly owned by IMAX Corporation) and Sino Leader (Hong Kong) Limited (which is wholly owned by TCL Multimedia Technology Holdings Limited). TCL-IMAX Entertainment engages in the design, development, manufacturing and global sale of premium home theatre systems incorporating components of IMAX's projection and sound technology adapted for a broader home environment. TCL-IMAX Entertainment has commenced offering home theatre systems in Greater China in the second half of 2015. We did not receive any distributions or dividends from TCL-IMAX Entertainment during the year ended 31 December 2015.

We do not have any management or operational role, responsibilities or rights in TCL-IMAX Entertainment, nor are we subject to any funding obligations (either in respect of capital funding or bearing of losses) in relation to TCL-IMAX Entertainment.

Directors and Senior Management

OUR DIRECTORS

The following table presents certain information in respect of the members of our Board.

Members of our Board

Name	Age	Position	Date of Appointment
Richard Lewis Gelfond	61	Non-executive Director and Chairman	27 May 2015
Jiande Chen	60	Executive Director	27 May 2015
Jim Athanasopoulos	45	Executive Director	27 May 2015
Mei-Hui Chou (Jessie)	47	Executive Director	27 May 2015
Greg Adam Foster	54	Non-executive Director	27 May 2015
RuiGang Li	47	Non-executive Director	27 May 2015
Yue-Sai Kan	68	Independent Non-executive Director	27 May 2015
John Marshal Davison	57	Independent Non-executive Director	21 September 2015
Dawn Taubin	57	Independent Non-executive Director	21 September 2015

The biography of each Director is set out below:

Chairman and Non-executive Director

Mr. Richard Gelfond, aged 61, has been the Chairman and Non-executive Director of the Company since 27 May 2015. He has been a Director of the Company since 30 August 2010[1] and he was appointed as the Chairman of the Board on 4 August 2014. As Chief Executive Officer of IMAX Corporation, the Company's majority shareholder, Mr. Gelfond provides strategic advice and guidance on the business and operations of the Group. Mr. Gelfond has been the sole Chief Executive Officer and an Executive Director of IMAX Corporation since 2009 and 1994, respectively. He also served as Co-Chairman of IMAX Corporation from 1999 to 2009 and Co-Chief Executive Officer from 1996 to 2009. From 1994 to 1999, Mr. Gelfond also served as the Vice Chairman of IMAX Corporation. Between 1979 and 1994, Mr. Gelfond worked in various law firms and investment banks. Mr. Gelfond graduated from the State University of New York at Stony Brook, the United States, with a Bachelor of Arts in May 1976 and from the Northwestern University School of Law, the United States, with a juris doctor degree in June 1979. Mr. Gelfond serves as Chairman of the Board of Trustees of the Stony Brook Foundation, Inc., which is affiliated with the State University of New York at Stony Brook. He is also a member of the Academy of Motion Picture Arts and Science, and serves on the International Advisory Board of the Turkana Basin Institute, a non-profit initiative focusing on field research in the Lake Turkana Basin of Kenya.

1 Mr. Gelfond joined the Company as a Director on 30 August 2010. He resigned from the Board on 2 April 2012 but was re-appointed as a Director on 8 April 2014.

Directors and Senior Management (Continued)

Executive Directors

Mr. Jiande Chen, aged 60, has been an Executive Director of the Company since 27 May 2015. He is responsible for the overall strategic direction and business operations of the Group. Mr. Chen has also been the Chief Executive Officer of the Group since 1 August 2011. Mr. Chen was previously the Senior Vice President, Chief Representative and General Manager of Sony Pictures Entertainment, China from 2000 to 2011. Prior to that, Mr. Chen was a Vice President of Allied Signal (China) Holding Corp., an aerospace, automotive and engineering company from 1998 to 1999, a Vice President of Boeing China Inc. from 1995 to 1998 and a Vice President of DDB Advertising/PR Corp. in Seattle from 1990 to 1995. Mr. Chen received a doctorate in Communications from the University of Washington, the United States, in December 1991 and graduated from Fudan University, the PRC, majoring in English in 1982. Mr. Chen serves as the Vice Chairman of the Alumni Association of Fudan University.

Mr. Jim Athanasopoulos, aged 45, has been an Executive Director of the Company since 27 May 2015. He is responsible for the overall strategic direction and business operations of the Group. Mr. Athanasopoulos assumed the role of Chief Financial Officer and Chief Operating Officer of the Company effective May 2015, and served as the Chief Financial Officer and Senior Vice President, Corporate Operations of the Group since 1 August 2011. Mr. Athanasopoulos joined IMAX Corporation in 2000. Prior to his current role, Mr. Athanasopoulos served as the Senior Vice President of Joint Venture Theatre Development of IMAX Corporation from 2010 to 2011, where he helped oversee the execution of IMAX Corporation's joint venture theatre rollout worldwide. He was also the Vice President of Theatre Development of IMAX Corporation from 2008 to 2010. From 2004 to 2008, Mr. Athanasopoulos was an integral part of a worldwide theatre development team that expanded the IMAX Corporation commercial network, signing over 460 new theatres during a time when IMAX Corporation's business model transitioned from institutional clients to multiplexes and from film to digital. Prior to joining IMAX Corporation, Mr. Athanasopoulos worked at KPMG in Toronto for seven years in both their assurance and insolvency practices. Mr. Athanasopoulos graduated from the University of Toronto, Canada, with a bachelor's degree in Commerce in June 1993. He is also a Chartered Accountant, qualified in February 1997, and a member of the Institute of Chartered Accountants of Ontario.

Ms. Mei-Hui Chou (Jessie), aged 47, has been an Executive Director of the Company since 27 May 2015. She is responsible for the overall marketing direction and business operations of the Group. Ms. Chou assumed the role of Chief Marketing Officer and Head of Human Resources effective May 2015, and served as the Senior Vice President, Theatre Marketing & Operations, Human Resources of the Group since 2012. Ms. Chou joined IMAX Corporation in 2006. Prior to her current role, Ms. Chou served as Vice President, Theatre Marketing & Operations. Over the past nine years, Ms. Chou has planned and implemented more than 200 new IMAX theatres in Greater China, Japan, South Korea, Thailand, Malaysia, Singapore, India and the Philippines. Prior to joining the Company, Ms. Chou served as the General Manager of Cinema Operations for Warner Village Cinemas Co., Ltd (a joint-venture between Warner Bros. & Village Roadshow Cinemas, currently Vieshow Cinemas), Taiwan, from 1997 to 2005, where she oversaw the building and operations of the first international cineplexes in nine sites across the island. Previous to the cinema industry, Ms. Chou worked with various international branded hotels, including the InterContinental Hotels Group in 1997 and Shangri-La Hotels and Resorts from 1995 to 1997. Ms. Chou was awarded an EMBA with an Honors Thesis from the National Taiwan University in June 2006. Between 1991 and 1994, she studied hotel management and received a Diploma with Merit from Les Roches Hotel Management School, Switzerland in June 1994. She obtained a bachelor's degree in Foreign Language and Literature from the National Tsing Hua University, Taiwan in June 1991.

Directors and Senior Management (Continued)

Non-executive Directors

Mr. Greg Foster, aged 54, has been a Non-executive Director of the Company since 27 May 2015. He has been a Director of the Company since 8 April 2014. He is responsible for giving strategic advice and guidance on the business and operations of the Group. Mr. Foster joined IMAX Corporation in 2001 as President, Filmed Entertainment, and was appointed Senior Executive Vice President of IMAX Corporation and Chief Executive Officer, IMAX Entertainment, a business division of IMAX Corporation, in 2013. He held the position of Chairman and President, Filmed Entertainment from 2004 to 2013, when he was appointed Chairman and President, IMAX Entertainment. Mr. Foster is also a member of the board of directors of TCL-IMAX Entertainment Co., Ltd., a joint venture of TCL Corporation and IMAX Corporation. Prior to joining IMAX Corporation, Mr. Foster was Executive Vice-President of Production at MGM/UA Pictures, the motion picture division of the larger Metro-Goldwyn-Mayer, Inc from 1996 to 1998. Prior to that, Mr. Foster held other senior positions, including Senior Vice-President of Motion Picture Marketing Research, at MGM/UA from 1993 to 1995. Mr. Foster graduated from Georgetown University with a Bachelor's of Science degree in Business Administration in May 1984. Mr. Foster is a member of the Academy of Motion Picture Arts and Sciences. Mr. Foster also serves on the Board of Councilors of the University of Southern California School of Dramatic Arts and taught as an adjunct professor at the University of Southern California film school. Mr. Foster also serves on the Board of Trustees of the High Mountain Institute, a non-profit educational organisation.

Mr. RuiGang Li, aged 47, has been a Non-executive Director of the Company since 27 May 2015. He was appointed a Director of the Company on 8 April 2014. He is responsible for giving strategic advice and guidance on the business and operations of the Group. Mr. Li is the Founding Chairman of CMC Capital Partners and CMC Holdings, China's leading investment and operation group with a focus on media & entertainment, internet & mobile, and lifestyle sectors. Prior to that, Mr. Li was Chairman and CEO of Shanghai Media Group ("**SMG**"), a Chinese multimedia television, radio broadcasting and publication company. Mr. Li also served as President of Shanghai Media & Entertainment Group, and the Deputy Director of the Programming Department of Shanghai Radio, Film and Television Bureau. Mr. Li has been a non-executive director of WPP plc (NASDAQ: WPPGY) since October 2010. Mr. Li graduated from Fudan University, the PRC, with a bachelor's degree in journalism in July 1991. In July 1994, he was awarded a Master of Arts degree in journalism by Fudan University. He was also a Visiting Scholar at Columbia University, the United States, from August 2001 to April 2002. He was also certified as a Senior Editor by the Qualification Determination Committee of the Senior Professional Technical Qualifications in Journalism of the Shanghai Press Bureau in January 2004.

Independent Non-executive Directors

Ms. Yue-Sai Kan, aged 68, has been an Independent Director of the Company since 25 August 2014 and was appointed as an Independent Non-executive Director on 27 May 2015. She is responsible for giving independent strategic advice and guidance on the business and operations of the Group. Ms. Kan is an Emmy-winning television host and producer with extensive experience in the entertainment industry. In 1972, she established Yue-Sai Kan Productions and created her first major U.S. television production, a weekly series called "Looking East". In 1986, she produced and hosted the television series "One World" on China's national television network, CCTV. Ms. Kan has produced a number of documentaries, including "China Walls and Bridges", which earned her an Emmy, as well as "Journey through a Changing China" and the series "Mini Dragons" "Doing Business in Asia", and "Seeking Miss China," among others. Ms. Kan created the cosmetics company and brand "Yue-Sai" in 1992, which was acquired by L'Oréal in 2004. She is now the Honorary Vice Chairman of L'Oréal China. She launched the House of Yue-Sai lifestyle stores in 2007 to cater to China's growing middle class. She is also an author of nine best-selling books. She is also the National Director of Miss Universe China and produces its annual pageant as a major charity event in China. Ms. Kan graduated from the Brigham Young University in Hawaii with a Bachelor of Arts in May 1969. Ms. Kan has served as the International Ambassador of the Shanghai International Film Festival since 2006.

Mr. John Davison, aged 57, has been an Independent Non-executive Director of the Company since 21 September 2015. He is responsible for giving independent strategic advice and guidance to the Group. Mr. Davison is the Chief Financial Officer and Executive Vice President of Four Seasons Holdings Inc., the luxury hotel and resort management company, where he has held that position since 2005, having joined as Senior Vice President, Project Financing, in 2002. In addition to managing the group's financial activities, which include worldwide financial reporting and management, forward planning, taxation and treasury activities, Mr. Davison also oversees the information systems and technology area of Four Seasons Holdings Inc. Prior to joining Four Seasons Holdings Inc., Mr. Davison spent four years as a member of the Audit and Business Investigations Practice at KPMG in Toronto from 1983 to 1987, followed by 14 years at IMAX Corporation from 1987 to 2001, ultimately holding the position of President, Chief Operating Officer and Chief Financial Officer. Mr. Davison has been a Chartered Accountant since September 1986 and is a member of the Institute of Chartered Accountants of Ontario. Mr. Davison has also been a Chartered Business Valuator since August 1988 and is a member of the Canadian Institute of Chartered Business Valuators. He graduated from the University of Toronto, Canada, Victoria College, with a bachelor's degree in Commerce in November 1983.

Ms. Dawn Taubin, aged 57, has been an Independent Non-executive Director of the Company since 21 September 2015. She is responsible for giving independent strategic advice and guidance to the Group. Ms. Taubin served as the Chief Marketing Officer of DreamWorks Animation, an animation studio engaging in the development, production and exploitation of animated films and their associated characters, from August 2013 to January 2015, where she managed the global marketing and distribution operations for the studio's theatrical and television properties. Prior to joining DreamWorks Animation, Ms. Taubin spent 19 years at Warner Bros Pictures, a film production and distribution company, where she was President of Marketing for six years. Prior to joining Warner Bros Pictures, Ms. Taubin was Vice President of Publicity at MGM Studios, an entertainment company providing production and distribution of film and television content. Ms. Taubin graduated from the University of California, Santa Barbara, the United States, with a bachelor's degree in Communications Studies in June 1980. Ms. Taubin was also a Professor of Public Relations and Advertising at the Dodge College of Film and Media Arts at Chapman University in Orange, California, the United States, from 2011 to 2013.

Directors and Senior Management (Continued)

OUR SENIOR MANAGEMENT

The members of the senior management of the Group are the following:

Name	Age	Position
Jiande Chen	60	Chief Executive Officer
Donald Silvio Savant	53	President, Theatre Development and Film Distribution
Jim Athanasopoulos	45	Chief Financial Officer and Chief Operating Officer
Mei-Hui Chou (Jessie)	47	Chief Marketing Officer and Head of Human Resources
Michelle Rosen	37	General Counsel
Honggen Yuan (Karl)	52	Senior Vice President, Theatre Development

Senior Management

Mr. Jiande Chen, aged 60, has been the Chief Executive Officer of the Group since 1 August 2011 and is responsible for directing the Company's expansion in the Greater China region and developing and executing strategies that enable the Company to extend its leadership position and involvement in the continuing development of the entertainment industry in Greater China. He was appointed as an Executive Director of the Company on 27 May 2015. Please refer to "Directors and Senior Management — Our Directors" for details of his biography.

Mr. Don Savant, aged 53, has represented the Group as President, Theatre Development & Film Distribution since September 2011. Mr. Savant has also served as Executive Vice President and Managing Director, Asia Pacific of IMAX Corporation since January 2015. In his dual role, Mr. Savant is responsible for overseeing IMAX Corporation's sales, marketing and operations in the Asia Pacific region, including Korea, Hong Kong and China. Mr. Savant is employed by IMAX Corporation and devotes approximately 50% of his time to the Company under a legally binding secondment arrangement. Mr. Savant joined IMAX Corporation in April 2000 as Vice President, Sales, Asia Pacific. He was promoted to Senior Vice President and Managing Director, Asia Pacific, in January 2008. Mr. Savant has been involved in securing major multi-theatre deals for IMAX Corporation throughout the Asia Pacific region, including contracts with the largest commercial exhibitors in Korea, Hong Kong and China. Mr. Savant has over 20 years of experience in the entertainment industry and a total of 17 years' experience in China and Asia. In 2011, he led the sales efforts in establishing a partnership with Wanda Cinema Line Co., Ltd, which today is the Company's largest exhibition partner worldwide.

Mr. Jim Athanasopoulos, aged 45, assumed the role of Chief Financial Officer and Chief Operating Officer of the Company effective May 2015, and served as the Chief Financial Officer and Senior Vice President, Corporate Operations of the Group since 1 August 2011. Mr. Athanasopoulos is responsible for the overall management of all aspects of the Group's finance and treasury matters. He was appointed as an Executive Director on 27 May 2015. Please refer to "Directors and Senior Management — Our Directors" for details of his biography.

Ms. Mei-Hui Chou (Jessie), aged 47, assumed the role of Chief Marketing Officer and Head of Human Resources effective May 2015, and served as the Senior Vice President, Theatre Marketing & Operations, Human Resources of the Group since 2012. Ms. Chou is responsible for interfacing with theatre operators to ensure successful theatre openings and film launches. She was appointed as an Executive Director on 27 May 2015. Please refer to "Directors and Senior Management — Our Directors" for details of her biography.

Ms. Michelle Rosen, aged 37, has been the General Counsel of the Company since 30 March 2015. She is responsible for overseeing the legal and administrative matters of the Group. Ms. Rosen joined IMAX Corporation in October 2008, where she held the position of Vice President and Associate General Counsel until March 2015. Ms. Rosen previously worked as an associate at Shearman & Sterling LLP in New York from October 2003 until October 2008 in the areas of mergers and acquisitions, corporate law and securities law. Ms. Rosen graduated from Dartmouth College with a bachelor's degree in Comparative Literature in June 2000 and from Cornell Law School in May 2003. Ms. Rosen has been a member of the New York Bar since January 2004.

Mr. Honggen Yuan (Karl), aged 52, has been Senior Vice President, Theatre Development of the Group since September 2011. Mr. Yuan joined IMAX Corporation in August 2001, where he held the title of Sales Director. He was promoted to Vice President, Theatre Development in 2005. During his 10 years with IMAX Corporation, Mr. Yuan has been instrumental in helping to grow the IMAX theatre network from two theatres in 2001 to well over 200 theatres today. Mr. Yuan has played a vital role in building and expanding the Company's relationship with its key strategic partners, including Wanda Cinema Line Co., Ltd, CGI Holdings Limited and Shanghai Film Corporation. Prior to joining IMAX Corporation, Mr. Yuan served as the Chief Representative, Business Development of Bayshore Pacific Group Shanghai Representative Office from 1998 to 2001. Mr. Yuan graduated from the Shanghai University of Technology (currently known as Shanghai University), the PRC, with a bachelor's degree in Environmental Chemistry in July 1985 and received an MBA degree from the University of Sunshine Coast, Queensland, Australia in June 2002.

OUR COMPANY SECRETARIES

Ms. Michelle Rosen, aged 37, is the General Counsel and was appointed as one of the joint company secretaries on 27 May 2015. Please refer to "Directors and Senior Management — Our Senior Management" for details of her biography.

Ms. Chan Wai Ling, aged 48, was appointed as one of the joint company secretaries on 27 May 2015. Ms. Chan is not an employee of the Company and she provides company secretarial services as an external service provider. She is responsible for corporate secretarial duties and corporate governance matters in relation to the Company. She is a director of Corporate Services of Tricor Services Limited, and has more than 20 years of experience in the corporate secretarial field. Prior to joining Tricor Group, she worked for PricewaterhouseCoopers in Hong Kong from 1996 to 2003, and was a manager of corporate services from 2000 to 2003. Ms. Chan holds an Honours Bachelor's degree in Accountancy from City University of Hong Kong and a Bachelor of Laws degree from the University of London. She is a Chartered Secretary and a Fellow of both The Hong Kong Institute of Chartered Secretaries (HKICS) and The Institute of Chartered Secretaries and Administrators (ICSA) in the United Kingdom. She is a holder of the Practitioner's Endorsement from HKICS.

Report of the Directors

The Directors present their first report together with the audited Financial Statements of the Company and the Group for the year ended 31 December 2015.

PRINCIPAL ACTIVITIES AND SUBSIDIARIES

The Company, together with the Group, is a leading cinematic technology provider, the exclusive licensee of the IMAX brand in the theatre and films business and the sole commercial platform for the release of IMAX format films in Greater China. The Company is an investment holding company and its subsidiaries are principally engaged in the entertainment industry specialising in digital and film-based motion picture technologies.

A list of the Company's subsidiaries, together with their places of incorporation, principal activities and particulars of their issued shares/paid up capital, is set out in note 29 to the Financial Statements.

APPLICATION OF GLOBAL OFFERING PROCEEDS

The Company was listed on the Stock Exchange on 8 October 2015. The net proceeds from the Company's Listing were approximately HK$443 million after deduction of related expenses. For the year ended 31 December 2015, the Company applied proceeds from the Listing as follows:

- HK$38.6 million was used by the Group for procurement of IMAX theatre systems and for one time launch costs used for expanding revenue sharing arrangements in the Company's backlog;

- HK$1.0 million was used by the Group to establish the Company's DMR capabilities; and

- HK$37.6 million was used by the Group was used to fund working capital requirements.

The Company intends to continue to deploy proceeds from the Listing in 2016.

FINANCIAL RESULTS

The results of the Group for the year ended 31 December 2015 are set out in the consolidated statement of comprehensive (loss) income on page 97 of this Annual Report. The financial summary for the Group for the most recent four years, as set out on page 168 of this Annual Report, are extracted from this Annual Report and the Prospectus.

RESERVES

Details of the movements in the reserves of the Company and reserves available for distribution to Shareholders as at 31 December 2015 are set out in note 29 to the Financial Statements. Under the Companies Law of the Cayman Islands, subject to the provisions of memorandum of association of the Company or the articles of association (the "Articles of Association"), the Company's share premium account may be applied to pay distributions or dividends to shareholders provided that immediately following the date of distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business. Movements in the reserves of the Group are reflected on the consolidated statement of changes in equity of the Financial Statements.

DIVIDENDS

During the year ended 31 December 2015 and prior to the Company's Listing, the Company declared a special dividend of approximately US$47.6 million to its then existing shareholders in satisfaction of a prior contractual obligation to such shareholders. The special dividend was paid on 15 October 2015.

The Board has recommended that no final dividend be paid in respect of the year ended 31 December 2015.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property and equipment during the year are set out in note 6 to the Financial Statements.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2015 is set out in the section headed "Management Discussion and Analysis" of this Annual Report.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 18 to the Financial Statements.

CHARITABLE CONTRIBUTIONS

During the year ended 31 December 2015, the Group made charitable contributions totaling HK$1,012,500.

DIRECTORS

Directors during the year ended 31 December 2015 and up to the date of this report

Executive Directors:
Jiande Chen (also our Chief Executive Officer)
Jim Athanasopoulos
Mei-Hui Chou (Jessie)

Non-executive Directors[1]*:*
Richard Gelfond (also our Chairman)
Greg Foster
RuiGang Li

Independent Non-executive Directors:
Yue-Sai Kan
John Davison
Dawn Taubin

[1] Joseph Sparacio, Bob Pisano, Robert Lister, Mark Welton and Frank Tang resigned on 26 May 2015 (prior to the listing of the Company on the Stock Exchange) as directors of the Company.

Directors Retiring by Rotation

In accordance with the Company's Articles of Association, Mr. Richard Gelfond, Mr. Greg Foster, Mr. Ruigang Li, Mr. John Davison and Ms. Dawn Taubin will retire from office at the forthcoming annual general meeting. All retiring Directors, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Directors' Service Contracts

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment other than statutory compensation.

Directors' Emoluments

Details of the remuneration of the Directors are set out in note 22 of the Financial Statements. There has been no arrangement under which any Director has waived or agreed to waive any emoluments.

Directors' Interests in Transactions, Arrangements or Contracts

Save as disclosed in the section headed "Connected Transactions" of this Annual Report and contracts amongst group companies, no other transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company and the Director's connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2015.

Directors' Interests in Shares, Underlying Shares and Debentures

As at 31 December 2015, interests of the Directors in Shares, underlying Shares and debentures of the Company and its associated corporations which were recorded in the register to be kept by the Company under Section 352 of the SFO are set out on page 77.

Directors' Rights to Acquire Shares or Debentures

Save for the LTIP, the Share Option Scheme (as defined below) and the RSU Scheme (as defined below) of the Group as set out in this section, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company or chief executives or any of their spouse or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Permitted Indemnity Provision

The Company's Articles of Association provides that every Director shall be indemnified out of the assets of the Company against any liability, action, proceeding, claim, demand, costs, damages or expenses, including legal expenses as a result of any act or failure to act in carrying out his/her functions.

The Company has taken out and maintained directors' liability insurance after Listing which provides appropriate cover for the Directors and directors of the subsidiaries of the Group.

Directors' Interests in Contracts and Competing Business

Save for the directorships and senior management roles in IMAX Corporation held by Mr. Richard Gelfond and Mr. Greg Foster, and the interests of certain of our Directors in IMAX Corporation as set out in "Directors' and Chief Executives' Interest and Short Positions in the Shares, Underlying Shares and Debentures of the Company and any Associated Corporation" below, none of the Directors is interested in any businesses apart from the Group's business which competes or is likely to compete, either directly or indirectly, with the Group's business.

Name	Company	IMAX Corporation
Richard Gelfond	Non-executive Director and Chairman	Chief Executive Officer and Executive Director
Greg Foster	Non-executive Director	Senior Executive Vice President and Chief Executive Officer, IMAX Entertainment, a business division of IMAX Corporation

There is no contract of significance in relation to the Group's business subsisting at the end of the year or during the year ended 31 December 2015 in which the Group was a party and in which a Director was materially interested.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2015.

WAIVERS

Waiver from Requirements to Obtain Approval of Independent Shareholders and Make Announcements

The Company has applied for, and the Stock Exchange has granted to the Company, a waiver from strict compliance with the announcement and, if applicable, the approval of independent shareholders requirements under Rule 14A.105 of the Listing Rules in respect of each of the below non-exempt continuing connected transactions for the entire duration of each of those agreements, as more particularly set out in the description of each of those transactions below.

Waiver from Requirement to Set a Monetary Cap

The Company has also applied for, and the Stock Exchange has granted to the Company, a waiver from strict compliance with the requirements under Rule 14A.53(1) of the Listing Rules to set a monetary cap for fees payable under each of the non-exempt continuing connected transactions stated above (apart from the Personnel Secondment Agreement (as defined below)) for the duration of those agreements, as more particularly set out in the description of each of those transactions below.

Waiver from Requirement to be of a Duration Not Exceeding Three Years

The Company has applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirement under Rule 14A.52 of the Listing Rules for each of the non-exempt continuing connected transactions stated below to be of a duration not exceeding three years for the duration of those agreements, as more particularly set out in the description of each of those transactions below.

Waiver conditions

These waivers have been granted subject to the following conditions:

(a) the Company will disclose in its subsequent annual and interim reports: (i) a clear description of the bases for calculating the fees payable and receivable under each of the non-exempt continuing connected transactions with non-monetary caps, the amount of fees payable to and receivable from IMAX Corporation under each of the non-exempt continuing connected transactions with non-monetary caps in the same form as note 28(a) of "Appendix I — Accountant's Report" in the Prospectus, together with a breakdown of the conversion fees and distribution fees payable under the Master Distribution Agreements (as defined below) where material; (ii) the number of IMAX theatre systems supplied by IMAX Corporation to the Group under the Equipment Supply Agreements (as defined below); (iii) the number of IMAX format films converted by IMAX Corporation pursuant to the DMR Services Agreements (as defined below); and (iv) the number of IMAX format Hollywood films and IMAX format Chinese language films released in Greater China and outside Greater China for which the Company will receive from or pay to IMAX Corporation a conversion fee or distribution fee under the DMR Services Agreements (as defined below) and the Master Distribution Agreements (as defined below);

(b) the independent non-executive Directors will review the non-exempt continuing connected transactions with non-monetary caps and confirm in the Group's annual report that the transactions for the financial year under review and at the time of the annual review have been entered into in the manner set out in Rule 14A.55 of the Listing Rules. If the independent non-executive Directors are unable to confirm the matters under Rule 14A.55 of the Listing Rules, the Group will have to re-comply with the announcement and/or independent shareholders' approval requirements under the Listing Rules; and

(c) the Company will comply with the announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules if there is any material change to the bases of calculations of either the fees payable or the fees receivable under any of the non-exempt continuing connected transactions with non-monetary caps.

