# IMAX CHINA HOLDING, INC.

Incorporated in the Cayman Islands with limited liability

Stock code : 1970

# Annual Report 2019

IMAX®

# Chairman's Statement

**LETTER TO SHAREHOLDERS**

Dear Shareholders,

To stay at the forefront of our industry, we have constantly embraced changes in consumer preference, technologies and the market landscape throughout our history. Over the past two years, we have refined our strategic focus in growing our core business through local language and multi-film programming, and I'm pleased to see our strategic initiatives have driven box office market share improvements, continued network expansion and extended our strengths in China's film market.

In 2019, we achieved new records across multiple metrics, including:

- Record revenue of $124.3 million, up 5.8% year-on-year;
- Record IMAX China box office of $365.8 million, up 8.7% compared to 2018; or up 14% in local currency in mainland China, significantly outperforming industry growth of 5%[1];
- Record-breaking IMAX China box office of $83.5 million for *Avengers: Endgame*, shot entirely with IMAX Cameras, representing 13% of the film's total box office and becoming IMAX China's highest-grossing title;
- Stable same-store sales, in local currency, against network growth of 12%, that included 717 total theatres by the end of 2019;
- Adjusted EBITDA of $68.8 million and adjusted net income of $44.6 million;
- *The Wandering Earth* setting a new record as IMAX China's highest-grossing local language title with $47.9 million box office;
- *Ne Zha* generated a record $35.2 million in IMAX China theatres and claimed the highest-grossing IMAX China animation title and second-highest release in China's film history;
- Record local language movie box office of $109 million, up 15% compared to 2018, representing 31% of IMAX China total box office;
- Continued momentum of new theaters signings with 64 for the year, including a 40-theater expanded partnership deal with CJ CGV; and
- Strong adoption of our new technology with 40 IMAX® with Laser systems as of year-end 2019.

While we are pleased with our 2019 achievements, the beginning of 2020 has proven to be challenging for everyone as a result of the coronavirus outbreak. Our thoughts remain with the people of Wuhan and greater Hubei Province, the medical personnel on the front lines and the rest of China, as great steps are taken, and sacrifices continue, in the all-out effort to contain the spread of the virus.

As it pertains to our business, the safety of our employees and Chinese audiences remains our top priority. IMAX China and its controlling shareholder IMAX Corporation strongly supported the decision to postpone the release of the Chinese New Year film slate and the temporary closure of theaters across the country. Since 24 January 2020, more than 70,000 screens, including all of our nearly 700 IMAX theatres in mainland China have been temporarily closed. We believe it was the best course of action in an unfortunate situation.

We also believe this unfortunate extraordinary event, when it ultimately stabilizes, will not impact the long-term strength of IMAX China's business given our strong franchise, proven offering in the market and China's strong demand for quality content and social entertainment experiences. Our belief is that when it is safe to do so, Chinese consumers will be eager to get out of their homes and return to shopping malls and cinema complexes for out of home entertainment, driving a positive rebound in box office similar to what we observed in Hong Kong post-SARS epidemic in 2003. The repercussions of this health crisis in China will have a material impact on the first quarter of 2020. Given the dynamic nature of the circumstances, it is difficult to predict whether the impact of the coronavirus outbreak in future reporting periods for 2020 may also be material. This will depend on future developments, however, assuming the resumption of business in the near future, we believe four of the Chinese New Year titles we were slated to program over the holiday, will ultimately be released later this year, and possibly on separate dates, to avoid direct competition with each other and optimize box office. As for installations, our schedule tends to show very strong seasonality towards the second half of the year, with the first quarter historically being our slowest quarter, contributing only single-digit percentage of our full-year installs. At this time however the ultimate financial impact on 2020 and duration of theatre closures cannot be fully ascertained.

[1]Source: China Film Administration

# Chairman's Statement (Continued)

When normalcy returns to the greater market, we believe some of the structural trends we witnessed in 2019, that gave us the ability to outgrow the industry throughout the year, will continue.

One of those trends was a consolidation towards high-quality movies with the top ten-grossing titles contributing 45% of total industry box office in 2019, up from 40% in prior year. With IMAX China widely regarded as the destination of blockbusters in China, this plays to our long-term advantage.

On the supply side, we saw improved quality of local content and more importantly, a gravitation towards genres that lend themselves to The IMAX Experience®. Rising production value allows local filmmakers to embrace more audiovisual elements and the use of cinematic technology. Coupled with our multi-film programming strategy, this has resulted in an increase in local language market share in 2019, a momentum that we will continue to build on as we introduce IMAX DNA into the local filmmaking process. This includes *Detective Chinatown 3*, a local language title entirely shot by IMAX Cameras. Notwithstanding our 1% screen presence, on opening weekend we indexed close to 10% of *The Wandering Earth*, the sci-fi tentpole, and 8% of *Ne Zha*, the biggest animation hit ever in China. Including *Avengers: Endgame*, all three of the mega-blockbusters each generated over RMB4 billion of gross box office in 2019 and were available in IMAX® theatres, illustrating the strong differentiating power of IMAX technology and experience.

When the industry does return to normal, we anticipate other "filmed-in-IMAX" blockbuster releases in China to include *No Time to Die, Wonder Woman: 1984*, *Top Gun: Maverick* and *Tenet*. Looking out even further, 2021's Hollywood slate of blockbusters appears very promising, and includes the latest installments of *Spider-Man* and *Thor*; the highly-anticipated new *Batman* film; sequels of blockbuster franchises including *Fast and Furious 10*, *Mission Impossible*, *Jurassic World*; and, of *course, Avatar 2*.

As Chinese IP franchises develop and more films become empowered with IMAX DNA, we believe our value proposition to consumers, filmmakers and exhibitors in China will be further strengthened, putting us in an advantageous position to maximize box office growth for the foreseeable future.

In short, our record box office, market share gains, focus on local language films and new laser technology are all items we plan to build upon in the future.

Our strong free cash flow has allowed us to return a total of $33 million to shareholders in 2019 via a combination of dividends and share buybacks. Continuing on this trend, IMAX China announced a proposed final dividend of USD0.02 per share, representing a stable payout ratio of 33%.

Our commitment to maintaining a balanced capital deployment strategy has not changed — expanding our footprint in the most capital-efficient way while exploring different opportunities in bringing IMAX-exclusive content to our network. Our cash balance of $89 million, strong cash flow from operations and debt free balance sheet gives us flexibility to evaluate in the context of the current market environment.

On behalf of the Board and management, I would like to thank our employees for their dedicated efforts to the Company and our sincere gratitude to our shareholders for their unwavering support, especially during these difficult times. I would also like to take the opportunity to thank Mr. Jiande Chen, our first and longstanding CEO of IMAX China, for his devotion and contribution to growing our business into China's largest premium entertainment network. Under Jiande's continued support as Vice Chairman and the leadership of our new CEO, Mr. Edwin Tan, who has brought with him wealth of experience across the entertainment, exhibition and event service industries, we remain confident that IMAX China is well-positioned for long-term sustainable growth based on our most formidable assets: our premium brand, our people, our industry-leading technology, our financial strength, and most importantly, strong commitment to operational excellence.

Finally, on behalf of all IMAX China employees, we wish nothing more than a swift resolution to the hardships faced as a result of coronavirus. We extend our thoughts to all those affected throughout China — and our support in their brave fight against this outbreak.

Thank you,

**Richard L. Gelfond**



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

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

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

Unique cinematic experience and end-to-end cinematic solution

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

Note

1. According to a survey conducted by Milward Brown Research

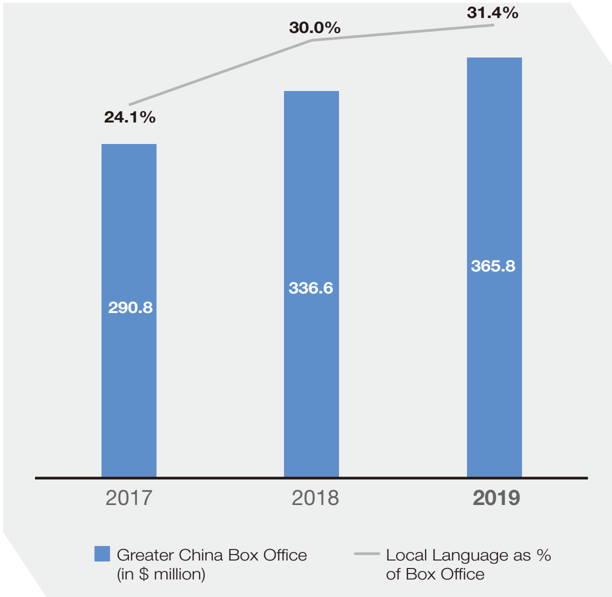
# RECORD BOX OFFICE UNDERPINNED BY EARLY SUCCESS OF LOCAL PROGRAMMING STRATEGY

## BOX OFFICE AND MOVIES

In 2019, our gross box office hit another new high at $365.8 million, up 8.7% year-over-year, significantly outperforming industry growth of 5%. We exhibited 44 titles in mainland China last year including 14 local language titles and 9 of the top 10 films ranked by gross box office. Our refined local language and multi-film programming strategy during critical release windows led to our improving indexing in Chinese language films, now accounting for 31.4% of our total box office. As a result, our overall box office market share increased to 4.0%, up from 3.7% in prior year.

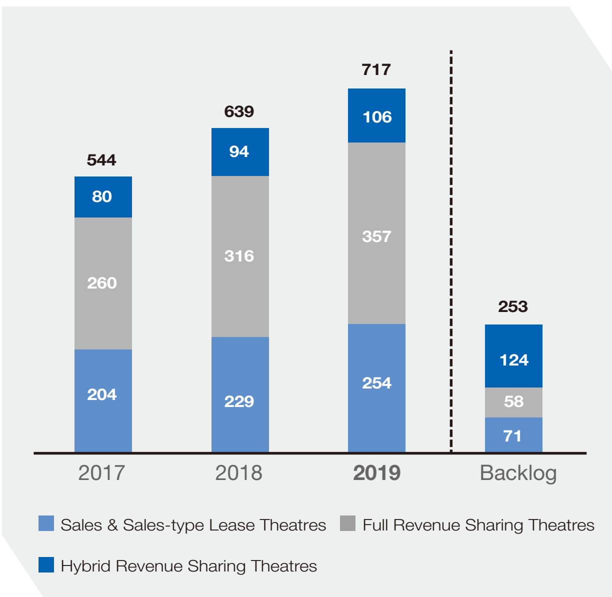
During the 7-day Chinese New Year of 2019, our box office grew 40% compared to the same period prior year largely driven by *The Wandering Earth*, the blockbuster which became our top-grossing local film of all time at $47.9 million box office. Our strong performance in local language films was also demonstrated by *Ne Zha*, the second highest-grossing title in China's film history, in which we indexed close to 8% on opening weekend. Including *Avengers: Endgame*, we exhibited all of the three titles that generated over RMB4 billion box office each in 2019. We also set new record with our National Day Holiday box office up 164% compared to the same period 2018 on record-high attendance.

