IMAX CHINA HOLDING, INC.

Incorporated in the Cayman Islands with limited liability

Stock code : 1970

Interim Report 2019

IMAX®

Contents

IMAX CHINA HOLDING, INC.
Interim Report 2019

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Richard Gelfond (Chair)
Megan Colligan
Ruigang Li

Independent Non-executive Directors

John Davison
Yue-Sai Kan
Dawn Taubin

AUDIT COMMITTEE

John Davison (Chair)
Dawn Taubin
Richard Gelfond

REMUNERATION COMMITTEE

Yue-Sai Kan (Chair)
John Davison
Megan Colligan

NOMINATION COMMITTEE

Richard Gelfond (Chair)
Yue-Sai Kan
Dawn Taubin

JOINT COMPANY SECRETARIES

Chan Wai Ling, *FCS, FCIS (PE)*
Zi Maggie Chen

AUTHORISED REPRESENTATIVES

Jim Athanasopoulos
Chan Wai Ling, *FCS, FCIS (PE)*

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

CORPORATE HEADQUARTERS

7/F, Verdant Place
No, 128 West Nanjing Road
Huangpu District, Shanghai
People's Republic of China

REGISTERED OFFICE

c/o Maples Corporate Services Limited
PO Box 309
Ugland House
Grand Cayman
KY1-1104 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

STOCK CODE

1970

COMPANY WEBSITE

www.imax.cn

Financial Highlights

	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Total revenue (US$'000)	**59,256**	51,487
Gross profit (US$'000)	**41,047**	37,006
Gross profit %	**69.3%**	71.9%
Profit for the period (US$'000)	**23,965**	20,465
Profit for the period %	**40.4%**	39.7%
Profit per share (US$)	**0.07**	0.06
Adjusted profit (US$'000)	**24,894**	21,251
Adjusted profit %	**42.0%**	41.3%
Total theater system signings	**51**	34
Total theater system installations	**30**	25
Sales arrangements	**5**	8
Revenue sharing arrangements	**19**	17
IMAX with Laser upgrades	**6**	—
Total network	**662**	569
Total backlog	**298**	318
Gross box office (US$'000)	**235,959**	189,579
Box office per screen (US$'000)	**379**	361

2019 OUTLOOK

The Company expects to install approximately 90–95 new theatres for the year 2019. We expect the mix and pace of these installations to be roughly similar to last year. We also expect our selling, general and administrative expenses, excluding share-based compensation to be roughly flat over 2018.

Management Discussion and Analysis

OVERVIEW

The management discussion and analysis is based on the Company's condensed consolidated interim financial information for 1HFY2019 prepared in accordance with International Accounting Standard 34 and must be read together with the condensed consolidated interim financial information and the notes which form an integral part of the condensed consolidated interim financial information.

DESCRIPTION OF SELECTED LINE ITEMS IN THE CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

Revenue

We derive a majority of our revenue from our three primary groups — the Network Business, the Theatre Business and the New Business and Other.

Network Business

Our Network Business represents all variable revenue generated by box-office results and includes three segments:

- Film, pursuant to which the Company generates revenue from a certain percentage of IMAX box office received by our studio partners for the conversion and release of Hollywood and Chinese language films to the IMAX theatre network. Film revenue is recognized when reported by our exhibitor partners;

- Revenue sharing arrangements, of which the Company has two types — full revenue sharing arrangements and hybrid revenue sharing arrangements. Under its full revenue sharing arrangements, the Company leases IMAX theater systems to its exhibitor partners, and provides related services, in return for ongoing fees of contingent rent based on a percentage of the IMAX box office from the relevant IMAX theatre. Under full revenue sharing arrangements, the customer pays no upfront fee. Under hybrid revenue sharing arrangements, the Company receives ongoing fees of contingent rent based on a percentage of IMAX box office from the relevant IMAX theatre. The Company also receives a fixed upfront fee, which is less than the sales price, and which is recorded in the theatre business segment. Contingent rent revenue from revenue sharing arrangements is recognized when reported by our exhibitor partners; and,

- Sale and sales-type lease arrangements, consist of variable payments from the Company's sales type leases in excess of certain fixed minimum ongoing payments, under arrangements in the IMAX sales arrangements, which are recognized when reported by exhibitor partners, provided collectability is reasonably assured.

Theatre Business

The Theatre Business represents all fixed revenues that are primarily derived from exhibitor partners through either sale and sales-type lease or revenue sharing arrangements, and the revenue generated by maintenance services and aftermarket sales. Theatre Business revenue is revenue not directly tied to box office results and includes the following four segments:

- Sales and sales-type lease arrangements, pursuant to which the Company generates revenue from the one-time sale of an IMAX theatre system and related services. The revenue recognized includes the upfront purchase price and fixed, discounted minimum ongoing payments and contingent rent on sales and sales-type lease arrangements. Sales and sales-type lease arrangements revenue is recognized at the time of installation and exhibitor acceptance of the respective IMAX theatre system;

- Revenue sharing arrangements, pursuant to which the Company receives a reduced, fixed upfront fee under its hybrid revenue sharing arrangement. In addition, the Company receives ongoing fees of contingent rent based on a percentage of IMAX box office from the relevant IMAX theater which is recorded in network business revenue group described above. Revenue sharing arrangements upfront fees revenue is recognized at the time of installation and exhibitor acceptance of the IMAX theater system;

- Theatre system maintenance, pursuant to which the Company generates revenue from the provision of ongoing maintenance services. The revenue recognized is primarily comprised of an annual maintenance fee payable by exhibitor partners under all sales and revenue sharing arrangements; and,

- Other theatre, pursuant to which the Company generates revenue from the aftermarket sales of 3D glasses, screen sheets, sound, parts and other items.

Management Discussion and Analysis (Continued)

New Business and Other

New business and other includes all revenue in connection with any other non-core business initiatives that are in development and/or start-up phase.

The following table sets out the revenue for our respective business segments for the periods indicated, as well as the percentage of total revenue they each represent:

	1HFY2019		1HFY2018	
	US$'000	**%**	US$'000	%
Network Business				
Film	**17,921**	**30.2%**	14,933	29.0%
Revenue sharing arrangements — contingent rent	**15,824**	**26.7%**	12,245	23.8%
Sub-total	**33,745**	**56.9%**	27,178	52.8%
Theatre Business				
Sales and sales-type lease arrangements	**10,364**	**17.5%**	13,224	25.7%
Revenue sharing arrangements — upfront fees	**3,537**	**6.0%**	1,022	2.0%
Theatre system maintenance	**10,859**	**18.3%**	9,554	18.6%
Other theatre	**606**	**1.0%**	422	0.8%
Sub-total	**25,366**	**42.8%**	24,222	47.0%
New Business and Other	**145**	**0.2%**	87	0.2%
Total	**59,256**	**100.0%**	51,487	100.0%

Cost of Sales

Our cost of sales are primarily comprised of costs for the rights of all digital re-mastered films purchased under our intercompany agreement with IMAX Corporation, the costs of IMAX theatre systems and related services under sales and hybrid revenue sharing arrangements, depreciation of IMAX theater systems capitalized under full revenue sharing arrangements and certain one-time, upfront costs at the time of system installation and exhibitor acceptance of the respective IMAX theater system such as marketing costs for IMAX theater launches, commissions and the cost for providing any maintenance service during a warranty period.

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

	1HFY2019		1HFY2018	
	US$'000	**%**	US$'000	%
Network Business				
Film	**2,653**	**14.8%**	2,205	14.8%
Revenue sharing arrangements — contingent rent	**5,745**	**36.3%**	5,529	45.2%
Sub-total	**8,398**	**24.9%**	7,734	28.5%
Theatre Business				
Sales and sales-type lease arrangements	**2,533**	**24.4%**	2,852	21.6%
Revenue sharing arrangements — upfront fees	**2,503**	**70.8%**	795	77.8%
Theatre system maintenance	**4,385**	**40.4%**	2,800	29.3%
Other theatre	**356**	**58.7%**	224	53.1%
Sub-total	**9,777**	**38.5%**	6,671	27.5%
New Business and Other	**34**	**23.4%**	76	87.4%
Total	**18,209**	**30.7%**	14,481	28.1%

Gross Profit and Gross Profit Margin

The following table sets out the gross profit and gross profit margin for our respective segments for the periods indicated:

	1HFY2019		1HFY2018	
	US$'000	**%**	US$'000	%
Network Business				
Film	**15,268**	**85.2%**	12,728	85.2%
Revenue sharing arrangements — contingent rent	**10,079**	**63.7%**	6,716	54.8%
Sub-total	**25,347**	**75.1%**	19,444	71.5%
Theatre Business				
Sales and sales-type lease arrangements	**7,831**	**75.6%**	10,372	78.4%
Revenue sharing arrangements — upfront fees	**1,034**	**29.2%**	227	22.2%
Theatre system maintenance	**6,474**	**59.6%**	6,754	70.7%
Other theatre	**250**	**41.3%**	198	46.9%
Sub-total	**15,589**	**61.5%**	17,551	72.5%
New Business and Other	**111**	**76.6%**	11	12.6%
Total	**41,047**	**69.3%**	37,006	71.9%

Management Discussion and Analysis (Continued)

Selling, General and Administrative Expenses

The following table sets out the selling, general and administration expenses we incurred as well as the percentage of total revenue they represented for the periods indicated:

	1HFY2019		1HFY2018	
	US$'000	%	US$'000	%
Employee salaries and benefits	**3,330**	**5.2%**	3,012	5.4%
Share-based compensation expenses	**1,175**	**2.0%**	1,014	2.0%
Travel and transportation	**490**	**0.8%**	476	0.9%
Advertising and marketing	**842**	**1.4%**	880	1.7%
Professional fees	**905**	**1.5%**	1,248	2.4%
Facilities	**639**	**1.1%**	625	1.2%
Depreciation	**299**	**0.5%**	346	0.7%
Foreign exchange and other expenses	**158**	**0.3%**	510	1.0%
Total	**7,838**	**13.2%**	8,111	15.8%

Other Operating Expenses

Other operating expenses primarily include the annual license fees payable to IMAX Corporation in respect of the trademark and technology licensed under the Technology License Agreements and the Trademark License Agreements, charged at an aggregate of 5% of our revenue. Our other operating expenses for 1HFY2019 and 1HFY2018 were US$3.4 million and US$2.9 million, respectively.

Interest Income

Interest income represents interest earned on various term deposits and a related party short-term loan receivable we hold. None of the term deposits had a term of more than 90 days. Our interest income for 1HFY2019 and 1HFY2018 was US$1.0 million and US$0.4 million, respectively.

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 and changes due to our recoverability assessments of deferred tax assets.

Our income tax expense for 1HFY2019 and 1HFY2018 was US$6.8 million and US$6.0 million, respectively. Our effective tax rate was at 22.1% and 22.5% during 1HFY2019 and 1HFY2018.

YEAR TO YEAR COMPARISON OF RESULTS OF OPERATIONS

Condensed Consolidated Interim Statements of Comprehensive Income

The following table sets out items in our condensed consolidated interim statements of comprehensive income and as a percentage of revenue for the periods indicated:

	1HFY2019		1HFY2018	
	US$'000	%	US$'000	%
Revenues	59,256	100.0%	51,487	100.0%
Cost of sales	(18,209)	(30.7%)	(14,481)	(28.1%)
Gross profit	41,047	69.3%	37,006	71.9%
Selling, general and administrative expenses	(7,838)	(13.2%)	(8,111)	(15.8%)
Other operating expenses	(3,404)	(5.7%)	(2,888)	(5.6%)
Operating profit	29,805	50.3%	26,007	50.5%
Interest income	984	1.7%	411	0.8%
Interest expense	(44)	(0.1%)	—	0%
Profit before income tax	30,745	51.9%	26,418	51.3%
Income tax expense	(6,780)	(11.4%)	(5,953)	(11.6%)
Profit for the period, attributable to owners of the Company	23,965	40.4%	20,465	39.7%
Other comprehensive loss:				
Items that may be subsequently reclassified to profit or loss:				
Change in foreign currency translation adjustments	(550)	(0.9%)	(2,428)	(4.7%)
Items that may not be subsequently reclassified to profit or loss:				
Change in fair value of financial assets at fair value through other comprehensive income ("**FVOCI**")	(4,436)	(7.5%)	—	—
Other comprehensive loss	(4,986)	(8.4%)	(2,428)	(4.7%)
Total comprehensive income for the period, attributable to owners of the Company	18,979	32.0%	18,037	35.0%

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.

Management Discussion and Analysis (Continued)

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

	1HFY2019 US$'000	1HFY2018 US'000
Profit for the period	**23,965**	20,465
Adjustments:		
Share-based compensation	**1,175**	1,014
Tax impact on items listed above	**(260)**	(228)
Adjusted profit	**24,880**	21,251

1HFY2019 COMPARED WITH 1HFY2018

Revenue

Our revenue increased 15.1% from US$51.5 million in 1HFY2018 to US$59.3 million in 1HFY2019 driven by an increase of US$6.5 million in our Network Business revenue and an increase of US$1.2 million in the Theatre Business revenue, as explained further below.

Network Business

Revenue from our Network Business increased 24.2% from US$27.2 million in 1HFY2018 to US$33.7 million in 1HFY2019 primarily due to a US$46.4 million, or 24.5% increase in box office revenue in 1HFY2019 compared to the prior year period.

Film

Film revenue increased 20.0% from US$14.9 million in 1HFY2018 to US$17.9 million in 1HFY2019 as a result of an increase in box office revenue. The box office revenue generated by IMAX formatted films increased 24.5% from US$189.6 million in 1HFY2018 to US$236.0 million in 1HFY2019 as a result of the strong performance of the Company's film slate in 1HFY2019, which included *The Wandering Earth* and *Avengers: Endgame*.

Box office revenue per screen increased 4.7% from US$0.36 million in 1HFY2018 to US$0.38 million in 1HFY2019 as a result of the strong performance of the Company's film slate, which was partly offset by continued growth of the IMAX theatre network, which increased 16.3% from 569 IMAX theatres in 1HFY2018 to 662 IMAX theatres in 1HFY2019.

The following table sets out the number of films we released in the IMAX format in 1HFY2019 and 1HFY2018 in Greater China:

	1HFY2019	1HFY2018
Hollywood films	**18**	13
Hollywood films (Hong Kong and Taiwan only)	**4**	5
Chinese language films	**4**	5
Total IMAX films released	**26**	23

Revenue Sharing Arrangements — Contingent Rent

Contingent rent from revenue sharing arrangements increased 29.2% from US$12.2 million in 1HFY2018 to US$15.8 million in 1HFY2019, primarily due to a greater number of IMAX theatres operating under revenue sharing arrangements in 1HFY2019 compared to 1HFY2018 and higher box office revenue per screen. We had 357 theatres operating under revenue sharing arrangements at the end of 1HFY2018 as compared to 428 at the end of 1HFY2019, which represented an increase of 19.9%.

Contingent rent from full revenue sharing arrangements increased 30.0% from US$10.0 million in 1HFY2018 to US$13.0 million in 1HFY2019, primarily due to growth in the full revenue sharing network which increased 19.3%, from 275 IMAX theatres in 1HFY2018 to 328 IMAX theatres in 1HFY2019 and higher box office revenue per screen.