CONNECTED TRANSACTIONS

Continuing Connected Transactions Subject to Reporting and Announcement Requirements

During the year ended 31 December 2015, the Group has entered into certain transactions with IMAX Corporation (its controlling shareholder) which constitute connected transactions under the Listing Rules.

IMAX Corporation is considered a "connected person" under the Listing Rules by virtue of it being the holding company (an "associate" as defined in the Listing Rules) of IMAX Barbados (which, holding more than 10% of the Company's share capital, is a substantial shareholder and "connected person" of the Group). Pursuant to the Listing Rules, any member of IMAX Corporation is considered an "associate" of IMAX Barbados and a "connected person" of the Group. Any transaction between the Group and IMAX Corporation or IMAX Barbados is, accordingly, a connected transaction.

During the year ended 31 December 2015, the following non-exempt connected transactions were entered into between the Group and IMAX Corporation. Such transactions will be subject to the reporting and announcement requirements, but exempt from the independent shareholders' approval requirements, under Chapter 14A of the Listing Rules:

1. Personnel Secondment Agreement

(a) Description of the Personnel Secondment Agreement

(i) Subject matter

On 11 August 2011, IMAX Shanghai Multimedia entered into the Personnel Secondment Agreement with IMAX Corporation (the "**Personnel Secondment Agreement**") commencing on 11 August 2011 and expiring on 28 October 2036, pursuant to which IMAX Corporation agreed to make Mr. Don Savant, President, Theatre Development and Film Distribution, and another employee working in the investor relations, available to IMAX Shanghai Multimedia.

The Personnel Secondment Agreement was amended on 21 September 2015.

(ii) Term and Termination

The Personnel Secondment Agreement has a term of 25 years and can be terminated by either party by providing a written notice to the other party.

Under the requirements of the Listing Rules, the Personnel Secondment Agreement should have a fixed term and should be for a duration of no longer than three years except in special circumstances where the nature of the transaction requires it to be of a longer duration.

The Directors believe that it is appropriate for the Personnel Secondment Agreement to have a 25-year term as the secondment of these employees from IMAX Corporation to IMAX Shanghai Multimedia will be beneficial for the development of the business of the Group given their relevant industry experience and knowledge.

(iii) Fees

IMAX Shanghai Multimedia shall reimburse IMAX Corporation for the cost of all wages and benefits with respect to the seconded employees in proportion to the time actually spent by such employees on matters related to IMAX Shanghai Multimedia. The proportion of time spent by Mr. Don Savant on matters relating to the Group was 50% for the year ended 31 December 2015 while the other seconded employee has been spending 100% of his time on matters relating to the Group since his secondment commenced in April 2015. The fees payable under the Personnel Secondment Agreement also include the share-based compensation awarded to the seconded employees.

(b) *Annual Caps and Transaction Amount*

In accordance with Rule 14A.53 of the Listing Rules, we have set annual caps for the maximum aggregate fees payable under the Personnel Secondment Agreement of US$4,000,000, US$5,000,000 and US$6,000,000 for FY2015, FY2016 and FY2017, respectively. These annual caps have been calculated on the basis of: (i) the historical wages and share-based compensation paid to the seconded employees pursuant to the Personnel Secondment Agreement during the three years ended 31 December 2014 and the six months ended 30 June 2015; (ii) the estimated number of seconded employees in the coming years; and (iii) the estimated amount of wages and share-based compensation to be given to such seconded employees in the coming years.

Approximately US$3,122,000 was charged to the Group by IMAX Corporation under the Personnel Secondment Agreement during the year ended 31 December 2015.

(c) *Listing Rules Requirements*

As the highest relevant percentage ratio in respect of the Personnel Secondment Agreement is expected to be, on an annual basis, more than 0.1% but less than 5% and it is on normal commercial terms, the Personnel Secondment Agreement will be exempt pursuant to Rule 14A.76(2)(a) of the Listing Rules from the independent shareholders' approval requirement but will be subject to the reporting and, save for the waiver set out in "— Waivers — Waiver from Requirements to Obtain Approval of Independent Shareholders and Make Announcements" above, announcement requirements under Chapter 14A of the Listing Rules.

At the end of FY2017, the Company will re-comply with the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules, where and if applicable, including the requirements for the setting of new monetary annual caps for the maximum aggregate fees payable under the Personnel Secondment Agreement for an additional three year period.

2. Trademark License Agreements

(a) *Description of the Trademark License Agreements*

(i) *Subject matter*

On 28 October 2011, each of IMAX Shanghai Multimedia and IMAX Hong Kong entered into the separate trademark license agreements with IMAX Corporation (the "**Trademark License Agreements**") for a renewable term of 25 years each commencing on 28 October 2011, pursuant to which IMAX Corporation agreed to grant the exclusive right in the PRC to IMAX Shanghai Multimedia and the exclusive right in Hong Kong, Macau and Taiwan to IMAX Hong Kong to use the "IMAX", "IMAX 3D" and "THE IMAX EXPERIENCE" marks, related logos and such other marks as IMAX Corporation may approve from time to time in connection with their theatre and films businesses (the "**Trademarks**") in the respective territories.

Under the Trademark License Agreements, each of IMAX Shanghai Multimedia and IMAX Hong Kong shall have the right to sublicense the rights granted to them solely: (i) to third parties that lease, own or operate IMAX theatres pursuant to an agreement approved by IMAX Corporation; and (ii) to other third parties and affiliates of each of IMAX Shanghai Multimedia and IMAX Hong Kong approved in each case by IMAX Corporation.

If the Escrow Documents are released under the terms of the Contingency Agreements, each of IMAX Shanghai Multimedia and IMAX Hong Kong shall be granted a right to use the marks and logos in connection with the manufacture and assembly of IMAX digital xenon projection systems, IMAX laser-based digital projection systems and nXos2 audio systems, in addition to their existing right to use the trademarks pursuant to the Trademark License Agreements.

The Trademark License Agreements were amended on 21 September 2015.

(ii) Term

Subject to the next following paragraph, each of the Trademark License Agreements has a term of 25 years commencing on 28 October 2011, and shall be renewable at the election of IMAX Shanghai Multimedia or IMAX Hong Kong, as applicable, for an additional term of 25 years on the basis of a fair market royalty rate determined by a qualified, neutral third party consultant, which shall not exceed 6% of all applicable gross revenues.

If the Escrow Documents are released under the terms of the Contingency Agreements, the term of the Trademark License Agreements shall be 12 years from the date of release.

Under the requirements of the Listing Rules, the Trademark License Agreements should be for a duration of no longer than three years except in special circumstances where the nature of the transaction requires them to be of a longer duration.

The Directors believe that it is appropriate for the Trademark License Agreements to have a 25-year renewable term for the following reasons:

(a) the 25-year term of the Trademark License Agreements is inherently beneficial to the Company as it is only under the trademark licences that we can use the "IMAX" brand to carry on the IMAX theatre business in Greater China;

(b) the 25-year term of the Trademark License Agreements provides comfort and protection to us, enabling us to plan and invest over the longer term;

(c) the 25-year term of the Trademark License Agreements also provides comfort and protection to our exhibitor partners as it is sufficiently long to cover existing arrangements with our exhibitor partners that span upwards of 12 years from installation plus a potential renewal; and

(d) it is in accordance with normal business practice for trademark licence agreements to be of such duration.

Report of the Directors (Continued)

(iii) Termination

Each of the Trademark License Agreements is subject to limited termination provisions. Each Trademark License Agreement will automatically and immediately terminate if: (i) the Technology License Agreement (as defined below) entered into between the same persons as are parties to the Trademark License Agreement and effective from the same date, terminates or expires; (ii) IMAX Shanghai Multimedia or IMAX Hong Kong (as applicable) is ordered or adjudged bankrupt; or (iii) the assets of any of such parties are appropriated by any government.

In addition, IMAX Corporation shall have the right to terminate a Trademark License Agreement in the event that: (i) IMAX Shanghai Multimedia or IMAX Hong Kong, as applicable, is in material breach of the relevant Trademark License Agreement or any of the other inter-company agreements entered into between the respective parties, or (ii) if IMAX Shanghai Multimedia or IMAX Hong Kong challenges the validity of IMAX Corporation's ownership of any of the licensed trademarks, in either case, after serving a notice of its intention to terminate the relevant Trademark License Agreement and subject to IMAX Shanghai Multimedia or IMAX Hong Kong not having cured such breach within 30 days from the receipt of such notice.

IMAX Shanghai Multimedia and IMAX Hong Kong may also serve a notice on IMAX Corporation to terminate the Trademark License Agreement if IMAX Corporation breaches any of the material terms of the relevant Trademark License Agreement and is unable to cure the breach within 30 days from the receipt of such notice.

The rights granted by IMAX Shanghai Multimedia and IMAX Hong Kong: (i) to third parties that lease, own or operate IMAX theatres pursuant to an agreement approved by IMAX Corporation; and (ii) to other third parties and affiliates of each of IMAX Shanghai Multimedia and IMAX Hong Kong approved in each case by IMAX Corporation, shall survive termination and expiry of the Trademark License Agreements.

(iv) Fees

During their initial term, each of IMAX Shanghai Multimedia and IMAX Hong Kong shall pay 2% of its gross revenue generated from their respective theatre and films businesses as royalty fees to IMAX Corporation on a quarterly basis. If the Trademark License Agreements are to be renewed, the royalty rate to be applied during the renewed term shall be determined by a qualified, neutral third party consultant based on the fair market value of the rights granted to IMAX Shanghai Multimedia and IMAX Hong Kong under the Trademark License Agreements, but in any case shall not exceed 6% of each of their gross revenue.

IMAX Corporation and each of IMAX Shanghai Multimedia and IMAX Hong Kong have also agreed that the fees payable under the Trademark License Agreements will be adjusted, including retrospectively, to the extent an adjustment is necessary to ensure that the payments are on arm's length basis as determined by a court of competent jurisdiction or a government or taxing authority, or as mutually agreed by IMAX Corporation and each of IMAX Shanghai Multimedia and IMAX Hong Kong.

(b) Annual Caps and Transaction Amount

The cap for the royalties payable under the Trademark License Agreements will be determined by reference to the formulae for determining such royalties as described above.

It is not possible for the Directors to provide any meaningful estimates of a monetary cap as it would involve making assumptions regarding the future performance of the Group over a period of up to 21 years.

The Directors have also considered whether the absence of a monetary cap should be approved by the Shareholders after three years or a longer period, and have concluded that this would not be appropriate or in the interests of the Shareholders since it would give rise to greater uncertainty as to whether the Trademark License Agreements will be in place for the whole of their terms. The Directors do not consider that it would be in the interests of the Shareholders for the Trademark License Agreements to have a term which is shorter than their terms, given the importance of the IMAX trademarks to the businesses of the Group. In addition, as noted above, it is market practice for trademark licence agreements to have durations of extended periods.

Approximately US$2,300,000 was charged to the Group by IMAX Corporation under the Trademark License Agreements during the year ended 31 December 2015.

(c) Listing Rules Requirements

As the highest relevant percentage ratio in respect of the Trademark License Agreements will be, on an annual basis, more than 0.1% but less than 5%, and as the Trademark License Agreements are on normal commercial terms, they will be exempt pursuant to Rule 14A.76(2)(a) of the Listing Rules from the independent shareholders' approval requirements but will be subject to the reporting and, save for the waiver set out in "— Waivers — Waiver from Requirements to Obtain Approval of Independent Shareholders and Make Announcements" above, announcement requirements under Chapter 14A of the Listing Rules.

If the Trademark License Agreements are renewed upon the expiry of the initial 25-year term, the Company will be required to comply with all the applicable reporting, announcement and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules at that time in respect of the renewal, subject to any waivers which may be granted by the Stock Exchange from strict compliance with any of the applicable requirements.

If the Escrow Documents are released under the terms of the Contingency Agreements and the 12-year term of the exclusive trademark license of the IMAX brand granted pursuant to the Trademark License Agreements falls outside of the initial 25-year term of such agreements, the Company will be required to comply with all the applicable reporting, announcement and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the portion of the term of the Trademark License Agreements that falls outside of the initial 25-year term of such agreements, subject to any waivers which may be granted by the Stock Exchange from strict compliance with any of the applicable requirements.

3. *Technology License Agreements*

(a) Description of the Technology License Agreements

(i) Subject matter

On 28 October 2011, each of IMAX Shanghai Multimedia and IMAX Hong Kong entered into separate technology license agreements with IMAX Corporation (the "**Technology License Agreements**") for a renewable term of 25 years commencing on 28 October 2011, pursuant to which IMAX Corporation agreed to grant the exclusive right in the PRC to IMAX Shanghai Multimedia and the exclusive right in Hong Kong, Macau and Taiwan to IMAX Hong Kong to use the technology relating to the equipment and services provided by IMAX Corporation to each of IMAX Shanghai Multimedia and IMAX Hong Kong pursuant to the Equipment Supply Agreements (defined below) and Services Agreements (as defined below), solely in connection with the marketing, sale, rental, lease, operation and maintenance of such equipment and services (the "**Technology**").

Under the Technology License Agreements, each of IMAX Shanghai Multimedia and IMAX Hong Kong shall have the right to sublicense the rights granted to them solely (i) to third parties that lease, own or operate IMAX theatres pursuant to an agreement approved by IMAX Corporation; and (ii) to other third parties and affiliates of each of IMAX Shanghai Multimedia and IMAX Hong Kong approved in each case by IMAX Corporation.

If the Escrow Documents are released under the terms of the Contingency Agreements, each of IMAX Shanghai Multimedia and IMAX Hong Kong shall be granted a right to use the technology in connection with the manufacture and assembly of IMAX digital xenon projection systems, IMAX laser-based digital projection systems and nXos2 audio systems in the United States, Canada or European Union, in addition to their existing right to use the Technology pursuant to the Technology License Agreements.

The Technology License Agreements were amended on 21 September 2015.

(ii) Term

Subject to the next following paragraph, each of the Technology License Agreements has a term of 25 years commencing on 28 October 2011, and shall be renewable at the election of IMAX Shanghai Multimedia or IMAX Hong Kong, as applicable, for an additional term of 25 years on the basis of a fair market royalty rate determined by a qualified, neutral third party consultant, which shall not exceed 9% of all applicable gross revenues.

If the Escrow Documents are released under the terms of the Contingency Agreements, the term of the Technology License Agreements shall be 12 years from the date of release.

Under the requirements of the Listing Rules, the Technology License Agreements should be for a duration of no longer than three years except in special circumstances where the nature of the transaction requires them to be of a longer duration.

The Directors believe that it is appropriate for the Technology License Agreements to have a 25-year renewable term for the same reasons set out in the section headed "Connected Transactions — Continuing Connected Transactions Subject to Reporting and Announcement Requirements — 2. Trademark License Agreements" above.

(iii) *Termination*

Each of the Technology License Agreements is subject to limited termination provisions. Each Technology License Agreement will automatically and immediately terminate if: (i) the Trademark License Agreement entered into between the same persons as are parties to the Technology License Agreement and effective from the same date, terminates or expires; (ii) IMAX Shanghai Multimedia and IMAX Hong Kong (as applicable) is ordered or adjudged bankrupt; or (iii) if the assets of any of such parties are appropriated by any government.

IMAX Corporation shall have the right to terminate a Technology License Agreement in the event that (i) IMAX Shanghai Multimedia or IMAX Hong Kong, as applicable, is in material breach of the relevant Technology License Agreement or any of the other inter-company agreements entered into between the respective parties; or (ii) if IMAX Shanghai Multimedia or IMAX Hong Kong challenges the validity or IMAX Corporation's ownership of any of the licensed technology, in each case, after serving a notice of its intention to terminate the relevant Trademark License Agreement and subject to IMAX Shanghai Multimedia or IMAX Hong Kong not having cured such breach within 30 days from the receipt of such notice.

IMAX Shanghai Multimedia and IMAX Hong Kong may also serve a notice on IMAX Corporation to terminate the Technology License Agreement if IMAX Corporation breaches any of the material terms of the relevant Technology License Agreement and is unable to cure the breach within 30 days from the receipt of such notice.

The rights granted by IMAX Shanghai Multimedia and IMAX Hong Kong: (i) to third parties that lease, own or operate IMAX theatres pursuant to an agreement approved by IMAX Corporation; and (ii) to other third parties and affiliates of each of IMAX Shanghai Multimedia and IMAX Hong Kong approved in each case by IMAX Corporation, shall survive termination and expiry of the Technology License Agreements.

(iv) *Fees*

During their initial 25-year term, each of IMAX Shanghai Multimedia and IMAX Hong Kong shall pay 3% of its gross revenue generated from their respective theatre and films businesses as royalty fees to IMAX Corporation on a quarterly basis. If the Technology License Agreements are to be renewed, the royalty rate to be applied during the renewed term shall be determined by a qualified, neutral third party consultant based on the fair market value of the rights granted to IMAX Shanghai Multimedia and IMAX Hong Kong under the Technology License Agreements, but in any case shall not exceed 9% of each of their gross revenue.

IMAX Corporation and each of IMAX Shanghai Multimedia and IMAX Hong Kong have also agreed that the fees payable under the Technology License Agreements will be adjusted, including retrospectively, to the extent an adjustment is necessary to ensure that the payments are on arm's length basis as determined by a court of competent jurisdiction or a government or taxing authority, or as mutually agreed by IMAX Corporation and each of IMAX Shanghai Multimedia and IMAX Hong Kong.

(b) *Annual Caps and Transaction Amount*

The cap for the royalties payable under the Technology License Agreements will be determined by reference to the formulae for determining such royalties as described above. For the same reasons as set out under the section headed "Connected Transactions — Continuing Connected Transactions Subject to Reporting and Announcement Requirements — 2. Trademark License Agreements" above, the Directors believe that it is not appropriate to set a fixed monetary cap and that it would be fair and reasonable and in the interests of the Shareholders as a whole for the royalties payable under the Technology License Agreements to be calculated by reference to a formulae.

Approximately US$3,449,000 was charged to the Group by IMAX Corporation under the Technology License Agreements during the year ended 31 December 2015.

(c) *Listing Rules Requirements*

As the highest relevant percentage ratio in respect of the Technology License Agreements will be, on an annual basis, more than 0.1% but less than 5% and as the Technology License Agreements are on normal commercial terms, they will be exempt pursuant to Rule 14A.76(2)(a) of the Listing Rules from the independent shareholders' approval requirements but will be subject to the reporting and, save for the waiver set out in "— Waivers — Waiver from Requirements to Obtain Approval of Independent Shareholders and Make Announcements" above, announcement requirements under Chapter 14A of the Listing Rules.

If the Technology License Agreements are renewed upon the expiry of the initial 25-year term, the Company will be required to comply with all the applicable reporting, announcement and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules at that time in respect of the renewal, subject to any waivers which may be granted by the Stock Exchange from strict compliance with any of the applicable requirements.

If the Escrow Documents are released under the terms of the Contingency Agreements and the 12-year term of the exclusive technology licence of the IMAX technology granted pursuant to the Technology License Agreements falls outside of the initial 25-year term of such agreements, the Company will be required to comply with all the applicable reporting, announcement and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the portion of the term of the Technology License Agreements that falls outside of the initial 25-year term of such agreements, subject to any waivers which may be granted by the Stock Exchange from strict compliance with any of the applicable requirements.

4. *DMR Services Agreements*

(a) Description of the DMR Services Agreements

(i) Subject matter

On 28 October 2011, each of IMAX Shanghai Multimedia and IMAX Hong Kong entered into separate DMR services agreements with IMAX Corporation (the "**DMR Services Agreements**"). The DMR Services Agreements provide us with Chinese films for release across the IMAX theatre network in Greater China. Pursuant to the DMR Services Agreements, IMAX Corporation and each of IMAX Shanghai Multimedia and IMAX Hong Kong have agreed that:

(a) if IMAX Shanghai Multimedia or IMAX Hong Kong, as applicable, intends to enter into a DMR production services agreement with a distributor in their respective territories for the conversion of Greater China DMR Films and the release of such films to IMAX theatres in their respective territories, IMAX Shanghai Multimedia or IMAX Hong Kong, as applicable, shall seek prior approval from IMAX Corporation to enter into such agreement in order for IMAX Corporation to ensure that the nature and content of such films would not potentially damage the IMAX brand, and IMAX Corporation shall perform the DMR conversion services in consideration for a conversion fee;

(b) if IMAX Corporation directly enters into an arrangement to distribute the Greater China DMR Film in regions outside of Greater China, IMAX Corporation shall pay to IMAX Shanghai Multimedia or IMAX Hong Kong, as applicable, 50% of the portion of box office in respect of the Greater China DMR Films received by IMAX Corporation attributable to the exploitation of such films in regions outside of Greater China; and

(c) at the request of IMAX Corporation, IMAX Shanghai Multimedia and IMAX Hong Kong, as applicable, shall grant the distribution rights to the Greater China Original Films in regions outside of Greater China to IMAX Corporation and also assign the right to retain any distribution fees attributable to the exploitation of such films in regions outside of Greater China to IMAX Corporation.

The DMR Services Agreements were subsequently amended on 7 April 2014 and on 21 September 2015.

(ii) Term and termination

Each of the DMR Services Agreements has a term of 25 years commencing on 28 October 2011, and shall be renewable at the election of IMAX Shanghai Multimedia or IMAX Hong Kong, as applicable, for an additional term of 25 years. Each of the DMR Services Agreements may be terminated upon any of the following:

(a) mutual agreement of the parties;

(b) bankruptcy or insolvency of IMAX Corporation, or the bankruptcy or insolvency of IMAX Shanghai Multimedia or IMAX Hong Kong, as applicable, or the appropriation of the assets of either party by any government, where termination shall be automatic and immediate;

(c) at the election of IMAX Hong Kong or IMAX Shanghai Multimedia, as applicable, if there is a material breach of the DMR Services Agreement by IMAX Corporation;

(d) at the election of IMAX Corporation if there is a material breach of the DMR Services Agreement by IMAX Shanghai Multimedia or IMAX Hong Kong, as applicable, or any other inter-company agreements entered into between IMAX Corporation and IMAX Shanghai Multimedia or IMAX Hong Kong, as applicable;

(e) expiration or termination of either Trademark License Agreement (which, for the avoidance of doubt, shall bring about the termination of both DMR Services Agreements); or

(f) on release of the Escrow Documents.

Under the requirements of the Listing Rules, the DMR Services Agreements should have a fixed term and should be for a duration of no longer than three years except in special circumstances where the nature of the transaction requires them to be of a longer period.

The Directors believe that it is in the interests of the Group for the DMR Services Agreements to have 25-year renewable terms as it will ensure that the Group is able to continue to obtain DMR conversion services from IMAX Corporation that enable it to release Chinese language films, which will provide the Group with an ongoing source of revenue with long term certainty of cost. We expect that our own DMR conversion facility will be able to meet our foreseeable needs in respect of the digital re-mastering of Chinese language films to IMAX format films. However, the DMR Services Agreements will remain in place to provide us with back-up and overflow capacity if needed.

(iii) *Fees*

The fees payable under the DMR Services Agreements are as follows:

(a) IMAX Shanghai Multimedia or IMAX Hong Kong, as applicable, shall pay to IMAX Corporation a conversion fee in respect of the conversion of the Greater China DMR Films which equals the actual costs of the DMR conversion services plus 10% of all such actual costs;

(b) IMAX Corporation shall pay to IMAX Shanghai Multimedia or IMAX Hong Kong, as applicable, 50% of the portion of box office in respect of the Greater China DMR Films received by IMAX Corporation attributable to the exploitation of such films in regions outside of Greater China; and

(c) IMAX Corporation shall pay to IMAX Shanghai Multimedia or IMAX Hong Kong, as applicable, 50% of the distribution fees attributable to the exploitation of the Greater China Original Films in regions outside of Greater China, if IMAX Corporation elects to obtain the distribution rights to such films in regions outside of Greater China.

The Company and IMAX Corporation have conducted detailed comparable analysis to ensure that the fees payable under the DMR Services Agreements are on arm's length and reflect normal commercial terms. See "Connected Transactions — Confirmation From The Directors" in the Prospectus for further details. The cost plus 10% fee payable for DMR conversion services was agreed between the parties to the DMR Services Agreements in April 2014, which amended certain terms of the DMR Services Agreements. The fee originally payable under the DMR Services Agreements was cost plus 15%, which was agreed on an arm's length basis between the parties at the time of their entry into the DMR Services Agreements. Accordingly, the Directors consider that the percentage used in the formulae for determining the conversion fees payable is on commercial terms or better, fair and reasonable and in the interests of the Shareholders as a whole.

IMAX Corporation and each of IMAX Shanghai Multimedia and IMAX Hong Kong have also agreed that the fees payable under the DMR Services Agreements will be adjusted, including retrospectively, to the extent an adjustment is necessary to ensure that the payments are on arm's length basis as determined by a court of competent jurisdiction or a government or taxing authority, or as mutually agreed by IMAX Corporation and each of IMAX Shanghai Multimedia and IMAX Hong Kong.

(b) *Annual Caps and Transaction Amount*

The cap for the fees payable under the DMR Services Agreements will be determined by reference to the formulae for determining the fees payable pursuant to the DMR Services Agreements as described above.

The conversion fees payable under the DMR Services Agreements are dependent on the actual costs of the conversion services and the amount of Chinese language films which will have to be converted into IMAX format for exhibition in IMAX theatres in Greater China. It will not be possible for the Directors to provide any meaningful estimates of a monetary cap as it would involve making assumptions regarding the demand for IMAX format Chinese language films in Greater China and conversion costs over a period of up to 21 years.

For the year ended 31 December 2015, the DMR conversion fees paid by the Group to IMAX Corporation approximately US$1,097,000. The number of Greater China DMR films converted was 31.

For the year ended 31 December 2015, no Greater China DMR Films were released in regions outside of Greater China and the distribution fees received by the Group from IMAX Corporation were US$nil. No Greater China Original Films were released outside Greater China, and the distribution fees received by the Group from IMAX Corporation were US$nil.

(c) *Listing Rules Requirements*

As the highest relevant percentage ratio in respect of the DMR Services Agreements is expected to be, on an annual basis, more than 0.1% but less than 5% and as the DMR Services Agreements are on normal commercial terms, they will be exempt pursuant to Rule 14A.76(2)(a) of the Listing Rules from the independent shareholders' approval requirements but will be subject to the reporting and, save for the waiver set out in "— Waivers — Waiver from Requirements to Obtain Approval of Independent Shareholders and Make Announcements" above, announcement requirements under Chapter 14A of the Listing Rules.

If the DMR Services Agreements are renewed upon the expiry of the initial 25-year term, the Company will be required to comply with all the applicable reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules at that time in respect of the renewal, subject to any waivers which may be granted by the Stock Exchange from strict compliance with any of the applicable requirements.