IMAX China Box Office




Hollywood titles for 2019 were led by *Avengers: Endgame*, our top-grossing title of all time at $83.5 million in mainland China, with IMAX representing 13% indexing on only 1% screen presence. Along with other films including *Spiderman: Far from Home, Captain Marvel, Hobbs & Shaw*, we continue to gain market share on Hollywood titles as our footprint strengthens.

IMAX China Theatre Network




## IMAX NETWORK AND BACKLOG

In 2019, we installed 95 systems including 56 revenue sharing theatres, 27 sales and sales-type lease theatres and 12 IMAX with Laser upgrades. We installed 40 IMAX with Laser systems in total as of December 31, 2019.

As of December 31, 2019, our Greater China network included 717 theatres in 191 cities with a backlog of 253 systems comprised of 58 full revenue share, 124 hybrid revenue share and 71 sales and sales-type lease systems. We signed a total of 64 new theatre systems in 2019, compared to 60 in prior year.

## NETWORK BUSINESS

Our Network Business revenue consists of all revenue driven from box office, including film revenue and box office revenue from revenue sharing arrangements and sales & sales-type lease arrangements.

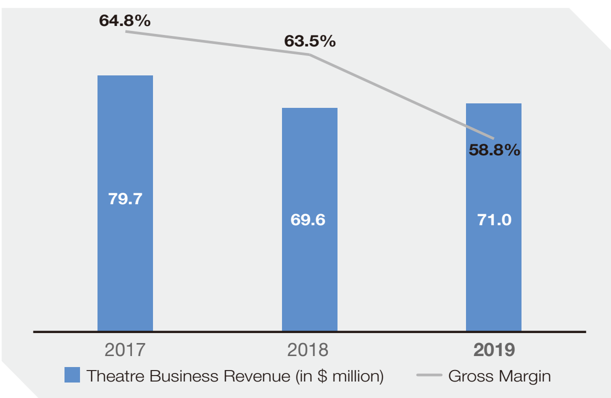
In exchange for IMAX screen time and proprietary DMR conversion services, studios have paid us a fixed percentage of box office for each movie exhibited on our network; exhibitors also pay us a contractual percentage of box office generated by using IMAX systems to exhibit DMR formatted movies.

Revenue for our network business grew 11.0% year-over-year to $52.9 million benefitting from an 8.7% growth in box office and a 30-basis point improvement in net take-rate. Gross margin of Network Business increased 60 basis points, demonstrating the inherent operating leverage of our business.

## THEATER BUSINESS

Our Theater Business involves the design, procurement and provision of state of art digital theatre systems at our exhibitor partners' movie theatres, as well as the provision of related project management and ongoing maintenance services and aftermarket sales. Theatre Business revenue is revenue not directly tied to box office results and includes four segments: (1) sales and sales-type lease arrangements (2) revenue sharing arrangements (3) theatre system maintenance and (4) other theatre.

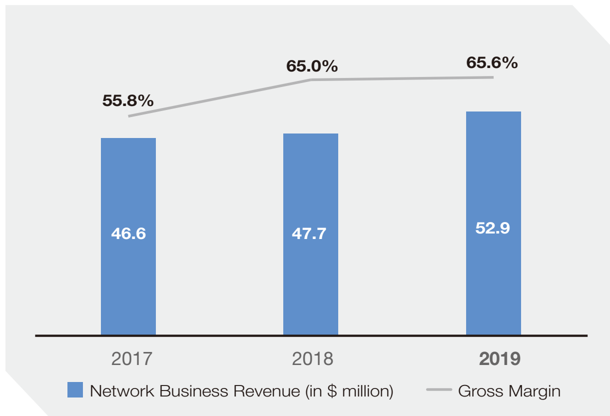
Theatre Business Revenue




## OVERALL PERFORMANCE

In 2019, we generated total revenue of $124.3 million and adjusted profit of $44.6 million, or 35.9% of revenue. Considering our strong cash flow generation, our Board of Directors recommended the payment of a final dividend for 2019 of $0.02 per share, equivalent to approximately HK$0.156 per share, representing an earnings payout ratio of approximately 33%, consistent with prior years. We returned a total of $33 million capital to shareholders in 2019 through buybacks and dividends. Our ability to sustain cash dividend reflects our solid earnings power and reinforces our commitment to long-term sustainable value creation for shareholders.

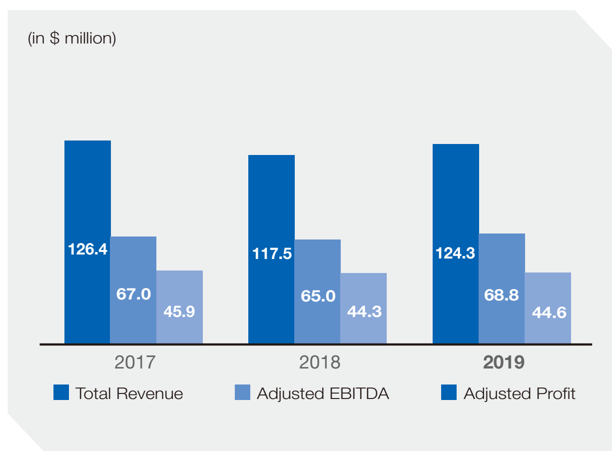
Network Business Revenue




Revenue for our Theatre business grew 2.1% year-over-year to $71.0 million, as a result of higher maintenance revenue from a larger network of theaters and 2 incremental hybrid installations, partially offset by lower sales revenue due to a higher-revenue but lower-margin GT Laser system installed in 2018, and one sales install using redeployed system in 2019. Excluding GT Laser and redeployed system, average revenue per system increased to $1.4 million in 2019, up from $1.3 million in 2018 due to 8 additional IMAX with Laser systems installed during the year.

Gross margin of Theater Business was 59%, primarily due to increased equipment costs related to 15 IMAX with Laser sales installations. We expect costs to scale down in the future upon further rollout of Laser theatres. In addition, we intend to recoup higher recurring economics including increased box office take-rates and maintenance fees over the contract terms.

Overall Performance



# 9 OUT OF THE TOP 10 TITLES BY INDUSTRY BOX OFFICE ARE AVAILABILE IN THE IMAX FORMAT


1 Ne Zha

2 The Wandering Earth

3 Avengers: Endgame

4 My People My Country

5 The Captain


6 Crazy Alien

7 Pegasus

8 The Bravest

9 Better Days

10 Fast & Furious Presents: Hobbs & Shaw

## IMAX® with Laser: Experience a World of Difference


**IMAX with Laser** experience is set apart by its next-generation 4K laser projection system which features a new optical engine and a suite of proprietary IMAX technologies that deliver increased resolution, sharper and brighter images, deeper contrast as well as the most distinct, exotic colors ever available on-screen.

The new experience also features IMAX's 12-channel sound technology with new side and overheard channels that deliver greater dynamic range and precision for the ultimate in audio immersion.

- **Sharpness**: Experience incredible detail in every image with a sharper, clearer and crisper picture that delivers a heightened level of realism on the biggest screens.
- **Brightness**: Laser brings an increased level of brightness to fill IMAX screens with the most vivid and lifelike images in 2D and 3D.
- **Contrast**: Dramatically greater contrast levels in each frame provides a level of depth that takes you out of your world and draws you into the movie.
- **Color**: The widest range of colors available to filmmakers so they can present more vibrant, deeper and richer colors in IMAX than ever before.
- **Sound**: Whether it's a pin drop or feeling the heart-palpating force of a volcano, with IMAX's next-generation 12-channel sound system audiences will experience a new kind of powerful, immersive sound they can feel.


# Board of Directors & Experienced Management Team

### Richard Gelfond
*Non-executive Director and Chairman*

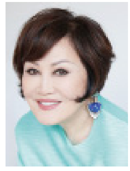
**Experience**

- 25 years at IMAX and industry experience

### John Davison
*Independent Non-executive Director*

**Experience**

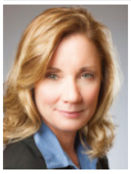
- President and Chief Executive Officer of Four Seasons Holdings Inc.



### Yue-Sai Kan
*Independent Non-executive Director*

**Experience**

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



### Dawn Taubin
*Independent Non-executive Director*

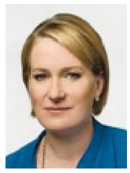
**Experience**

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

### Peter Loehr
*Independent Non-executive Director*

**Experience**

- Former Managing Director of Creative Artists Agency in China
- Former Chief Executive Officer of Legendary East



### Megan Colligan
*Non-executive Director*

**Experience**

- 1 year at IMAX and 21 years of industry experience

### Edwin Tan
*Chief Executive Officer*

**Experience**

- Joined IMAX China in December 2019 and one year of industry experience

### Jiande Chen
*Vice Chairman Executive Director*

**Experience**

- 8 years at IMAX and 19 years of industry experience

### Jim Athanasopoulos
*Chief Financial Officer and Chief Operating Officer Executive Director*

**Experience**

- 19 years at IMAX and industry experience, 8 years at IMAX China

### Mei-Hui (Jessie) Chou
*Chief Marketing Officer Executive Director*

**Experience**

- 13 years at IMAX and 22 years of industry experience

### Zi Maggie Chen
*General Counsel and Joint Company Secretary*

**Experience**

- 2 years at IMAX and 2 years of industry experience

### Honggen Yuan (Karl)
*Senior Vice President, Theatre Development*

**Experience**

- 18 years at IMAX and industry experience

IMAX

# Contents

**IMAX CHINA HOLDING, INC.**
Annual Report 2019

# Corporate Information

## BOARD OF DIRECTORS

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

### Non-executive Directors
Richard Gelfond, *Chairman*
Megan Colligan (appointed with effect from 26 February 2019)
Ruigang Li (resigned with effect from 9 October 2019)