Contingent rent from hybrid revenue sharing arrangements increased 27.3% from US$2.2 million in 1HFY2018 to US$2.8 million in 1HFY2019, primarily due to growth in the hybrid revenue sharing network which increased 22.0%, from 82 IMAX theatres in 1HFY2018 to 100 IMAX theatres in 1HFY2019 and higher box office revenue per screen.

Theatre Business

Revenue from our Theatre Business increased 4.7% from US$24.2 million in 1HFY2018 to US$25.4 million in 1HFY2019.

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 30 June		
	2019	2018	Growth (%)
The PRC(1)	**632**	538	17.5%
Hong Kong	**5**	5	—
Taiwan	**10**	9	11.1%
	647	552	17.2%
Institutional(2)	**15**	17	(11.8%)
Total	**662**	569	16.3%

Note:

(1) Total excludes the temporary closure of one theatre during 1HFY2019.

(2) Institutional IMAX theatres include museums, zoos, aquaria and other destination entertainment sites that do not exhibit commercial films. 2 institutional theatres were closed during FY2018.

Management Discussion and Analysis (Continued)

The following table sets out the number of IMAX theatre systems installed by business arrangements in 1HFY2019 and 1HFY2018:

	1HFY2019	1HFY2018
Sales and sales-type lease arrangements	**5**	8
Revenue sharing arrangements	**19**	17
IMAX with Laser upgrades	**6**	—
Total theatre systems installed	**30**(1)	25

Note:

(1) We installed 24 new IMAX theatre systems plus 6 IMAX with Laser upgrades (1 sales and sales-type lease upgrade and 5 revenue sharing upgrades) in 1HFY2019.

Sales and Sales-type Lease Arrangements

Theatre Business revenue from sales and sales-type lease arrangements decreased 21.6% from US$13.2 million in 1HFY2018 to US$10.4 million in 1HFY2019, primarily due to 2 fewer sales and sales-type lease arrangements including 1 IMAX with Laser upgrade in 1HFY2019 over 1HFY2018. We recognised sales revenue on 8 new theatre systems in 1HFY2018 with a total value of US$11.4 million, compared to 6 new theatre systems in 1HFY2019 with a total value of US$8.5 million.

Average revenue per new system under sales and sales-type lease arrangements was unchanged in 1HF2019 and 1HF2018 at US$1.4 million.

Revenue Sharing Arrangements — Upfront Fees

Upfront revenue from hybrid revenue sharing arrangement increased 246.1% from US$1.0 million in 1HFY2018 to US$3.5 million in 1HFY2019, primarily due to 5 additional hybrid revenue sharing installations in 1HFY2019.

Theatre System Maintenance

Theatre system maintenance revenue increased 13.7% from US$9.6 million in 1HFY2018 to US$10.9 million in 1HFY2019. Maintenance revenue increased in 1HFY2019 as a result of a 16.3% increase in the size of the IMAX network, which increased to 662 theaters as at 30 June 2019 from 569 theaters as at 30 June 2018.

New Business and Other

Revenue from new business and other was flat in 1HFY2019 and 1HFY2018 at US$0.1 million.

Cost of Sales

Our cost of sales increased 25.7% from US$14.5 million in 1HFY2018 to US$18.2 million in 1HFY2019. This increase was primarily due to an increase of US$0.7 million in our Network Business and an increase of US$3.1 million in our Theatre Business.

Network Business

The cost of sales for our Network Business increased 8.6% from US$7.7 million to US$8.4 million due to increased depreciation costs associated with a larger full revenue sharing network, currently 328 theaters as at 1HFY2019 versus 275 theaters as at 1HFY2018, and increased film marketing costs due to 4 additional films exhibited in the PRC during 1HFY2019 as compared to 1HFY2018, which was partly offset by the decreased one-time upfront costs related to the installation of 3 fewer full revenue sharing arrangements in 1HFY2019 versus 1HFY2018.

Film

The cost of sales for film increased 20.3% from US$2.2 million in 1HFY2018 to US$2.7 million in 1HFY2019 driven by the increased film marketing costs resulting from 4 additional films exhibited in the PRC during 1HFY2019 as compared to 1HFY2018.

Revenue Sharing Arrangements — Contingent Rent

The cost of sales for contingent rent from revenue sharing arrangements increased 3.9% from US$5.5 million in 1HFY2018 to US$5.7 million in 1HFY2019, primarily due to increased depreciation costs associated with a larger full revenue sharing network, currently 328 theaters at 1HFY2019 versus 275 theaters as at 1HFY2018, while being offset by decreased one-time upfront costs related to the installation of 3 fewer full revenue sharing arrangements in 1HFY2019 versus 1HFY2018.

Theatre Business

The cost of sales for our Theatre Business increased 46.6% from US$6.7 million in 1HFY2018 to US$9.8 million in 1HFY2019, primarily due to total 3 additional IMAX theatre systems installations under sales and sales-type lease arrangements and hybrid revenue sharing arrangements including 1 IMAX with Laser upgrade in 1HFY2019 and increased theater maintenance cost.

Sales and Sales-type Lease Arrangements

Cost of sales from our Theatre Business under sales and sales-type lease arrangements decreased 11.2% from US$2.9 million in 1HFY2018 to US$2.5 million in 1HFY2019, primarily due to the costs recognised on 8 theatre systems installations under sales and sales-type lease arrangements in 1HFY2018 as compared to 6 in 1HFY2019 which includes 1 IMAX with Laser upgrade.

Revenue Sharing Arrangements — Upfront Fees

Cost of sales from installation of hybrid revenue sharing arrangements increased 214.8% from US$0.8 million in 1HFY2018 to US$2.5 million in 1HFY2019, primarily due to the costs recognised on 7 theatre system installations under hybrid revenue sharing arrangements in 1HFY2019 as compared to 2 in 1HFY2018.

Management Discussion and Analysis (Continued)

Theatre System Maintenance

Cost of sales from our Theatre Business with respect to theatre system maintenance increased 56.6% from US$2.8 million in 1HFY2018 to US$4.4 million in 1HFY2019 commensurate with the additional costs associated with servicing a larger IMAX theatre network, currently 662 theaters at 1HFY2019 versus 569 theaters as at 1HFY2018 and the timing of replacement of certain service parts for several theaters.

New Business and Other

Cost from new business and other was flat in 1HFY2019 and 1HFY2018 below US$0.1 million.

Gross Profit and Gross Profit Margin

Our gross profit in 1HFY2018 was US$37.0 million, or 71.9% of total revenue, compared to US$41.0 million, or 69.3% of total revenue, in 1HFY2019. The increase in gross profit was largely attributable to US$5.9 million increase in our Network Business, and US$2.0 million decrease in our Theatre Business. The decrease in gross profit margin was largely attributable to higher cost mix of systems due to installation of IMAX with Laser in 1HFY2019.

Network Business

The gross profit from our Network Business increased 30.4% from US$19.4 million in 1HFY2018 to US$25.3 million in 1HFY2019, and the gross profit margin for our Network Business increased from 71.5% in 1HFY2018 to 75.1% in 1HFY2019. The increase was primarily due to an increase in our overall box office revenue, a decrease of one-time upfront costs related to fewer installations under full revenue sharing arrangements, and partly setoff by increased depreciation costs associated with continued growth in the IMAX theatre network under revenue sharing arrangements.

Film

The gross profit for film increased 20.0% from US$12.7 million in 1HFY2018 to US$15.3 million in 1HFY2019, and the gross profit margin was flat at 85.2% during the same period. The increase was primarily due to an increase of 24.5% in our overall box office revenue from US$189.6 million in 1HFY2018 to US$236.0 million in 1HFY2019.

Revenue Sharing Arrangements — Contingent Rent

The gross profit for contingent rent from revenue sharing arrangements increased 50.1% from US$6.7 million in 1HFY2018 to US$10.1 million in 1HFY2019, and the gross profit margin increased 54.8% to 63.7% during the same period.

The gross profit for contingent rent from full revenue sharing arrangements increased 70.5% from US$4.4 million in 1HFY2018 to US$7.5 million in 1HFY2019, and the gross profit margin increased from 43.7% to 57.8% during the same period. Gross profit margin increased primarily due to higher overall box office revenue, decreased one-time upfront costs associated with the installation of 3 fewer systems in 1HFY2019, and partly setoff by increased depreciation costs associated with a larger full revenue sharing network.

The gross profit for contingent rent from hybrid revenue sharing arrangements increased 13.0% from US$2.3 million in 1HFY2018 to US$2.6 million in 1HFY2019, driven by higher box office revenue per screen and growth in the hybrid revenue sharing network which increased 22.0%, from 82 IMAX theatres in 1HFY2018 to 100 IMAX theatres in 1HFY2019.

Theatre Business

The gross profit for our Theatres Business decreased 11.2% from US$17.6 million in 1HFY2018 to US$15.6 million in 1HFY2019. During the same period, our gross profit margin decreased from 72.5% to 61.5%. The decrease in gross profit was primarily driven by the installation of 2 fewer system under sales and sales-type lease arrangements including 1 IMAX with Laser upgrade, and partially setoff by 5 more theatres under hybrid revenue sharing arrangements. The decrease in gross profit margin was mainly driven by higher maintenance costs and higher costs of sales for systems due to 1 IMAX with Laser upgrade.

Sales and Sales-type Lease Arrangements

The gross profit for our Theatre Business from sales of new IMAX theatre systems decreased 24.5% from US$10.4 million in 1HFY2018 to US$7.8 million in 1HFY2019 primarily due to the installation of 2 fewer systems including 1 IMAX with Laser upgrade in 1HFY2019. Our gross profit margin decreased from 78.4% in 1HFY2018 to 75.6% in 1HFY2019 due to higher costs of sales for systems resulting from 1 IMAX with Laser upgrade.

Revenue Sharing Arrangements — Upfront Fees

The gross profit from upfront fees derived from hybrid revenue sharing arrangements was increased from US$0.2 million in 1HFY2018 to US$1.1 million in 1HFY2019, primarily due to 5 more installations under hybrid revenue sharing arrangements and higher gross profit margin of 22.2% in 1HFY2018 compared to 29.2% in 1HFY2019 due to adjustment of one-time upfront costs associated with the installations.

Theatre System Maintenance

The gross profit for our theatre system maintenance decreased 4.1% from US$6.8 million in 1HFY2018 to US$6.5 million in 1HFY2019 and our gross profit margin decreased from 70.7% in 1HFY2018 to 59.6% in 1HFY2019, mainly due to the timing of replacement of certain service parts for several theatres.

New Business and Other

The gross profit for new business and other was flat in 1HFY2019 and 1HFY2018 at US$0.1 million.

Selling, General and Administrative Expenses

Selling, general and administrative expenses, decreased 3.4% from US$8.1 million in 1HFY2018 to US$7.8 million in 1HFY2019, primarily due to: (i) a US$0.4 million decrease in professional fee due to higher legal and litigation fees incurred in 1HFY2018 for an ongoing legal matters; (ii) a decrease in foreign exchange and other expenses resulting from a foreign exchange gain of US$0.1 million in 1HFY2019 due to appreciation of USD as compared to a foreign exchange loss of US$0.1 million in 1HFY2018 when USD depreciated, partially offset by a US$ 0.4 million increase related to employee salaries and benefits and share-based compensation expenses due as a result of increased head count and salary increases to manage the growing IMAX theatre network.

Other Operating Expenses

Other operating expenses increased 17.9% from US$2.9 million in 1HFY2018 to US$3.4 million in 1HFY2019, primarily due to an increase of US$0.5 million in annual license fees payable to IMAX Corporation in respect of the trademark and technology licensed under the Technology License Agreements and the Trademark License agreements.

Management Discussion and Analysis (Continued)

Income Tax Expense

Our income tax expense increased 13.9% from US$6.0 million in 1HFY2018 to US$6.8 million in 1HFY2019. The increase in income tax expense was primarily due to an increase in our operating profit before income tax of US$4.3 million from US$26.4 million in 1HFY2018 to US$30.7 million in 1HFY2019. Our effective tax rate was decreased from 22.5% in 1HFY2018 to 22.1% in 1HFY2019.

Profit for the Period

We reported a comprehensive profit for the period of US$19.0 million in 1HFY2019 as compared to US$18.0 million in 1HFY2018. The increase was primarily due to an increase in our profit for the period of US$3.5 million from US$20.5 million in 1HFY2018 to US$24.0 million in 1HFY2019 and setoff by an increase in other comprehensive loss of US$2.4 million (including a loss of US$2.4 million related to foreign currency translation adjustment) in 1HFY2018 to a loss of US$5.0 million (including a loss of US$0.6 million resulted by foreign currency translation adjustment and a loss of US$4.4 million related to change in fair value net of tax of financial assets at FVOCI) in 1HFY2019. Comprehensive profit for the period in 1HFY2019 included a US$1.2 million charge (US$1.0 million in 1HFY2018) for share-based compensation.

Adjusted Profit

Adjusted profit, which consists of profit for the period adjusted for the impact of share-based compensation and the related tax impact, was US$21.3 million in 1HFY2018 as compared to adjusted profit of US$24.9 million in 1HFY2019, an increase of 17.1%.

LIQUIDITY AND CAPITAL RESOURCES

	As at 30 June 2019 US$'000	As at 31 December 2018 US$'000
Current assets		
Other assets	**3,543**	2,405
Film assets	**219**	221
Inventories	**5,983**	3,434
Prepayments	**3,075**	3,399
Variable consideration receivable from contracts	**283**	—
Financing receivables	**9,991**	8,785
Trade and other receivables	**56,041**	40,717
Cash and cash equivalents	**96,980**	120,224
Total Current Assets	**176,115**	179,185
Current liabilities		
Trade and other payables	**26,944**	18,395
Accruals and other liabilities	**16,626**	8,838
Income tax liabilities	**5,333**	6,334
Deferred revenue	**17,188**	18,453
Total Current Liabilities	**66,091**	52,020
Net Current Assets	**110,024**	127,165

As at 30 June 2019, we had net current assets of US$110.0 million compared to net current assets of US$127.2 million as at 31 December 2018. The decrease in net current assets in 1HFY2019 was mainly attributable to a US$23.2 million decrease in cash and cash equivalents, a US$8.5 million increase in trade and other payables and a US$7.8 million increase in accruals and other liabilities. This was offset by a US$15.3 million increase in trade and other receivables, a US$2.6 million increase in inventory, a US$1.3 million decrease in deferred revenue and a US$1.1 million increase in other assets.