Continuing Connected Transactions Subject to Reporting, Announcement and Independent Shareholders' Approval Requirements Subject to Waivers Granted

The Group has entered into the following continuing connected transactions which will be subject to the reporting and, save for the waiver granted by the Stock Exchange as set out in "— Waivers — Waiver from Requirements to Obtain Approval of Independent Shareholders and Make Announcements" above, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules:

1. Equipment Supply Agreements

(a) Description of the Equipment Supply Agreements

(i) Subject matter

On 28 October 2011, each of IMAX Shanghai Multimedia and IMAX Hong Kong entered into separate equipment supply agreements with IMAX Corporation (the "**Equipment Supply Agreements**"), pursuant to which IMAX Corporation agreed to provide each of IMAX Shanghai Multimedia and IMAX Hong Kong with certain equipment produced by IMAX Corporation in relation to the theatre systems, including projection systems, sound systems, screens, 3D polarised viewing glasses, glasses cleaning machines and other IMAX products or equipment, for sale or lease in the PRC by IMAX Shanghai Multimedia and in Hong Kong, Macau and Taiwan by IMAX Hong Kong.

The Equipment Supply Agreements were subsequently amended on 7 April 2014 and on 21 September 2015.

(ii) Term

The Equipment Supply Agreements have a term of 25 years commencing from 28 October 2011, and shall be renewable at the election of IMAX Shanghai Multimedia or IMAX Hong Kong, as applicable, for an additional term of 25 years, commencing immediately upon the expiration of the initial term.

Under the requirements of the Listing Rules, the Equipment Supply Agreements should be for a duration of no longer than three years except in special circumstances where the nature of the transaction requires them to be of a longer period.

The Directors believe that it is appropriate for the Equipment Supply Agreements to have a 25-year renewable term so that the term of such agreements will be in line with those of the Trademark License Agreements and the Technology License Agreements. Given the importance of the Equipment Supply Agreements to the businesses of the Group, a 25-year renewable term will be able to provide the Group with long term certainty of supply and cost, which is in the interests of the Company and the Shareholders as a whole.

(iii) Termination

The Equipment Supply Agreements are subject to limited termination provisions. Either IMAX Corporation, or IMAX Shanghai Multimedia and IMAX Hong Kong, as applicable, may serve a notice on the other party to terminate the respective Equipment Supply Agreement if: (a) the other party is ordered or adjudged bankrupt or the assets of the other party are appropriated by any government; (b) the other party is in default of its material obligations under the Equipment Supply Agreement or (save for IMAX Corporation) the other inter-company agreements and continues to be in default 30 days after a written notice of such default has been served onto it; or (c) the Escrow Documents are released.

(iv) *Fees*

The purchase price payable under the Equipment Supply Agreements shall be an amount equal to the actual cost for the production of the relevant equipment and the general overhead associated with the production process plus an extra 10%.

The Company and IMAX Corporation have conducted detailed comparable analysis to ensure that the fees payable under the Equipment Supply Agreements are on arm's length and reflect normal commercial terms. See "Connected Transactions — Confirmation From The Directors" in the Prospectus for further details. The purchase price payable under the Equipment Supply Agreements of cost plus 10% was agreed between the parties to the Equipment Supply Agreements in April 2014, which amended certain terms of the Equipment Supply Agreements. The purchase price originally payable under the Equipment Supply Agreements was cost plus 15%, which was agreed on an arm's length basis between the parties at the time of their entry into the Equipment Supply Agreements. Accordingly, the Directors consider that the percentage used in the formulae for determining the purchase price payable is on commercial terms or better, fair and reasonable and in the interests of the Shareholders as a whole.

IMAX Corporation and each of IMAX Shanghai Multimedia and IMAX Hong Kong have also agreed that the fees payable under the Equipment Supply Agreements will be adjusted, including retrospectively, to the extent an adjustment is necessary to ensure that the payments are on arm's length basis as determined by a court of competent jurisdiction or a government or taxing authority, or as mutually agreed by IMAX Corporation and each of IMAX Shanghai Multimedia and IMAX Hong Kong.

(b) *Annual Caps and Transaction Amount*

The cap for the fees payable under the Equipment Supply Agreements will be determined by reference to the formulae for determining the purchase price payable pursuant to the Equipment Supply Agreements as described above.

The fees payable under the Equipment Supply Agreements are dependent on the costs of the relevant equipment to be supplied by IMAX Corporation to the Group. It will not be possible for the Directors to provide any meaningful estimates of a monetary cap as it would involve making assumptions regarding the level of demand for the IMAX equipment for our businesses in Greater China over a period of up to 21 years. The Directors therefore believe that it is not appropriate to set a fixed monetary cap and that it would be fair and reasonable and in the interests of the Shareholders as a whole for the fees payable under the Equipment Supply Agreements to be calculated by reference to a formulae.

The number of IMAX theatre systems purchased and installed pursuant to the Equipment Supply Agreements for the year ended 31 December 2015 was 77, and the purchase price paid to IMAX Corporation by the Group was approximately US$29,977,000.

(c) *Listing Rules Requirements*

As the highest relevant percentage ratio in respect of the Equipment Supply Agreements will be, on an annual basis, more than 5% and the total consideration is expected to exceed HK$10,000,000, the Equipment Supply Agreements would be, in the absence of the grant of a waiver by the Stock Exchange set out in "— Waivers — Waiver from Requirements to Obtain Approval of Independent Shareholders and Make Announcements" above, subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

If the Equipment Supply Agreements are renewed upon the expiry of the initial 25-year term, the Company will be required to comply with all the applicable reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules at that time in respect of the renewal, subject to any waivers which may be granted by the Stock Exchange from strict compliance with any of the applicable requirements.

2. Master Distribution Agreements

(a) *Description of the Master Distribution Agreements*

(i) *Subject matter*

On 28 October 2011, each of IMAX Shanghai Multimedia and IMAX Hong Kong entered into the master distribution agreements with IMAX Corporation (the "**Master Distribution Agreements**"). The Master Distribution Agreements provide us with Hollywood films for release across the IMAX theatre network in Greater China. Pursuant to the Master Distribution Agreements, IMAX Corporation and each of IMAX Shanghai Multimedia and IMAX Hong Kong have agreed that:

(a) if IMAX Corporation intends to distribute an IMAX format Hollywood film in the PRC and/or in Hong Kong, Macau and Taiwan, each of IMAX Shanghai Multimedia and IMAX Hong Kong, as applicable, shall pay to IMAX Corporation certain fees related to the conversion of such IMAX format Hollywood film in consideration for the receipt of the portion of the box office attributable to the release of such IMAX format Hollywood films in their respective territories; and

(b) if IMAX Corporation intends to distribute an IMAX Original Film in the PRC and/or in Hong Kong, Macau and Taiwan, IMAX Corporation shall grant to each of IMAX Shanghai Multimedia and IMAX Hong Kong, as applicable, the distribution rights of such IMAX Original Films in their respective territories and shall assign to each of IMAX Shanghai Multimedia and IMAX Hong Kong the right to retain any distribution fees attributable to the exploitation of such IMAX Original Films in their respective territories, in consideration for the payment of 50% of such distribution fees by IMAX Shanghai Multimedia and IMAX Hong Kong, as applicable. IMAX Corporation also retains all other revenue attributable to the exploitation of any IMAX Original Film in Greater China.

The Master Distribution Agreements were subsequently amended on 7 April 2014 and on 21 September 2015.

(ii) Term and Termination

Each of the Master Distribution Agreements has a term of 25 years commencing on 28 October 2011, and shall be renewable at the election of IMAX Shanghai Multimedia or IMAX Hong Kong for an additional term of 25 years. Each of the Master Distribution Agreements may be terminated upon any of the following:

(a) mutual agreement of the parties;

(b) bankruptcy or insolvency of IMAX Corporation, or IMAX Shanghai Multimedia or IMAX Hong Kong, as applicable, or the appropriation of the assets of either party by any government, where termination shall be automatic and immediate;

(c) at the election of IMAX Hong Kong or IMAX Shanghai Multimedia, as applicable, in the event of a material breach of the Master Distribution Agreement by IMAX Corporation;

(d) at IMAX Corporation's election, in the event of a material breach by IMAX Shanghai Multimedia or IMAX Hong Kong, as applicable, of the Master Distribution Agreement or any of the other inter-company agreements entered into between IMAX Corporation and either of IMAX Shanghai Multimedia or IMAX Hong Kong, as applicable;

(e) the expiration or termination of either Trademark License Agreement (which, for the avoidance of doubt, shall bring about the termination of both Master Distribution Agreements); or

(f) upon release of the Escrow Documents.

Under the requirements of the Listing Rules, the Master Distribution Agreements should have a fixed term and should be for a duration of no longer than three years except in special circumstances where the nature of the transaction requires them to be of a longer period.

The Directors believe that it is in the interests of the Group for the Master Distribution Agreements to have 25-year renewable terms as it will ensure that the Group is able to continue to obtain IMAX format Hollywood films and IMAX Original Films for release in Greater China, which will provide the Group with an ongoing source of revenue with long term certainty of cost.

(iii) Fees

The fees payable to IMAX Corporation for the conversion of IMAX format Hollywood films in the PRC and in Hong Kong, Macau and Taiwan, as applicable, are as follows:

(a) for each IMAX format Hollywood film in 2D format and 2.5 hours or less in length, an amount equal to the product of US$150,000 and the IMAX China Theatre Percentage (in the case of the Master Distribution Agreement entered into between IMAX Corporation and IMAX Shanghai Multimedia) or the IMAX Hong Kong Theatre Percentage (in the case of the Master Distribution Agreement entered into between IMAX Corporation and IMAX Hong Kong) as determined at the time such payment is incurred;

(b) for each IMAX format Hollywood film in 3D format and 2.5 hours or less in length, an amount equal to the product of US$200,000 and the IMAX China Theatre Percentage or the IMAX Hong Kong Theatre Percentage (as the case may be) as determined at the time such payment is incurred; and

(c) for each IMAX format Hollywood film greater than 2.5 hours in length, whether in 2D or 3D format, a sum to be specified by IMAX Corporation in its sole and reasonable discretion provided that such amount shall not exceed the amounts specified above in paragraphs (a) and (b) calculated on a pro rata basis for the excess of 2.5 hours in length of the film;

(d) in addition, in connection with any 3D conversions, IMAX Shanghai Multimedia and IMAX Hong Kong shall pay to IMAX Corporation an additional amount equal to the product of the actual costs plus general overhead for 3D conversions, the IMAX China Theatre Percentage or the IMAX Hong Kong Theatre Percentage (as the case may be) and the percentage that all IMAX theatres using IMAX theatre systems in Greater China represents of all IMAX theatres worldwide, both as determined at the time such payment is incurred; and

(e) notwithstanding (a), (b) and (c) above, if all or substantially all of the IMAX theatres to which the IMAX format Hollywood film is distributed are in the PRC, Hong Kong, Macau and/or Taiwan, then each of IMAX Shanghai Multimedia and IMAX Hong Kong, as applicable, shall pay IMAX Corporation the product of (A) 110% of the actual costs of the DMR conversion services in respect of such IMAX format film, and (B) the IMAX China Theatre Percentage or the IMAX Hong Kong Theatre Percentage (as the case may be).

In relation to the additional amount payable for 3D conversions pursuant to paragraph (d) above, the IMAX DMR process includes digital re-mastering of the image and audio of conventional films, but it does not include the conversion of a 2D film to a 3D film. All 2D and 3D IMAX format films converted under the Master Distribution Agreements during the years were converted from underlying 2D films and 3D films respectively; no 2D films were converted into 3D films. The process of converting a 2D film into a 3D film is time consuming and costly and IMAX Corporation has not carried out a 2D film to 3D film conversion since 2010, nor is it currently anticipated that IMAX Corporation will provide this service in the near future. However, given the long-term nature of the Master Distribution Agreements, this provision was included to address the possibility that IMAX Corporation develops technology in the future to undertake 2D film to 3D film conversions in a fast and cost-effective manner such that IMAX Corporation may actively pursue the provision of such a service.

The 110% of actual costs fee basis described in paragraph (e) above is intended to address a situation where an IMAX format Hollywood film is distributed into Greater China and none, or only a handful of, IMAX theatres outside Greater China (the Master Distribution Agreements do not quantify the number of IMAX theatres that would need to release the film outside Greater China to preserve practical flexibility). In this event, the fees are calculated on the basis that IMAX Corporation does not expect to receive a significant amount of revenue in respect of that film outside Greater China to offset the cost of the DMR conversion, therefore it is appropriate for the Group to pay the full conversion fee required under the DMR Services Agreement. During the years ended 31 December 2014 and 2015, there were no films to which this fee basis applied, and the Group does not expect this fee basis to apply to a significant number of films in the future.

In consideration of the conversion fees paid to IMAX Corporation by IMAX Shanghai Multimedia and IMAX Hong Kong, IMAX Corporation shall pay the portion of the box office attributable to the exploitation of such IMAX format films in the PRC received by IMAX Corporation pursuant to any relevant DMR production services agreements to IMAX Shanghai Multimedia and those attributable to their exploitation in Hong Kong, Macau and Taiwan to IMAX Hong Kong.

In relation to the distribution of IMAX Original Films, IMAX Shanghai Multimedia and IMAX Hong Kong shall each pay to IMAX Corporation 50% of the distribution fees attributable to the exploitation of such IMAX Original Films in their respective territories. IMAX Shanghai Multimedia and IMAX Hong Kong, as the case may be, shall each remit to IMAX Corporation all revenue (including but not limited to film rentals) associated with the exploitation of any IMAX Original Films in the PRC or Hong Kong, Macau and Taiwan, as the case may be.

The Company and IMAX Corporation have conducted detailed comparable analysis to ensure that the fees payable under the Master Distribution Agreements are on arm's length and reflect normal commercial terms.

See "Connected Transactions — Confirmation From The Directors" in the Prospectus for further details. The fees payable to and by the Company to IMAX Corporation under the Master Distribution Agreements were determined on an arm's length basis between the parties at the time of their entry into the Master Distributions Agreements with the following considerations in mind:

- in relation to the fixed fees payable by the Company for the conversion of IMAX format films under the Master Distribution Agreements, since these are fixed, they are expected to become increasingly less significant to the Group over time compared to the revenue generated from Hollywood films as the IMAX theatre network continues to expand and as a result of increases in ticket prices, both of which would increase the aggregate Greater China IMAX box office for those films, in turn increasing the Group's revenue; and

- in relation to the percentage of Greater China box office payable to the Group for the release of IMAX format films (i.e. the 9.5% of box office fee typically paid on Hollywood films and 12.5% of box office fee typically paid on Chinese language films), this is a fee effectively negotiated with the relevant studios rather than IMAX Corporation, which does not receive any part of that fee itself and merely passes through to the Group the portion of box office it receives which is attributable to the exploitation of IMAX format films in Greater China. The higher box office percentage paid by studios producing Chinese language films is generally consistent with that earned by IMAX Corporation outside of Greater China and the lower percentage for Hollywood films reflects the reduced overall amount that Hollywood studios generally earn for their films in Greater China as compared to the U.S. and other parts of the world.

Accordingly, the Directors consider that the monetary amount of fees per film used in the formulae for determining the fees payable is on commercial terms or better, fair and reasonable and in the interests of the Shareholders as a whole.

IMAX Corporation and each of IMAX Shanghai Multimedia and IMAX Hong Kong have also agreed that the fees payable under the Master Distribution Agreements will be adjusted, including retrospectively, to the extent an adjustment is necessary to ensure that the payments are on arm's length basis as determined by a court of competent jurisdiction or a government or taxing authority, or as mutually agreed by IMAX Corporation and each of IMAX Shanghai Multimedia and IMAX Hong Kong, as applicable.

(b) *Annual Caps and Transaction Amount*

The cap for the fees payable under the Master Distribution Agreements will be determined by reference to the formulae for determining such fees as described above.

The fees payable under the Master Distribution Agreements are dependent on the number of IMAX format films distributed in Greater China. It will not be possible for the Directors to provide any meaningful estimates of a monetary cap as it would involve making assumptions regarding the number of IMAX format films distributed in Greater China over a period of up to 21 years.

For the year ended 31 December 2015, the number of IMAX format Hollywood films distributed in Greater China for which the Company paid conversion fees under the Master Distribution Agreements was 23. The conversion fees paid by the Group to IMAX Corporation was approximately US$4,387,000 and the revenue received by the Group from IMAX Corporation pursuant to the Master Distribution Agreements amounted to US$20,370,000.

For the year ended 31 December 2015, the number of IMAX Original Films distributed by IMAX Corporation into Greater China for which the Company paid distribution fees under the Master Distribution Agreements was 2 and the distribution fee paid by the Group to IMAX Corporation was US$64,000.

(c) *Listing Rules Requirements*

As the highest relevant percentage ratio in respect of the Master Distribution Agreements will be, on an annual basis, more than 5% and the total consideration is expected to exceed HK$10,000,000, the Master Distribution Agreements would, in the absence of the grant of a waiver by the Stock Exchange set out in "— Waivers — Waiver from Requirements to Obtain Approval of Independent Shareholders and Make Announcements" above, be subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

If the Master Distribution Agreements are renewed upon the expiry of the initial 25-year term, the Company will be required to comply with all the applicable reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules at that time in respect of the renewal subject to any waivers which may be granted by the Stock Exchange from strict compliance with any of the applicable requirements.

Exempt Connected Transactions

In addition to the above-mentioned continuing connected transactions, our continuing connected transactions for the year ended 31 December 2015 include the DMR Software License Agreement, IMAX Shanghai Services Agreement and Tool and Equipment Supply Contract (each as described in "Connected Transactions — Exempt Connected Transactions" in the Prospectus), which are exempted from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

In relation to the Services Agreements (as described in "Connected Transactions — Exempt Connected Transactions" in the Prospectus):

(a) Description of the Services Agreements

(i) Subject matter

On 1 January 2014, each of IMAX Shanghai Multimedia and IMAX Hong Kong entered into the services agreements with IMAX Corporation for an indefinite term commencing on 1 January 2014 (the "**Services Agreements**"), pursuant to which IMAX Corporation agreed to provide certain services to each of IMAX Shanghai Multimedia and IMAX Hong Kong at our election, including (a) finance and accounting services, (b) legal services, (c) human resources services, (d) IT services, (e) marketing services, (f) theatre design services, and (g) theatre project management services.

The Services Agreements were subsequently amended on 7 April 2014 and on 21 September 2015.

(ii) Term and Termination

Each of the Services Agreements does not have a fixed term and will continue to be in effect until terminated upon any of the following:

(a) mutual agreement of the parties;

(b) bankruptcy or insolvency of IMAX Corporation or IMAX Shanghai Multimedia (in the case of the Services Agreement entered into between IMAX Corporation and IMAX Shanghai Multimedia) or IMAX Hong Kong (in the case of the Services Agreement entered into between IMAX Corporation and IMAX Hong Kong) or the appropriation of the assets of either party to the Services Agreement by any government, where termination shall be automatic and immediate;

(c) at the non-breaching party's election, material breach of the Services Agreement by either party;

(d) expiration or termination of the Trademark License Agreement entered into between the same persons as are parties to the Services Agreement; or

(e) on release of the Escrow Documents.

(iii) *Fees*

The total service fees payable under the Services Agreements by IMAX Shanghai Multimedia and IMAX Hong Kong are calculated on the following basis:

(a) **Variable service fees:** with respect to the IT services, marketing services, theatre design services, and theatre project management services and theatre support services, IMAX Shanghai Multimedia and IMAX Hong Kong shall pay to IMAX Corporation on a monthly basis an amount equal to 110% of the actual costs plus general overhead for the provision of such services; and

(b) **Fixed service fees:** IMAX Shanghai Multimedia and IMAX Hong Kong shall pay to IMAX Corporation on a monthly basis with respect to the finance and accounting services, legal services and human resources services, a total amount of US$17,500.

The fixed service fees shall be adjusted annually by IMAX Corporation in accordance with the U.S. consumer price index.

The fixed service fees stated above are based on the level of services currently being provided by IMAX Corporation to IMAX Shanghai Multimedia and IMAX Hong Kong. If the level of services increases or decreases materially, the parties have agreed to negotiate in good faith a new fixed services fee.

IMAX Corporation and each of IMAX Shanghai Multimedia and IMAX Hong Kong have also agreed that the fees payable under the Services Agreements will be adjusted, including retrospectively, to the extent an adjustment is necessary to ensure that the payments are on arm's length basis as determined by a court of competent jurisdiction or a government or taxing authority, or as mutually agreed by IMAX Corporation and each of IMAX Shanghai Multimedia and IMAX Hong Kong.

(b) Transaction Amounts

Approximately US$634,000 was charged to the Group by IMAX Corporation under the Services Agreements during the year ended 31 December 2015.

(c) Listing Rules Requirements

As disclosed in the Prospectus, as the highest relevant percentage ratio in respect of the Services Agreements was expected to be less than 5% and the total consideration was expected to be less than HK$3 million, the Services Agreements was expected to be fully exempt connected transactions pursuant to Rule 14A.76(1)(c) of the Listing Rules. As the transaction amount during the year ended 31 December 2015 exceeded the relevant threshold of HK$3 million, the transactions under the Services Agreements were not qualified for the full exemption under Rule 14A.76(1) of the Listing Rules for the year ended 31 December 2015.

Please refer to the annual results announcement of the Company dated 24 February 2016 for further details.

Annual Caps Table and Transaction Amounts

The aggregate amount paid by and to the Group during the year ended 31 December 2015, the annual caps for the financial year ended 31 December 2015, and the annual caps for the years ending 31 December 2016 and 2017 in respect of the continuing connected transactions are set out in detail below.

Transactions	Aggregate amount paid by or to counter party for the year ended 31 December 2015 (USD)	Annual monetary cap for the year ended 31 December 2015 (USD)	Annual monetary cap for the year ended 31 December 2016 (USD)	Annual monetary cap for the year ended 31 December 2017 (USD)
Personnel Secondment Agreement	3,122,000	4,000,000	5,000,000	6,000,000
Trademark License Agreements(1)	2,300,000	N/A	N/A	N/A
Technology License Agreements(1)	3,449,000	N/A	N/A	N/A
DMR Services Agreements(1)	1,097,000	N/A	N/A	N/A
Equipment Supply Agreements(1)	29,977,000	N/A	N/A	N/A
Master Distribution Agreements — Revenue(1)	20,370,000	N/A	N/A	N/A
Master Distribution Agreements — Conversion and Distribution Fees(1)	4,451,000	N/A	N/A	N/A

Note:

(1) The Stock Exchange has granted a waiver from requirement to set a monetary cap, see "— Waivers — Waiver from the Requirement to Set a Monetary Cap" above.

Review of Continuing Connected Transactions

The Company's auditors were engaged to report on the Group's non-exempt continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740 Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. The auditors have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange. In addition, all of the non-exempted continuing connected transactions of the Company disclosed herein constitute related party transactions set out in note 27 to the Financial Statements.

Report of the Directors (Continued)

The independent non-executive Directors of the Company have reviewed these transactions and confirmed that the non-exempt continuing connected transactions have been entered into:

(a) in the ordinary and usual course of business of the Company;

(b) on normal commercial terms or better; and

(c) according to the agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The independent non-executive Directors of the Company further confirm that the non-exempt continuing connected transactions with non-monetary caps have been entered into in the manner set out in Rule 14A.55 of the Listing Rules.

For the continuing connected transactions set out above for the year ended 31 December 2015, the Group has followed the pricing policies of the Group.

The Directors confirm that the Company has complied with the requirements of Chapter 14A of the Listing Rules in respect of all of its continuing connected transactions.

MAJOR CUSTOMERS AND SUPPLIERS

The Group depends on its suppliers to provide it with products and services such as cinematic technology, screen frame, logistics and system installation services. For the year ended 31 December 2015, the Group's five largest suppliers were IMAX Corporation, NNR Global Logistics Shanghai Co., Ltd., Entertainment Services Project Management Pty Ltd., Emerge Shanghai and Shanghai Chenwan Trading Co., Ltd., which accounted for approximately 74.9%, 16.6%, 2.1%, 1.5% and 1.4% of the Group's total purchases, respectively.

The Group's customers are primarily exhibitors. For the year ended 31 December 2015, the Group's five largest customers were Wanda Cinema Line Co., Ltd, IMAX Corporation, Shanghai Film Group, CGI Holdings Limited (formerly CJ CGV Holdings, Ltd.) and Jinyi Cinemas, which accounted for approximately 24.4%, 18.6%, 10.6%, 8.0% and 4.4% of the Group's total revenue, respectively.

None of the Directors of the Company, their respective associates or any of the Shareholders (which to the knowledge of the Directors own more than 5% of the Company's issued share capital) had any interest in any of the Group's top five customers and top five suppliers save for IMAX Corporation.

DIRECTORS' AND CHIEF EXECUTIVES' INTEREST AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ANY ASSOCIATED CORPORATION

As at 31 December 2015, the interests of the Directors and the chief executive of the Company in the Shares and debentures of the Company and any interests in shares or debentures of any of the Company's associated corporations (within the meaning of Part XV of the SFO) which; (i) will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions (as applicable) which they are taken or deemed to have under such provisions of the SFO); (ii) will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) will be required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange will be as follows:

(a) Interests in the Shares

Name of Director or Chief Executive	Number of Shares	Nature of Interest	Approximate Percentage
Jiande Chen	1,350,000	Beneficial Owner	0.38%
Jim Athanasopoulos	2,733,800	Beneficial Owner	0.77%
Jessie Chou	1,080,000	Beneficial Owner	0.30%

(b) Long Position in Shares of Associated Corporations

Name of Director or Chief Executive	Interest in common shares	Nature of Interest	Approximate Percentage[1]
IMAX Corporation			
Richard Gelfond	1,937,175	Beneficial Owner	2.78%
Greg Foster	757,682	Beneficial Owner	1.09%
Jim Athanasopoulos	33,018	Beneficial Owner	0.05%
Jessie Chou	13,250	Beneficial Owner	0.02%

Save as disclosed above, as at 31 December 2015, none of the Directors or the chief executive of the Company have an interest in the Shares or debentures of the Company or any interests in the shares or debentures of the Company's associated corporations (within the meaning of Part XV of the SFO) which; (i) will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they are taken or deemed to have under such provisions of the SFO); (ii) will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange.

As at 31 December 2015, neither the Directors nor chief executive of the Company have any short position in either the Shares or in the debentures of the Company, or in shares or debentures of any of the Company's associated corporations (within the meaning of Part XV of the SFO).

SUBSTANTIAL SHAREHOLDERS' INTEREST AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2015, the Company had been notified of the following substantial shareholders' interests and short positions in the Shares and underlying Shares of the Company, which have been recorded in the register of substantial shareholders required to be kept by the Company pursuant to section 336 of Part XV of the SFO. These interests are in addition to those disclosed above in respect of the Directors and chief executives of the Company.

Interests and Long Positions in Shares

Name of Shareholder	Capacity	Number of Shares held or interested	Approximate Percentage of interest (%)
IMAX Corporation	Interest in controlled corporation(1)	243,262,600	68.46
IMAX Barbados	Beneficial interest	243,262,600	68.46
China Movie Entertainment FV Limited	Beneficial interest	20,381,200	5.74
China Movie Entertainment Limited	Interest in controlled corporation(2)	20,381,200	5.74
FountainVest China Growth Capital Fund, L.P.	Interest in controlled corporation(2)	20,381,200	5.74
FountainVest China Growth Fund, L.P.	Interest in controlled corporation(2)	20,381,200	5.74
FountainVest China Growth Partners GP1 L.P.	Interest in controlled corporation(2)	20,381,200	5.74
FountainVest China Growth Partners GP, Ltd.	Interest in controlled corporation(2)	20,381,200	5.74

Notes:

(1) 243,262,600 Shares are directly held by IMAX Barbados, which is a wholly-owned subsidiary of IMAX Corporation. Under the SFO, IMAX Corporation is deemed to be interested in the Shares held by IMAX Barbados.