### Independent Non-executive Directors
John Davison
Yue-Sai Kan
Dawn Taubin
Peter Loehr (appointed with effect from 9 October 2019)

## 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
Peter Loehr

## JOINT COMPANY SECRETARIES
Zi Maggie Chen
Chan Wai Ling, *FCIS, FCS (PE)*

## AUTHORISED REPRESENTATIVES
Jim Athanasopoulos
Chan Wai Ling, *FCIS, FCS (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

# Highlights

## FINANCIAL HIGHLIGHTS

| | 2019 | 2018 | Change (%) |
|---|---|---|---|
| Total revenue (US$'000) | **124,294** | 117,520 | 5.8% |
| Gross profit (US$'000) | **76,647** | 75,251 | 1.9% |
| Gross profit % | **61.7%** | 64.0% | (230 bps) |
| Profit for the year (US$'000) | **42,893** | 42,765 | 0.3% |
| Profit for the year % | **34.5%** | 36.4% | (190 bps) |
| Profit per share (US$) | **0.12** | 0.12 | 0% |
| Adjusted profit (US$'000) | **44,570** | 44,283 | 0.6% |
| Adjusted profit % | **35.9%** | 37.7% | (180 bps) |
| Selling, general and administrative expenses (US$'000) | **(16,465)** | (16,105) | 2.2% |
| Adjusted EBITDA (US$'000) | **68,829** | 65,016 | 5.9% |
| Adjusted EBITDA % | **55.4%** | 55.3% | 10 bps |
| Total theater system signings | **64** | 60 | 4 units |
| Sales and sales-type lease arrangements | **20** | 30 | (10 units) |
| Revenue sharing arrangements | **43** | 30 | 13 units |
| IMAX with Laser upgrades | **1** | — | 1 units |
| Total theater system installations | **95** | 101 | (6 units) |
| Sales and sales-type lease arrangements | **27** | 27 | — |
| Revenue sharing arrangements | **56** | 70 | (14 units) |
| IMAX with Laser upgrades | **12** | 4 | 8 units |
| Gross box office (US$'000) | **365,807** | 336,633 | 8.7% |
| Box office per screen (US$'000) | **573** | 616 | (7.0%) |
| Box office per screen for PRC (RMB'000) | **3,798** | 3,881 | (2.1%) |

## 2020 OUTLOOK

We continue to work closely with our partners in preparation for when the coronavirus outbreak subsides and theaters re-open. Given the situation is still evolving, we cannot provide guidance at this time for 2020. We intend to provide more information related to installation guidance when the situation has further stabilized.


IMAX

# Management Discussion and Analysis

# Management Discussion and Analysis


## OVERVIEW

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

### History and Introduction

The IMAX business commenced operations in the PRC in 1998, when IMAX Corporation started offering its theatre systems to museums and science centres. Over the years, the focus of the business has moved from institutional theatres to commercial theatres and, as at 31 December 2019, there were 717 IMAX theatres in Greater China, including 702 in commercial locations, and an additional 253 theatres in backlog. On 8 October 2015, the Company completed a Global Offering and the Company's Shares were listed on the Stock Exchange.

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

We have three primary groups, namely the (1) Network Business, (2) Theatre Business and (3) New Business and Other.


## Network Business

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

We generate revenue by sharing in a percentage of box office generated from IMAX formatted films under 3 different segments: (1) film, (2) revenue sharing arrangements and (3) sales and sales-type lease arrangements.

Under film, we generate revenue by sharing in 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. This arrangement enables us to share in the box office success of a film while limiting our exposure to the significant capital investment required in making a film and the regulatory requirements governing the production and distribution of films in Greater China.

Under revenue sharing arrangements, we generate revenue from two types of models — full revenue sharing arrangements and hybrid revenue sharing arrangements. Under full revenue sharing arrangements, we provide theatre systems to our exhibitor partners in return for ongoing fees based on a percentage of the IMAX box office with no upfront fee. Under hybrid revenue sharing arrangements, we receive ongoing fees based on a percentage of IMAX box office and charge a relatively smaller upfront fee to our exhibitor partners which is recorded in the Theatre Business. The percentage charged under a hybrid arrangement is typically less than a full revenue sharing arrangement. The revenue sharing business model enables our exhibitor partners to expand their IMAX theatre network more rapidly by reducing their upfront costs, while aligning our interests with theirs and allowing us to share in the box office they generate. These arrangements create a recurring revenue stream from the theater side of our business for the term of the agreement without IMAX having to incur the capital expenditures required to build and operate movie theatres.

# Management Discussion and Analysis (Continued)

Under sales and sales-type lease arrangements, we typically require the payment of upfront and ongoing fees, which can include a fixed minimum amount per annum and contingent rent in excess of the minimum payments. The contingent rent on sales-type lease arrangements included in our Network Business is recognized after the fixed minimum amount per annum is exceeded as driven by box office performance. Contingent rent on sales arrangements is estimated and recognized with the revenue in Theatre Business.

While we continue to generate the majority of our Network Business revenue from Hollywood films, we have increased our percentage of Chinese language box office year over year from 30.0% to 31.4% and intend to focus our efforts on further increasing this percentage to maximize overall box office. Chinese language films continue to improve and clearly resonate with local audiences, especially in lower tiered Chinese cities where we have seen significant expansion. We continue to incorporate a multiple programming strategy whereby we program multiple Chinese language films within the same release window to take advantage of this changing dynamic and offer our partners more flexibility in programming. Our network expansion, premium differentiated product and long term partnerships with local studios and filmmakers have helped to facilitate the approach.

## Theatre Business

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

Theatre Business revenue is revenue not directly tied to box office results and includes four segments: (1) sales and sales-type lease arrangements, (2) revenue sharing arrangements, (3) theatre system maintenance and (4) other theatre.

Under sales and sales-type lease arrangements, we typically charge a fixed upfront and annual minimum payments. The recognition of contingent rent on sales arrangements is estimated and recognized under Theatre Business as well. Under hybrid revenue sharing arrangements, we will charge a relatively small upfront fee to our exhibitor partners. Theatre system maintenance includes an annual maintenance fee which include initial terms of 10 to 12 years in length plus renewal terms of 5 to 10 additional years. Under other theatre, we generate revenue from the aftermarket sales of 3D glasses, screen sheets, sounds, parts and other items.

## 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.

## IMAX Technology

IMAX theatre systems bring together IMAX DMR conversion technology, advanced projection systems, curved screens and proprietary theatre geometry as well as specialised sound systems to create a more intense, immersive and exciting experience than in a traditional movie theatre. They are the product of over 50 years of research and development by IMAX Corporation, our Controlling Shareholder. As the exclusive licensee of the IMAX brand and technology in the Greater China, we have full access to the most advanced IMAX theatre systems based on proprietary technology produced by IMAX Corporation.

As one of the world's leaders in entertainment technology, we strive to remain at the forefront of advancements in cinema technology. We introduced IMAX with Laser in 2018, the Company's next-generation laser projection system designed for IMAX theaters in commercial multiplexes. We believe that IMAX with Laser delivers increased resolution, sharper and brighter images, deeper contrast as well as the widest range of colors available to filmmakers today. We further believe that IMAX with Laser can help facilitate the next major lease renewal and upgrade cycle for the global commercial IMAX network.

Since we launched IMAX with Laser, we have signed agreements for a total of 18 IMAX theatres in 2019 with leading exhibitors such as Emperor Cinemas (Beijing) Limited and Shenzhen Century New Sky Cinema. In addition, we signed a 40-theatre agreement with CGI Holdings Limited (formerly CJ CGV Holdings, Ltd.) in 2019, predominantly featuring IMAX with Laser system. 16 IMAX with Laser systems plus 12 upgrades were installed in 2019. Our IMAX with Laser network currently stands at 40 theaters.

# Management Discussion and Analysis (Continued)

## Our Partnerships

We have strong and successful partnerships with a number of key players across the Greater China film industry. These include over 70 exhibitors, including the largest exhibitor in the world, Wanda Film (formerly Wanda Cinema), as well as other established market players such as CGI Holdings Limited (formerly CJ CGV Holdings, Ltd.), Guangzhou Jinyi Media Corporation, Omnijoi Cinema Development Co., Ltd, Beijing Bona International Cineplex Investment and Management Co., Ltd., and Shanghai Film Co. Ltd. We have access to IMAX Corporation's exceptional Hollywood relationships that include long term film slate deals with Disney, Warner Brothers and Universal. We also work with leading producers, directors and studios in Greater China, such as Bona Film Group Limited, Wanda Media Co. Ltd., Enlight Media Limited, Maoyan Entertainment ("**Maoyan**"), Beijing Jingxi Culture & Tourism Co., Ltd, New Classics Media Corporation and Edko (Beijing) Films Limited to convert Chinese language films into the IMAX format for release on the IMAX theatre network. In addition, we work with large commercial real estate developers, such as Wanda Plaza, China Resources and Longfor, to identify potential new IMAX theatre locations. Our relationship with Maoyan continues to deliver positive returns to our core business activities and we look forward to continuing our strategic relationship.

## Our Competitive Strengths

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

- A strong entertainment brand in the large and fast-growing Greater China market;
- Strong slate of Hollywood films complemented by a growing portfolio of Chinese language films;
- Unparalleled network supported by over 70 exhibitor partnerships;
- Leading IMAX theatre system and technology delivering a unique cinematic experience;
- Significant value creation across the film industry for exhibitors, studios, filmmakers and commercial real estate developers; and
- Experienced management team supported by prominent shareholders.

## Our Business Strategies

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

- Increasing the number of Chinese language films we release, per year and the percentage of annual box office we generate from these films;
- Strengthening our cooperation with PRC studios and filmmakers, including incorporation of IMAX DNA within local films such as using IMAX Cameras and expanded aspect ratios as done previously with certain Hollywood Films;
- Expanding the IMAX theatre network in the PRC which includes the rollout of our newly introduced IMAX with Laser technology;



- Increasing the number of strategic revenue sharing arrangements, that deliver acceptable returns, with our exhibitor partners;
- Maintaining our market leading position as a provider of a premium cinematic experience;
- Continuing to invest in the IMAX brand in Greater China; and
- Leveraging the IMAX brand to develop and invest in complementary businesses.