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 period/year:

	As at 30 June 2019	As at 31 December 2018
Cash and cash equivalents denominated in US$	**$31,628**	$64,664
Cash and cash equivalents denominated in RMB (in thousands)	**¥446,630**	¥377,779
Cash denominated in Hong Kong dollars HK$ (in thousands)	**$2,903**	$4,159

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 make 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 from operating activities, net cash used in investing activities and net cash used in financing activities for the periods indicated:

	1HFY2019 US$'000	1HFY2018 US$'000
Net cash provided by operating activities	**17,125**	17,801
Net cash used in investing activities	**(20,803)**	(4,295)
Net cash used in financing activities	**(19,247)**	(13,860)
Effects of exchange rate changes on cash	**(319)**	278
Decrease in cash and cash equivalents during period	**(23,244)**	(76)
Cash and cash equivalents, beginning of period	**120,224**	116,678
Cash and cash equivalents, end of period	**96,980**	116,602

Cash From Operating Activities

1HFY2019

Our net cash provided by operations was approximately US$17.1 million in 1HFY2019. We had profit before income tax for the period of US$30.7 million in 1HFY2019 and positive adjustments for amortisation of film assets of US$3.8 million, depreciation of property, plant and equipment of US$6.6 million, and settlement of equity and other non-cash compensation of US$1.2 million, reduced by our taxes paid of US$10.3 million, our net investment in film assets of US$3.8 million and changes in working capital of US$11.5 million. Changes in working capital primarily consisted of: (i) an increase in trade and other receivables of US$14.4 million; (ii) an increase in inventories of US$2.6 million; (iii) an increase in other assets of US$1.1 million, partially offset by: (i) an increase in trade and other payables of US$4.5 million; (ii) an increase in accruals and other liabilities of US$2.0 million; and (iii) a decrease of financing receivables of US$0.6 million.

1HFY2018

Our net cash provided by operations was approximately US$17.8 million in 1HFY2018. We had profit before income tax for the period of US$26.4 million in 1HFY2018 and positive adjustments for amortisation of film assets of US$2.8 million, depreciation of property, plant and equipment of US$5.2 million, and settlement of equity and other non-cash compensation of US$1.0 million, reduced by our taxes paid of US$9.1 million, our net investment in film assets of US$2.8 million and changes in working capital of US$5.7 million. Changes in working capital primarily consisted of: (i) a decrease in trade and other payables of US$3.1 million; (ii) a decrease in deferred revenue of US$3.1 million; (iii) an increase in inventories of US$1.0 million; and (iv) a decrease of prepayments of US$0.6 million, partially offset by: (i) a decrease in trade and other receivables of US$1.3 million; (ii) an increase in accruals and other liabilities of US$1.0 million.

Cash Used in Investing Activities

1HFY2019

Our net cash used in investing activities was approximately US$20.8 million for 1HFY2019, primarily related to investments in IMAX theatre equipment amounting to US$5.7 million installed in our exhibitor partners' theatres under full revenue sharing arrangements, and investment in an equity security of US$15.2 million.

1HFY2018

Our net cash used in investing activities was approximately US$4.3 million for 1HFY2018, primarily related to investments in IMAX theatre equipment amounting to US$6.1 million installed in our exhibitor partners' theatres under full revenue sharing arrangements, partially offset by a loan repayment from a joint venture of US$2.6 million.

Cash Used in Financing Activities

1HFY2019

Our net cash used in financing activities was approximately US$19.2 million for 1HFY2019 primarily due to: (i) payment for share buy-back of US$16.8 million; and (ii) dividends paid to owners of the Company amounting to US$2.3 million.

1HFY2018

Our net cash used in financing activities was approximately US$13.9 million for 1HFY2018 primarily due to: (i) dividends paid to owners of the Company amounting to US$14.4 million; and (ii) settlement of restricted share units and options of US$0.3 million; partially offset by issuance of common shares of US$0.8 million.

CONTRACTUAL OBLIGATIONS AND CAPITAL COMMITMENTS

Lease Commitments

We have lease commitments within one year amounting to less than US$0.1 million related primarily to leased office and apartment space in Shanghai.

Capital Commitments

As at 30 June 2019, we had capital expenditures contracted but not provided for of US$25.8 million (31 December 2018: US$29.0 million).

CAPITAL EXPENDITURES AND CONTINGENT LIABILITIES

Capital Expenditures

Our capital expenditures primarily relate to the acquisition of IMAX theatre systems and acquisition of films and investment in an equity security. During 1HFY2019 and 1HFY2018, our capital expenditures were US$24.6 million and US$9.7 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. We expect to incur capital expenditures of approximately US$26.6 million in FY2019, which will be primarily used to expand the IMAX theatre network under full revenue sharing.

Contingent Liabilities

Lawsuits, claims and proceedings arise in the ordinary course of business. In accordance with our internal policies, in connection with any such lawsuits, claims or proceedings, 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 ("**Customs Authority**") that it had been selected for a customs audit (the "**Audit**"). In the course of the Audit, the Customs Authority discovered the underpayment by IMAX Shanghai Multimedia of the freight and insurance portion of the customs duties and taxes applicable to the importation of certain IMAX theatre systems during the period from October 2011 through March 2013. Though IMAX Shanghai Multimedia's importation agent accepted responsibility for the error giving rise to the underpayment, the matter was transferred first to the Anti-Smuggling Bureau (the "**ASB**") of the Customs Authority and then to the Third Division of Shanghai People's Procuratorate for further review. During the year ended 31 December 2017, at the request of the ASB, IMAX Shanghai Multimedia paid approximately US$0.15 million to the ASB to satisfy the amount owing as a result of the underpayment and accrued approximately $0.3 million in respect of the fines that it believed to be likely to result from the matter. Given that the amount of the underpayment exceeded RMB0.2 million, the applicable threshold for treatment as a criminal matter, on 8 August 2018, IMAX Shanghai Multimedia was informed that its logistics function, but not IMAX Shanghai Multimedia itself, would face criminal charges. A preliminary court conference was held on 5 September 2018, and hearings took place on 24 October 2018 and 22 January 2019. On 6 March 2019, the Shanghai No. 3 Intermediate People's Court imposed a fine of RMB0.6 million, approximately $0.1 million or 75% of the underpayment, on IMAX Shanghai Multimedia's logistics function. During the year ended 31 December 2018, the Company did not make any additional accrual for the matter. As of 31 March 2019, this fine has been paid and the legal proceedings were concluded. IMAX Shanghai Multimedia has accordingly reversed the remainder of the accrual previously made.

Except as disclosed above or as otherwise disclosed herein, as at 30 June 2019, 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 30 June 2019.

WORKING CAPITAL

We finance our working capital needs primarily through cash flow from operating activities. Cash flow generated from operating activities was US$17.1 million in 1HFY2019 and US$17.8 million in 1HFY2018. 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 30 June 2019:

- except for on unsecured revolving facility for up to RMB200 million, 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 30 June 2019, being the latest date of our condensed interim statements, there has been no material adverse change to our indebtedness.

RECENT DEVELOPMENTS

Subsequent to June 30, 2019, we renewed an unsecured revolving facility for up to RMB200 million (US$30 million) to fund ongoing working capital requirements.

OFF BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

We had no off-balance sheet arrangements as at 30 June 2019.

KEY FINANCIAL RATIOS

The following table lays out certain financial ratios as at the dates and for the periods indicated. We presented adjusted profit margin because we believe it presents a more meaningful picture of our financial performance than unadjusted numbers as it excludes the impact from share-based compensation and the related tax impact.

	As at 30 June 2019	As at 31 December 2018
Gearing ratio(1)	**36.6%**	29.9%

	1HFY2019	1HFY2018
Adjusted profit margin(2)	**42.0%**	41.3%

Notes:

(1) Gearing ratio is calculated by dividing total liabilities by total equity and multiplying the result by 100.

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

Gearing Ratio

Our gearing ratio increased from 29.9% as at 31 December 2018 to 36.6% as at 30 June 2019, primarily due to an increase in trade and other payables of US$8.5 million and an increase in accruals and other liabilities of US$7.8 million.

Adjusted Profit Margin

Our adjusted profit margin increased from 41.3% as at 30 June 2018 to 42.0% as at 30 June 2019, primarily due to the growth of the IMAX theatre network and higher box office revenue, and decreased selling, general and administrative expenses.

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. Our Board recommended the payment of an interim dividend, for 1HFY2019, of US$0.02 per share (equivalent to approximately HK$0.156 per share). Any dividend distribution shall also be subject to the approval of our Shareholders in a Shareholders' meeting.

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 30 June 2019, the Company had a total equity of US$55.5 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.

DIVIDEND

During the Company's board meeting held on 30 July 2019, the Board of Directors approved an interim dividend of US$0.02 per share (equivalent to HK$0.156 per share) for the six months ended 30 June 2019 to the Shareholders.

The interim dividend will be paid on Friday, 30 August 2019 to the shareholders whose names appear on the register of members of the Company as at the close of business on Monday, 19 August 2019. There will be no scrip dividend option for the 2019 interim dividend.

MATERIAL ACQUISITIONS OR DISPOSALS

We have not undertaken any material acquisition or disposal for the period ended 30 June 2019.

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 2016. We did not receive any distributions or dividends from TCL-IMAX Entertainment during the period ended 30 June 2019.

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.

In February 2019, IMAX China (Hong Kong), Limited, a wholly-owned subsidiary of the Company, purchased 7,949,000 shares (representing approximately 0.706% equity at the time) in Maoyan Entertainment ("**Maoyan**") with the amount of US$15.2 million at the final offer price pursuant to the global offering of the share capital of Maoyan. This investment is subject to, among other restrictions, a lock-up period of six months following 4 February 2019, the date of Maoyan's global offering. We did not receive any distributions or dividends from Maoyan during the period ended 30 June 2019.

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

Corporate Governance Highlights and Other Information

PURCHASE, SALE OR REDEMPTION OF COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2019, the Company conducted share repurchases of 7,025,700 listed Shares on the Stock Exchange pursuant to a general mandate granted by the shareholders to the Directors during the Annual General Meeting held on 3 May 2018 and resolutions of the Board adopted on 27 October 2018, and a general mandate granted by the shareholders to the Directors during the Annual General Meeting held on 6 June 2019 and resolutions of the Board adopted on 6 June 2019. The following table outlines details of the shares repurchased on a monthly basis.

Month	Number of shares repurchased	Highest price per share (HK$)	Lowest price paid per share (HK$)	Average price paid per share (HK$)	Aggregate price paid (HK$)
March 2019	709,800	19.84	19.04	19.53	13,863,730.52
May 2019	4,377,100	20.70	16.96	18.48	80,898,142.44
June 2019	1,938,800	19.56	18.30	19.02	36,870,693.79
	7,025,700				131,632,566.75

In addition, 122,901 listed Shares were purchased through Computershare Hong Kong Trustees Limited, the trustee engaged by the Company for administering its share option schemes, on 10 June 2019 at an average price per share of HK$19.2408 on the Stock Exchange, for satisfying the vesting of the relevant options and/or restricted share units.

Save for the above, 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 during the six months ended 30 June 2019.

SUPPLEMENTAL INFORMATION RELATING TO GRANT OF RSUS

We refer to the announcements by the Company dated 8 March 2019 and 11 June 2019. The Company has appointed a professional trustee to make on-market purchases of shares during the six months ended 30 June 2019 in respect of the satisfaction of RSUs granted to the Executive Directors (85,148 RSUs) and the Independent Non-executive Directors (122,901 RSUs). With respect to the satisfaction of RSUs granted to employees (other than the Executive Directors) (326,709 RSUs), the Company intends to arrange for the issuance of new Shares.

SECURITIES TRANSACTIONS BY DIRECTORS

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 for the six months ended 30 June 2019.

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 Corporate Governance Code set out in Appendix 14 of the Listing Rules (the "**CG Code**"). The Board believes that high corporate governance standards are essential in providing a framework for the Company to safeguard the interests of Shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability. During the six months ended 30 June 2019, the Company has complied with all the provisions of the CG Code.

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 Interim Report, the Company has maintained the prescribed public float under the Listing Rules throughout the six months ended 30 June 2019.

CLOSURE OF REGISTER OF MEMBERS

In connection with the payment of the 2019 interim dividend, the register of members of the Company will be closed from Thursday, 15 August 2019 to Monday, 19 August 2019 (both days inclusive) during which period no transfer of Shares will be registered. In order to qualify for entitlement to the 2019 interim dividend, all share transfers documents, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration, no later than 4:30 p.m. on Wednesday, 14 August 2019.

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 set up the 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 terms of reference were updated on 30 November 2018. 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 chair of the audit committee.

Corporate Governance Highlights and Other Information (Continued)

The audit committee members have reviewed this interim report, including the unaudited condensed consolidated interim financial information of the Group for the six months ended 30 June 2019.

Remuneration Committee

The Company set up the 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 were 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 Ms. Megan Colligan, a Non-executive Director. Ms. Yue-Sai Kan is the chair of the remuneration committee.

Nomination Committee

The Company set up the 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 review the time and contribution required from Directors. 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 chair of the nomination committee.

Pursuant to the Director Nomination Policy and the Board Diversity Policy adopted by the Company in November 2018, in selecting candidates, the Board and the nomination committee should consider a large number of factors including but not limited to character and integrity, independence, diversity, gender, age, cultural and educational background, 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. In addition, the nomination committee reports on the composition of the Board from the perspective of diversity, and sets and reviews measurable objectives for the implementation of the Board Diversity Policy. The nomination committee is satisfied that the composition of the Board is sufficiently diverse.

CONNECTED TRANSACTIONS

Continuing Connected Transactions Subject to Reporting and Announcement Requirements

During the six months ended 30 June 2019, the Group has continued to engage in 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 six months ended 30 June 2019, the following non-exempt connected transactions continued to occur between the Group and IMAX Corporation. Such transactions are 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. Under the Personnel Secondment Agreement, IMAX Corporation agreed to make Mr. Don Savant, President, Global Sales Exhibitor Relations, Theatre Development available to IMAX Shanghai Multimedia.

The Personnel Secondment Agreement was amended on 21 September 2015, 25 May 2016 and 26 May 2016.

(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 relevant employee(s) 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 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 to be US$5,800,000 for each of FY2018, FY2019 and FY2020. This annual cap has been calculated on the basis of: (i) the historic wages and share-based compensation paid to the seconded employees pursuant to the Personnel Secondment Agreement during the three years ended 31 December 2016 and the six months ended 30 June 2017; (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$596,000 was charged to the Group by IMAX Corporation under the Personnel Secondment Agreement during the six months ended 30 June 2019. This charge consisted of the cost of compensations accrued and payable for the services provided by Mr. Don Savant who was seconded to the Group from 2015 to 2018.

(c) *Listing Rules Requirements*

As the highest relevant percentage ratio in respect of the Personnel Secondment Agreement, as expected for FY2018, FY2019 and FY2020, will 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" in the Company's 2018 annual report dated 31 March 2019, announcement requirements under Chapter 14A of the Listing Rules.

At the end of FY2020, 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 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 licenses 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 license agreements to be of such duration.

(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 an 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 license agreements to have durations of extended periods.

Approximately US$1,345,000 was charged to the Group by IMAX Corporation under the Trademark License Agreements during the six months ended 30 June 2019.

(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" in the Company's 2018 annual report dated 31 March 2019, 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 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 Technology 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 an 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$2,017,000 was charged to the Group by IMAX Corporation under the Technology License Agreements during the six months ended 30 June 2019.

(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" in the Company's 2018 annual report dated 31 March 2019, 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 license 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 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 a detailed comparable analysis to ensure that the fees payable under the DMR Services Agreements are on an 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 an 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 six months ended 30 June 2019, the DMR conversion fees charged to the Group by IMAX Corporation were approximately US$214,000. The number of Greater China DMR films converted was 4.