(2) China Movie Entertainment FV Limited is a wholly-owned subsidiary of China Movie Entertainment Limited which is owned as to 39.87% by FountainVest China Growth Capital Fund, L.P. and as to 59.21% by FountainVest China Growth Fund, L.P., both being wholly-owned subsidiaries of FountainVest China Growth Partners GP1 L.P., which is in turn a wholly-owned subsidiary of FountainVest China Growth Partners GP, Ltd. Accordingly, these companies were deemed to be interested in all the Shares beneficially owned by China Movie Entertainment FV Limited under the SFO.

Save as disclosed above, according to the register kept by the Company under Section 336 of the SFO, there was no other person who had a substantial interest or short positions in the Shares or underlying Shares of the Company as at 31 December 2015.

REMUNERATION POLICY

As at 31 December 2015, the Group had approximately 78 employees. All of the employees are based in Greater China.

The Company generally formulates employees' remuneration based on one or more elements such as salaries, bonuses, long-term incentives and benefits, subject to applicable rules and regulations. Through its remuneration policies, the Company aims to attract and retain talent, to motivate performance and achievement and to reward superior performance. To achieve this, the Company has established an incentive system that links remuneration with the annual performance of the Group, taking into account the Company's performance, as well as the objectives of individual departments.

Remuneration of Directors and senior management of the Group is reviewed by the Company's remuneration committee against the Company's goals and objectives.

The Company has previously provided long-term incentive awards to senior management through the grants of stock options to senior management under its Long Term Incentive Plan, further details of which are set out below. The Company expects to continue to make grants of stock options and/or restricted stock units under its Long Term Incentive Plan in the future to Directors, senior management and other employees.

LONG TERM INCENTIVE PLAN

The Company adopted a long term incentive plan (the "**LTIP**") in October 2012 to aid the Group in recruiting and retaining selected employees, directors and consultants and to motivate them to exert their best efforts on behalf of the Company and its subsidiaries through the granting of equity awards. The LTIP is an omnibus plan that permits the establishment of further sub-plans (the "**Sub-Plans**"). Any Sub-Plans are separate and independent from the LTIP, but the limit on the total number of Shares authorised to be issued under the LTIP applies in the aggregate to the LTIP and any Sub-Plans (without prejudice to any limits applicable to those Sub-Plans). No further incentives that would involve the issue of Shares will be offered or granted pursuant to the LTIP with effect from the Listing.

The Board has determined that the total number of Shares that may be issued, or with respect to which awards may be granted under the LTIP is 30,000,000 Shares.

As of 31 December 2015, the Company had granted options pursuant to the LTIP to certain directors, senior management and employees of the Group at no consideration for an aggregate of 8,977,500 Shares representing approximately 2.53% of the issued share capital of the Company. Details of the options granted pursuant to the LTIP to the grantees are set out below:

Name of Grantee	Date of Grant	Exercise Price	Number of Shares under the options granted	Option Period
Directors				
Jiande Chen	29 October 2012	US$1.8111	1,350,000	Five years from date of grant(1)
Jim Athanasopolous	29 October 2012	US$1.3583	1,215,000	Five years from date of grant(1)
	15 September 2014	US$1.1852	1,518,800	Five years from date of grant(2)
Mei-Hui Chou (Jessie)	29 October 2012	US$1.3583	810,000	Five years from date of grant(1)
	21 February 2014	US$1.8093	270,000	Five years from date of grant(3)
Senior Management				
Don Savant	29 October 2012	US$1.3583	2,700,000	Five years from date of grant(1)
Michelle Rosen	30 March 2015	US$1.3333	1,113,700	Three years from date of grant
Total			**8,977,500**	

Notes:

(1) The vesting schedule will be 25% on the Listing Date, 20%, 25% and 30% on each of the third, fourth and fifth anniversary of grant date, respectively.

(2) The vesting schedule will be 10%, 15%, 20%, 25% and 30% on each of the first, second, third, fourth and fifth anniversary of grant date, respectively.

(3) The vesting schedule will be 10% on the Listing Date, 15%, 20%, 25% and 30% on each of the second, third, fourth and fifth anniversary of grant date, respectively.

During the year, no options were exercised, cancelled or lapsed under the LTIP.

SUB-PLAN: SHARE OPTION SCHEME

Pursuant to the LTIP, on 21 September 2015, the Company adopted the Post-IPO Share Option Scheme (the "**Share Option Scheme**"). The terms of the Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules. No share options of the Company were granted pursuant to the Share Option Scheme during the year ended 31 December 2015.

Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to attract skilled and experienced personnel, to incentivize them to remain with the Group and to motivate them to strive for the future development and expansion of the Group by providing them with the opportunity to acquire equity interests in our Company.

Participants of the Share Option Scheme

The Board may, at its discretion, grant options pursuant to the Share Option Scheme to directors, employees and consultants of the Group (the "**Participants**").

Total number of Shares available for issue under the Share Option Scheme

At any time during the period within which the Share Option Scheme is valid and effective, the maximum aggregate number of Shares in respect of which options may be granted pursuant to the Share Option Scheme shall be calculated in accordance with the following formula:

$$\mathbf{X = A - B - C}$$

where:

X = the maximum aggregate number of Shares in respect of which options may be granted pursuant to the Share Option Scheme;

A = the total number of Shares in respect of which options may be granted pursuant to this Scheme and any other share option schemes of the Company, being (a) 10% of the Shares in issue on the Listing Date, or (b) 10% of the Shares in issue as at the New Option Approval Date (as defined below) (as the case may be)(the "**Option Scheme Mandate Limit**");

B = the maximum aggregate number of Shares underlying the Options already granted pursuant to the Share Option Scheme, which in the event that there has been a New Option Approval Date, shall only include those Shares underlying Options that have been granted since that most recent New Approval Date; and

C = the maximum aggregate number of Shares underlying the options already granted pursuant to any other share option schemes and/or any other equity-based incentive plans (including the RSU Scheme) of the Company.

"**New Option Approval Date**" means the date when the Shareholders approve the renewed Option Scheme Mandate Limit.

For the purposes of determining the Option Scheme Mandate Limit the following will not be counted:

(a) Shares in respect of options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share incentive schemes of the Company) or which have been satisfied by the making of a cash payment; and

(b) Shares underlying the RSUs cancelled in accordance with the terms of the RSU Scheme (or any other share incentive schemes of the Company) or which have been satisfied by the making of a cash payment.

In addition, pursuant to the listing approval issued by the Stock Exchange on 7 October 2015, the total number of Shares which may be issued under the Share Option Scheme and any other share option schemes must not exceed 35,532,500 Shares, representing 10% of the Company's issued share capital upon Listing.

As of 31 December 2015, the total number of Shares available for grant under the Share Option Scheme was 26,555,000, representing 7.47% of the issued share capital of the Company as of 31 December 2015 and approximately 7.47% as of the date of this Annual Report.

Maximum entitlement of each participant

No participant shall be granted an option if the total number of Shares issued and to be issued upon exercise of the options granted and to be granted to such person under the Share Option Scheme (including exercised, cancelled and outstanding options) in any 12-month period up to and including the date of such further grant (when aggregated with any Shares subject to options granted during such period under any other share option scheme(s) of the Company other than those options granted pursuant to specific approval by the Shareholders in general meeting with the proposed participant and his associates abstaining from voting) would exceed 1% of the Shares in issue from time to time.

Period within which the Shares must be taken up under an option

The period during which an option may be exercised by a Grantee (the "**Exercise Period**") shall be the period to be determined and notified by the Board to the Grantee at the time of making an offer, which shall not expire later than 10 years from the date of grant.

Subject to any restrictions applicable under the Listing Rules, an option may be exercised in whole or in part (but if in part only, in respect of a board lot or any integral multiple thereof) by the Grantee at any time during the Exercise Period in accordance with the terms of the Share Option Scheme and the terms on which the option was granted. If the vesting of Shares underlying an option is subject to the satisfaction of performance or other conditions and such conditions are not satisfied, the option shall lapse automatically on the date on which such conditions are not satisfied in respect of the relevant Shares underlying the option.

Acceptance of an Offer

An offer of the grant of an option is accepted by the Participant (the "**Grantee**") when the Company receives from the Grantee the duplicate notice of grant duly executed by the Grantee and a remittance of the sum of HK$1.00 (or such other amount in any other currency as the Board determines) as consideration for the grant of the option. Such remittance is not refundable in any circumstances. An offer may be accepted in full or in part, provided that if it is accepted in part, the acceptance must in respect of a board lot of Shares or an integral multiple thereof.

The offer shall remain open for acceptance for such time to be determined by the Board, provided that no such offer shall be open for acceptance after the expiry of the Term or after the Participant to whom the offer is made has ceased to be a Participant. To the extent that the offer is not accepted within the time period and in the manner specified in the offer, the offer will be deemed to have been irrevocably declined and will lapse.

Determination of the Exercise Price

The price per Share at which a Grantee may subscribe for Shares upon the exercise of an option (the "**Exercise Price**") shall be determined by the Board in its absolute discretion but in any event shall not be less than the higher of:

(a) the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant, which must be a business day;

(b) the average closing price of the Shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant; and

(c) the nominal value of the Shares.

Life of the Share Option Scheme

Subject to the early termination of the Share Option Scheme pursuant to the terms thereof, the Share Option Scheme is effective for a period of 10 years commencing on the date of adoption on 21 September 2015.

SUB-PLAN: THE RESTRICTED SHARE UNIT SCHEME

Pursuant to the LTIP, on 21 September 2015, the Company adopted the restricted share unit scheme (the "**RSU Scheme**"). The terms of the RSU Scheme are not subject to the provisions of Chapter 17 of the Listing Rules as the RSU Schemes do not involve the grant of options by the Company to subscribe for new Shares. No restricted share unit ("**RSU**") was granted by the Company during the year ended 31 December 2015.

The RSUs do not carry any right to vote at general meetings of the Company, or any dividend, transfer or other rights (including those arising on the liquidation of the Company).

No grantee shall enjoy any of the rights of a Shareholder by virtue of the grant of an RSU pursuant to the RSU Schemes, unless and until the Share underlying the RSU is actually allotted and issued or transferred (as the case may be) to the grantee upon the vesting of such RSU.

See "Statutory and General Information" in the Prospectus for further details of the RSU Scheme.

SHARES ISSUED

As a result of the Global Offering, a total of 17,825,000 Shares, fully paid, were issued for a total consideration of HK$552,575,000 for the year ended 31 December 2015. No other shares, including share options under the Share Option Scheme, were exercised in 2015. Details of the Shares issued during the year ended 31 December 2015 are set out in note 18 to the Financial Statements.

EQUITY-LINKED AGREEMENTS

Save for the LTIP, Share Option Scheme and the RSU Scheme of the Group as set out in this section, no equity-linked agreements were entered into by the Group, or existed during the year ended 31 December 2015.

PURCHASE, SALE OR REDEMPTION OF COMPANY'S LISTED SECURITIES

There have been no convertible securities issued or granted by the Group, no exercise of any conversion or subscription rights, nor any purchase, sale or redemption by the Group of its listed Shares for the period from the Listing Date to 31 December 2015.

DEBENTURE ISSUED

The Group has not issued any debenture during the year ended 31 December 2015.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information available to the Company and within the knowledge of the Directors, as at the date of this Annual Report, the Company has maintained the prescribed public float under the Listing Rules since the Listing Date.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the laws of the Cayman Islands or under the Company's Articles of Association that require the Company to offer new Shares on a pro-rata basis to its existing Shareholders.

AUDITORS

Our external auditors, PricewaterhouseCoopers, will retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

LITIGATION

The Group did not have any material litigation outstanding as at 31 December 2015.

On behalf of the Board

Richard Gelfond
Chairman

Corporate Governance Report

The Board of Directors is pleased to present this Corporate Governance Report for the year ended 31 December 2015.

CORPORATE GOVERNANCE PRACTICES

The Company is dedicated to maintaining and ensuring high standards of corporate governance practices and the corporate governance principles of the Company are adopted in the best interest of the Company and its Shareholders. The Company's corporate governance practices are based on the principles, code provisions and certain recommended best practices as set out in the CG Code.

The shares of the Company have been listed on the Stock Exchange since 8 October 2015. The Company has complied with the code provisions in the CG Code for the period from the Listing Date to 31 December 2015 (the "**Reporting Period**").

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company adopted the Directors' dealing policy on 21 September 2015 in order to ensure compliance with the Model Code. The terms of the Directors' dealing policy are no less exacting than those set out in the Model Code. Having made specific enquiry of the Directors, all Directors have confirmed that they have complied with the required standard of dealings and code of conduct regarding securities dealings by directors as set out in the Model Code and the Company's own directors' dealing policy during the Reporting Period.

QUARTERLY REPORTING BY IMAX CORPORATION

The Company's ultimate controlling shareholder, IMAX Corporation, is listed on the New York Stock Exchange and, as a reporting company under the United States Securities Exchange Act of 1934, as amended. Each quarter, IMAX Corporation issues press releases in United States announcing its quarterly (or year-end) earnings results and files reports with the Securities Exchange Commission (the "**SEC**") relating to its quarterly (or year-end) financial information. Information in the earnings press release and SEC filings is presented in accordance with U.S. GAAP.

At the same time as IMAX Corporation releases its earnings releases and makes its SEC filings, the Company makes an announcement on the Stock Exchange pursuant to Rule 13.09 of the Listing Rules and Part XIVA of SFO extracting the key highlights of the earnings release and quarterly report pertaining to the Group.

BOARD OF DIRECTORS

Role of the Board

The Board governs the Company and is responsible for overall leadership of the Group. The Board works to promote the success of the Group through oversight and direction of the Group's business dealings. The Board implements overall strategic priorities for the Company, reviews and approves budgetary affairs and oversees and monitors the overall performance of management. The Board is provided with all necessary resources including the advice of external auditors, external attorneys and other independent professional advisors as needed.

Board Composition

The Company has a Board with a balanced composition of Executive and Non-executive Directors (including Independent Non-executive Directors).

The Board currently comprises nine members, consisting of three Executive Directors, three Non-executive Directors and three Independent Non-executive Directors as follows:

- Executive Directors: Mr. Jiande Chen (who is also our Chief Executive Officer), Mr. Jim Athanasopoulos, and Ms. Mei-Hui Chou (Jessie);

- Non-executive Directors: Mr. Richard Gelfond (who is also our Chairman), Mr. Greg Foster, and Mr. RuiGang Li; and

- Independent Non-executive Directors: Mr. John Davison, Ms. Yue-Sai Kan, and Ms. Dawn Taubin

The biographical information of the Directors are set out in the section headed "Directors and Senior Management" on pages 44 to 49 of this Annual Report.

Save for the directorships and senior management roles in IMAX Corporation held by Mr. Richard Gelfond and Mr. Greg Foster, there is no particular relationship (including financial, business, family or other material or relevant relationship) between or among any members of the Board.

Chairman and Chief Executive Officer

The positions of Chairman and Chief Executive Officer are held by Mr. Richard Gelfond and Mr. Jiande Chen respectively. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The Chief Executive Officer focuses on the Company's business development and daily management and operations generally. Their respective responsibilities are clearly defined and set out in writing.

Independent Non-executive Directors

The Company has received from each of the Independent Non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers each of them to be independent. Each of the Independent Non-executive Directors have been appointed for a term of approximately three years until the conclusion of the Company's annual general meeting to approve the Company's annual report for the year ending 31 December 2017.

Appointment and Re-election of Directors

All the Directors are subject to retirement by rotation at least once every three years in accordance with the Company's Articles of Association and any new Director appointed to fill a casual vacancy or as an addition to the Board shall be re-elected at the next following annual general meeting after appointment.

Corporate Governance Report (Continued)

Attendance Records of Directors

During the Reporting Period, the Company convened one board meeting. The attendance record of the Directors is set out below.

Name of Director	Number of meeting attended/ held during the Reporting Period	Attendance rate
EXECUTIVE DIRECTORS		
Mr. Jiande Chen	1/1	100%
Mr. Jim Athanasopoulos	1/1	100%
Ms. Mei-Hui Chou (Jessie)	1/1	100%
NON-EXECUTIVE DIRECTORS		
Mr. Richard Gelfond	1/1	100%
Mr. Greg Foster	1/1	100%
Mr. RuiGang Li	1/1	100%
INDEPENDENT NON-EXECUTIVE DIRECTORS		
Ms. Yue-Sai Kan	1/1	100%
Mr. John Davison	1/1	100%
Ms. Dawn Taubin	1/1	100%

The Company expects to convene at least four regular board meetings in each financial year at approximately quarterly intervals in accordance with code provision A.1.1. of the CG Code.

According to code provision A.2.7 of the CG Code, apart from the regular board meetings above, the chairman of the Board also held a meeting with the Non-Executive Directors (including Independent Non-executive Directors) without the presence of Executive Directors during the year.

Continuous Professional Development of Directors

Each Director has kept abreast of his or her responsibilities as a Director of the Company and of the conduct, business activities and development of the Company.

The Company acknowledges the importance of Directors participating in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. Internally-facilitated briefings for Directors have been arranged and reading material on relevant topics have been issued to the Directors, where appropriate.

Prior to their appointment as Directors of the Company, all Directors received comprehensive training regarding their duties and responsibilities as Directors of a Hong Kong listed company, as well as regarding Hong Kong corporate governance and the Listing Rules. All Directors are encouraged to participate in continuous professional training to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

BOARD COMMITTEES

The Board has received appropriate delegation of its functions and powers and has established appropriate Board committees, with specific written terms of reference in order to manage and monitor specific aspects of the Group's affairs. The terms of reference of the Board Committees are posted on the websites of the Company and the Stock Exchange and are available to the Shareholders upon request. The Board and the Board committees are provided with all necessary resources including the advice of external auditors, external legal advisers and other independent professional advisors as needed.

Audit Committee

The Company has set up an audit committee on 27 May 2015 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and of the CG Code. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control and risk management systems of the Group, maintain an appropriate relationship with the Company's auditors and provide advice and comments to the Board.

The audit committee consists of three members: Mr. John Davison, an Independent Non-executive Director; Ms. Dawn Taubin, an Independent Non-Executive Director; and Mr. Richard Gelfond, a Non-executive Director. Mr. John Davison is the chairman of the audit committee.

The audit committee did not hold any meetings during the Reporting Period.

Remuneration Committee

The Company has set up a remuneration committee on 27 May 2015 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and of the CG Code. The primary duties of the remuneration committee are to assist the Board in determining the policy and structure for the remuneration of Directors, evaluating the performance of Directors and senior management, reviewing incentive schemes and Directors' service contracts and fixing the remuneration packages for all Directors and senior management. The remuneration packages of all Directors is determined by the remuneration committee in accordance with the committee's written terms of reference, and with the delegated authority of the Board. Determination of such matters is based on the Group's performance and the Directors' and senior management members' respective contributions to the Group.

The remuneration committee consists of three members: Ms. Yue-Sai Kan, an Independent Non-executive Director; Mr. John Davison, an Independent Non-executive Director; and Mr. Greg Foster, a Non-executive Director. Ms. Yue-Sai Kan is the chairman of the remuneration committee.

The remuneration committee did not hold any meetings during the Reporting Period.

Details of the remuneration of each Director of the Company for the year ended 31 December 2015 are set out in note 22 to the Financial Statements contained in this Annual Report.

Details of remuneration of the members of the senior management by band for the year ended 31 December 2015 are set out in note 22 to the Financial Statements contained in this Annual Report.

Nomination Committee

The Company has set up a nomination committee on 27 May 2015 with written terms of reference in compliance with the CG Code. The primary duties of the nomination committee are to identify, screen and recommend to the Board appropriate candidates to serve as Directors of the Company and to oversee the process for evaluating the performance of the Board. In reviewing the composition of the Board, the nomination committee considers the skills, knowledge and experience and also the desirability of maintaining a balanced composition of executive and non-executive Directors (including independent non-executive Directors).

The nomination committee consists of three members: Mr. Richard Gelfond, a Non-executive Director; Ms. Dawn Taubin, an Independent Non-executive Director; and Ms. Yue-Sai Kan, an Independent Non-executive Director. Mr. Richard Gelfond is the chairman of the nomination committee.

The nomination committee did not hold any meetings during the Reporting Period.

In selecting candidates, the Board and the nomination committee intend to consider a large number of factors including but not limited to independence, diversity, age, competencies, skills, experience, availability of service to the Company, tenure and the Board's anticipated needs in order to achieve a diverse Board with directors from different backgrounds with varying perspectives, professional experience, education and skills. The nomination committee reports annually on the composition of the Board from the perspective of diversity, and monitors the implementation of this policy. The nomination committee is satisfied that the composition of the Board is sufficiently diverse.

In accordance with the Company's Articles of Association, Mr. Richard Gelfond, Mr. Greg Foster, Mr. Ruigang Li, Mr. John Davison and Ms. Dawn Taubin will retire from office at the forthcoming annual general meeting. All retiring Directors, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

FINANCIAL REPORTING

Directors' Responsibility

The Directors acknowledge their responsibility for the preparation and true and fair presentation of the Financial Statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee and the disclosure requirements of the Hong Kong Companies Ordinance.

This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern as at 31 December 2015. Accordingly, the Directors have prepared the Financial Statements for the year ended 31 December 2015 on a going concern basis.

Auditors' Responsibility

A statement by the external auditors of the Company, PricewaterhouseCoopers, is included in the Independent Auditors' Report on pages 94 to 95 of this Annual Report.

Auditors' Remuneration

Fees for auditing and non-auditing services provided by our external auditor, PricewaterhouseCoopers, for the year ended 31 December 2015 are included in note 21 to the Financial Statements. The major non-audit services provided by our external auditor for the year ended 31 December 2015 mainly include tax advisory services.

INTERNAL CONTROLS

The Company and the Group have had an internal audit department since the Company's formation. The internal audit department performed its functions fully during 2015 following an annual audit plan and routine testing. The Company's audit committee reviewed the internal control system in respect of the year ended 31 December 2015 and considered the system effective and adequate. The Board conducted a review of the internal control system of the Company and its subsidiaries for the year ended 31 December 2015, including financial, operational and compliance control, and risk management functions. The Board assessed the effectiveness of internal control by considering the reviews performed by the audit committee. The Company complies with the code provisions relating to internal control contained in the CG Code.

JOINT COMPANY SECRETARIES

Ms. Michelle Rosen, our General Counsel and Ms. Chan Wai Ling of Tricor Services Limited ("**Tricor**"), our external service provider of company secretarial services, are joint company secretaries of the Company.

Tricor's primary contact person at the Company is Ms. Michelle Rosen. Up to the date of this report, both Ms. Michelle Rosen and Ms. Chan Wai Ling have taken no less than 15 hours of relevant professional training to update her skills and knowledge.

SHAREHOLDERS' RIGHTS

Convening of Extraordinary General Meeting by Shareholders

Pursuant to article 12.3 of the Company's Articles of Association, the Board may, whenever it thinks fit, convene an extraordinary general meeting. Extraordinary general meetings shall also be convened by two or more Shareholders depositing a written requisition at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office, specifying the objects of the meeting and signed by the requisitionists. The requisitionists should hold as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings.

General meetings may also be convened on the written requisition of a Shareholder which is a recognized clearing house (or its nominee(s)) deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionist. The requisitionist should hold as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings.

If the Board does not within 21 days from the date of deposit of the requisition proceed to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

Procedures for Shareholders to propose a person for election as a Director of the Company

The procedures for Shareholders to propose a person for election as a Director of the Company were reviewed and recommended by the nomination committee, and approved and adopted by the Board on 21 September 2015.

INVESTOR RELATIONS

Shareholders' Enquiries and Proposals

Enquiries from Shareholders for the Board or the Company, or proposals from Shareholders for shareholders' meetings may be directed to IMAX China Investor Relations at IRchina@imax.com.

Changes to the contact details above will be communicated through our Company's website at www.imax.cn, which also posts information and updates on the Company's business developments and operations, as well as press releases and financial information.

Shareholders' Communication Policy

The Company's shareholders' communication policy was approved and adopted by the Board on 21 September 2015. The shareholders' communication policy is available for viewing on our Company's website at www.imax.cn.

Changes in Articles of Association

The Company's current Articles of Association were adopted on 21 September 2015, effective on the Company's Listing, and are available for viewing on the websites of the Company and the Stock Exchange. There have been no changes in the Company's articles of association since the Listing.

Shareholders' Meetings

As the Company's Shares were only listed on the Hong Kong Stock Exchange on 8 October 2015, there was no shareholders' meeting held during the Reporting Period.

Key Shareholder Dates

Key shareholder dates for 2016 are:

June 13, 2016: annual general meeting;

July 21, 2016: release of announcement of interim results and interim report in respect of the six months ending 30 June 2016.

Independent Auditor's Report

TO THE SHAREHOLDERS OF IMAX CHINA HOLDING, INC.