The management discussion and analysis is based on the Company's consolidated financial statements for FY2019 prepared in accordance with IFRS and must be read together with the consolidated financial statements and the notes which form an integral part of the consolidated financial statements.

### Impact of Coronavirus

In early 2020, in response to the public health risks associated with an outbreak of coronavirus in Wuhan, China, Chinese exhibitors temporarily closed more than 70,000 movie theaters, including all of the approximately 700 IMAX theaters in mainland China. The theaters have been closed since late January 2020, including over the Lunar New Year holiday, and have not yet reopened as of the date of this report. Chinese movie studios also postponed the release of multiple films, including those originally scheduled to be released over this holiday, five of which were scheduled to be shown in IMAX theaters.

## SIGNIFICANT FACTORS AFFECTING OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

### Expansion of the IMAX Theatre Network in Greater China

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

***Network Expansion***
Under our Network Business, we generate revenue directly through box office generated from IMAX films from our studio partners and exhibitor partners. Under our Theatre Business, we generate revenue primarily from exhibitor partners through either sales and sales-type lease arrangement or revenue sharing arrangements, and the revenue generated by maintenance services and aftermarket sales. As a result, the bigger the IMAX theatre network, the more opportunities we have to increase our revenue and profit across our primary groups.

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

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

The number of IMAX theatres in Greater China increased from 639 IMAX theatres as at 31 December 2018 to 717 IMAX theatres as at 31 December 2019.

***Backlog***
Our ability to expand the IMAX theatre network is driven by our ability to sign new theatre agreements with exhibitor partners and replenish our backlog as theatres are installed. The installation of theatre systems in newly-built, and retrofitted, multiplexes depends primarily on the timing of the construction of these projects by exhibitors and/or commercial real estate developers, which is not under our control. Although revenue from our backlog is recognised following the installation of the relevant IMAX theatre systems and not at the time of signing, continuously replenishing our backlog is crucial to our long-term success as it underpins the continued growth of the IMAX theatre network. The number of IMAX theatre systems in our backlog decreased from 272 as at 31 December 2018 to 253 as at 31 December 2019, and the carrying value of our backlog increased from US$157.1 million as at 31 December 2018 to US$177.1 million as at 31 December 2019 due to a larger proportion of hybrid revenue sharing arrangements. For the number of systems, approximately 28% of our backlog are sales and sales-type lease arrangements, 23% are full revenue sharing arrangements and 49% are hybrid revenue sharing arrangements.

As part of our strategy to expand the IMAX theatre network, we have mapped out a number of “IMAX zones” across Greater China. Each zone represents an area in which, based on our analysis, an exhibitor could potentially open an IMAX theatre without negatively affecting the business and financial results of the nearest IMAX theatre. We estimate each IMAX zone will typically only contain one IMAX theatre, subject to certain exceptions based on the location of the zone and any carve-outs in the agreements we entered with exhibitors. The number of zones may continue to grow as the population and/or consumer demand in a geographical area increases to a level where it becomes commercially viable for us to add an IMAX theatre and create a new IMAX zone without negatively affecting the business and financial performance of the nearest IMAX theatre. As at 31 December 2019, we had identified approximately 1,400 IMAX zones across Greater China.

We had installed IMAX theatres in 197 different cities in the PRC as at 31 December 2019. We plan to further penetrate major Tier 1 and Tier 2 cities by continuing to work with our exhibitor partners and commercial real estate developers to identify new zones for IMAX theatres. We also plan to continue our expansion of the IMAX theatre network in Tier 3, Tier 4 cities and below, markets that represent approximately US$3.6 billion or 40% of box office in 2019 for the industry, 3% increase over 2018, according to box office information provided by Top Consulting, an independent third-party consulting firm. Our network in the PRC currently includes 106 theatres in Tier 1 cities, 316 in Tier 2 cities, 140 in Tier 3 cities and 137 in Tier 4 cities and below.

## Box Office Success of IMAX Films

***Film Slate***

Our financial performance is affected by the number of films released to the IMAX network in Greater China (known as the "slate") and the box office performance of those films. We source films produced by Hollywood and local studios and filmmakers and convert those films into the IMAX format using IMAX DMR conversion technology developed by IMAX Corporation. In FY2018 and FY2019, 45 and 44 IMAX films, respectively, were released and generated revenue for us in the PRC. IMAX Corporation has entered into contractual arrangements with filmmakers and studios in Hollywood to convert a number of films into the IMAX format for release in FY2020 and FY2021. However, while it is our intention that these films be released to the IMAX theatre network in the PRC, given the restrictions imposed by film quotas for Hollywood films in the PRC and censorship rules, we cannot assure you that these IMAX format Hollywood films will be made available.

Securing a slate of desirable Hollywood and Chinese language films in the IMAX format is critical to driving higher total box office and average box office per screen for IMAX theatres than non-IMAX theatres. The strength of the film slate we choose is also important to maintaining the ticket price premium that IMAX theatres typically command. We carefully select films for conversion into the IMAX format that we believe will be best received by local audiences, and then we work closely with the studios and filmmakers to enhance the viewing experience, which in addition to conversion into the IMAX format may include unique aspect ratios and utilisation of IMAX cameras for image capture. As a result, the average box office per screen for IMAX theatre is significantly higher than that of conventional theatres in the PRC. The average box office per screen of IMAX theatres in Greater China was US$0.57 million in FY2019 and this compares to average box office per screen of approximately US$0.14 million for all screens in the PRC for FY2019, according to Top Consulting. Higher average box office per screen for IMAX theatres make them more attractive to exhibitors, which enables us to grow the IMAX theatre network and generate revenue from new installations.

In addition, because the number of IMAX theatres under revenue sharing arrangements has grown considerably from 410 as at 31 December 2018 to 463 as at 31 December 2019, and because our backlog as at 31 December 2019 also included 181 IMAX theatre systems under revenue sharing arrangements, strong box office performance of films will continue to weigh significantly on Network Business revenues as well as profit. While we mitigate box office highs and lows by employing a portfolio approach to our films in any given year, we believe that a key factor in the box office success of our films is not only selecting the right Hollywood and Chinese language films, but also ensuring the right balance of Hollywood and Chinese language films for our slate.

***Film Release Date and Film Mix***

Censorship rules and film quotas restrict the number of Hollywood films that can be shown in the PRC each year. Accordingly, balancing the release dates for IMAX films released in Greater China as well as the mix of Chinese language films and Hollywood films released in the PRC is an important factor affecting our business. Over the past few years, PRC regulatory bodies have supported gradual liberalisation of the film industry and introduced many government initiatives to foster growth of the film industry, including a 2012 agreement with the United States to permit an additional 14 3D or IMAX films to be released in the PRC each year beyond the previous quota of 20 Hollywood films. However, the 2012 agreement with the United States expired in 2017 and will need to be renegotiated. The scope of any renegotiation may include the quota of Hollywood films to be released in the PRC and Hollywood studios' take rate on these films. If the number of Hollywood films to be released in the PRC increases over and above the current quota and/or if the Hollywood studios' take rate increases, it may have a positive effect on our business through a larger marketing spends on films, a larger selection of films or IMAX securing a take rate closer to that achieved elsewhere in the world. However, we cannot assure you that the Hollywood film quota or Hollywood studio take rate will increase or that any renegotiation will benefit us.

Release dates for Hollywood films in the PRC generally have been set with a shorter lead times than in other markets. In addition, at certain times during the year, Chinese language films are released with less competition from Hollywood films. As a result, supplying IMAX theatres with Chinese language films in the IMAX format is important to ensure that there are IMAX films showing in IMAX theatres at all times, as well as to cater to local consumer demand for Chinese language films. Chinese language films have proven to be very successful at the box office. According to Top Consulting, as at 31 December 2019, 8 of the top 10 box office films in the PRC in calendar 2019 were Chinese language films, including *Ne Zha*, *The Wandering Earth, My People, My Country, The Captain, Crazy Alien, Pegasus and The Bravest,* which were all a part of our IMAX slate for 2019. We also share a higher percentage of box office for Chinese language films compared to Hollywood films primarily due to Chinese studios retaining a much higher percentage of box office than Hollywood studios. Chinese language films make up a significant share of total PRC box office, amounting to 64.0% in FY2019 and 62.0% in FY2018, according to Top Consulting. IMAX format Chinese language films as a percentage of our PRC box office amounted to 31.4% in FY2019 and 30.0% in FY2018.

## Proportion of Revenue Sharing Arrangements

We generate revenue through charging fees to exhibitors for the IMAX theatre system. Under sales arrangements with exhibitor partners, most fees are paid around the time of installation of the IMAX theatre system, and substantially all our revenue from such sales were recognised at the same time. Under revenue sharing arrangements, we charge a smaller fee, or no upfront fee, at the time of the IMAX theatre system installation. We recognise as revenue any initial payments we receive on installation and percentage of the box office revenue when box office results are reported to us by the exhibitors.

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

We require increased working capital to continue to fund the purchase and installation of IMAX theatre systems provided to our exhibitor partners under full revenue sharing arrangements. However, as the network of IMAX theatres continues to grow, we believe increases in working capital will be offset by an increase in recurring revenue we receive under all revenue sharing arrangements.

***Impact on Our Profitability***

While an increasing number of revenue sharing arrangements will allow us to enjoy recurring revenue, it also makes us more sensitive to fluctuations in box office performance. As the amount of revenue we are able to generate under revenue sharing arrangements is dependent upon the box office performance of the films exhibited at the particular theatre, our revenue may be subject to higher volatility. Should any film exhibited in IMAX theatres under revenue sharing arrangements perform poorly, the amount of the box office revenue we receive will be reduced.

The proportion of IMAX theatre systems we install under hybrid revenue sharing arrangements also has an effect on our gross profit and gross profit margin. Under hybrid revenue sharing arrangements, we recognise revenue on the upfront fee received and all associated costs at the time of system installation. Such upfront fees typically cover only the costs related to the theatre system and installation. While we record minimal gross profit and gross profit margin for every hybrid revenue sharing arrangement at the time of system installation, we record all revenues in subsequent periods with virtually no corresponding theatre system cost, resulting in substantially higher gross profit and gross profit margin in these subsequent periods. As our base of hybrid theaters grows, the percentage box office revenue earned by these theatres increases with no corresponding cost related to the respective systems.