For the six months ended 30 June 2019, 1 Greater China DMR Films was released in regions outside of Greater China and the distribution fees received/receivable by the Group from IMAX Corporation were US$58,000. No Greater China Original Films were released outside Greater China, and the distribution fees received/receivable by the Group from IMAX Corporation were US$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" in the Company's 2018 annual report dated 31 March 2019, 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.

5. *Services Agreements*

(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, 21 September 2015 and 23 February 2017.

(ii) Term and Termination

Each of the Services Agreements has a three-year term commencing on 1 January 2017 unless 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 an 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 Amounts

In accordance with Rule 14A.53 of the Listing Rules, we have set annual caps for the maximum aggregate fees payable under the Services Agreements HK$6,000,000, HK$7,000,000 and HK$8,000,000 for 2017, 2018 and 2019, respectively. These annual caps have been calculated on the basis of: (i) the historic transaction amounts under the Services Agreements; (ii) the business development plans of the Group; (iii) the expected increase in the cost of theatre system maintenance payable by IMAX Shanghai Multimedia and IMAX Hong Kong; and (iv) the flexibility of having a buffer for the Company to cater for any unexpected increase in the service fees payable under the Services Agreements.

Approximately US$244,000 was charged to the Group by IMAX Corporation under the Services Agreements during the six months ended 30 June 2019.

(c) *Listing Rules Requirements*

As the highest relevant percentage ratio in respect of the Services Agreements will be, on an annual basis, less than 25% and the total consideration will be less than HK$10,000,000 and they are on normal commercial terms, the Services Agreements will be exempt pursuant to Rule 14A.76(2)(b) of the Listing Rules from the independent shareholders' approval requirement but will be subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

6. *IMAX Shanghai Services Agreement*

(a) *Description of the IMAX Shanghai Services Agreement*

(i) *Subject matter*

On 12 May 2015, IMAX (Shanghai) Theatre Technology Services Co., Ltd. ("**IMAX Shanghai Services**") entered into the services agreement ("**IMAX Shanghai Services Agreement**") with IMAX Corporation for a renewable term of two years commencing on 1 January 2014, pursuant to which IMAX Shanghai Services agreed to provide certain services to IMAX Corporation for its theatre operations in regions outside of Greater China including (i) provision of regular scheduled preventative maintenance services to IMAX theatres, (ii) provision of emergency technical services to IMAX theatres, (iii) provision of a 24-hour telephone help-line and remote technical support to IMAX theatre exhibitors, (iv) provision of quality audit and presentation quality services, and (v) provision of special screening support.

The IMAX Shanghai Services Agreement was subsequently amended on 23 February 2017.

(ii) *Term and termination*

The term for the IMAX Shanghai Services Agreement shall be for two years commencing on 1 January 2014 and shall be automatically renewed for successive one-year periods unless one of the parties provides a written notice not to renew at least 30 days prior to the expiration of the then-effective term.

The IMAX Shanghai Services Agreement may be terminated, without cause, by either party upon written notice.

(iii) *Fees*

The service fees payable by IMAX Corporation under the IMAX Shanghai Services Agreement shall be 110% of the monthly actual cost incurred by IMAX Shanghai Services for the provision of the relevant services and replacement parts. The service fees shall be paid by IMAX Corporation to IMAX Shanghai Services on a monthly basis. IMAX Corporation also agreed to make an advance payment of no more than the total service fees for the previous six months in accordance with the request of IMAX Shanghai Services.

IMAX Corporation and IMAX Shanghai Services have agreed that, if necessary, the service fees payable under the IMAX Shanghai Services Agreement will be reviewed and may be adjusted by the parties in writing to ensure that the service fees payable remain on an arm's length basis.

Corporate Governance Highlights and Other Information (Continued)

(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 IMAX Shanghai Services Agreement of HK$6,000,000, HK$7,000,000 and HK$8,000,000 for 2017, 2018 and 2019, respectively. These annual caps have been calculated on the basis of: (i) the historic transaction amounts under the IMAX Shanghai Services Agreement; (ii) the business development plans of the Group; (iii) the expected increase in the cost of theatre system maintenance payable by IMAX Corporation; and (iv) the flexibility of having a buffer for the Company to cater for any unexpected increase in the service fees payable under the IMAX Shanghai Services Agreement.

Approximately US$74,000 was charged to IMAX Corporation by the Group under the IMAX Shanghai Services Agreement during the six months ended 30 June 2019.

(c) *Listing Rules Requirements*

As the highest relevant percentage ratio in respect of the IMAX Shanghai Services Agreement will be, on an annual basis, less than 25% and the total consideration will be less than HK$10,000,000 and it is on normal commercial terms, the IMAX Shanghai Services Agreement will be exempt pursuant to Rule 14A.76(2)(b) of the Listing Rules from the independent shareholders' approval requirement but will be subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

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" in the Company's 2018 annual report dated 31 March 2019, 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 intercompany 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 an 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.

Corporate Governance Highlights and Other Information (Continued)

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 an 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 installed pursuant to the Equipment Supply Agreements for the six months ended 30 June 2019 was 30, and the purchase price paid/payable to IMAX Corporation by the Group was approximately US$14,828,000.

(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" in the Company's 2018 annual report dated 31 March 2019, 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.

Corporate Governance Highlights and Other Information (Continued)

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;

(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 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 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 2017 and 2018, as well as for the six months ended 30 June 2019, 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 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 an 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 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 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 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 an 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 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 films distributed in Greater China over a period of up to 21 years.

For the six months ended 30 June 2019, the number of IMAX format Hollywood films distributed in Greater China for which the Company paid/payable conversion fees under the Master Distribution Agreements was 18. The conversion fees paid/payable by the Group to IMAX Corporation was approximately US$3,541,000 and the revenue received/receivable by the Group from IMAX Corporation pursuant to the Master Distribution Agreements amounted to US$16,291,000.

For the six months ended 30 June 2019, the number of IMAX Original Films distributed by IMAX Corporation into Greater China for which distribution fees were paid/payable by the Company under the Master Distribution Agreements was nil and the distribution fee paid/payable by the Group to IMAX Corporation was US$nil.

(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" in the Company's 2018 annual report dated 31 March 2019, 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 six months ended 30 June 2019 include the DMR Software License 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.

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

As at 30 June 2019, 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 of the Company

Name of Director or Chief Executive	Number of Shares	Nature of Interest	Approximate Percentage
Jiande Chen	1,953,580(L)[(1)]	Beneficial Owner	0.56%
Jim Athanasopoulos	3,353,982(L)[(2)]	Beneficial Owner	0.96%
Mei-Hui (Jessie) Chou	1,507,685(L)[(3)]	Beneficial Owner	0.43%
John Davison	125,666(L)	Beneficial Owner	0.03%
Yue-Sai Kan	106,248(L)	Beneficial Owner	0.04%
Dawn Taubin	125,666(L)	Beneficial Owner	0.04%

(L) Long position

Notes:

(1) Of which 1,912,610 are options and/or restricted stock units.

(2) Of which 3,303,159 are options and/or restricted stock units.

(3) Of which 1,474,788 are vested options and/or restricted stock units.

(b) Long Position in Shares of Associated Corporations

Name of Director or Chief Executive	Interest in common shares	Nature of Interest	Approximate Percentage
IMAX Corporation			
Richard Gelfond	3,698,257(L)[(1)]	Beneficial Owner	6.03%
	15,100(L)	Trustee	0.02%
Megan Colligan	194,136(L)[(2)]	Beneficial Owner	0.32%
Jim Athanasopoulos	4,068(L)	Beneficial Owner	0.01%

Notes:

(1) Of which 3,439,865 are options and/or restricted stock units.

(2) Of which 194,136 are options and/or restricted stock units.

Save as disclosed above, as at 30 June 2019, 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 30 June 2019, 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 30 June 2019, 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 of the Company

Name of Shareholder	Capacity	Number of Shares held or interested	Approximate Percentage of interest (%)
IMAX Corporation	Interest in controlled corporation[1]	243,262,600(L)	69.54
IMAX Barbados	Beneficial interest	243,262,600(L)	69.54

(L) Long position

Note:

(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.

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 30 June 2019.

REMUNERATION POLICY

As at 30 June 2019, the Group had approximately 101 employees. All of the employees were 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 Share Option Scheme and RSU Scheme 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 35,532,500 Shares.

During the six months ended 30 June 2019, the Company did not grant any options pursuant to the LTIP to certain directors, senior management and employees of the Group. As of 30 June 2019, there were outstanding 5,163,800 shares (representing approximately 1.476% of the issued share capital of the Company) underlying options granted pursuant to the LTIP to certain directors, senior management and employees of the Group at no consideration. Details of the options outstanding are set out below:

					Number of share options			
Name of Grantee	Date of Grant	Exercise Price	Option Period	Outstanding at 1 January 2019	Granted during the period	Exercised during the period	Expired/ lapsed/ cancelled during the period	Outstanding at 30 June 2019
Directors								
Jiande Chen	29 October 2012	US$1.8111	Five years from date of grant[1]	1,350,000	–	–	–	1,350,000
Jim Athanasopoulos	29 October 2012	US$1.3583	Five years from date of grant[1]	1,215,000	–	–	–	1,215,000
	25 October 2014	US$1.1852	Three years from date of grant[1]	1,518,800	–	–	–	1,518,800
Mei-Hui (Jessie) Chou	29 October 2012	US$1.3583	Five years from date of grant[1]	810,000	–	–	–	810,000
	21 February 2014	US$1.8093	3.7 years from date of grant[1]	270,000	–	–	–	270,000
Senior Management								
Don Savant	29 October 2012	US$1.3583	Five years from date of grant[1]	–	–	–	–	–
Michelle Rosen[3]	30 March 2015	US$1.3333	Three years from date of grant[2]	488,600	–	488,600	–	–
Total				**5,652,400**	–	488,600	–	5,163,800

Notes:

(1) The vesting schedule is as follows: 25%, 20%, 25% and 30% on 8 October 2015, 29 October 2015, 29 October 2016 and 29 October 2017, respectively.

(2) The vesting schedule is as follows: 33%, 33% and 34% on each of the first, second and third anniversary of the grant date, respectively.

(3) Michelle Rosen resigned from her role as the general counsel and joint company secretary with effect from 29 December 2017.

During the first half of 2019, 488,600 options under the LTIP were exercised with details as follows:

Exercise Date	Number of Options Exercised	Exercise Price (HK$)	Closing price of the Shares on the trading day immediately before the exercise date (HK$)
25 February 2019	36,100	10.33995	20.50
26 February 2019	9,100	10.33995	20.60
4 March 2019	50,000	10.33995	20.45
5 March 2019	25,400	10.33995	20.95
22 March 2019	6,500	10.33995	19.62
2 April 2019	100,000	10.33995	19.86
4 April 2019	61,500	10.33995	19.94
23 April 2019	75,000	10.33995	22.00
24 April 2019	50,000	10.33995	22.95
18 June 2019	75,000	10.33995	19.50

No options were cancelled or lapsed under the LTIP during the first half of 2019.

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.

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:

$$X = A - B - C$$

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.

Corporate Governance Highlights and Other Information (Continued)

As of 1 January 2019, there were outstanding 941,780 Shares (representing approximately 0.263% of the then issued share capital of the Company) underlying options granted pursuant to the Share Option Scheme. During the six months ended 30 June 2019, the Company granted options pursuant to the Share Option Scheme to two directors and certain employees of the Group for an aggregate of 417,764 Shares (representing approximately 0.119% of the issued share capital of the Company as at the date of this Interim Report). As of 30 June 2019, there were outstanding 1,359,544 shares (representing approximately 0.389% of the issued share capital of the Company) underlying options granted pursuant to the Share Option Scheme to directors, senior management and certain employees of the Group. Details of the options outstanding are set out below:

				Number of Shares under the options				
Name of Grantee	Date of Grant	Exercise Price	Vesting Period	Outstanding at January 1, 2019	Granted during the six months ended June 30, 2019	Exercised during the six months ended June 30, 2019	Expired/ lapsed/ cancelled during the six months ended June 30, 2019	Outstanding at June 30, 2019
Directors								
Jiande Chen	7 March 2017	HK$36.94	Four years from date of grant(1)	100,992	–	–	–	100,992
	7 March 2018	HK$24.45	Four years from date of grant(2)	97,083	–	–	–	97,083
	7 March 2019	HK$20.71	Four years from date of grant(9)	–	149,966	–	–	149,966
Jim Athanasopoulos	7 March 2017	HK$36.94	Three years from date of grant(3)	84,671	–	–	–	84,671
	1 August 2017	HK$21.43	Three years from date of grant(4)	136,518	–	–	–	136,518
	1 August 2018	HK$23.10	Three years from date of grant(5)	122,460	–	–	–	122,460
Mei-Hui (Jessie) Chou	25 April 2016	HK$45.31	Four years from date of grant(6)	19,382	–	–	–	19,382
	7 March 2017	HK$36.94	Four years from date of grant(1)	50,496	–	–	–	50,496
	7 March 2018	HK$24.45	Four years from date of grant(2)	69,345	–	–	–	69,345
	7 March 2019	HK$20.71	Four years from date of grant(9)	–	107,119	–	–	107,119
Senior Management								
Francisco (Tony) Navarro-Sertich	25 April 2016	HK$45.31	Sixteen months from date of grant(7)	74,973	–	–	–	74,973
Zi Maggie Chen	3 May 2018	HK$28.00	Four years from date of grant(8)	35,807	–	–	–	35,807
	7 March 2019	HK$20.71	Four years from date of grant(9)	–	64,271	–	–	64,271
Employees	25 April 2016	HK$45.31	Four years from date of grant(6)	45,224	–	–	–	45,224
Employees	7 March 2017	HK$36.94	Four years from date of grant(1)	42,417	–	–	–	42,417
Employees	7 March 2018	HK$24.45	Four years from date of grant(2)	62,412	–	–	–	62,412
Employees	7 March 2019	HK$20.71	Four years from date of grant(9)	–	96,408	–	–	96,408
Total				**941,780**	**417,764**	**–**	**–**	**1,359,544**

Notes:

(1) The vesting schedule is as follows: 20%, 25%, 25% and 30% on each of 7 March 2018, 7 March 2019, 7 March 2020 and 7 March 2021, respectively.
(2) The vesting schedule is as follows: 20%, 25%, 25% and 30% on each of 7 March 2019, 7 March 2020, 7 March 2021 and 7 March 2022, respectively.
(3) The vesting schedule is as follows: 25%, 35% and 40% on each of 7 March 2018, 7 March 2019 and 7 March 2020, respectively.
(4) The vesting schedule is as follows: 25%, 35% and 40% on each of 1 August 2018, 1 August 2019 and 1 August 2020, respectively.
(5) The vesting schedule is as follows: 25%, 35% and 40% on each of 1 August 2019, 1 August 2020 and 1 August 2021, respectively.
(6) The vesting schedule is as follows: 20%, 25%, 25% and 30% on each of 7 March 2017, 7 March 2018, 7 March 2019 and 7 March 2020, respectively.
(7) The vesting schedule is as follows: 20% and 80% on each of 25 April 2017 and 18 August 2017, respectively.
(8) The vesting schedule is as follows: 20%, 25%, 25% and 30% on each of 3 May 2019, 3 May 2020, 3 May 2021 and 3 May 2022, respectively.
(9) The vesting schedule is as follows: 20%, 25%, 25% and 30% on each of 7 March 2020, 7 March 2021, 7 March 2022 and 7 March 2023, respectively.