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of IMAX China Holding, Inc. ("the Company") and its subsidiaries set out on pages 96 to 167, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of comprehensive (loss) income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Other Matters

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 February 2016

Consolidated Financial Statements

Consolidated Statement of Financial Position

(In thousands of U.S. dollars)

	Notes	As at 31 December 2015	2014
ASSETS			
Non-current assets			
Property, plant and equipment	6	51,990	42,816
Other assets	7	4,362	4,016
Deferred income tax asset	9	1,309	805
Financing receivables	12	25,270	20,246
		82,931	67,883
Current assets			
Other assets	7	1,736	1,430
Film assets	10	35	85
Inventories	11	6,364	3,432
Prepayments		984	824
Financing receivables	12	3,783	3,915
Trade and other receivables	8	35,640	25,287
Cash and cash equivalents	13	90,689	48,320
		139,231	83,293
Total assets		222,162	151,176
LIABILITIES			
Non-current liabilities			
Other liabilities	15	—	12,942
Deferred revenue	17	29,137	22,517
Redeemable Class C Shares	19	—	26,785
		29,137	62,244
Current liabilities			
Trade and other payables	14	12,172	39,900
Accruals and other liabilities	15	4,152	5,119
Taxes payable		6,217	9,313
Deferred revenue	17	12,762	8,292
		35,303	62,624
Total liabilities		64,440	124,868
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		35	27
Share premium		369,864	12,311
Capital reserves		(30,794)	(36,277)
(Accumulated deficit) retained earnings		(178,888)	50,535
Accumulated other comprehensive loss		(2,495)	(288)
Total equity		157,722	26,308
Total equity and liabilities		222,162	151,176

(the accompanying notes are an integral part of these consolidated financial statements)

The financial statements on pages 96 to 167 were approved by the board of directors on 24 February 2016 and were signed on its behalf

Jiande Chen
Director

Jim Athanasopoulos
Director

Consolidated Statement of Comprehensive (Loss) Income

(In thousands of U.S. dollars)

	Notes	Years Ended 31 December 2015	2014
Revenues	23	110,591	78,218
Cost of sales	21	(38,311)	(31,758)
Gross profit	23	72,280	46,460
Selling, general and administrative expenses	21	(23,859)	(11,251)
Other operating expenses	27(a), 21	(6,050)	(4,045)
Operating profit		42,371	31,164
Accretion of amortised cost of financial instrument	19	(3,790)	(1,732)
Fair value adjustment of conversion option	20	(209,884)	(577)
Interest income		436	221
Interest expense		—	(10)
(Loss) profit before income tax		(170,867)	29,066
Income tax expense	16	(10,998)	(6,285)
(Loss) profit for the year, attributable to owners of the Company		(181,865)	22,781
Other comprehensive loss:			
Items that may be subsequently reclassified to profit or loss:			
Change in foreign currency translation adjustments		(2,207)	(199)
Other comprehensive loss		(2,207)	(199)
Total comprehensive (loss) income for the year, attributable to owners of the Company		(184,072)	22,582
(Loss) profit per share attributable to owners of the Company — basic and diluted (expressed in U.S. dollars per share):			
From (loss) profit for the year — basic	18(d)	(0.62)	0.09
From (loss) profit for the year — diluted	18(d)	(0.62)	0.09

(the accompanying notes are an integral part of these financial statements)

Consolidated Statement of Changes in Equity

(In thousands of U.S. dollars)

		Attributable to the Owners of the Company					
	Notes	Share Capital	Share Premium	Capital Reserves	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Total Equity
Balance as at 1 January 2014		20	4,980	(29,522)	27,754	(89)	3,143
Comprehensive income							
Profit for the year		–	–	–	22,781	–	22,781
Other comprehensive loss		–	–	–	–	(199)	(199)
Total comprehensive income		–	–	–	22,781	(199)	22,582
Controlling Shareholder's net investment		–	–	2,500	–	–	2,500
Issuance of shares		7	7,331	–	–	–	7,338
Payment for legally transferred contracts	27(b)	–	–	(9,255)	–	–	(9,255)
Total transactions with owners, recognised directly in equity		7	7,331	(6,755)	–	–	583
Balance as at 31 December 2014		27	12,311	(36,277)	50,535	(288)	26,308
Comprehensive loss							
Loss for the year		–	–	–	(181,865)	–	(181,865)
Other comprehensive loss		–	–	–	–	(2,207)	(2,207)
Total comprehensive loss		–	–	–	(181,865)	(2,207)	(184,072)
Controlling Shareholder's net investment		–	–	2,478	–	–	2,478
Issuance of ordinary shares related to initial public offering		2	71,289	–	–	–	71,291
Issuance costs of ordinary shares charged to share premium		–	(5,131)	–	–	–	(5,131)
Conversion of Redeemable Class C Shares into ordinary shares	19	6	55,728	–	–	–	55,734
Exercise of Redeemable Class C Shares bifurcated option		–	235,667	–	–	–	235,667
Special dividend paid to pre-IPO shareholders		–	–	–	(47,558)	–	(47,558)
China long-term incentive plan		–	–	3,005	–	–	3,005
Total transactions with owners, recognised directly in equity		8	357,553	5,483	(47,558)	–	315,486
Balance as at 31 December 2015		35	369,864	(30,794)	(178,888)	(2,495)	157,722

(the accompanying notes are an integral part of these financial statements)

Consolidated Statement of Cash Flows

(In thousands of U.S. dollars)

	Notes	Years Ended 31 December 2015	2014
Cash flows from operating activities			
Cash provided by operations	24	12,188	35,013
Taxes paid		(12,344)	(6,793)
Net cash (used in) provided by operating activities		(156)	28,220
Cash flows from investing activities			
Purchase of property, plant and equipment		(581)	(213)
Investment in joint revenue sharing equipment		(13,481)	(10,640)
Payment for legally transferred contracts		—	(16,662)
Net cash used in investing activities		(14,062)	(27,515)
Cash flows from financing activities			
Proceeds from issue of Redeemable Class C Shares	19	40,000	40,000
Issuance costs of Redeemable Class C Shares	19	(2,000)	(2,582)
Proceeds from issuance of ordinary shares		71,291	—
Issuance costs of ordinary shares charged to share premium		(5,131)	—
Special dividend paid to pre-IPO shareholders		(47,558)	—
Net cash provided by financing activities		56,602	37,418
Effects of exchange rate changes on cash		(15)	(17)
Increase in cash and cash equivalents during year		42,369	38,106
Cash and cash equivalents, beginning of year		48,320	10,214
Cash and cash equivalents, end of year		90,689	48,320

(the accompanying notes are an integral part of these financial statements)

Notes to the Consolidated Financial Statements

(Tabular amounts in thousands of U.S. dollars unless otherwise stated)

1. General information

IMAX China Holding, Inc. (the "Company") was incorporated in the Cayman Islands on 30 August 2010, as an exempted company with limited liability under the laws of the Cayman Islands. The ultimate holding company of the Company is IMAX Corporation (the "Controlling Shareholder"), incorporated in Canada. The Company's registered office is located at Post Office Box 309, Ugland House, Grand Cayman, Cayman Islands, KY1-1104.

The Company, an investment holding company, and its subsidiaries (together the "Group") are principally engaged in the entertainment industry specialising in digital and film-based motion picture technologies in Mainland China, Hong Kong, Taiwan and Macau ("Greater China").

The Group refers to all the theatres using the IMAX theatre system in Greater China as "IMAX theatres" and all activities within Greater China as the "IMAX China Business".

The Company has listed its shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 8 October 2015 (the "Listing").

Pursuant to the reorganisation of the Group (the "Reorganisation") as set out under the section headed "History and Reorganisation" in the prospectus of the Company dated 24 September 2015, the Company became the holding company of the Group. The Reorganisation is merely a reorganisation of the Group's business, with no change in management of such business, and the Controlling Shareholder remains the same. Accordingly, the consolidated financial statements of the Group have been prepared as if the current Group structure had been in existence throughout both years presented.

These consolidated financial statements are presented in United States dollars ("US$"), unless otherwise stated.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the year presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRS Interpretations Committee ("IFRIC") interpretations applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

(b) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform to the Group's accounting policies.

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend received and receivable.

(c) Use of estimates

The preparation of financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could be materially different from these estimates. Significant estimates made by management include, but are not limited to: selling prices associated with the individual elements in multiple element arrangements; residual values of leased theatre systems; economic lives of leased assets; allowances for potential uncollectability of accounts receivable, financing receivables and net investment in finance leases; provisions for inventory obsolescence; anticipated future revenues for film assets; impairment provisions for film assets; depreciable lives of property, plant and equipment; impairment of available-for-sale investments; accruals for contingencies including tax contingencies; recognition of deferred income tax assets; estimates of the fair value of share-based payment awards; and, estimates of the fair value of conversion options.

2. Summary of significant accounting policies (Continued)

(d) Foreign currency

(i) Functional and presentation currency

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in US$ which is the Company's functional and the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the annual average rate for the statement of comprehensive income and closing rate for the statement of financial position. Foreign currency gains and losses are recorded in the consolidated statement of comprehensive income.

(iii) Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing exchange rate at the date of that statement of financial position;
- income and expenses for each statement of comprehensive income are translated at average exchange rates; and
- all resulting exchange differences are recognised in other comprehensive income (loss).

(e) Financial assets

(i) Classification

The Group classifies its financial assets in the following categories: loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting year. These are classified as non-current assets. The Group's loans and receivables comprise of "cash and cash equivalents", "trade and other receivables" and "financing receivables" in the statement of financial position (notes 2(f) and 2(g)).

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting year.

2. Summary of significant accounting policies (Continued)

(e) Financial assets (Continued)

(ii) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date, the date on which the Group commits to purchase and sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments are have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in comprehensive income.

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and all highly liquid investments convertible to a known amount of cash and with an original maturity to the Group of three months or less. Cash equivalents are carried at amortised cost.

(g) Trade and other receivables

Allowances for doubtful accounts receivable are based on the Group's assessment of the collectability of specific customer balances, which is based upon a review of the customer's credit worthiness, past collection history and the underlying asset value of the equipment, where applicable. Interest on overdue accounts receivable is recognised as income as the amounts are collected.

For trade accounts receivable that have characteristics of both a contractual maturity of one year or less, and arose from the sale of other goods or services, the Group charges off the balance against the allowance for doubtful accounts when it is known that a provided amount will not be collected.

The Group monitors the performance of the theatres to which it has leased or sold theatre systems which are subject to ongoing payments. When facts and circumstances indicate that there is a potential impairment in the net investment in lease or a financing receivable, the Group will evaluate the potential outcome of either renegotiations involving changes in the terms of the receivable or defaults on the existing lease or financed sale agreements. The Group will record a provision if it is considered probable that the Group will be unable to collect all amounts due under the contractual terms of the arrangement.

2. Summary of significant accounting policies (Continued)

(g) Trade and other receivables (Continued)

When the net investment in finance lease or the financing receivable is impaired, the Group will recognise a provision for the difference between the carrying value in the investment and the present value of expected future cash flows discounted using the effective interest rate for the net investment in the finance lease or the financing receivable. If the Group expects to recover the theatre system, the provision is equal to the excess of the carrying value of the investment over the fair value of the equipment.

When the minimum lease receipts are renegotiated and the lease continues to be classified as a finance lease, the reduction in payments is applied to reduce unearned finance income.

These provisions are adjusted when there is a significant change in the amount or timing of the expected future cash flows or when actual cash flows differ from cash flow previously expected.

Once a net investment in finance lease or financing receivable is considered impaired, the Group does not recognise interest income until the collectability issues are resolved. When finance income is not recognised, any payments received are applied against outstanding gross minimum lease receipts or gross receivables from financed sales. Once the collectability issues are resolved, the Group will once again commence the recognition of interest income.

(h) Inventories

Inventories include goods purchased and spare parts, and are carried at the lower of cost, determined on an average cost basis, and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. Finished goods are recorded at the purchase price from IMAX Corporation which is determined to be the Controlling Shareholder's cost plus a markup.

The costs related to theatre systems under sales and finance lease arrangements are relieved from inventory to cost of sales when revenue recognition criteria are met. The costs related to theatre systems under operating lease arrangements and joint revenue sharing arrangements are transferred from inventory to assets under construction in property, plant and equipment when allocated to a signed joint revenue sharing arrangement or when the arrangement is first classified as an operating lease.

The Group records provisions for excess and obsolete inventory based upon current estimates of future events and conditions, including the anticipated installation dates for the current backlog of theatre system contracts, technological developments, signings in negotiation, growth prospects within the customers' ultimate marketplace and anticipated market acceptance of the Group's current and pending theatre systems.

Finished goods inventories can contain theatre systems for which title has passed to the Group's customer (as the theatre system has been delivered to the customer) but the revenue recognition criteria, as discussed in note 2(o), have not been met.

2. Summary of significant accounting policies (Continued)

(i) Film assets

Film costs for a Hollywood digital re-mastered film are purchased at a flat fee, and for a local China film are purchased on a cost-plus basis, as governed by the Group's intercompany agreements with IMAX Corporation. These film assets are amortised into cost of sales and participation costs in the same ratio that current gross revenues bear to current and anticipated future revenues over the film exploitation year, which is typically less than 6 months. Estimates of anticipated future revenues are prepared on a title-by-title basis and reviewed regularly by management and revised where necessary to reflect the most current information.

Film exploitation costs, including advertising costs, are expensed as incurred.

The recoverability of film assets is dependent upon commercial acceptance of the films. If events or circumstances indicate that the recoverable amount of a film asset is less than the unamortised film costs, the film asset is written down to its recoverable value. The recoverable amount is the higher of the film assets' fair value less costs to sell, and the value in use.

(j) Other assets

Other assets include deferred selling costs that are direct and incremental to the acquisition of sales contracts and investments in preferred shares.

Selling costs related to an arrangement incurred prior to recognition of the related revenue are deferred and expensed to cost of sales upon: (i) recognition of the contract's theatre system revenue; or (ii) abandonment of the sale arrangement.

The Group has a preferred share investment in IMAX (Hong Kong) Holding, Limited, a related party, issued pursuant to a subscription agreement, which is classified as an available for sale investment. IMAX (Hong Kong) Holding, Limited is a subsidiary of IMAX Corporation. The preferred share is measured at cost as it does not have a quoted price in an active market and its fair value cannot be reliably measured.

2. Summary of significant accounting policies (Continued)

(k) Property, plant and equipment

Property, plant and equipment are recorded at historical cost and are depreciated on a straight-line basis over their estimated useful lives as follows:

Theatre system components[(1)]	—	10 to 12 years
Office and production equipment	—	3 to 5 years
Leasehold improvements	—	over the shorter of the initial term of the underlying leases plus any probable renewal terms, and the useful life of the asset

(1) includes equipment under joint revenue sharing arrangements.

Equipment and components allocated to be used in future operating leases and joint revenue sharing arrangements, as well as direct labour costs and an allocation of direct production costs, are included in assets under construction until such equipment is installed and in working condition, at which time the equipment is depreciated on a straight-line basis over the lesser of the term of the joint revenue sharing arrangement and the equipment's anticipated useful life.

The assets' residual values and useful lives are reviewed and adjusted on a prospective basis, if appropriate, at the end of each reporting year.

The Group reviews the carrying values of its property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group might not be recoverable. Assets are grouped at the lowest level for which identifiable cash inflows are largely independent when testing for, and measuring for, impairment (cash-generating units). In performing its review of recoverability, the Group compares the carrying values to either the value in use or fair value less costs to dispose and if required an impairment charge is recognised in the consolidated statements of comprehensive income to bring the carrying value to its recoverable value.

(l) Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

(m) Deferred revenue

Deferred revenue represents cash received prior to revenue recognition criteria being met for theatre system sales or leases, film contracts, maintenance and extended warranty services, film related services and film distribution.

2. Summary of significant accounting policies (Continued)

(n) Provisions, contingent liabilities and contingent assets

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(o) Revenue recognition

The amount of revenue is determined in accordance with the fair value of the consideration received or receivable for the sale of goods, lease and services in the ordinary course of the Group's activities, net of discounts, returns and value added taxes.

Revenue is recognised when it is probable that future economic benefits will flow to the entity, the related revenue can be reliably measured, and the specific revenue recognition criteria have been met for each type of the Group's activities as described below.

The Group's revenue arrangements with customers may involve multiple elements consisting of theatre system (projector, sound system, screen system and glasses cleaning machine); services associated with the theatre system (including theatre design support, supervision of installation, and projectionist training); trademark licensing of IMAX; 3D glasses; equipment maintenance and licensing of films. If the elements comprise of separately identifiable components, the revenue in respect of each separable component of the Group's revenue arrangement is measured at its fair value and the consideration is allocated based on the relative fair value of each component.

2. Summary of significant accounting policies (Continued)

(o) Revenue recognition (Continued)

Theatre systems

The Group has identified the projection system, sound system, screen system and glasses cleaning machine, theatre design support, supervision of installation, projectionist training and the use of the IMAX brand to be a single deliverable (the "System Deliverable"). The Group is not responsible for the physical installation of the equipment in the customer's facility; however, the Group supervises the installation by the customer. The customer has the right to use the IMAX brand from the date the Group and the customer enter into an arrangement.

The Group's System Deliverable arrangements involve either a lease or a sale of the theatre system. Consideration in the Group's arrangements, consist of upfront or initial payments made before and after the final installation of the theatre system equipment and ongoing payments throughout the term of the lease or over a period of time, as specified in the arrangement. The ongoing payments are the greater of an annual fixed minimum amount or a certain percentage of the theatre box-office.

Sales of theatre system

For arrangements qualifying as sales, the revenue allocated to the System Deliverable is recognised when all of the following conditions have been met: (a) the projector, sound system and screen system have been installed and are in full working condition, (b) the glasses cleaning machine has been delivered, if applicable, (c) projectionist training has been completed and (d) the earlier date of certificate of acceptance signed by both the theatre and the Group or public opening of the theatre, provided there is significant transfer of risks and rewards, the amount of revenue and costs incurred or to be incurred in respect of the transaction that can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Group.

The initial revenue recognised consists of the initial payments received and the present value of any future fixed minimum ongoing payments. Contingent payments in excess of the fixed minimum ongoing payments are recognised when reported by theatre operators, provided the amount can be measured reliably and deemed probable of collection.

The difference between the gross receivable and totals of their present value is recorded as unrealised finance incomes at the beginning of lease term.

2. Summary of significant accounting policies (Continued)

(o) Revenue recognition (Continued)

Lease of theatre system

A lease arrangement that transfers substantially all of the benefits and risks incident to ownership of the equipment is classified as a finance lease based on the criteria established by the accounting standard; otherwise the lease is classified as an operating lease.

For operating leases, initial payments and fixed minimum ongoing payments are recognised as revenue on a straight-line basis over the lease term. For operating leases, the lease term is considered to commence when all of the following conditions have been met: (i) the projector, sound system and screen system have been installed and in full working condition; (ii) the 3D glasses cleaning machine, if applicable, has been delivered; (iii) projectionist training has been completed; and (iv) the earlier of (a) receipt of written customer acceptance certifying the completion of installation and run-in testing of the equipment and the completion of projectionist training or (b) public opening of the theatre. Contingent payments in excess of fixed minimum ongoing payments are recognised as revenue when reported by theatre operators over the lease term, provided it is probable that the economic benefits of such payments will flow to the Group.

Joint revenue sharing arrangements which are classified as operating leases have rental payments which are fully contingent on the box-office results and concessions revenues reported by the theatre operators. Revenue is calculated as a percentage of box-office and concessions revenue reported by the theatre operator and is recognised when the amounts are deemed probable and the amounts can be measured reliably.

Certain joint revenue sharing arrangements include upfront payments that qualify for classification as sales and finance leases which are recognised in accordance with the sales and finance lease criteria discussed above. The contingent revenues from these arrangements is recognised as box-office results and concessions revenues are reported by the theatre operator, when the amounts are deemed probable and the amounts can be measured reliably.

As lessor, the Group classifies a lease as a finance lease based on the criteria set out in paragraph 10 of International Accounting Standard ("IAS") 17, "Leases".

For finance leases, the revenue allocated to the System Deliverable is recognised when the lease term commences, which the Group deems to be when all of the following conditions have been met: (a) the projector, sound system and screen system have been installed and are in full working condition, (b) the glasses cleaning machine has been delivered with the significant risks and rewards of ownership being transferred to the customer, if applicable, (c) projectionist training has been completed and (d) the earlier date of certificate of acceptance signed by both the theatre and the Group or public opening of the theatre, provided there is significant transfer of risks and rewards, the amount of revenue and costs incurred or to be incurred in respect of the transaction that can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Group.

2. Summary of significant accounting policies (Continued)

(o) Revenue recognition (Continued)

Lease of theatre system (Continued)

The initial revenue is the lower of the asset's fair value or the present value of the minimum lease payments computed at a market rate of interest. Contingent payments in excess of the fixed minimum payments are recognised when reported by theatre operators, provided the amount can be measured reliably and deemed probable of collection. The cost of sale recognised at the commencement of the lease term is the cost (or carrying amount of the asset, if different) less the present value of any unguaranteed residual value.

The difference between the gross receivable and totals of their present value is recorded as unrealised finance incomes at the beginning of lease term. The method for allocating gross earnings to accounting years is referred to as the 'actuarial method'. The actuarial method allocates rentals between finance income and repayment of capital in each accounting year in such a way that finance income will be recognised as a constant rate of return over the lease term.

Minimum lease receipts and unrealised finance income are presented on net basis in long-term receivables.

Improvements and Modifications

Improvements and modifications to the theatre system after installation are treated as separate revenue transactions, if and when the Group is requested to perform these services. Revenue is recognised for these services when the amount of revenue and the costs incurred for the transaction and the costs to complete the transaction can be measured reliably, the stage of completion of the transaction at the end of the reporting year can be measured reliably, and it is probable that the economic benefits associated with the transaction will flow to the Group.

Finance income

Finance income is recognised over the term of the finance lease or financed sales receivable, provided it is probable that the economic benefits associated with the transaction will flow to the Group. Finance income recognition ceases when the Group determines that the flow of the economic benefits is not probable.

Finance income is suspended when the Group identifies a theatre that is delinquent, non-responsive or not negotiating in good faith with the Group. Once the probability of the recovery of the economic benefit issues is resolved the Group will resume recognition of finance income.

Cost of sales arrangements

Theatre systems and other equipment subject to finance leases and sales arrangements includes the cost of the equipment, purchased on a cost-plus basis, from IMAX Corporation and costs related to project management, design, delivery and installation supervision services as applicable. The costs related to theatre systems under sales and finance lease arrangements are relieved from inventory to cost of sales when revenue recognition criteria are met.

2. Summary of significant accounting policies (Continued)

(o) Revenue recognition (Continued)

Cost of revenue sharing arrangements

For theatre systems and other equipment subject to an operating lease or placed in a theatre operators' venue under a joint revenue sharing arrangement, the cost of equipment purchased on a cost-plus basis, from IMAX Corporation and those costs that result directly from and are essential to the arrangement, is included within property, plant and equipment. Depreciation and impairment losses, if any, are included in cost of sales based on the accounting policy set out in note 2(k). Commissions are recognised as cost of sales in the month they are earned, which is typically the month of installation. Direct advertising and marketing costs for each theatre are charged to cost of sales as incurred.

Maintenance and Extended Warranty Services

Maintenance and extended warranty services may be provided under a multiple element arrangement or as a separately priced contract. Revenues related to these services are deferred and recognised on a straight-line basis over the contract year and are recognised in services revenues. Maintenance and extended warranty services includes maintenance of the customer's equipment and replacement parts. Under certain maintenance arrangements, maintenance services may include additional training services to the customer's technicians. All costs associated with this maintenance and extended warranty programme are expensed as incurred. A loss on maintenance and extended warranty services is recognised if the expected cost of providing the services under the contracts exceeds the related deferred revenue.

IMAX Digital Re-Mastering (IMAX DMR)

Recoupments, calculated as a percentage of box-office receipts, are recognised as revenue when box-office receipts are reported and it is probable that the economic benefits associated with the transaction will flow to the Group. The Group is entitled to receive a certain percentage of box-office from third parties for domestic IMAX format films or the Group's related party for imported IMAX format films.

Digital re-mastering services are performed by IMAX Corporation and are based on master distribution and DMR services agreements, where each type of film such as 2D, 3D or other are charged to the Group based on an agreed upon flat-fee, except for China local films. Digital re-mastering services for local films are purchased on a cost-plus basis.

Losses on film performance are recognised as cost of sales in the year when it is determined that the Group's estimate of total revenues to be realised by the Group will not exceed estimated total cost of the respective film asset.

2. Summary of significant accounting policies (Continued)

(o) Revenue recognition (Continued)

Other

Revenue from the sale of 3D glasses is recognised when the 3D glasses have been delivered to the customer, as this is when the transfer of the significant risks and rewards occur and it is deemed probable economic benefits will flow to the Group.

Other service revenues are recognised when the amount of revenue, the stage of completion of the transaction at the end of the reporting year, and the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

(p) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that make strategic decisions.

(q) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants are provided to the Group as an incentive to promote trade and foreign investment into the local economy. The grants are determined based on various financial and non-financial measures.

Government grants relating to costs are deferred and recognised in the consolidated statement of comprehensive income over the year necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the consolidated statement of comprehensive income on a straight—line basis over the expected lives of the related assets.

(r) Current and deferred income tax

Income tax expense for the year comprises current and deferred tax. Income tax is recognised in comprehensive income, except to the extent that it relates to items recognised directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date, where the Group generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2. Summary of significant accounting policies (Continued)

(r) Current and deferred income tax (Continued)

Deferred income tax is recognised, using the liability method, on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax assets and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the statement of financial position date.

(s) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to comprehensive income on a straight-line basis over the year of the lease.

(t) Employee benefits

Pension obligations

The Group companies in Mainland China participate in defined contribution retirement benefit plans organised by relevant government authorities for its employees in Mainland China and contribute to these plans based on certain percentage of the salaries of the employees on a monthly basis, up to a maximum fixed monetary amount, as stipulated by the relevant government authorities. The government authorities undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans.

The Group has no further obligation for post-retirement benefits beyond the contributions made. The contributions to these plans are recognised as employee benefit capitalised as production costs or expensed as incurred.

2. Summary of significant accounting policies (Continued)

(t) Employee benefits (Continued)

Other employee social security and benefits

All Chinese employees of the Group participate in employee social security plans, including medical, housing and other welfare benefits, organised and administered by the governmental authorities. The Group has no other substantial commitments to employees.

According to the relevant regulations, the premiums and welfare benefit contributions that should be borne by the Group are calculated based on percentages of the total salary of employees (or on other basis), subject to a certain ceiling, and are paid to the labour and social welfare authorities. Contributions to the plans are capitalised as production costs or expensed as incurred.

Termination benefits

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits at the earlier of the following dates: (a) when the group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37, "Provisions, contingent liabilities and contingent assets" and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer.

(u) Share-based payments

The Group has both equity-settled and cash settled share-based compensation plans. Share-based payments are recognised in accordance with the IFRS 2, "Share-Based Payments".

Under equity-settled share-based compensation plans, the Group receives services from employees as consideration for equity instruments such as stock options and restricted share units ("RSUs") for either IMAX Corporation or the Company's shares. The fair value of the employee services received in exchange for the grant of the equity instruments is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the equity instruments granted. IMAX Corporation has the obligation to settle the awards issued by IMAX Corporation and the Company settles the awards issued by the Company.

The Group also issues cash-settled, share-based payments ("CSSBP") and measures the services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the Group remeasures the fair value of the liability at the end of each reporting year and at the date of settlement, with any changes in fair value recognised in profit or loss for the year.

The Group estimates the fair value of stock option awards on the date of grant using fair value measurement techniques such as an option-pricing model. The value of the portion of the employee award that is ultimately expected to vest is recognised as expense over the vesting year, which is the year over which all of the specified vesting conditions are to be satisfied, in the Group's comprehensive income.

2. Summary of significant accounting policies (Continued)

(u) Share-based payments (Continued)

At the end of each reporting year, the Group revises its estimates of the number of options that are expected to vest based on the service conditions. It recognises the impact of the revision to original estimates, if any, in the comprehensive income statement, with a corresponding adjustment to equity.

Compensation expense for the employee awards is recognised using the graded vesting method. Each vesting installment of the award is treated as a separate grant and compensation cost is separately measured and recognised over the related vesting year as though the award were, in substance, multiple awards.

If the terms of an equity-settled award are modified, at a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

If an equity award is cancelled by forfeiture, when the vesting conditions (other than market conditions) have not been met, any expense not yet recognised for that award, as at the date of forfeiture, is treated as if it had never been recognised. At the same time, any expense previously recognised on such cancelled equity awards are reversed from the accounts effective as at the date of forfeiture.

The Group utilises the market yield on U.S. treasury securities (also known as nominal rate) over the contractual term of the instrument being issued.

Stock Options

The Group utilises a lattice-binomial option-pricing model (“Binomial Model”) to determine the fair value of stock option awards. See note 18(c) for the details of the assumptions used to determine the fair value of share-based payment awards.

2. Summary of significant accounting policies (Continued)

(u) Share-based payments (Continued)

Stock Options (Continued)

As the Group stratifies its employees into homogeneous groups in order to calculate fair value under the Binomial Model, ranges of assumptions used are presented for expected option life and annual termination probability. IMAX Corporation's historical data is used to estimate option exercise and employee termination within the valuation model; various groups of employees that have similar historical exercise behaviour are considered separately for valuation purposes. The expected volatility rate is estimated based on a blended volatility method which takes into consideration IMAX Corporation's historical share price volatility, IMAX Corporation's implied volatility which is implied by the observed current market prices of IMAX Corporation's traded options and IMAX Corporation's peer group volatility. The Group utilises the Binomial Model to determine the expected option life based on such data as vesting years of awards, historical data that includes past exercise and post-vesting cancellations and stock price history.