Revenue sharing arrangements increased from 410 arrangements in FY2018 to 463 arrangements in FY2019. As the level of our involvement and capital commitment is much greater with a revenue sharing arrangement, we can provide more input in the exhibitor's marketing campaigns for an IMAX film or an IMAX theatre launch. Going forward, we plan to continue to promote revenue sharing arrangements to exhibitors that can roll out their theatre network quickly and that have a portfolio of quality theatres with box office potential or a proven track record of success with IMAX theatres. Notwithstanding our interest in adding additional revenue sharing arrangements, our exhibitor partners may have other commercial considerations and may not choose revenue sharing arrangements over sales arrangements.

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

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

Economic growth and development had a significant impact on the entertainment industry in the PRC over the past few years, as individuals and households have been able to increase the amount of money they are willing to spend on movie tickets. We believe leisure consumption will be an important growth area in the coming decade for the Chinese consumer. Box office in the PRC grew to US$9.4 billion in 2019 at a compound annual growth rate (CAGR) of 22.7% from 2010 to 2019.

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

### Our Ability to Maintain Our Pricing and Profit Margins

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

### Market Risks

The China market faces a number of risks, including changes in laws and regulations, currency fluctuations, increased competition and changes in economic conditions, including the risk of an economic downturn or recession, trade embargoes, restrictions or other barriers, as well as other conditions that may impact the Company's exhibitor and studio partners, as well as consumer spending. In early 2020, in response to the public health risks associated with an outbreak of coronavirus in Wuhan, China, Chinese exhibitors temporarily closed more than 70,000 movie theaters, including all of the approximately 700 IMAX theaters in mainland China. The theaters have been closed since late January 2020, including over the Lunar New Year holiday and have not yet reopened as of the date of this report. Chinese movie studios also postponed the release of multiple films, including those originally scheduled to be released over this holiday, five of which were scheduled to be shown in IMAX theaters. The repercussions of this health crisis in China will have a material adverse impact on the revenues generated by IMAX theater systems in the first quarter of 2020 and could impact other areas of the Company's business in China, including but not limited to the timely installation of theater systems in our backlog in China. Given the dynamic nature of the circumstances, it is difficult to predict whether the impact of the coronavirus outbreak on the Company's financial condition in future reporting periods may also be material as this will depend on future developments, including but not limited to the timing of theaters reopening, if and when delayed films are released, consumer behavior and any potential construction or installation delays involving our exhibitor partners which are highly uncertain and cannot be accurately forecast. Adverse developments in any of these areas could impact the Company's future revenues and cash flows and could cause the Company to fail to achieve anticipated growth.

### Seasonality Effects

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

### Currency Fluctuations

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

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

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

### 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 theatre 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 a straight sale transaction, 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

- Sales and sales-type lease arrangements, consist of contingent rent in excess of certain fixed minimum ongoing payments. The contingent rent on sales-type lease arrangements is recognized after the fixed minimum amount per annum is exceeded as driven by box office performance. Contingent rent on sales arrangements is estimated and recognized with the revenue under Theatre Business.

# Management Discussion and Analysis (Continued)

***Theatre Business***

The Theatre Business represents all revenues that are primarily derived from exhibitor partners through either sales 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, consists of the design, manufacture and installation of IMAX theater projection system equipment under sales or sales-type lease arrangements for upfront and ongoing fees, which can include a fixed minimum amount per annum and contingent rent in excess of the minimum payments. The upfront fees vary depending on the system configuration and location of the theatre. Any upfront fees are paid to the Company in installments between the time of system signing and the time of system installation, which is when the total of these fees, in addition to the present value of future annual minimum payments and contingent rent on sales arrangement as discussed under Network Business above, are recognized as revenue 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 theatre which is recorded in Network Business revenue segment described above. Revenue sharing arrangements upfront fees revenue is recognized at the time of installation and exhibitor acceptance of the IMAX theatre 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 sales-type lease arrangement and revenue sharing arrangements; and,

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

***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.

## Management Discussion and Analysis (Continued)

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

| | FY2019 | | FY2018 | |
|---|---|---|---|---|
| | **US$'000** | **%** | US$'000 | % |
| **Network Business** | | | | |
| Film | **28,128** | **22.6%** | 26,059 | 22.2% |
| Revenue sharing arrangements — contingent rent | **24,791** | **19.9%** | 21,619 | 18.4% |
| **Sub-total** | **52,919** | **42.5%** | 47,678 | 40.6% |
| **Theatre Business** | | | | |
| Sales and sales-type lease arrangements | **41,543** | **33.4%** | 42,455 | 36.1% |
| Revenue sharing arrangements — upfront fees | **7,162** | **5.8%** | 6,604 | 5.6% |
| Theatre system maintenance | **21,387** | **17.2%** | 19,224 | 16.4% |
| Other theatre | **941** | **0.8%** | 1,316 | 1.1% |
| **Sub-total** | **71,033** | **57.2%** | 69,599 | 59.2% |
| **New Business and Other** | **342** | **0.3%** | 243 | 0.2% |
| **Total** | **124,294** | **100.0%** | 117,520 | 100.0% |

# Management Discussion and Analysis (Continued)

## Cost of Sales

Our cost of sales are primarily comprised of the costs for the rights of all digital re-mastered films purchased under our intercompany agreement with IMAX Corporation (excluding Hollywood films which are recorded as a reduction of film revenue received from IMAX Corporation according to *IFRS 15* starting from 2018), the costs of IMAX theatre systems and related services under sales, sales-type lease and hybrid revenue sharing arrangements, depreciation of IMAX theatre systems capitalized under full revenue sharing arrangements and certain one-time costs at the time of system installation and exhibitor acceptance of the respective IMAX theatre system such as marketing costs for IMAX theatre 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 years indicated, as well as the percentage of respective revenue they each represent:

| | **FY2019** | | FY2018 | |
|---|---|---|---|---|
| | **US$'000** | **%** | US$'000 | % |
| **Network Business** | | | | |
| Film | **4,958** | **17.6%** | 4,890 | 18.8% |
| Revenue sharing arrangements — contingent rent | **13,221** | **53.3%** | 11,813 | 54.6% |
| **Sub-total** | **18,179** | **34.4%** | 16,703 | 35.0% |
| **Theatre Business** | | | | |
| Sales and sales-type lease arrangements | **14,235** | **34.3%** | 13,493 | 31.8% |
| Revenue sharing arrangements — upfront fees | **5,964** | **83.3%** | 4,759 | 72.1% |
| Theatre system maintenance | **8,518** | **39.8%** | 6,402 | 33.3% |
| Other theatre | **575** | **61.1%** | 731 | 55.5% |
| **Sub-total** | **29,292** | **41.2%** | 25,385 | 36.5% |
| **New Business and Other** | **176** | **51.5%** | 181 | 74.5% |
| **Total** | **47,647** | **38.3%** | 42,269 | 36.0% |

## Gross Profit and Gross Profit Margin

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

| | FY2019 | | FY2018 | |
|---|---|---|---|---|
| | **US$'000** | **%** | US$'000 | % |
| **Network Business** | | | | |
| Film | **23,170** | **82.4%** | 21,169 | 81.2% |
| Revenue sharing arrangements — contingent rent | **11,570** | **46.7%** | 9,806 | 45.4% |
| **Sub-total** | **34,740** | **65.6%** | 30,975 | 65.0% |
| **Theatre Business** | | | | |
| Sales and sales-type lease arrangements | **27,308** | **65.7%** | 28,962 | 68.2% |
| Revenue sharing arrangements — upfront fees | **1,198** | **16.7%** | 1,845 | 27.9% |
| Theatre system maintenance | **12,869** | **60.2%** | 12,822 | 66.7% |
| Other theatre | **366** | **38.9%** | 585 | 44.5% |
| **Sub-total** | **41,741** | **58.8%** | 44,214 | 63.5% |
| **New Business and Other** | **166** | **48.5%** | 62 | 25.5% |
| **Total** | **76,647** | **61.7%** | 75,251 | 64.0% |

## 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 years indicated:

| | FY2019 | | FY2018 | |
|---|---|---|---|---|
| | **US$'000** | **%** | US$'000 | % |
| Employee salaries and benefits | **6,091** | **4.9%** | 5,397 | 4.6% |
| Share-based compensation expenses | **2,145** | **1.7%** | 1,810 | 1.5% |
| Travel and transportation | **1,054** | **0.8%** | 962 | 0.8% |
| Advertising and marketing | **2,183** | **1.8%** | 2,061 | 1.8% |
| Professional fees | **1,761** | **1.4%** | 2,307 | 2.0% |
| Other employee expense | **659** | **0.5%** | 536 | 0.5% |
| Facilities | **239** | **0.2%** | 1,366 | 1.2% |
| Depreciation | **1,560** | **1.3%** | 691 | 0.6% |
| Foreign exchange | **39** | **—** | 104 | 0.1% |
| Other expenses | **734** | **0.6%** | 871 | 0.6% |
| **Total** | **16,465** | **13.2%** | 16,105 | 13.7% |

## Restructuring Expenses and Associated Impairments

In December 2018, the Company announced, in connection with its strategic review of its VR pilot initiative, that it had decided to close the VR location in Shanghai. Restructuring expenses and associated impairments are comprised of associated impairments for property, plant and equipment. Our restructuring expenses and associated impairments for FY2019 and FY2018 were nil and US$0.1 million, respectively.

## 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 Licence Agreements and the Trademark Licence Agreements, charged at an aggregate of 5% of our revenue. Our other operating expenses for FY2019 and FY2018 were US$7.0 million and US$6.7 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 deposits had a term of more than 90 days. Our interest income for FY2019 and FY2018 was US$1.8 million and US$1.6 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 because of numerous permanent differences, subsidies, investment and other tax credits, the provision for income taxes at different rates in different jurisdictions, the application of Hong Kong's territorial tax system, enacted statutory tax rate increases or reductions in the year, changes due to our recoverability assessments of deferred tax assets.

Our income tax expense for FY2019 and FY2018 was US$12.0 million and US$11.2 million, respectively. Our effective tax rate was 21.8% and 20.7% during FY2019 and FY2018, respectively.