The closing price of the shares on 22 April 2016, 6 March 2017, 31 July 2017, 6 March 2018, 2 May 2018 and 6 March 2019, being the trading date immediately before the relevant date of the grant, was HK$45.10, HK$36.10, HK$20.65, HK$24.45, HK$27.55 and HK$20.80, respectively.

As of 30 June 2019, the total number of Shares available for grant under the Share Option Scheme and all other share option schemes was 23,177,076, representing approximately 6.626% of the issued share capital of the Company as of 30 June 2019.

During the six months ended 30 June 2019, no options under the Share Option Scheme were exercised, cancelled or lapsed.

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 of 30 June 2019, there were outstanding 1,174,615 restricted stock units ("**RSUs**") representing approximately 0.336% of the issued share capital of the Company) granted pursuant to the RSU Scheme to directors, senior management and employees of the Group. Details of the RSUs outstanding are set out below:

			Number of Shares under RSUs				
Name of Grantee	Date of Grant	Vesting Period	Outstanding at January 1, 2019	Granted during the six months ended June 30, 2019	Exercised during the six months ended June 30, 2019	Expired/ lapsed/ cancelled during the six months ended June 30. 2019	Outstanding at June 30, 2019
Directors							
Jiande Chen	7 March 2017	Four years from date of grant[(1)]	64,080	–	20,024	–	44,056
	7 March 2018	Four years from date of grant[(2)]	84,099	–	16,819	–	67,280
	7 March 2019	Four years from date of grant[(10)]	–	103,233	–	–	103,233
Jim Athanasopoulos	7 March 2017	Three years from date of grant[(3)]	48,060	–	22,427	–	25,633
	1 August 2017	Three years from date of grant[(4)]	91,772	–	–	–	91,772
	1 August 2018	Three years from date of grant[(5)]	108,305	–	–	–	108,305
Mei-Hui (Jessie) Chou	25 April 2016	Four years from date of grant[(6)]	8,475	–	3,852	–	4,623
	7 March 2017	Four years from date of grant[(1)]	32,040	–	10,012	–	22,028
	7 March 2018	Four years from date of grant[(2)]	60,071	–	12,014	–	48,057
	7 March 2019	Four years from date of grant[(10)]	–	73,738	–	–	73,738
Senior Management							
Karl Yuan	25 April 2016	Four years from date of grant[(6)]	8,475	–	3,852	–	4,623
	7 March 2017	Four years from date of grant[(1)]	16,020	–	5,006	–	11,014
	7 March 2018	Four years from date of grant[(2)]	36,042	–	7,208	–	28,834
	7 March 2019	Four years from date of grant[(10)]	–	44,243	–	–	44,243
Zi Maggie Chen	3 May 2018	Four years from date of grant[(7)]	31,536	–	–	–	31,536
	7 March 2019	Four years from date of grant[(10)]	–	44,243	–	–	44,243
Employees	25 April 2016	Four years from date of grant[(6)]	32,489	–	14,765	–	17,724
Employees	7 March 2017	Four years from date of grant[(1)]	55,114	–	17,220	–	37,894
Employees	7 March 2017	Two years from date of grant[(8)]	17,718	–	17,718	–	–
Employees	7 March 2018	Four years from date of grant[(2)]	124,545	–	24,906	–	99,639
Employees	7 March 2018	Two years from date of grant[(9)]	30,452	–	–	962	29,490
Employees	7 March 2019	Four years from date of grant[(10)]	–	184,345	–	–	184,345
Employees	7 March 2019	Two years from date of grant[(11)]	–	53,878	–	1,573	52,305
Total			**849,293**	**503,680**	**175,823**	**2,535**	**1,174,615**

Notes:

(1) The vesting schedule is as follows: 20%, 25%, 25% and 30% on each of 7 March 2018, 7 March 2019, 7 March 2020 and 7 March 2021, respectively.

(2) The vesting schedule is as follows: 20%, 25%, 25% and 30% on each of 7 March 2019, 7 March 2020, 7 March 2021 and 7 March 2022, respectively.

(3) The vesting schedule is as follows: 25%, 35% and 40% on each of 7 March 2018, 7 March 2019 and 7 March 2020, respectively.

(4) The vesting schedule is as follows: 25%, 35% and 40% on each of 1 August 2018, 1 August 2019 and 1 August 2020, respectively.

(5) The vesting schedule is as follows: 25%, 35% and 40% on each of 1 August 2019, 1 August 2020 and 1 August 2021, respectively.

(6) The vesting schedule is as follows: 20%, 25%, 25% and 30% on each of 7 March 2017, 7 March 2018, 7 March 2019 and 7 March 2020, respectively.

(7) The vesting schedule is as follows: 20%, 25%, 25% and 30% on each of 3 May 2019, 3 May 2020, 3 May 2021 and 3 May 2022, respectively.

(8) The vesting schedule is as follows: 100% on 7 March 2019.

(9) The vesting schedule is as follows: 100% on 7 March 2020.

(10) The vesting schedule is as follows: 20%, 25%, 25% and 30% on each of 7 March 2020, 7 March 2021, 7 March 2022 and 7 March 2023, respectively.

(11) The vesting schedule is as follows: 100% on 7 March 2021.

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.

Report on Review of Interim Financial Information

Report On Review of Interim Financial Information
To the Board of Directors of IMAX China Holding, Inc.
(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 61 to 106, which comprises the condensed consolidated interim statement of financial position of IMAX China Holding, Inc. (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2019 and the condensed consolidated interim statement of comprehensive income, the condensed consolidated interim statement of changes in equity and the condensed consolidated interim statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 July 2019

Condensed Consolidated Interim Financial Information

Condensed Consolidated Interim Statement of Comprehensive Income

(In thousands of U.S. dollars)

	Notes	Six months ended 30 June 2019 (Unaudited)	Six months ended 30 June 2018 (Unaudited)
Revenues	7	59,256	51,487
Cost of sales	8	(18,209)	(14,481)
Gross profit	7	41,047	37,006
Selling, general and administrative expenses	8	(7,838)	(8,111)
Other operating expenses	8	(3,404)	(2,888)
Operating profit		29,805	26,007
Interest income		984	411
Interest expense		(44)	—
Profit before income tax		30,745	26,418
Income tax expense	9	(6,780)	(5,953)
Profit for the period attributable to owners of the Company		23,965	20,465
Other comprehensive loss:			
Items that may be subsequently reclassified to profit or loss:			
Change in foreign currency translation adjustments		(550)	(2,428)
Items that may not be subsequently reclassified to profit or loss:			
Change in fair value of financial assets at fair value through other comprehensive income ("FVOCI")		(4,436)	—
Other comprehensive loss:		(4,986)	(2,428)
Total comprehensive income for the period, attributable to owners of the Company		18,979	18,037
Profit per share attributable to owners of the Company — basic and diluted (expressed in U.S. dollars per share):			
From profit for the period — basic	10	0.07	0.06
From profit for the period — diluted	10	0.07	0.06

(The accompanying notes are an integral part of this condensed consolidated interim financial information.)

Condensed Consolidated Interim Financial Information (Continued)

Condensed Consolidated Interim Statement of Financial Position
(In thousands of U.S. dollars)

	Notes	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	11	104,833	98,471
Other assets	12	13,892	3,271
Variable consideration receivable from contracts		3,148	3,488
Deferred income tax asset	14	3,709	2,928
Financing receivables		40,139	42,000
Interests in a joint venture	15	—	—
		165,721	150,158
Current assets			
Other assets	12	3,543	2,405
Film assets		219	221
Inventories		5,983	3,434
Prepayments		3,075	3,399
Variable consideration receivable from contracts		283	—
Financing receivables		9,991	8,785
Trade and other receivables	13	56,041	40,717
Cash and cash equivalents		96,980	120,224
		176,115	179,185
Total assets		341,836	329,343
LIABILITIES			
Non-current liabilities			
Accruals and other liabilities	18	1,521	—
Deferred revenue	19	23,988	23,646
		25,509	23,646
Current liabilities			
Trade and other payables	17	26,944	18,395
Accruals and other liabilities	18	16,626	8,838
Income tax liabilities		5,333	6,334
Deferred revenue	19	17,188	18,453
		66,091	52,020
Total liabilities		91,600	75,666
EQUITY			
Equity attributable to owners of the Company			
Share capital		35	36
Share premium and reserves		280,460	307,865
Accumulated deficit		(30,259)	(54,224)
Total equity		250,236	253,677
Total equity and liabilities		341,836	329,343

(The accompanying notes are an integral part of this condensed consolidated interim financial information.)

The condensed consolidated interim financial information on pages 61 to 106 was approved by the board of directors on 30 July 2019 and was signed on its behalf.

Jiande Chen
Director

Jim Athanasopoulos
Director

Condensed Consolidated Interim Financial Information (Continued)

Condensed Consolidated Interim Statement of Changes in Equity

(In thousands of U.S. dollars)

	Share Capital	Share Premium	Treasury Shares	Capital Reserves	FVOCI Reserve	Retained Earnings (Accumulated Deficit)	Exchange Reserve	Total Equity
Balance as at 1 January 2019	36	353,245	(4,358)	(29,177)	(2,018)	(54,224)	(9,827)	253,677
Comprehensive income								
Profit for the period	–	–	–	–	–	23,965	–	23,965
Change in fair value of financial assets at FVOCI	–	–	–	–	(4,436)	–	–	(4,436)
Foreign currency translation	–	–	–	–	–	–	(550)	(550)
Total comprehensive income	–	–	–	–	(4,436)	23,965	(550)	18,979
Dividends recognised as distribution (note 24)	–	(7,131)	–	–	–		–	(7,131)
Exercise of stock options during the period	–	867	–	(216)	–	–	–	651
Restricted share units vested and settled	–	521	532	(1,053)	–	–	–	–
Acquisition of shares for settlement of restricted share units	–	–	(302)	–	–	–	–	(302)
China long-term incentive plan	–	–	–	1,175	–	–	–	1,175
Shares buy-back	–	–	(16,729)	–	–	–	–	(16,729)
Shares buy-back transaction costs	–	–	(84)	–	–	–	–	(84)
Shares cancelled	(1)	(20,940)	20,941	–	–	–	–	–
Total transactions with owners, recognised directly in equity	(1)	(26,683)	4,358	(94)	–	–	–	(22,420)
Balance as at 30 June 2019 (unaudited)	35	326,562	–	(29,271)	(6,454)	(30,259)	(10,377)	250,236
Balance as at 1 January 2018	36	375,296	(133)	(29,821)	–	(99,087)	(1,554)	244,737
Change in accounting policy	–	–	–	–	–	2,098	–	2,098
Restated total equity as at 1 January 2018	36	375,296	(133)	(29,821)	–	(96,989)	(1,554)	246,835
Comprehensive income								
Profit for the period	–	–	–	–	–	20,465	–	20,465
Foreign currency translation	–	–	–	–	–	–	(2,428)	(2,428)
Total comprehensive income	–	–	–	–	–	20,465	(2,428)	18,037
Dividends recognised as distribution (note 24)	–	(14,355)	–	–	–	–	–	(14,355)
Exercise of stock options during the period	–	1,065	–	(265)	–	–	–	800
Restricted share units vested and settled	–	379	432	(811)	–	–	–	–
Acquisition of shares for settlement of restricted share units	–	–	(299)	–	–	–	–	(299)
China long-term incentive plan	–	–	–	1,008	–	–	–	1,008
Total transactions with owners, recognised directly in equity	–	(12,911)	133	(68)	–	–	–	(12,846)
Balance as at 30 June 2018 (unaudited)	36	362,385	–	(29,889)	–	(76,524)	(3,982)	252,026

(The accompanying notes are an integral part of this condensed consolidated interim financial information.)

Condensed Consolidated Interim Financial Information (Continued)

Condensed Consolidated Interim Statement of Cash Flows

(In thousands of U.S. dollars)

	Notes	Six months ended 30 June 2019 (Unaudited)	Six months ended 30 June 2018 (Unaudited)
Cash flows from operating activities			
Cash provided by operations	20	27,441	26,925
Income taxes paid		(10,272)	(9,124)
Interest paid		(44)	—
Net cash provided by operating activities		17,125	17,801
Cash flows from investing activities			
Investment in equipment under joint revenue sharing arrangements		(5,693)	(6,055)
Investment in an equity security		(15,153)	—
Investment in a virtual reality fund		—	(873)
Proceeds from dissolvement of a virtual reality fund		78	—
Loan repayment from a joint venture		—	2,645
Purchase of property, plant and equipment		(35)	(12)
Net cash used in investing activities		(20,803)	(4,295)
Cash flows from financing activities			
Dividends paid to owners of the Company		(2,266)	(14,361)
Payment for shares buy-back		(16,813)	—
Settlement of share-based payments		(302)	(299)
Principal elements of lease payments		(517)	—
Proceeds from issuance of common shares upon exercise of stock options		651	800
Net cash used in financing activities		(19,247)	(13,860)
Effects of exchange rate changes on cash		(319)	278
Decrease in cash and cash equivalents during period		(23,244)	(76)
Cash and cash equivalents, beginning of period		120,224	116,678
Cash and cash equivalents, end of period		96,980	116,602

(The accompanying notes are an integral part of this condensed consolidated interim financial information.)

Notes to the Condensed Consolidated Interim Financial Information

(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 is an investment holding company and its subsidiaries (together the "Group") are principally engaged in the entertainment industry specialising in digital film 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".

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").

The condensed consolidated interim financial information is presented in United States dollars ("US$"), unless otherwise stated.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of the condensed consolidated interim financial information are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(a) Basis of preparation

The condensed consolidated interim financial information for the six months ended 30 June 2019 has been prepared in accordance with International Accounting Standard 34 ("IAS 34"), "Interim Financial Reporting". The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2018, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The preparation of condensed consolidated interim financial information in conformity with IAS 34 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 condensed consolidated interim financial information are disclosed in note 5.

2. Summary of significant accounting policies (Continued)

(b) Summary of significant accounting policies

Except as described in note 3, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2018, as described in those annual financial statements.

Taxes on income in the six months ended 30 June 2019 and 2018 are accrued using the tax rate that would be applicable to expected total annual profits.

3. New accounting standards and accounting changes

This note explains the impact of the adoption of IFRS 16 "Leases" ("IFRS 16") on the Group's financial information and the new accounting policies that have been applied from 1 January 2019, where they are different to those applied in prior periods.

The Group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening statement of financial position on 1 January 2019.

(a) Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.75%.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease*.

3. New accounting standards and accounting changes (Continued)

(a) Adjustments recognised on adoption of IFRS 16 (Continued)

As a lessee, the Group's leases are mainly rentals of offices. The right-of-use assets were measured at the amount equal to the lease liability and there were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application. The following table shows the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included.