Restricted Share Units

The fair value of RSU awards is equal to the closing price of IMAX Corporation's common stock on the date of grant.

(v) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the year in which the dividends are approved by the Company's shareholders or directors, where appropriate.

(w) Redeemable Class C shares and related conversion option

Redeemable preference shares are accounted for in accordance with IAS 32, "Financial instruments: Presentation" and IAS 39, "Financial instruments: Recognition and measurement". The host instrument was identified as a debt-host at inception and has been accounted for under IAS 32 as a financial liability. Until its redemption in 2015, the instrument's value was accreting to redemption value over the five year term of the instrument using the effective interest rate method. Embedded derivatives meeting the criteria for separation from the host contract have been identified in the instrument. These derivatives are classified as Fair Value, subject to a valuation, through Profit or Loss, and are recorded in Other Liabilities.

3. New Accounting Standards and Accounting Changes

New standards, amendments and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations to be adopted in future reporting periods, and have not been applied in preparing this consolidated financial information. None of these are expected to have a significant effect on the consolidated financial information of the Group, except the following set out below:

IFRS 9, "Financial instruments", addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income ("OCI") and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is yet to assess IFRS 9's full impact.

IFRS 15, "Revenue from contracts with customers" deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group is assessing the impact of IFRS 15.

An amendment, "Clarification of acceptable methods of depreciation and amortisation" has been issued to IAS 38, "Intangible assets". The amendment clarifies that there is a rebuttable presumption that it is inappropriate for an amortisation method to be based on the revenue generated by an activity that includes the use of an intangible asset. The amendment is effective for periods beginning on or after 1 January 2016 and applies prospectively; earlier application is permitted. The Group is assessing the impact on the financial statements.

On 13 January 2016, the International Accounting Standards Board (IASB) published a new standard for the accounting of leases, International Financial Reporting Standard 16 — Leases ("IFRS 16").

3. New Accounting Standards and Accounting Changes (Continued)

New standards, amendments and interpretations not yet adopted (Continued)

The Group is a lessee of various offices, warehouses and apartments which are currently classified as operating leases. The Group's current accounting policy for such leases is set out in note 2(s) with the Group's future operating lease commitments, which are not reflected in the consolidated statement of financial position, set out in note 25(b). IFRS 16 provides new provisions for the accounting treatment of leases and will in the future no longer allow lessees to recognise certain leases outside of the statement of financial position. Instead, all non-current leases must be recognised in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Thus each lease will be mapped in the Group's consolidated statement of financial position. Short-term leases of less than twelve months and leases of low-value assets are exempt from the reporting obligation. The new standard will therefore result in an increase in property, plant and equipment and an increase in financial liabilities in the consolidated statement of financial position. In the income statement, leases will be recognised in the future as capital expenditure on the purchasing side and will no longer be recorded as an operating expense. As a result, the operating expense under otherwise identical circumstances will decrease, while depreciation and amortisation and the interest expense will increase. This will lead to an improvement in EBITDA. The new standard is not expected to apply until the financial year 2019, including the adjustment of prior years.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

4. Financial Risk

The Group's activities expose it to a variety of financial risk: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of the financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out under policies approved by the directors of the Company. The directors provide principles for an overall risk management, as well as policies covering specific areas.

(a) Market risk

Foreign exchange risk

The Group operates in Greater China and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US$ and Chinese Yuan Renminbi ("RMB"). Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities which are denominated in a currency that is not the Group's functional currency.

The Group's transactions are mainly denominated in US$, RMB and HK$. The majority of assets and liabilities are denominated in US$, RMB and HK$ and there are no significant assets and liabilities denominated in other currencies. The carrying amounts of cash, accounts receivable and accounts payable by currency are disclosed in the notes to the consolidated financial statements.

If the US$ had strengthened/weakened by 10% against the RMB while all other variables had been held constant, the Group's net result for 2015 would have been approximately $1.1 million worse/better (2014: $1.8 million), for various financial assets and liabilities denominated in RMB.

Interest rate risk

The Group does not carry any borrowings which are exposed to interest rate risk.

4. Financial Risk (Continued)

(a) Market risk (Continued)

Credit risk

The Group is exposed to credit risk in relation to its cash and cash equivalents, trade and other receivables, financing receivables, and amounts due from related companies. The Group's maximum exposure to credit risk is the carrying amounts of these financial assets.

For the year ended 31 December 2015, 53.6% (2014: 41.1%) of the Group's revenue was derived from its customers comprising 10% or more of total revenue. See note 23(a) for each significant customer's revenue by segment. As at 31 December 2015, the Group had concentration of credit risk as 53.9% (2014: 49.5%) of the total trade and other receivables due from the Group's largest three customers.

To manage this risk, management has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, management reviews regularly the recoverable amount of each individual trade and other receivable to ensure that adequate impairment provision is made for the irrecoverable amounts.

The credit risk on deposits with bank and amounts due from related companies are limited because deposits are in banks with sound credit ratings and management does not expect any loss from non-performance by related companies.

Liquidity risk

Liquidity risk refers to the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial assets.

The Group monitors rolling forecasts of the Group's short-term and long-term liquidity requirements to ensure it has sufficient cash and securities that are readily convertible to cash to meet operational needs, while maintaining sufficient committed borrowing facilities from the Group's Controlling Shareholder.

The Group's financial liabilities, specifically trade and other payables, in relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date are disclosed in note 14. Accrued and other liabilities are expected to be settled within one year from the date accrued. There are no other borrowings to disclose.

(b) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group considers its capital structure as the aggregate of total equity and long-term debt less cash and short-term deposits. The Group manages its capital structure and makes adjustments to it in order to have funds available to support the business activities which the Board of Directors intends to pursue in addition to maximising the return to shareholders. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Group's management to sustain future development of the business.

4. Financial Risk (Continued)

(b) Capital management (Continued)

In order to carry out current operations and pay for administrative costs, the Group will spend its existing working capital and raise additional amounts as needed. Management reviews its capital management approach on an on-going basis and believes that this approach, given the relative size of the Group, is reasonable.

(c) Fair value estimation

The carrying amount of the Group's financial assets and liabilities, including cash and cash equivalents, trade receivables and trade payables including amounts due to IMAX Corporation approximate their fair values, which are either due to their short-term maturities, or that they are subject to floating rates. See note 20 for additional disclosures.

5. Critical accounting estimates and judgments

Estimates and judgment are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Bifurcated conversion option – Class C Shares

The Company identified a conversion option embedded in the Class C share agreement that required bifurcation from its host contract. The option was valued using a Monte Carlo simulation. The loss was a result of an increase in the equity value of the Group, which is the key assumption used in the valuation and is not based on observable inputs. The equity value of the Group was determined using a discounted cash flow with consideration given to implied market multiples to other comparable companies, including IMAX Corporation (the Controlling Shareholder). See note 20 for further information.

(b) Deferred income tax

In normal operating activities, the final tax treatments of transactions and events are uncertain. The Group assesses the tax implications of transactions, and records income tax. The Group regularly re-assesses the tax implications of transactions according to updates in tax regulations. Deferred income tax assets are recognised based on deductible tax losses and deductible temporary differences. Deferred income tax assets are recognised if such amounts can be offset by future taxable income, and as a result, management judges the possibility of future taxable income. The Group continues to review the judgment of deferred income tax, and recognise deferred income tax assets if it is possible to realise taxable income in the future (note 9).

(c) Share-based compensation

Accounting estimates and assumptions made to determine share-based compensation is included in note 18(c).

5. Critical accounting estimates and judgments (Continued)

(c) Share-based compensation (Continued)

At each statement of financial position date, the Group will estimate and adjust the number of vested equity instruments based on the subsequent information such as the latest change in the number of vesting employees. Based on the fair value of above equity instruments and the estimated number of stock options expected to vest, the Group recognises the compensation costs for the current year in the consolidated statement of comprehensive income by deducting the cumulative compensation costs recognised as of the prior year end from the cumulative compensation costs as of current year end.

(d) Revenue recognition

Revenue recognition is critical for the Group's consolidated financial statements as net profit/loss is directly affected by the timing of revenue recognition. Details of the Group's accounting policy for revenue recognition is included in note 2(o).

(e) Fixed assets depreciation

Management estimates include future profit period, useful lives, residual rates and depreciation of fixed assets. If the estimates change, management will modify depreciation prospectively (note 6).

(f) Impairment of receivables

The Group reviews the receivables recognised at amortised cost, which are tested for impairment if there is any indication that the assets may be impaired at the statement of financial position date. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, a provision for impairment and an impairment loss are recognised (note 8). The objective evidence of impairment includes observable data indicating the estimated future cash flows of individual or a portfolio of receivables has met substantial decline, or the debtor's financial condition has switched to a significant negative change. If there is objective evidence that the value of the financial asset recovered and the recovery is related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss.

(g) Provision for inventory

The Group regularly estimates the net realisable value of inventory to determine whether the difference between the cost of inventory and the net realisable value results in an impairment (note 11). When assessing the net realisable value, the Group considers the purpose of holding inventory. The assessment is based on the available information which includes the market price of the inventory and the former operative cost of the Group. The actual selling price, selling expense and tax may vary with changes in market conditions or actual use which results in the changes in the price of inventory. The adjustment of the impairment losses of inventory will affect current profit or loss.

(h) Impairment of available-for-sale equity investments

The Group follows the guidance of IAS 39 to determine when an available-for-sale equity investment is impaired. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

6. Property, plant and equipment

	Theatre System Components	Office and Production Equipment	Leasehold Improvements	Construction in Process	Total
As at 1 January 2014					
Cost	40,054	369	574	1,549	42,546
Accumulated depreciation	(5,618)	(188)	(370)	—	(6,176)
Net book amount	34,436	181	204	1,549	36,370
Year ended 31 December 2014					
Opening net book amount	34,436	181	204	1,549	36,370
Exchange differences	35	3	(7)	(42)	(11)
Additions	5	276	—	10,041	10,322
Transfers	11,522	—	—	(11,522)	—
Depreciation charge	(3,593)	(108)	(164)	—	(3,865)
Closing net book amount	42,405	352	33	26	42,816
As at 1 January 2015					
Cost	51,600	651	565	26	52,842
Accumulated depreciation	(9,195)	(299)	(532)	—	(10,026)
Net book amount	42,405	352	33	26	42,816
As at 31 December 2015					
Opening net book amount	42,405	352	33	26	42,816
Exchange differences	(115)	(2)	(3)	(5)	(125)
Additions	—	321	416	13,449	14,186
Transfers	13,016	—	—	(13,016)	—
Disposals	(133)	—	—	—	(133)
Depreciation charge	(4,513)	(101)	(140)	—	(4,754)
Closing net book amount	50,660	570	306	454	51,990
As at 31 December 2015					
Cost	64,368	970	978	454	66,770
Accumulated depreciation	(13,708)	(400)	(672)	—	(14,780)
Net book amount	50,660	570	306	454	51,990

6. Property, plant and equipment (Continued)

Depreciation charges of the amounts below were included in the following categories in the consolidated statements of comprehensive income:

	Years Ended 31 December	
	2015	2014
Cost of sales	4,513	3,593
Selling, general and administrative expenses	241	272
	4,754	3,865

During the year ended 31 December 2015, the Group recorded disposal charges of $0.1 million (2014: $nil) related to theatre system components.

7. Other assets

The Group's other asset balance is comprised of the following:

	As at 31 December	
	2015	2014
Commissions and other deferred selling expenses	1,322	1,046
Deposits	199	299
Other	215	85
Other assets, current	1,736	1,430
Investment in preferred share (note 27(d))	4,000	4,000
Deposits over one year	362	16
Other assets, non-current	4,362	4,016
Other assets	6,098	5,446

8. Trade and other receivables

	As at 31 December	
	2015	2014
Trade receivables	18,225	11,822
Less: provision for impairment of trade receivables	(49)	(41)
Trade receivables — net	18,176	11,781
Receivables from IMAX Corporation (note 27(c))	14,991	12,038
Other accrued receivables	2,473	1,468
	35,640	25,287

The fair value of trade and other receivables approximates the carrying value.

The aging analysis of the trade receivables, including receivables from IMAX Corporation, based on invoice date is as follows:

	As at 31 December	
	2015	2014
0–30 days	11,401	8,265
31–60 days	1,080	1,025
61–90 days	2,216	1,274
Over 90 days	18,519	13,296
	33,216	23,860

As at 31 December 2015, trade receivables of $33.2 million (2014: $23.9 million) were fully performing.

As at 31 December 2015, trade receivables of $18.5 million (2014: $13.3 million) were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered, as well as related party receivables. The aging analysis of these trade receivables, including receivables from IMAX Corporation, is as follows:

	As at 31 December	
	2015	2014
Over 90 days	18,470	13,255

8. Trade and other receivables (Continued)

The aging of the Group's impaired trade receivables is as follows:

	As at 31 December	
	2015	2014
Over 90 days	49	41

At 31 December 2015, 64% of the Group's over 90 days trade and other receivables balance relates to receivables aged over one year, 78% of which do not bear interest, have no fixed repayment terms and are due on demand from IMAX Corporation.

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	As at 31 December	
	2015	2014
US$	18,219	15,006
RMB	17,347	10,281
Other currencies	74	—
	35,640	25,287

Movements in the Group's allowance for impairment of trade receivables are as follows:

	As at 31 December	
	2015	2014
As at 1 January	41	41
Provision for receivables impairment	8	—
As at 31 December	49	41

During the year ended 31 December 2015, the Group recorded a net provision of less than $0.1 million (2014: $nil) related to trade receivables.

9. Deferred income tax

The analysis of deferred income tax assets and deferred income tax liabilities is as follows:

	As at 31 December 2015	2014
Deferred income tax assets		
Deferred income tax asset to be recovered after more than 12 months	872	695
Deferred income tax asset to be recovered within 12 months	437	110
Deferred income tax assets	1,309	805
Deferred income tax liabilities		
Deferred income tax liability to be recovered after more than 12 months	—	—
Deferred income tax liability to be recovered within 12 months	—	—
Deferred income tax liabilities	—	—

The gross movement in the deferred income tax asset is as follows:

	As at 31 December 2015	2014
Opening balance	805	725
Exchange differences	7	42
Income statement charge (note 16)	497	38
Closing balance	1,309	805

9. Deferred income tax (Continued)

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Fixed assets, inventory and other property	Share-based compensation	Accrued reserves	Other	Total
As at 1 January 2014	55	395	203	72	725
Credited (charged) to the income statement	12	261	(241)	6	38
Exchange difference	(1)	(6)	(9)	58	42
As at 31 December 2014	66	650	(47)	136	805
Credited (charged) to the income statement	4	261	245	(13)	497
Exchange difference	(2)	(76)	239	(154)	7
As at 31 December 2015	68	835	437	(31)	1,309

Deferred income tax assets are recognised to the extent that the realisation of the related tax benefit through future taxable profits is probable.

No deferred income tax liability has been provided for the PRC withholding tax that would be payable on the unremitted earnings totalling $56.6 million at 31 December 2015 (2014: $23.7 million). Such earnings are expected to be retained by the PRC subsidiaries and not be remitted to a foreign investor in the foreseeable future based on management's estimation of overseas funding requirements.

10. Film assets

	Completed and released films
As at 1 January 2014	
Cost	9,618
Accumulated depreciation	(9,552)
Net book amount	66
Year ended 31 December 2014	
Opening net book amount	66
Additions	4,711
Depreciation charge	(4,692)
Closing net book amount	85
As at 31 December 2015	
Opening net book amount	85
Additions	5,425
Depreciation charge	(5,475)
Closing net book amount	35
As at 31 December 2015	
Cost	19,754
Accumulated depreciation	(19,719)
Net book amount	35

The Company expects to amortise film costs of less than $0.1 million for released films within three years from 31 December 2015. The Company does not expect to pay any participation payments to third parties related to these films.

11. Inventories

	As at 31 December	
	2015	2014
Raw materials	—	13
Work-in-process	—	—
Finished goods	6,364	3,419
	6,364	3,432

There were no provisions for excess and obsolete inventory based upon current estimates of net realisable value considering future events and conditions for the year ended 31 December 2015 (2014: $nil).

The costs of inventories recognised as an expense and included in 'cost of sales' amounted to $20.5 million for the year ended 31 December 2015 (2014: $16.1 million).

12. Financing receivables

Some of the Group's leases are classified as finance leases. The customer's rights under the Group's lease arrangements are described in note 2(o). The Group classifies its lease arrangements at inception of the arrangement and, if required, after a modification of the lease arrangement, to determine whether they are finance leases or operating leases. Under the Group's lease arrangements, the customer has the ability and the right to operate the hardware components or direct others to operate them in a manner determined by the customer. The Group's lease portfolio terms are typically non-cancellable for 10 to 12 years with renewal provisions from inception. The Group's leases generally do not contain an automatic transfer of title at the end of the lease term. The Group's lease arrangements do not contain a guarantee of residual value at the end of the lease term. The customer is required to pay for executory costs such as insurance and taxes and is required to pay the Group for maintenance and extended warranty generally after the first year of the lease until the end of the lease term. The customer is responsible for obtaining insurance coverage for the theatre systems commencing on the date specified in the arrangement's shipping terms and ending on the date the theatre systems are delivered back to the Group.

12. Financing receivables (Continued)

Financing receivables, consisting of net investment in finance leases and receivables from financed sales of theatre systems are as follows:

	As at 31 December	
	2015	2014
Gross minimum finance lease payments receivable	1,556	1,897
Unearned finance income	(208)	(261)
Minimum finance lease payments receivable	1,348	1,636
Accumulated allowance for uncollectible amounts	—	—
Net investment in finance leases	1,348	1,636
Gross financed sales receivables	38,661	31,669
Unearned finance income	(10,956)	(9,144)
Financed sales receivables	27,705	22,525
Accumulated allowance for uncollectible amounts	—	—
Net financed sales receivables	27,705	22,525
Total financing receivables	29,053	24,161

12. Financing receivables (Continued)

	As at 31 December	
	2015	2014
Gross investment in finance leases may be analysed as follows:		
No later than one year	212	402
Later than one year and no later than five years	848	814
Later than five years	496	681
Total gross investment in finance leases	1,556	1,897
Gross financed sales receivables may be analysed as follows:		
No later than one year	5,987	5,501
Later than one year and no later than five years	20,082	15,698
Later than five years	12,592	10,470
Total financed sales receivables	38,661	31,669
Net investment in finance leases may be analysed as follows:		
No later than one year	154	348
Later than one year and no later than five years	1,132	662
Later than five years	62	626
Total net investment in finance leases	1,348	1,636
Net financed sales receivables may be analysed as follows:		
No later than one year	3,629	3,567
Later than one year and no later than five years	13,574	10,230
Later than five years	10,502	8,728
Total net financed sales receivables	27,705	22,525

As at 31 December 2015, the financed sales receivables had a weighted average effective interest rate of 9.5% (2014: 10.4%).

Contingent rents that meet the Group's revenue recognition policy, from customers under financing arrangements, were $0.9 million for the year ended 31 December 2015 (2014: $0.4 million).

12. Financing receivables (Continued)

The Group classifies its customers into four categories to indicate the credit quality worthiness of its financing receivables for internal purposes only:

Good standing — theatre continues to be in good standing with the Group as the client's payments and reporting are up-to-date.

Credit watch — theatre operator has begun to demonstrate a delay in payments, has been placed on the Group's credit watch list for continued monitoring, but active communication continues with the Group. Depending on the size of outstanding balance, length of time in arrears and other factors, transactions may need to be approved by management. These financing receivables are considered to be in better condition than those receivables related to theatres in the "Pre-approved transactions" category, but not in as good of condition as those receivables in "Good standing".

Pre-approved transactions only — theatre operator is demonstrating a delay in payments with little or no communication with the Group. All service or shipments to the theatre must be reviewed and approved by management. These financing receivables are considered to be in better condition than those receivables related to theatres in the "All transactions suspended" category, but not in as good of condition as those receivables in "Credit watch". Depending on the individual facts and circumstances of each customer, finance income recognition may be suspended if management believes the receivable to be impaired.

All transactions suspended — theatre is severely delinquent, non-responsive or not negotiating in good faith with the Group. Once a theatre is classified as "All transactions suspended", the theatre is placed on nonaccrual status and all revenue recognitions related to the theatre are stopped.

As at 31 December 2015, 99% (2014: 98%) of the Group's financing receivables were in good standing.

13. Cash and cash equivalents

	As at 31 December	
	2015	2014
Cash at bank and on hand	82,979	40,183
Short-term bank deposits	7,710	8,137
Cash and cash equivalents	90,689	48,320

13. Cash and cash equivalents (Continued)

The Group has cash and cash equivalent balances denominated in various currencies. The following is a breakdown of the Group's cash and cash equivalent balances by currency as at the end of each year:

	As at 31 December	
	2015	2014
Cash and cash equivalents denominated in US$	$66,041	$23,398
Cash and cash equivalents denominated in RMB (in thousands)	¥158,498	¥151,709
Cash denominated in Hong Kong dollars HK$ (in thousands)	$1,430	$3,378

14. Trade and other payables

	As at 31 December	
	2015	2014
Trade payables	1,272	1,437
Amounts due to IMAX Corporation (note 27(c))	10,900	38,463
	12,172	39,900

The aging analysis of trade and other payables based on recognition date is as follows:

	As at 31 December	
	2015	2014
0–30 days	1,858	2,229
31–60 days	4,023	2,617
61–90 days	622	2,254
Over 90 days	5,669	32,800
	12,172	39,900

As at 31 December 2015 and 2014, the carrying amounts of trade and other payables approximated their fair values due to short maturity. Trade and other payables over 90 days primarily consist of amounts due to IMAX Corporation.

14. Trade and other payables (Continued)

The carrying amounts of the Group's trade and other payables (excluding advances from customers) are denominated in the following currencies:

	As at 31 December	
	2015	2014
RMB	5,634	14,450
US$	4,430	25,450
Other	2,108	—
	12,172	39,900

15. Accruals and other liabilities

	As at 31 December	
	2015	2014
Accrued salaries and benefits	1,458	1,904
Accrued marketing and advertising expenses	631	794
Accrued selling expenses	802	879
Accrued audit fees	775	305
Accrued legal fees	121	—
Other accrued expenses	365	1,237
Accruals and other liabilities, current	4,152	5,119
Bifurcated conversion option – Redeemable Class C Shares, non-current (note 20)	—	12,942
Accruals and other liabilities, total	4,152	18,061

16. Income tax expense

	Years Ended 31 December	
	2015	2014
Current income tax:		
Current tax on profits for the year	(11,476)	(6,220)
Adjustments in respect of prior years	(19)	(103)
Total current income tax	(11,495)	(6,323)
Deferred income tax (note 9):		
Origination and reversal of temporary differences	497	38
Total deferred income tax	497	38
Income tax expense	(10,998)	(6,285)

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the Group as follows:

	Years Ended 31 December	
	2015	2014
(Loss) profit before tax	(170,867)	29,066
Tax calculated at domestic tax rates applicable to profits in all respective countries	(11,074)	(7,000)
Tax effects of:		
Income not subject to tax	842	920
Expenses not deductible for tax purposes	(75)	(55)
Withholding taxes	(671)	—
Other	(1)	(47)
Adjustment in respect of prior years	(19)	(103)
Tax charge	(10,998)	(6,285)

16. Income tax expense (Continued)

For the year ended 31 December 2015, the weighted average applicable tax rate was negative 6.5%. For the year ended 31 December 2014, the weighted average applicable tax rate was 24%. The change is caused by a change in the profitability of the Group's subsidiaries in the respective countries and in particular, a significant increase in the pre-tax loss for the Company due to charges relating to the fair value of the conversion option and accretion which is taxed at 0%.

17. Deferred revenue

	As at 31 December	
	2015	2014
Theatre system deposits	38,482	28,014
Maintenance prepayments	3,235	2,756
Other deferred revenue	182	39
	41,899	30,809
Deferred revenue, current	12,762	8,292
Deferred revenue, non-current	29,137	22,517
	41,899	30,809

18. Share capital and reserves

(a) Authorised

Common Shares

Prior to Reorganisation on 21 September 2015, the authorised capital of the Company consisted of 6,256,250 common shares with a total par value of US$62,562.50 as detailed below:

Common A Shares – 4,700,000 voting Common A shares of a par value of US$0.01
Common B Shares – 300,000 non-voting Common B shares of a par value of US$0.01
Redeemable Class C Shares – 750,000 voting common C shares of a par value of US$0.01
Common D Shares – 506,250 voting Common D shares of a par value of US$0.01

	As at 21 September 2015	As at 31 December 2014
Common A Shares issued	2,700,000	2,700,000
Common B Shares issued	—	—
Redeemable Class C Shares issued	675,000	337,500
Common D Shares issued	—	—
	3,375,000	3,037,500

On 21 September 2015, the following resolutions were passed as written resolutions to redesignate all the issued and unissued Common A Shares, Common B Shares, Redeemable Class C Shares and Common D Shares into one class of shares ("Share Redesignation") with effect from and conditional upon the listing of the Company.

(a) Variation of class rights by passing a shareholders' resolution of holders of Common A Shares and a shareholders' resolution of holders of Redeemable Class C Shares;

(b) Redesignation of issued and unissued shares into one class of shares by passing a shareholders' ordinary resolution; and

(c) Amendment of the Articles to reflect the change in classes of shares by passing a shareholders' special resolution.

Immediately prior to Listing, the Common A Shares and Redeemable Class C Shares (collectively, the "Shares") held by the existing shareholders, namely IMAX (Barbados) Holding, Inc., China Movie Entertainment FV Limited, CMCCP Dome Holdings Limited and China Movie Entertainment CMC Limited, were redesignated to the same number of shares (the "Class") in the Company.

18. Share capital and reserves (Continued)

(a) Authorised (Continued)

Reorganisation – Share Subdivision

Immediately upon completion of the Share Redesignation, the Company underwent a share subdivision ("Share Subdivision") pursuant to which all the Shares were subdivided at a ratio of 1:100, whereby one Share of par value of US$0.01 was subdivided into 100 Shares of par value of US$0.0001 each. Upon the completion of the Share Subdivision, the authorised share capital of the Company is US$62,562.50 divided into 625,625,000 Shares of US$0.0001 each. The remainder of the financial statements will reflect the Company shares and per share amounts based on the 1:100 Share Subdivision which occurred on 21 September 2015. The following summarizes the movement in the number of shares issued by the Company:

Number of shares as at 1 January 2014	200,000,100
Common A shares issued	69,999,900
Redeemable Class C Shares issued	33,750,000
Number of shares as at 31 December 2014	303,750,000
Redeemable Class C Shares issued	33,750,000
Common shares issued upon initial public offering	17,825,000
Number of shares as at 31 December 2015	355,325,000

In 2014, the Controlling Shareholder surrendered a note payable with a carrying value of $3.3 million due from the Company in return for 69,989,900 of the Company's shares.

In 2014, the parent company transferred a note receivable with a carrying value of $4.0 million to the Company in exchange for 10,000 of the Company's shares.

The holders of common shares are entitled to receive dividends if, as and when declared by the directors of the Group. The holders of the common shares are entitled to one vote for each common share held at all meetings of the shareholders.