## YEAR TO YEAR COMPARISON OF RESULTS OF OPERATIONS

### Consolidated Statement of Comprehensive Income

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

| | **FY2019** | | FY2018 | |
|---|---|---|---|---|
| | **US$'000** | **%** | US$'000 | % |
| Revenues | **124,294** | **100.0%** | 117,520 | 100.0% |
| Cost of sales | **(47,647)** | **(38.3%)** | (42,269) | (36.0%) |
| **Gross profit** | **76,647** | **61.7%** | 75,251 | 64.0% |
| Selling, general and administrative expenses | **(16,465)** | **(13.2%)** | (16,105) | (13.7%) |
| Restructuring expenses and associated impairments | **—** | **—** | (112) | (0.1%) |
| Other operating expenses | **(7,017)** | **(5.6%)** | (6,702) | (5.7%) |
| **Operating profit** | **53,165** | **42.8%** | 52,332 | 44.5% |
| Interest income | **1,771** | **1.4%** | 1,622 | 1.4% |
| Interest expense | **(93)** | **(0.1%)** | — | 0.0% |
| **Profit before income tax** | **54,843** | **44.1%** | 53,954 | 45.9% |
| Income tax expense | **(11,950)** | **(9.6%)** | (11,189) | (9.5%) |
| **Profit for the year, attributable to owners of the Company** | **42,893** | **34.5%** | 42,765 | 36.4% |
| Other comprehensive loss: | | | | |
| **Items that may be subsequently reclassified to profit or loss:** | | | | |
| Change in foreign currency translation adjustments | **(2,898)** | **(2.3%)** | (8,273) | (7.0%) |
| **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**") | **(3,400)** | **(2.7%)** | (2,018) | (1.7%) |
| Other comprehensive loss: | **(6,298)** | **(5.1%)** | (10,291) | (8.8%) |
| **Total comprehensive income for the year, attributable to owners of the Company** | **36,595** | **29.4%** | 32,474 | 27.6% |

# Management Discussion and Analysis (Continued)

## Adjusted Profit

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

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

| | **FY2019 US$'000** | FY2018 US'000 |
|---|---|---|
| Profit for the year | **42,893** | 42,765 |
| Adjustments: | | |
| Share-based compensation | **2,145** | 1,810 |
| Restructuring expenses and associated impairments | **—** | 112 |
| Tax impact on items listed above | **(468)** | (404) |
| **Adjusted profit** | **44,570** | 44,283 |

## FY2019 COMPARED WITH FY2018

### Revenue

Our revenue increased 5.8% from US$117.5 million in FY2018 to US$124.3 million in FY2019 driven by a increase of US$1.4 million in our Theatre Business revenue, an increase of US$5.2 million in the Network Business revenue and an increase of US$0.1 million in the New Business and Other, as explained further below.

***Network Business***

Revenue from our Network Business increased 11.0% from US$47.7 million in FY2018 to US$52.9 million in FY2019, primarily due to a US$29.2 million, or 8.7% increase in box office revenue in FY2019 compared to the prior year and to a lesser extent, a 30 basis point increase in blended take-rate as defined by total Network Business revenue dividend by total gross box office. The improving take-rate was attributable to higher box office contribution from local language titles and our revenue-sharing network.

*Film*

Film revenue increased 7.9% from US$26.1 million in FY2018 to US$28.1 million in FY2019 as a result of an increase in box office revenue. The box office revenue generated by IMAX films increased 8.7% from US$336.6 million in FY2018 to US$365.8 million in FY2019 as a result of the strong performance of the Company's film slate in FY2019, which included *Avengers: Endgame*, along with *The Wandering Earth*, and *Ne Zha*. IMAX formatted Chinese language films, as a percentage of our PRC box office, increased from 30.0% in FY2018 to 31.4% in FY2019, and we share in a higher percentage of box office for Chinese language films (12.5%) compared to Hollywood films (9.5%).

Box office per screen decreased 7.0% from US$0.62 million in FY2018 to US$0.57 million in FY2019, impacted by the depreciation of the RMB against USD. On an RMB basis, box office per screen remained fairly stable, RMB3.9 million in FY2018 versus RMB3.8 million in FY2019. Our network increased by 12.2% from 639 IMAX theatres in FY2018 to 717 IMAX theatres in FY2019.

The following table sets out the number of films we released in the IMAX format in FY2019 and FY2018 in Greater China:

| | FY2019 | FY2018 |
|---|---|---|
| Hollywood films | 30 | 26 |
| Hollywood films (Hong Kong and Taiwan only) | 7 | 12 |
| Chinese language films | 14 | 19 |
| **Total IMAX films released** | **51** | 57 |

*Revenue Sharing Arrangements — Contingent Rent*

Contingent rent from revenue sharing arrangements increased 14.7% from US$21.6 million in FY2018 to US$24.8 million in FY2019, primarily due to a greater number of IMAX theatres operating under revenue sharing arrangements in FY2019 compared to FY2018, which was partially offset by lower box office revenue per screen. We had 410 theatres operating under revenue sharing arrangements at the end of FY2018, as compared to 463 at the end of FY2019, which represented an increase of 12.9%.

Contingent rent from full revenue sharing arrangements increased 16.0% from US$17.6 million in FY2018 to US$20.5 million in FY2019, primarily due to growth in the full revenue sharing network in FY2019, which increased 13.0% year over year, from 316 IMAX theatres in FY2018 to 357 IMAX theatres in FY2019, while offset by lower box office revenue per screen.

Contingent rent from hybrid revenue sharing arrangements increased 8.3% from US$4.0 million in FY2018 to US$4.3 million in FY2019, primarily due to growth in the hybrid revenue sharing network which increased 12.8% from 94 IMAX theatres in FY2018 to 106 IMAX theatres in FY2019, while was partially offset by lower box office per screen.

# Management Discussion and Analysis (Continued)

***Theatre Business***

Revenue from our Theatre Business increased 2.1% from US$69.6 million in FY2018 to US$71.0 million in FY2019.

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

| **Commercial** | As at 31 December | | |
|---|---|---|---|
| | **2019** | 2018 | Growth (%) |
| The PRC[1] | **686** | 609 | 12.6% |
| Hong Kong[2] | **6** | 5 | 20.0% |
| Taiwan | **10** | 10 | — |
| | **702** | 624 | 12.5% |
| **Institutional[3]** | **15** | 15 | — |
| **Total** | **717** | 639 | 12.2% |

Note:

(1) Four theatres in PRC were closed in FY2019, three of which were taken over by other exhibitors with new IMAX systems installed and the other one is expected to be taken over by an exhibitor in FY2020.

(2) One theatre in Hong Kong was closed in FY2019, which was taken over by another exhibitor with a new IMAX system installed.

(3) Institutional IMAX theatres include museums, zoos, aquaria and other destination entertainment sites that do not exhibit commercial films.

The following table sets out the number of IMAX theatre systems installed by business arrangements in FY2019 and FY2018:

| | **FY2019** | FY2018 |
|---|---|---|
| Sales and sales-type lease arrangements | **27** | 27 |
| Revenue sharing arrangements | **56** | 70 |
| IMAX with Laser upgrades | **12** | 4 |
| **Total theatre systems installed** | **95[1]** | 101 |

Notes:

(1) We installed 83 new IMAX theatre systems plus 12 IMAX with Laser upgrades (1 sales and sales-type lease upgrade and 11 revenue sharing upgrades) in FY2019.

*Sales and Sale-type Lease Arrangements*

Theatre Business revenue from sales and sales-type lease arrangements decreased slightly by 2.1% from US$42.5 million in FY2018 to US$41.5 million in FY2019, primarily due to 1 high-revenue but low-margin GT Laser installation in FY2018 and 1 sales and sales-type lease installation using re-deployed system in FY2019, offset by 1 additional sales and sales-type lease upgrade and 8 more IMAX with Laser systems in FY2019. We recognised sales revenue on 27 new theatre systems including 1 GT Laser in FY2018 with a total value of US$38.6 million, compared to 27 new theatre systems including 1 IMAX with Laser upgrade plus 1 re-deployed system in FY2019 with a total value of US$38.0 million.

Average revenue per new system under sales and sales-type lease arrangements excluding GT Laser and re-deployed system was increased from US$1.3 million in FY2018 to US$1.4 million in FY2019 due to 8 additional IMAX with Laser systems.

*Revenue Sharing Arrangements — Upfront Fees*

Upfront revenue from hybrid revenue sharing arrangements increased 8.4% from US$6.6 million in FY2018 to US$7.2 million in FY2019, primarily due to 2 additional hybrid revenue sharing installations in FY2019.

*Theatre System Maintenance*

Theatre system maintenance revenue increased 11.3% from US$19.2 million in FY2018 to US$21.4 million in FY2019. Maintenance revenue increased in FY2019 as a result of a 12% increase in the size of the IMAX network, which increased to 717 theatres as at FY2019 from 639 theatres as at FY2018.

***New Business and Other***

Revenue from new business and other increased from US$0.2 million in FY2018 to US$0.3 million in FY2019.

## Cost of Sales

Our cost of sales increased 12.7% from US$42.3 million in FY2018 to US$47.6 million in FY2019. This increase was primarily due to an increase of US$3.9 million in our Theatre Business and an increase of US$1.5 million in our Network Business.

***Network Business***

The cost of sales for our Network Business increased 8.8% from US$16.7 million in FY2018 to US$18.2 million in FY2019 due to increased depreciation costs associated with a larger full revenue sharing network, currently 357 theatres as at FY2019 versus 316 theatres as at FY2018.

*Film*

The cost of sales for film increased 1.4% from US$4.9 million in FY2018 to US$5.0 million in FY2019 driven by the increased targeted film marketing spend on critical local films during Chinese New Year and *Ne Zha* as well as highly anticipated Hollywood films such as *Avengers: Endgame*.

# Management Discussion and Analysis (Continued)

*Revenue Sharing Arrangements — Contingent Rent*

Cost of sales for contingent rent from revenue sharing arrangements increased 11.9% from US$11.8 million in FY2018 to US$13.2 million in FY2019, primarily due to increased depreciation costs associated with a larger full revenue sharing network, currently 357 theaters as at FY2019 versus 316 theaters as at FY2018, offset by decreased one-time upfront costs related to the installation of 16 fewer full revenue sharing arrangements in FY2019 versus FY2018.

***Theatre Business***

The cost of sales for our Theatre Business increased 15.4% from US$25.4 million in FY2018 to US$29.3 million in FY2019, primarily due to 2 additional IMAX theatres systems under hybrid revenue sharing arrangements, higher cost mix of systems under sales and sales-type lease arrangements due to our IMAX with Laser systems and increased theatre maintenance cost.