Condensed consolidated interim statement of financial position (extract)	31 December 2018 As originally presented	IFRS 16	1 January 2019 Restated
Non-current assets			
Property, plant and equipment	98,471	3,056	101,527
Liabilities			
Accrued and other liabilities	8,838	3,056	11,894

As a lessor, depending on the terms of arrangements entered into with customers, the Group's leases of IMAX theatre systems are classified as operating leases or finance leases. The accounting treatment of its lease arrangements for IMAX theatre systems has not changed compared with IAS 17.

(b) The Group's leasing activities and how these are accounted for

The Group's leases are mainly rentals of offices. Rental contracts are typically made for fixed periods of 1 to 3 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of office were classified as operating leases and the payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments: fixed payments (including in-substance fixed payments) and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

3. New accounting standards and accounting changes (Continued)

(b) *The Group's leasing activities and how these are accounted for (Continued)*

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

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.

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 31 December 2018.

There have been no changes in the risk management policies since year end.

(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.

4. Financial risk (Continued)

(a) Market risk (Continued)

Foreign exchange risk (Continued)

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.

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 the six months ended 30 June 2019 would have been approximately $0.4 million worse/better (30 June 2018: $0.3 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.

Credit risk

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

For the six months ended 30 June 2019, 56.9% (30 June 2018: 68.7%) of the Group's revenue was derived from its customers comprising 10% or more of total revenue. See note 7(b) for each significant customer's revenue by segment. As at 30 June 2019, the Group had concentration of credit risk as 55.7% (31 December 2018: 42.1%) of the total trade and other receivables due from the Group's largest two (31 December 2018: two) customers.

The Group considers the probability of default upon initial recognition of, a financial asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Especially the following indicators are incorporated:

- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtors' ability to meet its obligations;
- actual or expected significant changes in the operating results of the debtors;
- significant increases in credit risk on other financial instruments of the same debtors;
- significant changes in the expected performance and behaviour of the debtors, including changes in the payment status of debtors and changes in the operating results of the debtors.

4. Financial risk (Continued)

(a) Market risk (Continued)

Credit risk (Continued)

The Group has policies in place to ensure that receivables with credit terms are made to counterparties with an appropriate credit history and management performs ongoing credit evaluations of the counterparties. The credit period granted to the customers and the credit quality of these customers are assessed, which takes into account their financial position, past experience and available forward-looking information. Management believes that the credit risk inherent in the Group's outstanding trade receivables arising from sales of products due from them is not significant.

For financing receivables and variable consideration receivable from contracts, the Group classifies its customers into four categories to indicate the credit quality worthiness 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 non-accrual status and all revenue recognitions related to the theatre are stopped.

Management believes that the credit risk inherent in the Group's outstanding financing receivables and variable consideration receivable from contracts is not significant.

For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records, past experience and available forward-looking information. Management believes that the credit risk inherent in the Group's outstanding other receivable balance is not significant.

The credit risk on deposits with banks 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.

4. Financial risk (Continued)

(a) Market risk (Continued)

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 17 and 18. 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.

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

See note 6 for disclosures of the fair value estimation of the Group's financial assets and liabilities.

5. Critical accounting estimates and judgements

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. In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were similar to those that applied to the Group's Annual Report 2018.

6. Financial instruments

(a) *Financial instruments*

The Group's financial instruments at the following year/period-ends are comprised of the following:

	Financial assets at amortised costs	Financial assets at FVOCI	Total
30 June 2019 (unaudited)			
Assets as per statement of financial position			
Investment in an equity security	—	13,100	13,100
Investment in preferred share	—	500	500
Net financed sales receivable	46,623	—	46,623
Net investment in finance leases	3,507	—	3,507
Trade and other receivables	56,041	—	56,041
Variable consideration receivable from contracts	3,431	—	3,431
Cash and cash equivalents	96,980	—	96,980
	206,582	13,600	220,182

	Liabilities at amortised cost	Total
Liabilities as per statement of financial position		
Trade and other payables	26,944	26,944
Lease liabilities (note below)	2,175	2,175
	29,119	29,119

Note:

Lease liabilities represent liabilities arising from leases as a result of adoption of IFRS 16 and are recorded in accruals and other liabilities.

6. Financial instruments (Continued)

(a) Financial instruments (Continued)

	Financial assets at amortised costs	Financial assets at FVOCI	Total
31 December 2018 (audited)			
Assets as per statement of financial position			
Investment in preferred share	—	2,374	2,374
Investment in a virtual reality fund	—	587	587
Net financed sales receivable	47,097	—	47,097
Net investment in finance leases	3,688	—	3,688
Trade and other receivables	40,717	—	40,717
Variable consideration receivable from contracts	3,488	—	3,488
Cash and cash equivalents	120,224	—	120,224
	215,214	2,961	218,175

	Liabilities at amortised cost	Total
Liabilities as per statement of financial position		
Trade and other payables	18,395	18,395
	18,395	18,395

6. Financial instruments (Continued)

(b) Fair value measurements

The Group has classified its financial instruments into the three levels prescribed under the accounting standards.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

The investments in an equity security, preferred share and in a virtual reality fund are classified as financial asset with fair value change through other comprehensive income under IFRS 9. As of 30 June 2019, the fair value of investments in an equity security, preferred share and in a virtual reality fund was $13.1 million, $0.5 million and $nil, respectively. Refer to note 12 for details.

The investment in an equity security is classified as Level 1 financial instrument for fair value assessment purpose. The fair value of the equity security is determined by using quoted market prices at the end of the reporting period.

6. Financial instruments (Continued)

(b) Fair value measurements (Continued)

The investments in preferred share and in a virtual reality fund are classified as Level 3 financial instrument for fair value assessment purpose. The fair value of preferred share and a virtual reality fund is determined by valuation techniques.

The carrying value 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.

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 30 June 2019 and 31 December 2018, respectively.

The estimated fair values of the net financed sales receivable, net investment in finance leases, variable consideration receivable from contracts and lease liabilities are estimated based on discounting future cash flows at currently available interest rates with comparable terms as at 30 June 2019 and 31 December 2018, respectively.

	As at 30 June 2019 (Unaudited)		As at 31 December 2018 (Audited)	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Net financed sales receivable	46,623	47,179	47,097	47,626
Net investment in finance leases	3,507	3,507	3,688	3,688
Variable consideration receivable from contracts	3,431	3,431	3,488	3,488
Lease liabilities	2,175	2,175	N/A	N/A

There were no transfers within Level 1, Level 2 and Level 3 during the six months ended 30 June 2019 (30 June 2018: 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.

7. Segment information

Management, including the Group's executive directors, assesses segment performance based on segment revenues, gross margins and film performance. Selling, general and administrative expenses, other operating expenses, interest income, interest expense and income tax expense are not allocated to the segments.

The Group now has six operating and reportable segments: sales and sales-type lease arrangements, theatre system maintenance, revenue sharing arrangements, film, other theatre, new business and other.

The Group's reportable segments are organised under three primary groups identified by nature of product sold or service provided: (1) Network Business, representing variable revenue generated by box office, which includes the reportable segment of film and contingent rent from revenue sharing arrangements and sales and sales-type lease arrangements; (2) Theatre Business, representing revenue generated by the sale and installation of theatre systems and maintenance services, primarily related to the sales and sales-type lease arrangements and theatre system maintenance reportable segments, fixed hybrid revenues from the revenue sharing arrangements segment and after-market sales of projection system parts and 3D glasses from the other theatre segment; and (3) New Business and Other, which includes all revenue in connection with any other non-core business initiatives that are in development and/or start-up phase. Revenues from the sales and sales-type lease arrangements and revenue sharing arrangements segment is separated into Network Business and Theatre Business primarily depending on whether the consideration is based on box office.

Inter-segment profits are eliminated upon consolidation, as well as for the disclosures below.

Transactions between the other segments are not significant.

7. Segment information (Continued)

(a) ***Operating Segments***

	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Revenue		
Network business		
Film	17,921	14,933
Revenue sharing arrangements — contingent rent	15,824	12,245
	33,745	27,178
Theatre business		
Sales and sales-type lease arrangements	10,364	13,224
Revenue sharing arrangements — upfront fees	3,537	1,022
Theatre system maintenance	10,859	9,554
Other theatre	606	422
	25,366	24,222
New business and other	145	87
Total	59,256	51,487
Gross profit		
Network business		
Film	15,268	12,728
Revenue sharing arrangements — contingent rent	10,079	6,716
	25,347	19,444
Theatre business		
Sales and sales-type lease arrangements	7,831	10,372
Revenue sharing arrangements — upfront fees	1,034	227
Theatre system maintenance	6,474	6,754
Other theatre	250	198
	15,589	17,551
New business and other	111	11
Total gross profit	41,047	37,006
Selling, general and administrative expenses	(7,838)	(8,111)
Other operating expenses	(3,404)	(2,888)
Interest income	984	411
Interest expense	(44)	—
Profit before income tax	30,745	26,418

7. 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.

(b) Significant customers

Revenue from the Group's significant customers (individually defined as greater than 10% of total revenues) are as follows:

Customer A

Revenues of approximately $17.3 million in the six months ended 30 June 2019 (30 June 2018: $15.1 million) are derived from a single external customer. These revenues are attributable to film, revenue sharing arrangements, theatre system maintenance, sales arrangements and other segments.

Customer B

Revenues of approximately $16.4 million in the six months ended 30 June 2019 (30 June 2018: $14.7 million) are derived from a related party. These revenues are attributable to film, theatre system maintenance and other segments.

Customer C

Revenues of approximately $1.7 million in the six months ended 30 June 2019 (30 June 2018: $5.6 million) are derived from a single external customer. These revenues are attributable to film, sales arrangements, theatre system maintenance and other segments.

No other single customers comprises of more than 10% of total revenues in the six months ended 30 June 2019 or 2018.

8. Expenses by nature

A breakdown of the Group's expenses by nature is provided in the table below:

	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Cost of theatre system sales and finance leases	5,192	3,257
Depreciation, including joint revenue sharing arrangements and film cost	7,059	5,784
Employee salaries and benefits	4,299	5,041
Advertising and marketing expenses	3,506	3,183
Technology and trademark fees	3,374	2,859
Theatre maintenance fees	2,998	1,584
Share-based compensation expenses	1,175	1,014
Professional fees	604	997
Lease expenses	36	555
Travel and transportation expenses	490	476
Provision for receivables impairment	230	—
Foreign exchange (gains)/losses	(134)	116
Other film costs/(recoveries)	109	(97)
Other business expenses	82	390
Auditor's remuneration		
— Non-audit services	118	91
— Audit services	184	160
Utilities and maintenance expenses	129	70
Total costs of sales, selling, general and administrative expenses and other operating expenses	29,451	25,480

9. Income tax expense

	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Current income tax:		
Current tax on profits for the period	(7,606)	(6,495)
Adjustments in respect of prior years	39	300
Total current income tax	(7,567)	(6,195)
Deferred income tax (note 14):		
Origination and reversal of temporary differences	787	242
Total deferred income tax	787	242
Income tax expense	(6,780)	(5,953)

Income tax expense for the six months ended 30 June 2019 and 2018 is recognised based on management's estimate of the weighted average annual income tax rate expected for the full financial year.

For the six months ended 30 June 2019, the estimated average annual tax rate used for the year ending 31 December 2019 was 22% (2018: 23%).

10. Profit per share

Reconciliations of the numerator and denominator of the basic and diluted per-share computations are comprised of the following:

	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Profit for the period	23,965	20,465
Weighted average number of common shares (in ’000s):		
Issued and outstanding, beginning of period	356,255	358,125
Weighted average number of shares (decreased) increased during the period	(1,371)	299
Weighted average number of shares used in computing basic earnings per share	354,884	358,424
Adjustments for:		
Stock options	2,364	3,286
Restricted share units	367	195
Weighted average number of shares used in computing diluted earnings per share	357,615	361,905

11. Property, plant and equipment

	Theatre System Components	Office and Production Equipment	Right-of-use Assets	Leasehold Improvements	Construction in Process	Total
As at 1 January 2019 (audited)						
Cost	126,997	2,392	–	1,753	3,959	135,101
Accumulated depreciation and impairment	(33,738)	(1,228)	–	(1,664)	–	(36,630)
Net book amount (as previously presented)	93,259	1,164	–	89	3,959	98,471
Change in accounting policy						
Cost	–	–	3,056	–	–	3,056
Restated as at 1 January 2019						
Cost	126,997	2,392	3,056	1,753	3,959	138,157
Accumulated depreciation and impairment	(33,738)	(1,228)	–	(1,664)	–	(36,630)
Net book amount (restated)	93,259	1,164	3,056	89	3,959	101,527
Six months ended 30 June 2019 (unaudited)						
Opening net book amount	93,259	1,164	3,056	89	3,959	101,527
Exchange differences	88	4	(53)	2	(45)	(4)
Additions	–	20	–	15	10,017	10,052
Transfers	7,171	–	–	–	(7,171)	–
Disposals	(173)	–	–	–	–	(173)
Depreciation charge	(5,774)	(253)	(474)	(68)	–	(6,569)
Closing net book amount	94,571	935	2,529	38	6,760	104,833

11. Property, plant and equipment (Continued)

	Theatre System Components	Office and Production Equipment	Right-of-use Assets	Leasehold Improvements	Construction in Process	Total
As at 30 June 2019 (unaudited)						
Cost	132,906	2,408	2,993	1,763	6,760	146,830
Accumulated depreciation and impairment	(38,335)	(1,473)	(464)	(1,725)	–	(41,997)
Net book amount	94,571	935	2,529	38	6,760	104,833
As at 1 January 2018 (audited)						
Cost	112,140	1,725	–	1,818	1,704	117,387
Accumulated depreciation and impairment	(26,430)	(948)	–	(1,389)	–	(28,767)
Net book amount	85,710	777	–	429	1,704	88,620
Six months ended 30 June 2018 (unaudited)						
Opening net book amount	85,710	777	–	429	1,704	88,620
Exchange differences	(1,100)	(7)	–	(2)	(37)	(1,146)
Additions	34	12	–	–	8,485	8,531
Transfers	6,292	–	–	–	(6,292)	–
Disposals	(26)	–	–	–	–	(26)
Depreciation charge	(4,854)	(183)	–	(185)	–	(5,222)
Closing net book amount	86,056	599	–	242	3,860	90,757

The recognised right-of-use assets all relate to the type of properties.

12. Other assets

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

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
Commissions and other deferred selling expenses	2,487	1,359
Deposits	50	72
Other	1,006	974
Other assets, current	3,543	2,405
Investment in an equity security (note i)	13,100	—
Investment in preferred share (note ii)	500	2,374
Deposits over one year	292	310
Investment in a virtual reality fund (note iii)	—	587
Other assets, non-current	13,892	3,271
Other assets	17,435	5,676

Notes:

(i) On 4 February 2019, IMAX China (Hong Kong), Limited, a wholly-owned subsidiary of the Company, purchased 7,949,000 shares (representing approximately 0.706% equity at the time) in Maoyan Entertainment ("Maoyan") with the amount of $15.2 million at the final offer price pursuant to the global offering of the shares of Maoyan. This investment is subject to, among other restrictions, a lock-up period of six months following 4 February 2019, the date of Maoyan's global offering. As of 30 June 2019, the fair value of this investment was $13.1 million, which is $2.1 million lower than the carrying value of $15.2 million, and the difference of $2.1 million was recorded in other comprehensive loss for the six months ended 30 June 2019 (30 June 2018: N/A).