(b) Changes during the year

In February 2015, the Company issued Redeemable Class C Shares in connection with the investment described in note 19. The Class C Shares were subsequently redesignated into common shares as discussed above under Reorganisation.

The Company issued 17,825,000 shares pursuant to the global offering in October 2015.

IMAX Corporation issued 29,251 common shares in the year ended 31 December 2015 (2014: 10,239 common shares) pursuant to the exercise of stock options for cash proceeds of $0.5 million (2014: $0.1 million).

18. Share capital and reserves (Continued)

(c) ***Share-based payments***

IMAX Corporation issued share-based compensation to eligible Group employees under IMAX Corporation's 2013 Long-Term Incentive Plan and the China Long-Term Incentive Plan, as described below.

On 11 June 2013, IMAX Corporation's shareholders approved the IMAX 2013 Long-Term Incentive Plan ("IMAX LTIP") at IMAX Corporation's Annual and Special Meeting. Awards to employees under the IMAX LTIP may consist of stock options, restricted share units ("RSUs") and other awards.

IMAX Corporation's Stock Option Plan ("SOP") which shareholders approved in June 2008, permitted the grant of stock options to employees. As a result of the implementation of the IMAX LTIP on 11 June 2013, stock options will no longer be granted under the SOP.

A separate stock option plan, the China Long-Term Incentive Plan (the "China LTIP") was adopted by the Group in October 2012. Each stock option issued under the China LTIP ("China Options") represents an opportunity to participate economically in the future growth and value creation of the Group.

The compensation costs recorded in the consolidated statement of comprehensive income for these plans were $3.0 million in the year ended 31 December 2015 (2014: $1.1 million). An income tax benefit is recorded in the consolidated statement of comprehensive (loss) income for these costs of $0.7 million for the year ended 31 December 2015 (2014: $0.3 million).

SOP and IMAX LTIP

The Group utilises a lattice-binomial option-pricing model ("Binomial Model") to determine the fair value of share-based payment awards. The fair value determined by the Binomial Model is affected by IMAX Corporation's stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, IMAX Corporation's expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviours. The Binomial Model also considers the expected exercise multiple which is the multiple of exercise price to grant price at which exercises are expected to occur on average. Option-pricing models were developed for use in estimating the value of traded options that have no vesting or hedging restrictions and are fully transferable. Because IMAX Corporation's employee stock options have certain characteristics that are significantly different from traded options, and because changes in the subjective assumptions can materially affect the estimated value, in management's opinion, the Binomial Model provides the best measure of the fair value of IMAX Corporation's employee stock options.

18. Share capital and reserves (Continued)

(c) Share-based payments (Continued)

SOP and IMAX LTIP (Continued)

All awards of stock options under the IMAX LTIP and SOP are made at fair market value of IMAX Corporation's common shares on the date of grant. The fair market value of a common share on a given date means the higher of the closing price of a common share on the grant date (or the most recent trading date if the grant date is not a trading date) on the New York Stock Exchange ("NYSE"), the Toronto Stock Exchange (the "TSX") and such national exchange, as may be designated by IMAX Corporation's Board of Directors (the "Fair Market Value"). The stock options vest within 5 years and expire 7 years or less from the date granted. The SOP and IMAX LTIP provide that vesting will be accelerated if there is a change of control, as defined in each plan and upon certain conditions.

The Group recorded an expense of $0.1 million in the year ended 31 December 2015 (2014: $0.1 million) related to stock option grants issued to IMAX China employees in the IMAX LTIP and SOP plans. Total share-based compensation expense related to non-vested IMAX China employee stock options not yet recognised and the weighted average period over which the awards are expected to be recognised at 31 December 2015 is $0.1 million and 0.9 years.

The weighted average fair value of all stock options, granted to IMAX China employees in the year ended 31 December 2015 at the measurement date was $7.14 per share (2014: $6.41 per share). The following assumptions were used to estimate the average fair value of the stock options:

	Years Ended 31 December	
	2015	2014
Average risk-free interest rate	1.90%	1.62%
Expected option life (in years)	4.51	4.15–4.82
Expected volatility	30%	32.5%–37.5%
Dividend yield	0%	0%

18. Share capital and reserves (Continued)

(c) Share-based payments (Continued)

SOP and IMAX LTIP (Continued)

SOP and IMAX LTIP Summary

The following table summarizes certain information in respect of option activity related to employees of the Group, in IMAX Corporation options issued under the SOP and IMAX LTIP:

For the years ended 31 December:

	Number of Shares		Weighted Average Exercise Price Per Share	
	2015	2014	2015	2014
Options outstanding, beginning of year	246,022	216,438	24.03	22.50
Granted	1,904	39,823	33.80	28.52
Transferred in	25,416	—	28.03	—
Exercised	(29,251)	(10,239)	18.58	9.34
Forfeited	(186,446)	—	23.70	—
Options outstanding, end of year	57,645	246,022	29.93	24.03
Options exercisable, end of year	31,533	34,576	30.01	21.58

No stock options were surrendered or cancelled by Group employees in the year ended 31 December 2015 (2014: none).

As at 31 December 2015, 54,874 (2014: 201,520) options were fully vested or are expected to vest with a weighted average exercise price of $29.95 (2014: $24.00), aggregate intrinsic value of $0.3 million (2014: $1.4 million) and weighted average remaining contractual life of 2.6 years (2014: 4.3 years). As at 31 December 2015, options that are exercisable have an intrinsic value of $0.2 million and a weighted average remaining contractual life of 2.2 years. The intrinsic value of options exercised in the year ended 31 December 2015 was $0.6 million (2014: $0.2 million).

18. Share capital and reserves (Continued)

(c) Share-based payments (Continued)

China Long-Term Incentive Plan ("CLTIP")

The China Options under CLTIP vest and become exercisable only upon specified events, including upon the likely event of a qualified initial public offering or upon a change in control on or prior to the fifth anniversary of the grant date. If such a specified event is likely to occur, the China Options vest over a 5 year period beginning on the date of grant. In addition to China Options, the Group has granted options to certain employees that operate in tandem with options granted under the IMAX Corporation's SOP and IMAX LTIP ("Tandem Options"). The Group would recognise the Tandem Options expense over a 5 year period if it is determined that a qualified initial public offering is unlikely. Upon vesting of the China Options, the Tandem Options would not vest and be forfeited.

In 2012, an aggregate of 6,075,000 China Options were granted to certain employees in accordance with the CLTIP. In conjunction with the China Options granted in 2012, an aggregate of 146,623 Tandem Options were granted at the same time to those employees with an average price of $22.39. During 2014, an additional 1,788,000 China Options were granted. In conjunction with the China Options granted in 2014, an additional 39,823 Tandem Options were granted at the same time to those employees with an average price of $28.52. During the year ended 31 December 2015 an additional 1,113,700 China Options were granted. No CLTIP awards were granted in 2013. Both the China Options and Tandem Options have a maximum contractual life of 7 years.

As at 31 December 2015, 8,977,500 (2014: 7,863,800) China options were fully vested or are expected to vest with a weighted average exercise price of $1.41 per share (2014: $1.42 per share) and a weighted average remaining contractual life of 3.8 years (2014: 5.3 years). As at 31 December 2015, 3,538,700 China options were exercisable (2014: nil).

In the year ended 31 December 2015, the Group did not record any expense related to Tandem Options issued under the CLTIP, since it was likely that a qualified initial public offering would occur (2014: $nil). The Tandem Options were forfeited on 8 October 2015, as an initial public offering occurred. An expense has been recorded for China options as discussed in the section below.

The weighted average fair value of China Options in the year ended 31 December 2015 at the measurement date was $0.43 per share (2014: $0.43 per share). The assumptions used in the fair value calculation are the same as the assumptions used for stock options under IMAX LTIP and SOP.

18. Share capital and reserves (Continued)

(c) Share-based payments (Continued)

China Long-Term Incentive Plan ("CLTIP") (Continued)

China Options Summary

As at 31 December 2015, there were 8,977,500 (2014: 7,863,800) of outstanding China Options. If a performance event did not occur on or prior to the fifth anniversary of the grant date, the 8,977,500 China Options issued would have forfeited immediately and the related charge would have been reversed. The following table summarizes certain information in respect of China Option activity in the Group:

Equity-settled China Options

For the years ended 31 December:

	Number of Shares		Weighted Average Exercise Price Per Share	
	2015	2014	2015	2014
Options outstanding, beginning of year	7,863,800	6,075,000	1.42	1.46
Granted	1,113,700	1,788,800	1.33	1.28
Options outstanding, end of year	8,977,500	7,863,800	1.41	1.42
Options exercisable, end of year	3,538,700	—	1.42	—

In the year ended 31 December 2015, the Group recorded an expense of $1.3 million (2014: $0.8 million) related to equity-settled China Options issued under the China LTIP.

Cash Settled China Awards

In 2012, certain employees of the Group were given CSSBP which are tied to the appreciation in the value of the Group. The CSSBP represent the right to receive cash payments in an amount equal to 0.3% of the excess of the total equity value of the Group based on the per share price in the Qualified IPO or Change in Control over the strike price of the CSSBP. The CSSBP were issued in conjunction with the CLTIP, with similar terms and conditions as the China Options. In the year ended 31 December 2015, the Group recorded an expense of $1.5 million (2014: $0.2 million) related to the CSSBP.

The carrying amount of the liability relating to the CSSBP transactions as of 31 December 2015 is $0.8 million (2014: $0.3 million). During the year and subject to completion of the IPO, a portion of the CSSBP awards vested and were settled in cash for $1.0 million.

18. Share capital and reserves (Continued)

(c) Share-based payments (Continued)

Restricted Share Units

RSUs have been granted to employees of the Group under the IMAX LTIP. Each RSU represents a contingent right to receive one common share of IMAX Corporation and is the economic equivalent of one common share of IMAX Corporation. RSUs were not issued before 2013. The grant date fair value of each RSU is equal to the share price of IMAX Corporation's stock at the grant date. The Group recorded an expense of $0.1 million in the year ended 31 December 2015 (2014: less than $0.1 million) related to RSU grants issued to employees in the plan. The annual termination probability assumed for 2015 was 8.07% (2014: 8.40%).

Total share-based compensation expense related to non-vested RSUs not yet recognised at 31 December 2015 and the weighted average period over which the awards are expected to be recognised is $0.2 million (2014: $0.1 million) and 2.6 years (2014: 2.7 years). No actual tax benefits have been realised for tax deductions related to the vesting of RSUs for the year ended 31 December 2015 (2014: none).

RSUs granted under the IMAX LTIP vest between one and four years. Vesting of the RSUs is subject to continued employment or service with the Group or IMAX Corporation.

RSU Summary

The following table summarizes certain information in respect of RSU activity under the IMAX LTIP:

For the years ended 31 December:

	Number of Awards		Weighted Average Grant Date Fair Value Per Share	
	2015	2014	2015	2014
RSUs outstanding, beginning of year	4,909	2,245	27.26	26.28
Granted	5,525	3,113	36.31	27.82
Transferred in	2,572	—	27.16	—
Vested and settled	(1,183)	(449)	27.09	26.28
RSUs outstanding, end of year	11,823	4,909	31.48	27.26

18. Share capital and reserves (Continued)

(d) (Loss) Profit Per Share

Reconciliations of the numerator and denominator of the basic and diluted per-share computations are comprised of the following:

	Years Ended 31 December	
	2015	2014
(Loss) profit for the year	(181,865)	22,781
Weighted average number of common shares (in '000s):		
Issued and outstanding, beginning of year	270,000	200,000
Weighted average number of shares issued during the year	22,780	51,205
Weighted average number of shares used in computing basic and diluted earnings per share	292,780	251,205

Assumed exercise of stock options have not been included in the computation of diluted earnings per share as they are anti-dilutive for the year ended 31 December 2015. There was no assumed exercise of stock options for the year ended 31 December 2014.

(e) Reserves

The Group's reserves and movement therein for the current and prior years are presented in the consolidated statement of changes in equity on page 98 of the financial statements.

Share premium

The application of the share premium account is governed by Section 34(2) of the Companies Law (2013 Revision) of the Cayman Islands. Under the Companies Law of the Cayman Islands, the funds in the share premium account of the Company are distributable to shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of the business.

Capital reserve

The Group's capital reserve represents the net contributions from the Controlling Shareholder.

18. Share capital and reserves (Continued)

(e) Reserves (Continued)

Statutory reserves

The PRC laws and regulations require companies registered in the PRC to provide for certain statutory reserves, which are to be appropriated from the net profit (after offsetting accumulated losses from prior years) as reported in their respective statutory financial statements, before profit distributions to equity holders. All statutory reserves are created fro specific purposes. PRC companies are required to appropriate 10% of statutory net profits to statutory surplus reserves, upon distribution of their post-tax profits. A company may discontinue the contribution when the aggregate sum of the statutory surplus reserve is more than 50% of its registered capital. The statutory surplus reserves shall only be used to make up losses of the companies, to expand the companies' production operations, or to increase the capital of the companies. In addition, a company may make further contribution to the discretional surplus reserve using its post-tax profits in accordance with resolutions of the Board of Directors. The PRC companies of the Group had not distributed any of their post-tax profits up to 31 December 2015, accordingly, no statutory reserves were appropriated (31 December 2014: $nil).

19. Redeemable Class C Shares

On 8 April 2014, IMAX Corporation announced the investment ("the "IMAX China Investment") in the Company by CMC Capital Partners ("CMC"), an investment fund that is focused on media and entertainment, and FountainVest Partners ("FountainVest"), a China-focused private equity firm. The IMAX China Investment provided for the sale and issuance of 20% of the shares of the Company to entities owned and controlled by CMC and FountainVest.

Pursuant to the transaction, the Company issued the investors 337,500 Common C Shares of par value $0.01 each in the authorised capital of the Company (the "Class C Shares") for an aggregate subscription price of $40.0 million on 8 April 2014, and issued the investors another 337,500 Class C Shares for an aggregate subscription price of $40.0 million on 10 February 2015.

The parties entered into a shareholders' agreement (the "Shareholders' Agreement") in connection with the IMAX China Investment, which terminated upon completion of the IMAX China IPO on 8 October 2015. However, while the Shareholders' Agreement was in effect, the Class C shareholders had certain redemption rights. Specifically, if a qualified IPO (as defined in the shareholders' agreement) had not occurred by 8 April 2019, each holder of Class C Shares would have been entitled to request that all of such holders' Class C Shares be, at their election, either: (i) redeemed by the Company at par value together with the issuance of 2,846,000 of IMAX Corporation's common shares, (ii) redeemed by the Company at par value together with the payment by IMAX Corporation in cash of the consideration paid by the holders of the Class C Shares, or (iii) exchanged and/or redeemed by the Company in a combination of cash and the shares of the Company equal to the pro rata fair market value of the Company. These rights terminated as a result of the IMAX China IPO, which was a qualified initial public offering for purposes of the shareholders' agreement. All of the Company's shares have been re-designated into a single class of shares.

The board of directors of the Company previously consisted of nine members, one of whom was appointed by CMC, one of whom was appointed by FountainVest, and one of whom was independent. On 27 May 2015, in connection with IMAX China's submission of an application on Form A1 for the purposes of the IMAX China IPO, and conditional upon completion of such initial public offering, five of the nine members of the board of directors of IMAX China resigned with effective on 26 May 2015 and three new board members were appointed. Two additional independent board members were appointed on 21 September 2015.

The Shareholders' Agreement automatically terminated following completion of the IMAX China IPO.

19. Redeemable Class C Shares (Continued)

The following summarises the movement related to the redeemable shares host liability in the Company (note 20):

Balance as at 1 January 2014	—
Proceeds from First Closing	40,000
Adjusted for:	
Fair value of conversion option	(12,365)
Transaction costs	(2,843)
Expensed transaction costs attributable to conversion option	261
Accretion of amortised cost of financial instrument	1,732
Balance as at 31 December 2014	26,785
Adjusted for:	
Proceeds from Second Closing	40,000
Fair value of conversion option	(12,841)
Transaction costs	(2,000)
Accretion of amortised cost of financial instrument	3,790
Conversion of redeemable preferred shares to ordinary shares	(55,734)
Balance as at 31 December 2015	—

On 8 October 2015, the Company completed the Listing and offering of its shares. The global offering comprised 71,300,000 shares, or approximately 20% of the enlarged issued share capital of the Group, after exercise in full of the underwriters' over–allotment option. As part of the offering, the Company received net proceeds of approximately $66.2 million, after deducting commissions, from the issuance of 17,825,000 new ordinary shares. Following completion of the offering, the Controlling Shareholder indirectly owns approximately 68.5% of the Company.

On 15 October 2015, in satisfaction of its obligations under the Shareholders' Agreement, the Company paid a special dividend to its pre-IPO shareholders, of which $38.1 million was paid to the Controlling Shareholder.

20. Financial instruments

(a) *Financial instruments*

The Group maintains cash with various major financial institutions.

The Group's accounts receivables and financing receivables are subject to credit risk. The Group's accounts receivable and financing receivables are concentrated with the theatre exhibition industry and film entertainment industry. To minimise the Group's credit risk, the Group retains title to underlying theatre systems leased, performs initial and ongoing credit evaluations of its customers and makes ongoing provisions for its estimate of potentially uncollectible amounts. The Group believes it has adequately provided for related exposures surrounding receivables and contractual commitments.

20. Financial instruments (Continued)

(b) ***Fair value measurements***

The carrying values of the Group's cash and cash equivalents, trade and other receivables, trade and other payables and accruals and other liabilities due within one year approximate fair values due to the short-term maturity of these instruments. The Group's other financial instruments at the following year ends are comprised of the following:

	As at 31 December 2015		As at 31 December 2014	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Net financed sales receivable	27,705	28,914	22,525	23,712
Net investment in finance leases	1,348	1,297	1,636	1,685
Available for sale investment	4,000	n/a	4,000	n/a[1]
Bifurcated conversion option – Redeemable Class C Shares	—	—	(12,942)	(12,942)

1 During the year ended 31 December 2014, the Company purchased one preferred share of IMAX (Hong Kong) Holding, Limited at a cost of $4.0 million. The investment is classified as available-for-sale. The preferred share does not have a quoted price in an active market and its fair value cannot be reliably measured, accordingly, it is measured at cost.

	Loans and receivables	Available-for sale	Total
31 December 2015			
Assets as per statement of financial position			
Available-for-sale financial assets	—	4,000	4,000
Net financed sales receivable	27,705	—	27,705
Net investment in finance leases	1,348	—	1,348
Trade and other receivables	35,640	—	35,640
Cash and cash equivalents	90,689	—	90,689
	155,382	4,000	159,382

20. Financial instruments (Continued)

(b) Fair value measurements (Continued)

	Liabilities at fair value through profit or loss	Liabilities at amortised cost	Total
Liabilities as per statement of financial position			
Bifurcated conversion option – Redeemable Class C Shares	—	—	—
Trade and other payables	—	12,172	12,172
	—	12,172	12,172

	Loans and receivables	Available-for sale	Total
31 December 2014			
Assets as per statement of financial position			
Available-for-sale investment	—	4,000	4,000
Net financed sales receivable	22,525	—	22,525
Net investment in finance leases	1,636	—	1,636
Trade and other receivables	25,287	—	25,287
Cash and cash equivalents	48,320	—	48,320
	97,768	4,000	101,768

	Liabilities at fair value through profit or loss	Liabilities at amortised cost	Total
Liabilities as per statement of financial position			
Bifurcated conversion option – Redeemable Class C Shares	12,942	—	12,942
Trade and other payables	—	39,900	39,900
	12,942	39,900	52,842

20. Financial instruments (Continued)

(b) Fair value measurements (Continued)

Cash and cash equivalents are comprised of cash and interest-bearing investments with original maturity dates of 90 days or less. Cash and cash equivalents are recorded at cost, which approximates fair value as at 31 December 2015 and 2014, respectively.

The estimated fair values of the net financed sales receivable and net investment in finance leases are estimated based on discounting future cash flows at currently available interest rates with comparable terms as at 31 December 2015 and 2014, respectively.

The Company identified a conversion option embedded in the Class C share agreement that required bifurcation from its host contract. On issuance of the Class C Shares in April 2014, the Company valued the option at $12.4 million. At 31 December 2014 the Company marked the option to market, increasing the value of the option by $0.6 million with a corresponding loss through Fair Value Adjustments in the consolidated statement of comprehensive income. On issuance of the additional Class C Shares in February 2015, the Company valued the additional option at $12.8 million. Immediately prior to the completion of the IPO, the Company marked the options to market, increasing the value of the Group's capital by $209.9 million with a corresponding loss through Fair Value Adjustments in the consolidated statement of comprehensive loss. The option was valued using a Monte Carlo simulation. The loss was a result of an increase in the equity value of the Group, which is the key assumption used in the valuation and is not based on observable inputs. The conversion option expired unexercised as a result of the reorganisation and IPO transactions in the year.

The equity value of the Group was determined using a discounted cash flow with consideration given to implied market multiples to other comparable companies, including IMAX Corporation (the Controlling Shareholder). The key assumptions used in determining the equity value of the Group along with the assumptions as of the relevant reporting periods are listed below:

	31 December 2015	31 December 2014
Discount rate	—	12%
Terminal growth rate	—	4%
Minority investment and liquidity discount	—	25%

There were no significant transfers between Level 1 and Level 2 during the year ended 31 December 2015 (2014: none). When a determination is made to classify an asset or liability within Level 3, the determination is based upon the significance of the unobservable inputs to the overall fair value measurement.

21. Expenses by nature

A breakdown of the Group's expenses is provided in the table below:

	Years Ended 31 December	
	2015	2014
Cost of theatre system sales and finance leases	20,342	15,292
Depreciation, including joint revenue sharing arrangements and film cost	10,229	8,552
Employee salaries and benefits	6,923	4,758
Theatre maintenance fees	3,990	3,199
Other employee expenses	1,801	1,776
Advertising and marketing expenses	3,923	3,304
Technology and trademark fees	5,964	4,045
Travel and transportation expenses	1,128	978
Professional fees	488	1,203
Foreign exchange and other business expenses	105	989
Operating lease rentals in respect of office buildings	882	457
Share-based compensation expenses	3,020	1,149
Other film costs (recovery)	(170)	892
Auditors' remuneration		
— Non-audit services	23	90
— Audit services	357	73
Utilities and maintenance expenses	48	36
Expensed transaction costs attributable to conversion option	—	261
Listing expenses	9,167	—
Total costs of sales, selling, general and administrative expenses and other operating expenses	68,220	47,054

22. Employee benefit expense

(a) Employee benefit expense

Staff costs during the year were as follows:

	Years Ended 31 December 2015	2014
Wages and salaries	6,365	4,365
Social security costs	198	104
Stock options granted to employees	3,020	1,149
Pension and other costs	360	289
	9,943	5,907

(b) Directors' emoluments

The remuneration of the directors for the year ended 31 December 2015 are set out below:

Year Ended 31 December 2015	Fee	Salaries	Bonus	Share-based compensation	Pension	Other[6]	Total
Executive Directors							
Jiande Chen[3]	–	400	138	134	5	255	932
Jim Athanasopoulos[3]	–	269	69	586	15	431	1,370
Mei-Hui Chou (Jessie)[3]	–	282	78	166	–	114	640
Non-executive Directors							
Richard Gelfond[1]	–	–	–	–	–	–	–
Greg Foster[1]	–	–	–	–	–	–	–
RuiGang Li[1]	–	–	–	–	–	–	–
Independent Non-executive Directors							
Yue-Sai Kan[2]	12	3	–	–	–	–	15
John Davison[4]	12	4	–	–	–	–	16
Dawn Taubin[4]	12	3	–	–	–	–	15

22. Employee benefit expense (Continued)

(b) *Directors' emoluments (Continued)*

The remuneration of the directors for the year ended 31 December 2014 are set out below:

	Year Ended 31 December 2014						
	Fee	Salaries	Bonus	Share-based compensation	Pension	Other[6]	Total
Executive Directors							
Jiande Chen[3]	–	385	150	135	5	261	936
Jim Athanasopoulos[3]	–	289	84	335	14	495	1,217
Mei-Hui Chou (Jessie)[3]	–	223	89	170	–	98	580
Non-executive Directors							
Richard Gelfond[1]	–	–	–	–	–	–	–
Greg Foster[1]	–	–	–	–	–	–	–
Joseph Sparacio[5]	–	–	–	–	–	–	–
Bob Pisano[1, 5]	–	–	–	–	–	–	–
Robert Lister[5]	–	–	–	–	–	–	–
Mark Welton[1, 5]	–	–	–	–	–	–	–
RuiGang Li[1]	–	–	–	–	–	–	–
Yue-Sai Kan[2]	–	–	–	–	–	–	–
Frank Tang[1, 5]	–	–	–	–	–	–	–

1 Joined 8 April 2014.
2 Joined 25 August 2014.
3 Joined 27 May 2015.
4 Joined 21 September 2015.
5 Resigned 26 May 2015.
6 Includes perquisites such as educational reimbursements of minor children, housing, car, and relocation allowances.

The remuneration of certain non-executive directors of the Company was borne by IMAX Corporation and other related parties. No allocation of the remuneration between these related parties and the Group have been made during the years presented.

Directors' remuneration includes any emoluments paid to or receivable in respect of services as a director of the Company or in connection with the management of the affairs of the Group.

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

22. Employee benefit expense (Continued)

(c) Five highest paid individuals

For the year ended 31 December 2015, the five individuals whose emoluments were the highest in the Group which includes 2 directors (2014: 3) whose emoluments are reflected in the analysis above, are as follows:

	Years Ended 31 December	
	2015 US$	2014 US$
Basic salary and allowance	1,172	1,214
Bonus	3,025	1,839
Share-based compensation	2,100	1,067
Other[1]	1,018	948
Pension	33	25
	7,348	5,093

1 Includes perquisites such as educational reimbursements of minor children, housing, car, and relocation allowances.

The emoluments of the five individuals fell within the following bands:

	Number of individuals Years Ended 31 December	
	2015	2014
In HK$'000		
4,000–4,500	—	2
5,500–6,000	1	—
7,000–7,500	1	1
9,000–9,500	—	1
10,000–10,500	1	—
13,500–14,000	—	1
16,000–16,500	1	—
17,000–17,500	1	—
	5	5

During the years presented, no emolument was paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for the loss of office.

22. Employee benefit expense (Continued)

(d) Senior management remuneration by band

The emoluments of the senior management fell within the following band:

	Number of individuals Years Ended 31 December	
	2015	2014
In HK$'000		
4,000–4,500	—	1
4,500–5,000	1	—
5,500–6,000	1	—
7,000–7,500	1	1
9,000–9,500	—	1
10,000–10,500	1	—
13,500–14,000	—	1
16,000–16,500	1	—
17,000–17,500	1	—
	6	4

23. Segment information

The Group has five reportable segments identified by category of product sold or service provided: sales arrangements; theatre system maintenance; revenue sharing arrangements; film business; and other. The sales arrangements segment sells or leases IMAX theatre projection system equipment. The theatre system maintenance segment maintains IMAX theatre projection system equipment in the IMAX theatre network. The revenue sharing arrangements segment provides IMAX theatre projection system equipment to an exhibitor in exchange for a share of the box-office and concession revenues. The other segment sells glasses and other miscellaneous items. The film segment absorbs its costs to purchase the film from IMAX Corporation and then recoup this cost from a percentage of the gross box-office receipts of the film, which generally range from 9.5–15.0%. The other segment includes after-market sales and other miscellaneous items. The accounting policies of the segments are the same as those described in note 2.