*Sales and Sales-type Lease Arrangements*

Cost of sales from our Theatre Business under sales and sales-type lease arrangements increased 5.5% from US$13.5 million in FY2018 to US$14.2 million in FY2019, primarily due to the costs recognised on 28 theatres systems installations under sales and sales-type lease arrangements including 1 re-deployed system installation and 1 IMAX with Laser upgrade in FY2019 as compared to 27 in FY2018, as well as higher cost mix of systems due to installation of 15 IMAX with Laser systems including 1 upgrade in FY2019 compared to 7 IMAX with Laser and 1 GT Laser in FY2018.

*Revenue Sharing Arrangements — Upfront Fees*

Cost of sales from installation of hybrid revenue sharing arrangements increased 25.3% from US$4.8 million in FY2018 to US$6.0 million in FY2019, primarily due to the costs recognised on 16 theatre system systems installations under hybrid revenue sharing arrangements in FY2019 as compared to 14 in FY2018, as well as higher marketing costs.

*Theatre System Maintenance*

Cost of sales from our Theatre Business with respect to theatre system maintenance increased 33.1% from US$6.4 million in FY2018 to US$8.5 million in FY2019 commensurate with the additional costs associated with servicing a larger IMAX theatre network, currently 717 theatres as at FY2019 versus 639 theatres as at FY2018 and the replacement of critical high value service parts for several theaters.

***New Business and Other***

Cost from new business and other was flat at US$0.2 million in both FY2019 and FY2018.

## Gross Profit and Gross Profit Margin

Our gross profit was US$76.6 million in FY2019, or 61.7% of total revenue compared to US$75.3 million in FY2018, or 64.0% of total revenue. The increase in gross profit was largely attributable to an increase of US$3.8 million of our Network Business, which was partially offset by a decrease of US$2.5 million 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 FY2019.

***Network Business***

The gross profit from our Network Business increased 12.2% from US$31.0 million in FY2018 to US$34.7 million in FY2019, and the gross profit margin for our Network Business increased slightly from 65.0% in FY2018 to 65.6% in FY2019. 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 offset by increased depreciation costs associated with continued growth in the IMAX theatre network under revenue sharing arrangements.

*Film*

The gross profit for film increased 9.5% from US$21.2 million in FY2018 to US$23.2 million in FY2019, and the gross profit margin for our films business increased from 81.2% in FY2018 to 82.4% in FY2019. The increase was primarily due to an increase of 8.7% in our overall box office revenue from a similar number of films in PRC, and better performance of Chinese language films with higher margin than Hollywood films due to higher percentage of revenue and lower DMR cost.

*Revenue Sharing Arrangements — Contingent Rent*

The gross profit for contingent rent from revenue sharing arrangements increased 18.0% from US$9.8 million in FY2018 to US$11.6 million in FY2019. The gross profit margin was 45.4% in FY2018 and 46.7% in FY2019.

The gross profit for contingent rent from full revenue sharing arrangements increased 24.6% from US$5.8 million in FY2018 to US$7.3 million in FY2019, and the gross profit margin decreased from 33.1% in FY2018 to 28.5% in FY2019. Gross profit margin decreased as a result of increased depreciation costs associated with a larger full revenue sharing network and partially offset higher overall box office revenue and decreased one-time upfront costs associated with the installation of 16 fewer systems in FY2019.

The gross profit for contingent rent from hybrid revenue sharing arrangements increased 8.3% from US$4.0 million in FY2018 to US$4.3 million in FY2019 driven by growth in the hybrid revenue sharing network which increased 12.8% from 94 IMAX theatres in FY2018 to 106 IMAX theatres in FY2019.

***Theatre Business***

The gross profit for our theatres business decreased 5.6% from US$44.2 million in FY2018 to US$41.7 million in FY2019. During the same period, our gross profit margin decreased from 63.5% to 58.8%. The decrease in gross profit was primarily due to higher costs for the installation of 15 IMAX with Laser systems including 1 upgrade under sales and sales-type lease arrangements in FY2019, compared to 7 IMAX with Laser systems and 1 GT Laser system in FY2018. The decrease in gross profit margin was mainly driven by higher maintenance costs and higher cost of sales for systems due to more IMAX with Laser systems installed in FY2019.

*Sales and Sales-type Lease Arrangements*

The gross profit for our Theatre Business from sales of new IMAX theatre systems decreased 5.7% from US$29.0 million in FY2018 to US$27.3 million in FY2019, and our gross profit margin decreased from 68.2% in FY2018 to 65.7% in FY2019, primarily due to 8 more IMAX with Laser theatre systems under sales and sales-type lease arrangements in FY2019 with higher costs.

*Revenue Sharing Arrangements — Upfront Fees*

The gross profit from upfront fees derived from hybrid revenue sharing arrangements decreased US$0.6 million from US$1.8 million in FY2018 and US$1.2 million in FY2019, primarily due to lower gross profit margin of 16.7% in FY2019 compared to 27.9% in FY2018, partially offset by 2 additional system installations under hybrid revenue sharing arrangements in FY2019. The drivers of the lower margin rate were lower average upfront fees and higher marketing expenses on certain installed hybrid revenue sharing arrangements as a result of a larger contract extension and expansion.

*Theatre System Maintenance*

The gross profit for our theatre system maintenance increased 0.4% from US$12.8 million in FY2018 to US$12.9 million in FY2019 as a result of certain operating leverage within the maintenance business generated from a larger network of theatres. Our gross profit margin decreased from 66.7% in FY2018 to 60.2% in FY2019, primarily due to replacement of certain high value service parts for several theatres.

***New Business and Other***

The gross profit for new business and other was US$0.2 million in FY2019 and US$0.1 million in FY2018.

## Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 2.2% from US$16.1 million in FY2018 to US$16.5 million in FY2019, primarily due to a US$1.1 million increase related to employee salaries and benefits and share-based compensation expenses due to increased head count and salary increases to manage the growing IMAX theatre network, partially offset by: (i) an decrease in professional fees of US$0.5 million due to higher legal and litigation fees incurred in FY2018 for ongoing legal matters; (ii) a US$0.2 million decrease in depreciation and facilities after reclassification due to IFRS 16, since the initial term of one of our offices lease ended in FY2019.

## Restructuring Expenses and Associated Impairments

In December 2018, the Company announced, in connection with its strategic review of its VR pilot initiative, that it had decided to close the VR centre in Shanghai. Restructuring expenses and associated impairments are mainly comprised of associated impairments for property, plant and equipment.

The Company has recognized asset impairment of nil and US$0.1 million related to the closure of VR centre in Shanghai in FY 2019 and FY2018, respectively.

## Other Operating Expenses

Other operating expenses increased 4.7% from US$6.7 million in FY2018 to US$7.0 million in FY2019, primarily due to an increase of US$0.4 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.

## Interest Income

Interest income increased 9.2% from US$1.6 million in FY2018 to US$1.8 million in FY2019.

## Income Tax Expense

Our income tax expense increased 6.8% from US$11.2 million in FY2018 to US$12.0 million in FY2019. The increase in income tax expense was primarily due to an increase in our operating profit before income tax of US$0.8 million from US$54.0 million in FY2018 to US$54.8 million in FY2019. Our effective tax rate was 20.7% in FY2018 as compared to 21.8% in FY2019.

## Profit for the Year

We reported a comprehensive profit for the year of US$36.6 million in FY2019 as compared to US$32.5 million in FY2018. The increase was primarily due to a decrease in other comprehensive loss of US$6.3 million in FY2019 (including a loss of US$2.9 million resulted by foreign currency translation adjustment and a loss of US$3.4 million related to change in fair value net of tax of financial assets at FVOCI) versus a loss of US$10.3 million in FY2018 (including a loss of US$8.3 million related to foreign currency translation adjustment and a loss of US$2.0 million related to change in fair value net of tax of financial assets at FVOCI). For the foreign currency translation adjustment, the loss of US$2.9 million in FY2019 was due to a 2% appreciation of the closing rate of USD at 31 December 2019 compared with the closing rate at 31 December 2018, and the loss of US$8.3 million in FY2018 was due to a 5% appreciation of the closing rate of USD at 31 December 2018 compared with the closing rate at 31 December 2017. For the fair value of financial assets at FVOCI, the loss of $3.4 million in FY2019 was due to fair value change of investment in preferred share, Maoyan and virtual reality fund, and the loss of US$2.0 million in FY2018 was due to fair value change of investment in preferred share and virtual reality fund. Comprehensive profit for the year in FY2019 included a US$2.1 million charge (US$1.8 million in FY2018) for share-based compensation.

## Adjusted Profit

Adjusted profit, which consists of profit for the year adjusted for the impact of share-based compensation, restructuring expenses and associated impairments and the related tax impact, was US$44.3 million in FY2018 as compared to adjusted profit of US$44.6 million in FY2019, an increase of 0.6%.

## LIQUIDITY AND CAPITAL RESOURCES

| | As at 31 December | |
|---|---|---|
| | **2019** | 2018 |
| | **US$'000** | US$'000 |
| **Current assets** | | |
| Other assets | **2,472** | 2,405 |
| Film assets | **116** | 221 |
| Inventories | **5,237** | 3,434 |
| Prepayments | **1,815** | 3,399 |
| Variable consideration receivable from contracts | **374** | — |
| Financing receivables | **10,938** | 8,785 |
| Trade and other receivables | **43,227** | 40,717 |
| Cash and cash equivalents | **89,308** | 120,224 |
| **Total Current assets** | **153,487** | 179,185 |
| **Current liabilities** | | |
| Trade and other payables | **15,170** | 18,395 |
| Accruals and other liabilities | **11,394** | 8,838 |
| Income tax liabilities | **4,045** | 6,334 |
| Deferred revenue | **12,878** | 18,453 |
| **Total Current Liabilities** | **43,487** | 52,020 |
| **Net Current Assets** | **110,000** | 127,165 |

As at 31 December 2019, we had net current assets of US$111.0 million compared to net current assets of US$127.2 million as at 31 December 2018. The decrease in net current assets in FY2019 was mainly attributable to a US$30.9 million decrease in cash and cash equivalents, a US$1.6 million decrease in prepayments, and a US$2.6 million increase in accruals and other liabilities, offset by a US$2.5 million increase in trade and other receivables, a US$1.8 million increase in inventories, a US$2.2 million increase in financing receivables, a US$3.2 million decrease in trade and other payables, a US$5.6 million decrease in deferred revenue and a US$2.3 million decrease in income tax liabilities.