(ii) In 2014, the Group purchased one preferred share of IMAX (Hong Kong) Holdings, Limited at a cost of $4.0 million. IMAX (Hong Kong) Holdings, Limited is a wholly owned subsidiary of IMAX Corporation and holds an investment in a joint venture. According to the key terms, as fully defined in the agreement, the Group has the right 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. As of 30 June 2019, the fair value of this investment was $0.5 million, which was $1.9 million lower than the carrying value of $2.4 million, and the difference of $1.9 million was recorded in other comprehensive loss for the six months ended 30 June 2019 (30 June 2018: $nil).

(iii) In 2017, the Group entered into a subscription agreement to invest in IMAX Virtual Reality Fund (the "VR Fund") with the total committed subscription amount of $5.0 million representing 19.5% interests of the VR Fund. The VR Fund was established by IMAX Corporation to help finance the creation of interactive VR content experiences for use across all VR platforms. As of 31 December 2018, the total investment amounted to $1.0 million. During the six months ended 30 June 2019, IMAX Corporation, the Group's controlling shareholder, decided to dissolve the VR Fund and shut down the operation of VR Fund. Therefore, the Group remeasured the fair value of investment in VR Fund based on the recoverable amount of $0.1 million and recorded a loss of $0.5 million in other comprehensive loss for the six-month period ended 30 June 2019 (30 June 2018: $nil). The remaining commitment of investment in the VR Fund was exempted accordingly.

13. Trade and other receivables

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
Trade receivables	18,704	21,903
Less: provision for impairment of trade receivables	(444)	(404)
Trade receivables – net	18,260	21,499
Receivables from IMAX Corporation (note 23(b))	29,285	13,427
Loan and interest receivables from a joint venture (note 23(b))	521	509
Less: provision for impairment of loan and interest receivables	(396)	(207)
Loan and interest receivables from a joint venture – net	125	302
Other accrued receivables	8,371	5,489
	56,041	40,717

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 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
0–30 days	7,939	8,494
31–60 days	968	2,788
61–90 days	7,182	1,950
Over 90 days	31,900	22,098
	47,989	35,330

14. Deferred income tax

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

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
Opening balance	2,928	2,528
Exchange differences	(6)	(124)
Credited to profit or loss (note 9)	787	524
Closing balance	3,709	2,928

15. Interests in a joint venture

The Group's investment in a joint venture as of 30 June 2019 with details as below:

Name of the entity	Place of incorporation, kind of legal entity and date of incorporation	Principal activities and place of operation	Issued shares/ registered capital	Paid up capital	Proportion of ordinary shares directly held by parent (%)	Proportion of ordinary shares held by the Group (%)
IMAX Fei Er Mu (Shanghai) Investment Management Co., Ltd.	The People's Republic of China ("PRC") Joint venture invested by foreign invested enterprise and domestic enterprise 25 January 2017	Investment management, investment consulting	Registered capital of RMB 7,000,000	$nil	–	50%

16. Share capital and reserves

(a) Share capital

	Number of shares		Share capital	
	2019	2018	2019 US$	2018 US$
Ordinary shares of US$0.0001 each				
Authorised				
At beginning and end of six months ended	625,625,000	625,625,000	62,562.50	62,562.50

	Number of shares		Share capital	
	2019	2018	2019 US$	2018 US$
Issued and fully paid				
At beginning of 1 January (audited)	357,944,820	358,125,084	35,794.48	35,812.51
Exercise of stock options	488,600	600,000	48.86	60.00
Shares issued for vested restricted share units	96,982	56,036	9.70	5.60
Share cancellation (note 16(b))	(8,715,700)	—	(871.57)	—
Number of shares as at 30 June (unaudited)	349,814,702	358,781,120	34,981.47	35,878.11

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.

16. Share capital and reserves (Continued)

(b) Treasury shares

For the six months ended 30 June:

		Number of shares		US$'000	
	Notes	2019	2018	2019	2018
Treasury shares					
At beginning of period		1,775,148	43,900	4,358	133
Acquisition of shares by the Trust	(i)	122,901	84,555	302	299
Issued to employees for vested restricted share units		(208,049)	(128,455)	(532)	(432)
Shares bought back on-market	(ii)	7,025,700	—	16,729	—
Buy-back transaction costs	(ii)	—	—	84	—
Shares cancelled	(ii)	(8,715,700)	—	(20,941)	—
At end of period		—	—	—	—

Notes:

(i) These shares are shares in IMAX China Holding, Inc. that are held by Computershare Hong Kong Trustees Limited (the "Trust") for the purpose of issuing shares under China long-term incentive plan. Shares issued to employees are recognised on a first-in-first-out basis.

(ii) During the six months ended 30 June 2019, the Company conducted shares buy-back pursuant to the general mandates granted by the shareholders to the Company's directors during the Annual General Meetings held on 3 May 2018 and 6 June 2019. The repurchases may be made in the open market or through other means permitted by applicable laws. The Company has no obligation to repurchase its shares and the share repurchase program may be suspended or discontinued by the Company at any time.

During the six months ended 30 June 2019, the Company purchased 7,025,700 shares on-market and 8,715,700 shares were cancelled. The shares were acquired at an average price of $2.38, with prices ranging from $2.20 to $2.60.

16. 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 China Long-Term Incentive Plan (the "China LTIP") was adopted by the Group in October 2012. Each stock option issued prior to the IPO ("China IPO Option"), stock options issued after the IPO ("China Option"), RSU ("China RSUs") or cash settled share-based payment ("CSSBP") issued under the China LTIP represents an opportunity to participate economically in the future growth and value creation of the Company.

The compensation costs recorded in the condensed consolidated interim statement of comprehensive income for these plans were $1.2 million in the six months ended 30 June 2019 (30 June 2018: $1.0 million).

(i) *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. Expected volatility rate is estimated based on a blended volatility method which takes into consideration IMAX Corporation's historical stock 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. 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.

16. Share capital and reserves (Continued)

(c) Share-based payments (Continued)

(i) 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") or 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 $nil in the six months ended 30 June 2019 (30 June 2018: less than $0.1 million) related to stock option grants issued to IMAX China employees under the SOP and IMAX LTIP.

No stock options granted to Group employees in the six months ended 30 June 2019 (30 June 2018: none).

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 six months ended 30 June:

	Number of Shares		Weighted Average Exercise Price Per Share	
	2019 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2018 (Unaudited)
Options outstanding, beginning of period	—	37,000	—	31.73
Expired	—	(37,000)	—	31.73
Options outstanding, end of period	—	—	—	—
Options exercisable, end of period	—	—	—	—

No stock options were surrendered or cancelled by Group employees in the six months ended 30 June 2019 (30 June 2018: none).

16. Share capital and reserves (Continued)

(c) Share-based payments (Continued)

(ii) China Long-Term Incentive Plan ("China LTIP")

China IPO Options Summary

The China IPO Options issued under China LTIP 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 IPO Options vest over a 5 year period beginning on the date of grant. In addition to China IPO 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 IPO Options, the Tandem Options would not vest and be forfeited.

No China IPO Options were granted after 2015. Both the China IPO Options and Tandem Options have a maximum contractual life of 7 years.

In the six months ended 30 June 2019, the Group recorded an expense of $nil (30 June 2018: $nil) related to equity-settled China IPO Options issued under the China LTIP.

China IPO Options were priced using Binomial Model. Expected volatility rate is estimated based on a blended volatility method which take into consideration IMAX Corporation's historical stock 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 following table summarizes certain information in respect of China IPO Option activity in the Group:

For the six months ended 30 June:

	Number of Shares		Weighted Average Exercise Price Per Share	
	2019 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2018 (Unaudited)
Options outstanding, beginning of period	5,652,400	6,252,400	1.44	1.43
Exercised	(488,600)	(600,000)	1.33	1.33
Options outstanding, end of period	5,163,800	5,652,400	1.45	1.44
Options exercisable, end of period	5,163,800	5,652,400	1.45	1.44

In respect of China IPO Options exercised in the six months ended 30 June 2019, the weighted average stock price at the dates of exercise is $2.66 (30 June 2018: $3.66). As at 30 June 2019, the weighted average remaining contractual life of options outstanding is 1.1 years (31 December 2018: 1.6 years).

16. Share capital and reserves (Continued)

(c) Share-based payments (Continued)

(ii) China Long-Term Incentive Plan ("China LTIP") (Continued)

China Options Summary

In the six months ended 30 June 2019, 417,764 (30 June 2018: 264,647) China Options were granted to certain employees in accordance with the China LTIP. The China Options vest between a three and four year period beginning on the date of grant. The China Options have a maximum contractual life of 7 years.

In the six months ended 30 June 2019, the Group recorded an expense of $0.2 million (30 June 2018: $0.1 million) related to China Options issued under the China LTIP.

The weighted average fair value of China Options granted in the six months ended 30 June 2019 at the measurement date was $0.58 per share (30 June 2018: $0.92 per share). China Options were priced using Binomial Model. Expected volatility is based on the historical volatility of IMAX Corporation's stock price over the past years and the industry average historical volatility. The following inputs were used to estimate the average fair value of the options:

	Six months ended 30 June		
	2019 (Unaudited)	2018 (Unaudited)	2018 (Unaudited)
		A	B
Grant date share price	HK$19.96	HK$24.45	HK$28.00
Exercise price	HK$20.71	HK$24.45	HK$28.00
Average risk-free interest rate	1.60%	1.85%	2.02%
Expected option life (in years)	3.70	4.77	6.45
Expected volatility	29%	30%	30%
Dividend yield	2.20%	1.50%	1.50%
Early exercise multiple	2.35	2.23	2.23

16. Share capital and reserves (Continued)

(c) Share-based payments (Continued)

(ii) China Long-Term Incentive Plan ("China LTIP") (Continued)

China Options Summary (Continued)

The following table summarizes certain information in respect of China Options activity in the Group:

For the six months ended 30 June:

	Number of Shares		Weighted Average Exercise Price Per Share	
	2019 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2018 (Unaudited)
Options outstanding, beginning of period	941,780	554,673	3.95	4.53
Granted	417,764	264,647	2.64	3.18
Options outstanding, end of period	1,359,544	819,320	3.55	4.10
Options exercisable, end of period	393,080	163,986	4.46	5.44

As at 30 June 2019, the weighted average remaining contractual life of options outstanding is 5.6 years (31 December 2018: 5.6 years).

(iii) Restricted Share Units

RSUs under IMAX LTIP

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 $nil for the six months ended 30 June 2019 (30 June 2018: $nil) related to RSU grants issued to employees in the plan. The annual termination probability assumed for the six months ended 30 June 2019 was zero (30 June 2018: zero).

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.

16. Share capital and reserves (Continued)

(c) Share-based payments (Continued)

(iii) Restricted Share Units (Continued)

RSUs under IMAX LTIP Summary

The following table summarizes certain information in respect of RSUs activity under the IMAX LTIP:

For the six months ended 30 June:

	Number of Awards		Weighted Average Grant Date Fair Value Per Share	
	2019 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2018 (Unaudited)
RSUs outstanding, beginning of period	—	1,296	—	36.09
Vested and settled	—	(326)	—	33.80
RSUs outstanding, end of period	—	970	—	36.86

China RSUs under China LTIP

China RSUs have been granted to employees of the Group under the IMAX China LTIP. Each China RSU represents a contingent right to receive one common share of the Company and its economic equivalent of one common share of the Company. China RSUs were not issued before 2015. The grant date fair value of each China RSU is equal to the share price of the Company's stock at the grant date. The Group recorded an expense of $1.0 million for the six months ended 30 June 2019 (30 June 2018: $0.9 million) related to China RSU grants issued to employees in the plan. The annual termination probability assumed for the six months ended 30 June 2019 was nil (30 June 2018: nil).

RSUs granted under the China LTIP vest between immediately and four years. Vesting of the RSUs is subject to continued employment or service with the Group or IMAX Corporation.

China RSUs under China LTIP Summary

The following table summarizes certain information in respect of China RSUs activity under the China LTIP:

For the six months ended 30 June:

	Number of Awards		Weighted Average Grant Date Fair Value Per Share	
	2019 (Unaudited)	2018 (Unaudited)	2019 (Unaudited)	2018 (Unaudited)
RSUs outstanding, beginning of period	849,293	523,829	3.64	4.39
Granted	626,581	475,811	2.52	3.23
Vested and settled	(298,724)	(184,491)	3.53	4.40
Forfeited	(2,535)	(20,667)	2.76	3.88
RSUs outstanding, end of period	1,174,615	794,482	3.08	3.71

16. Share capital and reserves (Continued)

(d) Reserves

The Group's reserves and movement therein for the current and prior periods are presented in the condensed consolidated interim statement of changes in equity.

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. The Company distributed a dividend of $7.1 million out of share premium for the six months ended 30 June 2019 (30 June 2018: $14.4 million).

Capital reserve

The Group's capital reserve represents the net contributions from the Controlling Shareholder and share-based payment expenses.

Statutory reserves

The PRC laws and regulations require companies registered in the PRC to provide 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 for 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 30 June 2019, accordingly, no statutory reserves were appropriated (31 December 2018: $nil).

FVOCI reserve

The FVOCI reserve represents the changes in fair value net of tax of financial assets at FVOCI of the Group. Refer to Note 12 for details.

17. Trade and other payables

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
Trade payables	1,508	2,094
Other payables	644	1,321
Amounts due to IMAX Corporation (note 23(b))	24,792	14,980
	26,944	18,395

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

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
0–30 days	15,819	8,824
31–60 days	1,874	1,609
61–90 days	1,669	761
Over 90 days	7,582	7,201
	26,944	18,395

As at 30 June 2019 and 31 December 2018, 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.