Management, including the Group's executive directors, assesses segment performance based on segment revenues, gross margins and film performance. Selling, general and administrative expenses, trademark and technology fees, interest income, interest expense and tax (provision) recovery are not allocated to the segments.

Inter-segment profits are eliminated upon consolidation, as well as for the disclosures below.

Transactions between the other segments are not significant.

23. Segment information (Continued)

(a) Operating segments

	Years Ended 31 December 2015	2014
Revenue		
Theatre Business		
Sales arrangements	37,038	28,662
Theatre system maintenance	9,346	7,214
Revenue sharing arrangements	34,498	22,755
Other	1,237	996
	82,119	59,627
Film Business	28,472	18,591
Total	110,591	78,218
Gross profit		
Theatre Business		
Sales arrangements	25,570	19,519
Theatre system maintenance	5,357	3,969
Revenue sharing arrangements	19,202	10,658
Other	418	410
	50,547	34,556
Film Business	21,733	11,904
Total gross profit	72,280	46,460
Selling, general and administrative expenses	(23,859)	(11,251)
Other operating expenses	(6,050)	(4,045)
Accretion of amortised cost of financial instrument	(3,790)	(1,732)
Fair value adjustment of conversion option	(209,884)	(577)
Interest income	436	221
Interest expense	—	(10)
(Loss) profit before income tax	(170,867)	29,066

23. Segment information (Continued)

(a) Operating segments (Continued)

The Group's operating assets and liabilities are located in Greater China. All revenue earned by the Group is generated by the activity of IMAX theatres operating in Greater China.

Sales arrangements included $0.9 million of contingent rent recognised as income in 2015 (2014: $0.4 million). Revenue sharing arrangements included contingent rent recognised as income of $24.3 million in 2015 (2014: $15.1 million).

Significant Customers

Revenue from the Group's significant customers (individually defined as greater than 10% of total revenues) as reported in segments are as follows:

Customer A

Revenues of approximately $27.0 million in 2015 (2014: $18.0 million) are derived from a single external customer. These revenues are attributable to the IMAX systems, theatre system maintenance, joint revenue sharing arrangements, and other segments.

Customer B

Revenues of approximately $20.6 million in 2015 (2014: $14.1 million) are derived from a single external customer. These revenues are attributable to the IMAX DMR and theatre system maintenance segments.

Customer C

Revenues of approximately $11.7 million in 2015 (2014: $5.7 million) are derived from a single external customer. These revenues are attributable to the IMAX systems, theatre system maintenance, and other segments.

No other single customers comprises of more than 10% of total revenues in 2015 or 2014.

23. Segment information (Continued)

Supplemental Information

(b) Depreciation and amortisation

	Years Ended 31 December	
	2015	2014
IMAX systems	48	44
Theatre systems maintenance	135	6
Joint revenue sharing arrangements	4,465	3,549
Films		
IMAX DMR	5,475	4,692
Corporate and other non-segment specific assets	106	266
Total	10,229	8,557

(c) Loss an disposal of property, plant and equipment

	Years Ended 31 December	
	2015	2014
Joint revenue sharing arrangements	133	—
Total	133	—

24. Statement of cash flow supplemental information

Cash provided by operations

		Years ended 31 December	
	Notes	2015	2014
(Loss) profit for the year		(181,865)	22,781
Adjustments for:			
Amortisation of film assets	10	5,475	4,692
Depreciation of property, plant and equipment	6	4,754	3,865
Accretion of amortised cost of financial instrument	19	3,790	1,732
Fair value adjustment of conversion option	20(b)	209,884	577
Changes in deferred income taxes		(497)	(38)
Share and other non-cash compensation		3,020	1,143
Loss on disposal of property, plant and equipment	23(c)	133	—
Foreign exchange loss		301	236
Investment in film assets		(5,425)	(4,710)
Non-cash invested capital		—	3,763
Changes in working capital			
Trade and other receivables		(10,353)	(6,954)
Inventories		(2,932)	(2,704)
Financing receivables		(4,892)	2,734
Trade and other payables		(27,728)	7,770
Taxes payable		9,256	9,264
Accruals and other liabilities		(1,011)	(542)
Deferred revenue		11,090	(8,154)
Prepayments		(160)	(638)
Other assets		(652)	196
Cash provided by operations		12,188	35,013

25. Commitments

(a) Capital commitments

As at 31 December 2015, the Group had capital expenditures contracted but not provided for of $0.7 million (2014: $nil).

As at 31 December 2015, the Group had capital expenditures authorised but not contracted for of $nil (2014: $nil).

(b) Operating lease commitments — Group as lessee

The Group leases various offices, apartments, and warehouses under non-cancellable operating lease agreements. The lease terms are between 1 and 3 years, and the majority of lease agreements are renewable at the end of the lease period at market rate. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December	
	2015	2014
Within one year	2,054	1,141
Between 1 and 2 years	1,579	561
Between 2 and 3 years	1,336	—
Thereafter	104	—
	5,073	1,702

Rent expense was $1.2 million for the year ended 31 December 2015 (2014: $0.6 million).

26. Contingencies and guarantees

The Group is involved in lawsuits, claims, and proceedings, including those identified below, which arise in the ordinary course of business. In accordance with the Group's policies, the Group will make a provision for a liability when it is both probable that a loss has been incurred and the amount of the loss can be reasonably estimated. The Group believes it has adequate provisions for any such matters. The Group reviews these provisions in conjunction with any related provisions on assets related to the claims at least quarterly and adjusts these provisions to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel and other pertinent information related to the case. Should developments in any of these matters outlined below cause a change in the Group's determination as to an unfavourable outcome and result in the need to recognise a material provision, or, should any of these matters result in a final adverse judgment or be settled for significant amounts, they could have a material adverse effect on the Group's results of operations, cash flows, and financial position in the year or years in which such a change in determination, settlement or judgment occurs.

26. Contingencies and guarantees (Continued)

The Group expenses legal costs relating to its lawsuits, claims and proceedings as incurred.

In March 2013, IMAX (Shanghai) Multimedia Technology Co., Ltd., the Company's wholly-owned subsidiary in China, received notice from the Shanghai office of the General Administration of Customs that it had been selected for a customs audit. The Group is unable to assess the potential impact, if any, as of the date of this report.

Financial guarantees

The Group has not provided any significant financial guarantees to third parties.

27. Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

The Controlling Shareholder of the Company is IMAX Corporation (incorporated in Canada) which holds 68.5% of the Company's shares.

The following continuing transactions were carried out with related parties:

(a) Purchases and sales of goods and services

	Years Ended 31 December	
	2015	2014
Purchase of goods:		
IMAX Corporation (theatres systems)	29,977	20,754
Purchase of services:		
IMAX Corporation (film related transactions)	5,548	5,248
IMAX Corporation (management fees — legal and administration services)	634	500
Other transactions:		
IMAX Corporation (reimbursement of compensation of Company employees paid by IMAX Corporation)	3,122	3,021
IMAX Corporation (trademark and technology fees)	5,749	4,045
Revenue earned from film services through IMAX Corporation	20,370	14,025
Revenue earned from maintenance services provided to IMAX Corporation	121	107

27. Related party transactions (Continued)

(a) Purchases and sales of goods and services (Continued)

Goods are bought from the Controlling Shareholder on a cost-plus basis. Management services, trademark and technology fees are bought from the Controlling Shareholder based on service and fee agreements. Management fees related to legal and administrative services provided by IMAX Corporation to the Group have been charged in the amount of $0.5 million per annum.

The following non-continuing transactions were carried out with related parties:

(b) Purchases and sales of goods and services

	Years Ended 31 December	
	2015	2014
Legal transfer of contracts:		
IMAX Corporation (theatres systems and maintenance contracts)	—	8,557

In conjunction with the legal transfer of contracts the Group paid $16.7 million in cash and a $3.3 million note payable. This total of $20.0 million has been charged to the Controlling Shareholder's net investment account in equity. The cash payments are reported within the line item 'Payment for legally transferred contracts' while the note payable has been debited to equity within the line item 'Controlling Shareholder's net investment'. The legal transfer occurred in two tranches in 2013 and 2014, while the payments to legally acquire these contracts occurred in 2014.

(c) Year-end balances arising from sales/purchases of goods/services

	As at 31 December,	
	2015	2014
Receivables from related parties (note 8):		
IMAX Corporation	14,991	12,038
Payables to related parties (note 14):		
IMAX Corporation	10,900	38,463

The receivables and payables from related parties arise mainly from purchase, sale, service and fee transactions and do not bear interest nor have fixed repayment terms and are due on demand.

27. Related party transactions (Continued)

(d) *Other related party transactions*

	As at 31 December	
	2015	2014
Investment in IMAX (Hong Kong) Holding, Limited	4,000	4,000

The Group has a preferred share investment in IMAX (Hong Kong) Holding, Limited, an entity owned by one of the Controlling Shareholder's subsidiaries, which holds an investment in a joint venture. The preferred share investment is accounted for as available for sale investment at cost (note 20(b)). The Group legally transferred a note receivable as consideration for the preferred share investment. The key terms for the arrangement, which will be fully defined in the amended Articles of Association for IMAX (Hong Kong) Holding, Limited, currently provide the Group with rights to dividends and other distributions, redemption rights should IMAX Corporation sell all or part of its interest in the investment and the right to nominate one representative to the Board of Directors.

(e) *Key management compensation*

Key management includes members of the executive committee. The compensation paid or payable to key management for employee services is shown below:

	Years Ended 31 December	
	2015	2014
Salaries and other short-term employee benefits	4,557	2,514
Post-employment benefits	33	25
Other benefits[1]	1,131	948
Share-based payments	2,267	986
	7,988	4,473

1 Includes perquisites such as educational reimbursements of minor children, housing, car, and relocation allowances.

28. Government grants

The following government grants have been recognised in comprehensive (loss) income:

	Years Ended 31 December	
	2015	2014
Cost of sales	1,531	474
Selling, general and administrative expenses	341	113
Income tax expense	1,340	539
	3,212	1,126

29. Balance sheet and reserve movement of the Company

(a) Balance sheet

	As at 31 December	
	2015	2014
ASSETS		
Non-current assets		
Investment in subsidiaries	32,538	32,538
Other assets	35	35
	32,573	32,573
Current assets		
Prepayments	91	—
Trade and other receivables	19,230	11,500
Cash and cash equivalents	53,512	6,520
	72,833	18,020
Total Assets	105,406	50,593
LIABILITIES		
Non-current liabilities		
Other liabilities	—	12,942
Redeemable Class C Shares	—	26,785
	—	39,727
Current liabilities		
Trade and other payables	4,415	881
Accrued and other liabilities	2,118	—
Total Liabilities	6,533	40,608
EQUITY		
Share capital	35	27
Share premium	369,864	12,311
Capital reserve	349	—
Accumulated deficit	(271,375)	(2,353)
Total Equity	98,873	9,985
Total Equity and Liabilities	105,406	50,593

Balance sheet of the Company was approved by the board of directors on 24 February 2016 and was signed on its behalf

Jiande Chen
Director

Jim Athanasopoulos
Director

29. Balance sheet and reserve movement of the Company (Continued)

(b) Reserve movement

	Share Capital	Share Premium	Capital Reserve	Accumulated Deficit	Total Equity
Balance as at 1 January 2014	20	4,980	—	—	5,000
Comprehensive loss					
Loss for the year	—	—	—	(2,353)	(2,353)
Other comprehensive loss	—	—	—	—	—
Total comprehensive loss	—	—	—	(2,353)	(2,353)
Issuance of shares	7	7,331	—	—	7,338
Total transactions with owners, recognised directly in equity	7	7,331	—	—	7,338
Balance as at 31 December 2014	27	12,311	—	(2,353)	9,985
Comprehensive loss					
Loss for the year	—	—	—	(221,464)	(221,464)
Other comprehensive loss	—	—	—	—	—
Total comprehensive loss	—	—	—	(221,464)	(221,464)
Controlling Shareholder's net investment	—	—	(2,656)	—	(2,656)
Issuance of ordinary shares related to initial public offering	2	71,289	—	—	71,291
Issuance costs of ordinary shares charged to share premium	—	(5,131)	—	—	(5,131)
Conversion of Redeemable Class C Shares into ordinary shares	6	55,728	—	—	55,734
Exercise of Redeemable Class C Shares bifurcated options	—	235,667	—	—	235,667
Special dividend paid to pre-IPO shareholders	—	—	—	(47,558)	(47,558)
China long-term incentive plan	—	—	3,005	—	3,005
Total transactions with owners, recognised directly in equity	8	357,553	349	(47,558)	310,352
Balance as at 31 December 2015	35	369,864	349	(271,375)	98,873

29. Balance sheet and reserve movement of the Company (Continued)

(c) Subsidiaries

The following is a list of the principal subsidiaries as at 31 December 2015:

Name of the Company	Place of incorporation, type of legal entity and date of incorporation	Principal activities and place of operation	Issued shares and paid up capital	Proportion of ordinary shares directly held by parent (%)	Proportion of ordinary shares held by the Group (%)
IMAX China (Hong Kong), Limited	Hong Kong S.A.R Limited Liability Company 12 November 2010	Sale and lease of theatre systems and associated film performance in Greater China	2 ordinary shares for HK39,000,000 12 ordinary shares for US$ 27,538,341	100%	100%
IMAX (Shanghai) Multimedia Technology Co., Ltd.	The PRC Wholly owned foreign-enterprise 31 May 2011	Sale and lease of theatre systems and associated film performance in Mainland China	Paid in capital of US$ 11,500,000	–	100%
IMAX (Shanghai) Theatre Technology Services Co., Ltd.	The PRC Wholly owned foreign-enterprise 9 November 2011	Technological development of theatre systems, provision of after-sales services (including installation), maintenance and repair of theatre systems and equipment in the PRC	Paid in capital of US$ 200,000	–	100%

(d) Dividends

On 15 October 2015, the Company paid a special dividend to its pre-IPO shareholders of $47.6 million (2014: $nil). No dividends in respect of the year ended 31 December 2015 have been proposed.

Financial Summary

	FY2015 US$'000	FY2015 %	FY2014 US$'000	FY2014 %	FY2013 US$'000	FY2013 %	FY2012 US$'000	FY2012 %
Revenues	**110,591**	**100.0%**	78,218	100.0%	55,949	100.0%	46,639	100.0%
Cost of sales	**(38,311)**	**(34.6)%**	(31,758)	(40.6%)	(23,701)	(42.4%)	(22,294)	(47.8%)
Gross profit	**72,280**	**65.4%**	46,460	59.4%	32,248	57.6%	24,345	52.2%
Selling, general and administrative expenses	**(23,859)**	**(21.6)%**	(11,251)	(14.4%)	(8,867)	(15.8%)	(7,947)	(17.0%)
Other operating expenses	**(6,050)**	**(5.5)%**	(4,045)	(5.2%)	(2,445)	(4.4%)	(1,019)	(2.2%)
Operating profit	**42,371**	**38.3%**	31,164	39.8%	20,936	37.4%	15,379	33.0%
Accretion of amortised cost of financial instrument	**(3,790)**	**(3.4)%**	(1,732)	(2.2%)	–	–	–	–
Fair value adjustment of conversion option	**(209,884)**	**(189.8)%**	(577)	(0.7%)	–	–	–	–
Interest income	**436**	**0.4%**	221	0.3%	14	0.0%	11	0.0%
Interest expense	**–**	**–%**	(10)	0.0%	–	0.0%	–	0.0%
(Loss) profit before income tax	**(170,867)**	**(154.5)%**	29,066	37.2%	20,950	37.4%	15,390	33.0%
Income tax expense	**(10,998)**	**(9.9)%**	(6,285)	(8.0%)	(3,495)	(6.2%)	(2,523)	(5.4%)
(Loss) profit for the year	**(181,865)**	**(164.4)%**	22,781	29.1%	17,455	31.2%	12,867	27.6%
Other comprehensive loss:								
Change in foreign currency translation adjustments	**(2,207)**	**(2.0)%**	(199)	(0.3%)	(89)	(0.2%)		
Other comprehensive loss, net of tax	**(2,207)**	**(2.0)%**	(199)	(0.3%)	(89)	(0.2%)	–	–
Total comprehensive (loss) income for the year	**(184,072)**	**(166.4)%**	22,582	28.9%	17,366	31.0%	12,867	27.6%

	As at 31 December 2015 US$'000	2014 US$'000	2013 US$'000	2012 US$'000
Total assets	**222,162**	151,176	85,338	54,574
Total liabilities	**64,440**	124,868	82,195	54,458
Total equity	**157,722**	26,308	3,143	116

Definitions

In this Annual Report, unless the context otherwise requires, the following expressions shall have the following meanings.

"Articles of Association"	the articles of association of the Company adopted on 21 September 2015 and effective from the Listing Date, as amended from time to time
"Board" or "Board of Directors"	the board of directors of the Company
"business day"	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for normal banking business
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented from time to Time
"Company" or "IMAX China"	IMAX China Holding, Inc., a company incorporated under the laws of the Cayman Islands with limited liability on 30 August 2010
"connected person", "connected transaction", "controlling shareholder", "subsidiary" and "substantial shareholder"	shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires
"Contingency Agreements"	contingency agreements in place to guard against any failure of supply by IMAX Corporation. See "Relationship with our Controlling Shareholders" in the Prospectus for further details
"CG Code"	the Corporate Governance Code set out in Appendix 14 of the Listing Rules
"Directors"	the directors of the Company and "**Director**" shall be construed accordingly as a director of the Company

Definitions (Continued)

"Escrow Documents"	the design plans, specifications and know-how necessary to enable the Group to manufacture and assemble IMAX digital xenon projection systems, IMAX laser-based digital projection systems and nXos2 audio systems itself, or subcontract the manufacturing and assembly works to third party manufacturers and to convert conventional films into IMAX format films
"FY" or "financial year"	financial year ended or ending 31 December
"Global Offering"	the offering of the Shares on the Main Board of the Stock Exchange
"Greater China"	for the purposes of this document only, the PRC, Hong Kong, Macau and Taiwan
"Group", "we", "our" or "us"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IFRS"	International Financial Reporting Standards issued by the International Accounting Standards Board
"IMAX Barbados"	IMAX (Barbados) Holding, Inc., a company incorporated in Barbados with limited liability on 18 August 2010 and a controlling shareholder of the Company
"IMAX Corporation" or the "Controlling Shareholder"	IMAX Corporation, a company incorporated in Canada with limited liability in 1967 and listed on the New York Stock Exchange (NYSE: IMAX) and our ultimate controlling shareholder, or where the context requires, any of its wholly-owned subsidiaries
"IMAX Hong Kong"	IMAX China (Hong Kong), Limited, a company incorporated in Hong Kong with limited liability on 12 November 2010, which changed its name to its present name on 16 March 2011 and a direct wholly-owned subsidiary of the Company

"IMAX Hong Kong Holding"	IMAX (Hong Kong) Holding, Limited, a company incorporated in Hong Kong and a direct wholly-owned subsidiary of IMAX Barbados
"IMAX Hong Kong Theatre Percentage"	the percentage that all IMAX theatres using IMAX theatre systems in Hong Kong, Macau and Taiwan represents of all IMAX theatres in the PRC, Hong Kong, Macau and Taiwan
"IMAX Shanghai Multimedia"	IMAX (Shanghai) Multimedia Technology Co., Ltd., a wholly foreign-owned enterprise established under the laws of the PRC on 31 May 2011 and a direct wholly-owned subsidiary of IMAX Hong Kong
"Listing"	the listing of the Shares on the Main Board of the Stock Exchange
"Listing Date"	8 October 2015
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
"Long Term Incentive Plan" or "LTIP"	the long term incentive plan adopted by the Company in October 2012
"Macau"	Macau Special Administrative Region of the PRC
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules
"PRC" or "China"	the People's Republic of China, but for the purposes of this document only, except where the context requires, references in this Annual Report to PRC or China exclude Hong Kong, Macau and Taiwan
"Prospectus"	the prospectus of the Company dated 24 September 2015

Definitions (Continued)

"RSU Scheme"	the restricted share unit scheme conditionally adopted pursuant to a resolution of our sole shareholder dated 21 September 2015, the principal terms of which are summarised in the section headed "Directors' Report — The RSU Scheme" in this Annual Report
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
"Share Option Scheme"	the share option scheme conditionally adopted pursuant to a resolution of our sole shareholder dated 21 September 2015, the principal terms of which are summarised in the section headed "Directors' Report — The Share Option Scheme" in this Annual Report
"Shareholder(s)"	holder(s) of Shares
"Share(s)"	Ordinary share(s) with a nominal value of US$0.0001 each in the share capital of the Company and a "**Share**" means any of them
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"TCL-IMAX Entertainment"	TCL-IMAX Entertainment Co., Limited, a company incorporated in Hong Kong with limited liability on 3 January 2014, being the joint venture company jointly owned by IMAX Hong Kong Holding and Sino Leader (Hong Kong) Limited, which is wholly owned by TCL Multimedia Technology Holdings Limited
"Tier 1 Cities"	Beijing, Shanghai, Guangzhou and Shenzhen
"Tier 2 Cities"	Tianjin, Hangzhou, Suzhou, Chengdu, Ningbo, Qingdao, Nanjing, Wuhan, Wuxi, Changsha, Chongqing, Zhengzhou, Shenyang, Xi'an, Jinan

"Tier 3 Cities"	Shijiazhuang, Kunming, Dalian, Changchun, Hohhot, Taiyuan, Hefei, Fuzhou, Xiamen, Ha'erbin, Nanchang, Shantou, Zhuhai, Haikou, Sanya, Nanning, Guiyang, Lasa, Lanzhou, Xining, Yinchuan, Urumchi, Baoding, Jinhua, Yantai, Taizhou, Changzhou, Nantong, Shaoxing, Jiaxing, Quanzhou, Cangzhou, Zibo, Handan, Jining, Xuzhou, Langfang, Ordos, Zhongshan, Dongying, Yulin, Dezhou, Binzhou, Huzhou, Luoyang, Weihai, Xingtai, Dongguan, Foshan, Wenzhou, Weifang, Linyi, Tangshan and Baotou
"Tier 4 Cities"	all cities in the PRC at or above the prefecture-level other than Tier 1, Tier 2 and Tier 3 Cities
"U.S." or "United States"	the United States of America, its territories and possessions, any state of the United States and the District of Columbia
"USD" or "US$" or "$"	U.S. dollars, the lawful currency of the United States of America

Glossary

This glossary contains explanations of certain terms used in this Annual Report in connection with the Group and its business. The terminologies and their meanings may not correspond to standard industry meanings or usage of those terms.

"2D"	two-dimensional
"3D"	three-dimensional
"backlog"	our backlog comprises the aggregate number of commitments for IMAX theatre installations pursuant to contracts we have entered into with exhibitors
"box office"	the gross aggregate proceeds from ticket sales received by the relevant exhibitor(s) in the relevant market(s) for the relevant type(s) of film. For example, the Greater China box office is the aggregate proceeds from ticket sales received by all exhibitors in Greater China, and the Greater China IMAX box office is the aggregate proceeds from ticket sales received by all the exhibitors in Greater China in respect of IMAX format films and IMAX Original Films. We also use the concept of box office in our revenue sharing arrangements, where it refers to the aggregate proceeds from ticket sales received by exhibitors in respect of IMAX format films with which we have entered into a revenue sharing arrangement
"box office revenue"	the portion of box office that is due to be paid to the Group under revenue sharing arrangements in our theatre systems business and/or arrangements with IMAX Corporation and studios in our films business, as applicable
"Chinese language films"	a motion picture approved for theatrical release in the PRC which has been produced by a PRC producer or jointly produced by a PRC producer and a foreign producer, and which meets the requirements of the relevant laws and regulations of the PRC
"commercial theatre"	a theatre owned or operated by an exhibitor, excluding theatres associated with museums, zoos, aquaria and other destination entertainment sites which do not play commercial films
"distributor"	an organisation that distributes films to exhibitors or, in the PRC, theatre circuits for exhibition at theatres
"exhibitor"	exhibitors are theatre investment management companies which own and operate theatres; exhibitors receive copies of films from the theatre circuits but retain control over the screening schedules

"full revenue sharing arrangement"	an arrangement with an exhibitor pursuant to which we contribute an IMAX theatre system to that exhibitor in return for a portion of that exhibitor's box office generated from IMAX format films over the term of the arrangement, and no, or a relatively small, upfront payment
"Greater China DMR Film"	a conventional Chinese language film produced by a third party which is converted into IMAX format and released to IMAX theatres in Greater China pursuant to a DMR production services agreement entered into between IMAX Shanghai Multimedia or IMAX Hong Kong and a distributor in their respective territories
"Greater China Original Film"	any Chinese language film invested in, produced or coproduced by IMAX Shanghai Multimedia or IMAX Hong Kong and released to IMAX theatres in Greater China, which may or may not be in IMAX format
"Hollywood films"	an imported motion picture for theatrical release in the PRC where the importation and release of such motion picture has been permitted in accordance with the annual quota imposed by the PRC government
"Hollywood studio"	a studio producing Hollywood films
"hybrid revenue sharing arrangement"	an arrangement with an exhibitor pursuant to which we contribute an IMAX theatre system to that exhibitor in return for an upfront fee that is typically half of the payment under a sales arrangement and a portion of that exhibitor's box office generated from IMAX format films over the term of the arrangement, that is typically half of that under a full revenue sharing arrangement
"IMAX digital xenon projection system"	the xenon-based digital projection system, developed and rolled out by IMAX Corporation in 2008
"IMAX DMR"	the proprietary digital re-mastering process or any other post-production process and/or technology used by IMAX Corporation in connection with the conversion of a conventional film into an IMAX format film
"IMAX format film"	a film converted from a conventional film using IMAX DMR technology
"IMAX laser-based digital projection system"	the dual 4k laser-based digital projection system, developed and rolled out by IMAX Corporation at the end of 2014
"IMAX Original Film"	any IMAX format film invested in, produced or co-produced by IMAX Corporation and released to IMAX theatres, and/or for which IMAX Corporation owns and/or controls its theatrical distribution rights
"IMAX theatre"	any movie theatre in which an IMAX screen is installed

Glossary (Continued)

"multiplex"	a movie theatre with more than one screen for the exhibition of films
"revenue sharing arrangement"	an arrangement with an exhibitor pursuant to which we contribute an IMAX theatre system to that exhibitor in return for, among other things, a portion of that exhibitor's box office generated from IMAX format films over the term of the arrangement; our revenue sharing arrangements are either full revenue sharing arrangements or hybrid revenue sharing arrangements (See the separate glossary explanations for these terms)
"sales arrangement"	an arrangement with an exhibitor pursuant to which we sell that exhibitor an IMAX theatre system for a fee and the exhibitor agrees to pay us on-going royalty fees for use of the IMAX brand and technology over the term of the arrangement
"studio"	an organisation that produces films (which may include all or some of script writing, financing, production team and equipment sourcing, casting, shooting and post production), owns the copyright to the films it produces and works with distributors to release those films at theatres
"take rate"	a film studio's share of box office generated from a particular film, after making certain tax and other deductions
"theatre circuit"	an organisation that distributes newly released films to theatres within that circuit; every theatre in the PRC must be affiliated with a theatre circuit

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