18. Accruals and other liabilities

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
Dividends payable to owners of the Company (note 23(b))	4,865	—
Value-added tax payable	3,252	1,830
Accrued marketing and advertising expenses	2,802	1,685
Lease liabilities	2,175	—
Accrued selling expenses	255	238
Withholding individual income tax	294	929
Other tax payable	908	545
Accrued audit fees	548	631
Accrued salaries and benefits	459	766
Accrued legal fees	76	120
Provision for a pending litigation (note below)	—	317
Other accrued expenses	2,513	1,777
Accruals and other liabilities, total	18,147	8,838
Accruals and other liabilities, current	16,626	8,838
Accruals and other liabilities, non-current	1,521	—
	18,147	8,838
Maturity analysis of lease liabilities		
Not later than one year	939	913
Later than one year and not later than five years	1,236	1,823
	2,175	2,736

Note:

In March 2013, IMAX (Shanghai) Multimedia Technology Co., Ltd. ("IMAX Shanghai Multimedia"), the Company's wholly-owned subsidiary in the PRC, received notice from the Shanghai office of the General Administration of Customs ("Customs Authority") that it had been selected for a customs audit (the "Audit"). In the course of the Audit, the Customs Authority discovered the underpayment by IMAX Shanghai Multimedia of the freight and insurance portion of the customs duties and taxes applicable to the importation of certain IMAX theatre systems during the period from October 2011 through March 2013. Though IMAX Shanghai Multimedia's importation agent accepted responsibility for the error giving rise to the underpayment, the matter was transferred first to the Anti-Smuggling Bureau (the "ASB") of the Customs Authority and then to the Third Division of Shanghai People's Procuratorate for further review. In the year ended 31 December 2017, at the request of the ASB, IMAX Shanghai Multimedia paid RMB1 million (approximately US$0.15 million) to the ASB to satisfy the amount owing as a result of the underpayment and accrued approximately $0.3 million in respect of the fines that it was believed to be likely to result from the matter. Given that the amount of the underpayment exceeds RMB0.2 million, the applicable threshold for treatment as a criminal matter, on 8 August 2018, IMAX Shanghai Multimedia was informed that its logistics function, but not IMAX Shanghai Multimedia itself, would face criminal charges. A preliminary court conference was held on 5 September 2018, and hearings took place on 24 October 2018 and 22 January 2019. On 6 March 2019, the Shanghai No. 3 Intermediate People's Court imposed a fine of RMB0.6 million, approximately $0.1 million or 75% of the underpayment, on IMAX Shanghai Multimedia's logistics function. As of 30 June 2019, this fine has been paid and the legal proceedings were concluded. IMAX Shanghai Multimedia has accordingly reversed the remainder of the accrual previously made.

19. Deferred revenue

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
Theatre system deposits	36,027	35,725
Maintenance prepayments	5,149	6,374
	41,176	42,099
Deferred revenue, current	17,188	18,453
Deferred revenue, non-current	23,988	23,646
	41,176	42,099

20. Statement of cash flow supplemental information

	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Profit before income tax for the period	30,745	26,418
Adjustment for:		
Amortization of film assets	3,783	2,763
Depreciation of property, plant and equipment	6,569	5,222
Equity settled and other non-cash compensation	1,175	1,008
Loss on disposal of property, plant and equipment	173	26
Write-downs	230	—
Foreign exchange losses (gains)	4	(4)
Investment in film assets	(3,779)	(2,789)
Changes in working capital		
Trade and other receivables	(14,448)	1,253
Variable consideration receivable from contracts	61	—
Inventories	(2,635)	(1,026)
Financing receivables	600	109
Trade and other payables	4,500	(3,138)
Accruals and other liabilities	1,990	1,028
Deferred revenue	(718)	(3,061)
Prepayments	315	(581)
Other assets	(1,124)	(303)
Cash provided by operations	27,441	26,925

21. Commitments

(a) *Capital commitments*

As at the end of the current interim period, the Group's capital commitment is shown below:

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
Capital expenditure contracted but not provided for in the condensed consolidated interim financial information in respect of:		
Acquisition of property, plant and equipment	784	5
Capital injection to a film fund	25,000	25,000
Investment in a virtual reality fund	—	4,021

(b) *Operating lease commitments — Group as lessee*

The Group leases various offices and apartments under non-cancellable operating lease agreements. The operating lease commitment as at 30 June 2019 presented below represents the future aggregate minimum lease payments for the leases with lease terms less than one year. Leases with lease terms over one year have been recorded as lease liabilities as at 30 June 2019 under newly adopted accounting standard IFRS 16 (note 3). The operating lease commitment as at 31 December 2018 presented below represents the future aggregate minimum lease payments under all non-cancellable operating leases.

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
Within one year	55	1,238
Between 1 and 2 years	—	946
Between 2 and 3 years	—	817
Thereafter	—	125
	55	3,126

22. Contingencies and guarantees

The Group is involved in lawsuits, claims, and proceedings, 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.

The Group expenses legal costs relating to its lawsuits, claims and proceedings as incurred.

Financial guarantees

The Group has not provided any significant financial guarantees to third parties.

23. 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.

IMAX Corporation (incorporated in Canada) is the Controlling Shareholder of the Company who holds 69.54% of the Company's shares as at 30 June 2019.

IMAX Fei Er Mu (Shanghai) Investment Management Co., Ltd. is the joint venture established by the Group with 50% equity interest.

IMAX (Barbados) Holding, Inc. and IMAX Virtual Reality Content Fund, LLC are subsidiaries of IMAX Corporation.

23. Related party transactions (Continued)

The following continuing transactions were carried out with related parties:

(a) Purchases and sales of goods and services and other transactions

	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Purchase of goods:		
IMAX Corporation (theatres systems)	14,828	11,592
Purchase of services:		
IMAX Corporation (film related transactions)	3,755	2,770
IMAX Corporation (management fees — legal and administration services)	244	247
Other transactions:		
IMAX (Barbados) Holding, Inc. (dividends paid to)	—	9,731
IMAX Corporation (reimbursement of compensation of Company employees paid by IMAX Corporation)	596	851
IMAX Corporation (trademark and technology fees)	3,362	2,851
IMAX Virtual Reality Content Fund, LLC (invest in)	—	873
IMAX Virtual Reality Content Fund, LLC (proceeds from dissolvement)	78	—
IMAX Fei Er Mu (Shanghai) Investment Management Co., Ltd. (interest income)	—	88
Suzhou IMAX Fei Er Mu Project Investment Partnership Enterprise (Limited Partnership) (interest income)	9	—
Gross revenue earned from film services through IMAX Corporation (Note below)	16,349	12,445
Revenue earned from maintenance services provided to IMAX Corporation	74	81

Goods and services are bought from IMAX Corporation (the Controlling Shareholder) on a cost-plus basis. Management services, trademark and technology fees are paid to IMAX Corporation (the Controlling Shareholder) based on service and fee agreements.

Note:

The amounts shown in the table are gross amount for transactions with IMAX Corporation. For the six months ended 30 June 2019, conversion cost of $3.3 million (2018: $2.2 million) paid to IMAX Corporation in relation to Hollywood films is considered as a payment to customer and is net against DMR revenue earned from IMAX Corporation as presented in the revenues of condensed consolidated interim statement of comprehensive income, with the adoption of IFRS 15.

23. Related party transactions (Continued)

(b) Period/Year-end balances

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
Receivables from related parties (note 13):		
IMAX Corporation	29,285	13,427
Loan and interest receivables from a joint venture (note 13):		
Suzhou IMAX Fei Er Mu Project Investment Partnership Enterprise (Limited Partnership)	311	303
IMAX Fei Er Mu (Shanghai) Investment Management Co., Ltd.	210	206
Payables to related parties (note 17):		
IMAX Corporation	24,792	14,980
Dividends payable to owners of the Company (note 18):		
IMAX (Barbados) Holding, Inc.	4,865	—

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, except that the loan receivable from IMAX Fei Er Mu (Shanghai) Investment Management Co., Ltd. and Suzhou IMAX Fei Er Mu Project Investment Partnership Enterprise (Limited Partnership) are unsecured, with fixed interest rates and repayable within one year.

23. Related party transactions (Continued)

(c) Balances related to other related party transactions

	As at 30 June 2019 (Unaudited)	As at 31 December 2018 (Audited)
Investment in IMAX (Hong Kong) Holding, Limited (note 6 and 12)	500	2,374
Investment in IMAX Virtual Reality Content Fund, LLC (note 6 and 12)	—	587

(d) 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:

	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Salaries and other short-term employee benefits	1,695	1,582
Post-employment benefits	15	9
Other benefits[1]	452	688
Share-based payments	577	494
	2,739	2,773

1 Includes perquisites such as educational reimbursements of minor children, housing, car, and relocation allowances.

24. Dividends

	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Dividends recognised as distribution during the period:		
2018 Final — HK$0.157 per share	7,131	—
2017 Final — HK$0.314 per share	—	14,355
	7,131	14,355

As approved by the shareholders at the Annual General Meeting held on 6 June 2019, 2018 final dividend of $0.02 per share (equivalent to approximately HK$0.157 per share) was distributed to shareholders on 28 June 2019. As approved by the shareholders at the Annual General Meeting held on 3 May 2018, 2017 final dividend of $0.04 per share (equivalent to approximately HK$0.314 per share) was distributed to shareholders on 31 May 2018.

In the Company's board meeting held on 30 July 2019, the Board of Directors approved an interim dividend of $0.02 per share (equivalent to approximately HK$0.156 per share) for the six months ended 30 June 2019 to the Shareholders. There will be no scrip dividend option for the 2019 interim dividend. The proposed dividend has not been provided for in the condensed consolidated financial statements for the six months ended 30 June 2019.

25. Credit facility

On 5 July 2018, IMAX Shanghai Multimedia entered into an unsecured revolving facility for up to RMB200 million (approximately $30.0 million) to fund ongoing working capital requirements. Subsequent to 30 June 2019, this facility was renewed. The total amounts drawn and available under the working capital loan at 30 June 2019 and 31 December 2018 were nil and RMB200 million, respectively ($nil and approximately $30.0 million, respectively).

26. Subsidiaries

The following is a list of the principal subsidiaries as at 30 June 2019:

Name of the Company	Place of incorporation, kind of legal entity and date of incorporation	Principal activities and place of operation	Issued shares/ registered capital	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 HK39,000,001 12 ordinary shares for US$27,538,341	2 ordinary shares for HK39,000,001 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	Registered capital of US$11,500,000	Paid in capital of US$9,800,000	–	100%
IMAX (Shanghai) Theatre Technology Services Co., Ltd.	The PRC Wholly owned foreign-enterprise 9 November 2011	Technical research and development, technical consulting, technical service, technical training and marketing in relation to movie theatre systems and multimedia technology, photographic equipment, virtual reality display equipment and relevant software and hardware, and provision of after-sales services (including installation); wholesale, import, lease, installation, maintenance and repair of movie theatre machinery, equipment, systems, photographic equipment, virtual reality display equipment and relevant software; research and development of software and hardware in the PRC	Registered capital of US$200,000	Paid in capital of US$200,000	–	100%

26. Subsidiaries (Continued)

Name of the Company	Place of incorporation, kind of legal entity and date of incorporation	Principal activities and place of operation	Issued shares/ registered capital	Paid up capital	Proportion of ordinary shares directly held by parent (%)	Proportion of ordinary shares held by the Group (%)
IMAX (Shanghai) Digital Media Co., Ltd.	The PRC Limited Liability Company (wholly owned by foreign-invested enterprise) 23 December 2016	Technological development, technological transfer, technological consultation and technological services in the fields of digital media technology in the PRC	Registered capital of RMB100,000	Paid up capital of $nil	–	100%
IMAX (Shanghai) Commerce and Trade Co., Ltd.	The PRC Limited Liability Company (wholly owned by foreign-invested enterprise) 24 August 2017	Sales of gift, handicraft, stationery commodity, clothing and apparel, electronic product; ticket agent; advertising design, production, agency and publishing; technology development, technology consulting, technology service, technology transfer in the field of computer information; handicraft design, gift design; culture and art exchange and planning; business consultation; creative services; conference services; electronic business (excluding telecom value added service and financial service) in the PRC	Registered capital of RMB2,000,000	Paid up capital of $nil	–	100%

27. Prior period's presentation

As of 30 June 2019, variable consideration receivable from contracts , recognised for revenue from contracts with customers, is a separate line on the condensed consolidated interim statement of financial position from other assets. Prior period comparatives have been reclassified to reflect the above change.

Definitions

In this Interim Report, unless the context otherwise requires, the following expressions shall have the following meanings.

"1HFY"	the first half of the financial year, six months ended 30 June
"2HFY"	the second half of the financial year, six months ended 31 December
"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
"CG Code"	the Corporate Governance Code set out in Appendix 14 of the Listing Rules
"CMC"	CMC Capital Partners
"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
"controlling shareholder", "subsidiary" and "substantial shareholder"	shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires
"Directors"	the directors of the Company and "Director" shall be construed accordingly as a director of the Company
"EIT"	enterprise income tax
"Exercise Period"	the period during which an option may be exercised by a Grantee pursuant to the Share Option Scheme
"Exercise Price"	the price per Share at which a Grantee may subscribe for Shares upon the exercise of an option
"FY"	financial year ended or ending 31 December
"Global Offering"	the offering of the Shares on the Main Board of the Stock Exchange on 8 October 2015

Definitions (Continued)

"Grantee"	a Participant who accepts an offer of the grant of an option pursuant to the Share Option Scheme
"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 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
"IPO"	initial public offering
"Listing"	the listing of the Shares on the Main Board of the Stock Exchange on 8 October 2015
"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

Definitions (Continued)

"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
"New Option Approval Date"	the date the Shareholders approve the renewed Option Scheme Mandate Limit
"Option Scheme Mandate Limit"	the total number of Shares in respect of which options may be granted pursuant to the Share Option 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 the case may be)
"Participants"	directors, employees and consultants of the Group who are granted options pursuant to the Share Option Scheme
"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 Interim Report to PRC or China exclude Hong Kong, Macau and Taiwan
"Prospectus"	the prospectus of the Company dated 24 September 2015
"RMB"	Renminbi, the lawful currency of the PRC
"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 "Corporate Governance Highlights and Other Information — Sub-Plan: The Restricted Share Unit Scheme" in this Interim Report
"RSU(s)"	restricted share unit(s)
"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 "Corporate Governance Highlights and Other Information — Sub-Plan: The Share Option Scheme" in this Interim Report

Definitions (Continued)

"Shareholder(s)"	holder(s) of Shares
"Share(s)"	Ordinary share(s) with a nominal value of US$0.0001 each in the share capital of the Company and a "**Share**" means any of them
"SMG"	Shanghai Media Group
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Sub-Plans"	the further sub-plans permitted to be established by the LTIP
"TCL-IMAX Entertainment"	TCL-IMAX Entertainment Co., Limited, a company incorporated in Hong Kong with limited liability on 3 January 2014, being the joint venture company jointly owned by IMAX Hong Kong Holding and Sino Leader (Hong Kong) Limited, which is wholly owned by TCL Multimedia Technology Holdings Limited
"U.S." or "United States"	the United States of America, its territories and possessions, any state of the United States and the District of Columbia
"USD", "US$", "$" or "United States dollars"	U.S. dollars, the lawful currency of the United States of America

Glossary

This glossary contains explanations of certain terms used in this Interim 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.

"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 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 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 one or more PRC producer(s) or jointly produced by one or more PRC producer(s) and one or more foreign producer(s), and which meets the requirements of the relevant laws and regulations of the PRC
"distributor"	an organisation that distributes films to exhibitors or, in the PRC, theatre circuits for exhibition at theatres
"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 film
"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 films over the term of the arrangement, and no, or a relatively small, upfront payment

Glossary (Continued)

"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 which has been produced by one or more foreign producer(s) and the importation and release of such motion picture has been permitted in accordance with the relevant laws and regulations of the PRC
"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 films over the term of the arrangement, that is typically half of that under a full revenue sharing arrangement
"IMAX DMR"	the proprietary digital re-mastering process or any other postproduction process and/or technology used by IMAX Corporation in connection with the conversion of a conventional film into an IMAX film
"IMAX film"	a film converted from a conventional film using DMR technology
"IMAX Original Film"	any IMAX 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
"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 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
"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