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

| | As at 31 December | |
|---|---|---|
| | **2019** | 2018 |
| Cash and cash equivalents denominated in US$ | **$20,842** | $64,664 |
| Cash and cash equivalents denominated in RMB (in thousands) | **¥474,325** | ¥377,779 |
| Cash denominated in Hong Kong dollars HK$ (in thousands) | **$3,565** | $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 a quantitative return on capital criteria for management, but rather relies on the expertise of the Group's management to sustain future development of the business.

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

## CASH FLOW ANALYSIS

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

| | **FY2019 US$'000** | FY2018 US$'000 |
|---|---|---|
| Net cash provided by operating activities | **39,302** | 56,356 |
| Net cash used in investing activities | **(34,406)** | (22,773) |
| Net cash used in financing activities | **(34,553)** | (27,428) |
| Effects of exchange rate changes on cash | **(1,259)** | (2,609) |
| (Decrease) Increase in cash and cash equivalents during year | **(30,916)** | 3,546 |
| Cash and cash equivalents, beginning of year | **120,224** | 116,678 |
| Cash and cash equivalents, end of year | **89,308** | 120,224 |

### Cash From Operating Activities

***FY2019***

Our net cash provided by operations was approximately US$39.3 million in FY2019. We had profit before income tax for the year of US$54.8 million in FY2019 and positive adjustments for amortisation of film assets of US$6.7 million and depreciation of property, plant and equipment of US$13.5 million, and settlement of equity and other non-cash compensation of US$2.1 million, reduced by our taxes paid of US$16.2 million, our net investment in film assets of US$6.6 million and changes in working capital of US$16.0 million. Changes in working capital primarily consisted of: (i) an increase in financing receivables of US$8.7 million primarily the result of 7 sales type leases high minimum payment obligations installed in FY2019; (ii) a decrease in trade and other payables of US$2.4 million; (iii) an increase in trade and other receivables of US$2.1 million; (iv) an increase in inventories of US$2.0 million; and (v) a decrease in deferred revenue of US$3.5 million, partially offset by an increase in accruals and other liabilities of US$1.5 million and a decrease in prepayments of US$1.6 million.

***FY2018***

Our net cash provided by operations was approximately US$56.4 million in FY2018. We had profit before income tax for the year of US$54.0 million in FY2018 and positive adjustments for amortisation of film assets of US$5.9 million and depreciation of property, plant and equipment of US$10.8 million, and settlement of equity and other non-cash compensation of US$1.8 million, reduced by our taxes paid of US$11.9 million, our net investment in film assets of US$6.1 million and changes in working capital of US$1.2 million. Changes in working capital primarily consisted of: (i) an increase in financing receivables of US$4.7 million; (ii) a decrease in trade and other payables of US$0.9 million; (iii) a decrease in accruals and other liabilities of US$0.5 million; (iv) an increase in prepayments of US$1.6 million; and (v) a decrease in deferred revenue of US$2.6 million, partially offset by a decrease in trade and other receivables of US$9.9 million.

### Cash Used in Investing Activities

***FY2019***

Our net cash used in investing activities was approximately US$34.4 million for FY2019, primarily related to investments in IMAX theatre equipment amounting to US$19.1 million installed in our exhibitor partners' theatres under full revenue sharing arrangements, and investment in Maoyan of US$15.2 million.

***FY2018***

Our net cash used in investing activities was approximately US$22.8 million for FY2018, primarily related to investments in IMAX theatre equipment amounting to US$24.1 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 related to a China film fund.

### Cash Used in Financing Activities

***FY2019***

Our net cash used in financing activities was approximately US$34.6 million for FY2019 primarily due to: (i) dividend paid to owners of the Company amounting to US$14.1 million; (ii) payments for shares bought back of US$19.2 million, (iii) principal element of lease payments of US$1.2 million, and (iv) settlement of restricted share units and options of US$0.8 million, partially offset by issuance of common shares of US$ 0.7 million.

***FY2018***

Our net cash used in financing activities was approximately US$27.4 million for FY2018 primarily due to: (i) dividend paid to owners of the Company amounting to US$21.5 million; (ii) payments for shares bought back of US$6.1 million, and (iii) settlement of restricted share units and options of US$0.6 million, partially offset by issuance of common shares of US$0.8 million.

## CONTRACTUAL OBLIGATIONS AND CAPITAL COMMITMENTS

### Lease Commitments

We have lease commitments in FY2020 and FY2021 amounting to US$0.3 million and nil respectively related primarily to leased office and warehouse space in Shanghai.

### Capital Commitments

As at 31 December 2019, we had capital expenditures contracted but not provided for of US$25.1 million (2018: US$29.0 million), and capital expenditures authorised but not contracted for of US$ nil (2018: US$nil).

## CAPITAL EXPENDITURES AND CONTINGENT LIABILITIES

### Capital Expenditures

Our capital expenditures primarily relate to the acquisition of IMAX theatre systems and acquisition of films and investment in an equity security. During FY2019 and FY2018, our capital expenditures were US$34.4 million and US$25.1 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$20 million in FY2020, which will be primarily used to expand the IMAX theatre network under full revenue sharing arrangements, commercial laser upgrades and invest in a China film fund.

### 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 December 31, 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 US$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 August 8, 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 September 5, 2018, and hearings took place on October 24, 2018 and January 22, 2019. On March 6, 2019, the Shanghai No. 3 Intermediate People's Court imposed a fine of RMB0.6 million, approximately US$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 March 31, 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.

As at 31 December 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 31 December 2019.

## WORKING CAPITAL

We finance our working capital needs primarily through cash flow from operating activities. Cash flow generated from operating activities was US$39.3 million in FY2019 and US$56.4 million in FY2018. 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.

In July 2019, we renewed an unsecured revolving facility for up to RMB200.0 million (approximately US$30.0 million) to fund ongoing working capital requirement. The total amounts drawn and available under the working capital loan at 31 December 2019 were US$nil and RMB200.0 million, respectively.

## STATEMENT OF INDEBTEDNESS

As at 31 December 2019:

- except for an 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 31 December 2019, being the latest date of our audited financial statements, there has been no material adverse change to our indebtedness.

## RECENT DEVELOPMENTS

In early 2020, in response to the public health risks associated with an outbreak of coronavirus in Wuhan, China, Chinese exhibitors temporarily closed more than 70,000 movie theaters, including all of the approximately 700 IMAX theaters in mainland China. The theaters have been closed since late January 2020, including over the Lunar New Year holiday and have not yet reopened as of the date of this report. Chinese movie studios also postponed the release of multiple films, including those originally scheduled to be released over this holiday, five of which were scheduled to be shown in IMAX theaters. The repercussions of this global health crisis in China will have a material adverse impact on the revenues generated by IMAX theater systems in the first quarter of 2020. Given the dynamic nature of the circumstances, it is difficult to predict whether the impact of the coronavirus outbreak on the Company's financial condition in future reporting periods may also be material as this will depend on future developments, including but not limited to the timing of theaters reopening, if and when delayed films are released, consumer behavior and any potential construction or installation delays involving our exhibitor partners which are highly uncertain and cannot be accurately forecast. However, assuming the resumption of business in the near future, we believe that a portion of these revenues may be recovered later in 2020 when we anticipate the films are scheduled to ultimately be released, although there can be no guarantees of the timing or extent of such recovery.

## OFF BALANCE SHEET ARRANGEMENTS

We had no off-balance sheet arrangements as at 31 December 2019.

## KEY FINANCIAL RATIOS

The following table lays out certain financial ratios as at the dates and for the years indicated. We presented adjusted gearing ratio and adjusted profit margin because we believe they present a more meaningful picture of our financial performance than unadjusted numbers as they exclude the impact from share-based compensation, restructuring expenses and associated impairments, and the related tax impact.

| | **2019** | 2018 |
|---|---|---|
| Gearing ratio[(1)] | **26.7%** | 29.8% |
| Adjusted profit margin[(2)] | **35.9%** | 37.7% |

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 year by revenue and multiplying the result by 100.

### Gearing Ratio

Our gearing ratio decreased from 29.8% as at 31 December 2018 to 26.7% as at 31 December 2019, primarily due to a decrease in deferred revenue of US$4.3 million and income tax liabilities of US$2.3 million.

### Adjusted Profit Margin

Our adjusted profit margin decreased from 37.7% as at 31 December 2018 to 35.9% as at 31 December 2019, primarily due to decreased gross profit margin from 64.0% in 2018 to 61.7% in 2019, which was largely attributable to higher cost mix of systems due to installation of IMAX with Laser in FY2019.

## DIVIDEND POLICY AND DISTRIBUTABLE RESERVES

Pursuant to the Company's dividend policy, in recommending or declaring dividends, the Company should maintain adequate cash reserves for meeting its working capital requirements and future growth as well as its shareholders value. 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, statutory and regulatory restrictions and other factors that our Board considers relevant. Our Board recommended the payment of a final dividend, for the 2019 fiscal year, of US$0.02 per share (equivalent to approximately HK$0.156 per share). Distribution of any final dividend 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, four of which are incorporated in the PRC, the availability of funds to pay distributions to Shareholders and to service our debts depends on dividends received from these subsidiaries. Our PRC subsidiaries are restricted from distributing profits before the losses from previous years have been remedied and amounts for mandated reserves have been deducted.

As at 31 December 2019, the Company had a total equity of US$45.9 million. Under the Companies Law of the Cayman Islands, subject to the provisions of memorandum of association of the Company or the articles of association (the "**Articles of Association**"), the Company's share premium account may be applied to pay distributions or dividends to shareholders provided that immediately following the date of distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

## DIVIDEND

During the year ended 31 December 2019, the Company declared and paid a final dividend for financial year 2018 of US$0.02 per share (equivalent to approximately HK$0.157 per share) and an interim dividend for the first half of financial year 2019 of US$0.02 per share (equivalent to approximately HK$0.156 per share).

During the board meeting held on 19 February 2020, the Board recommended a final dividend of US$0.02 per share (equivalent to approximately HK$0.156 per share) to the shareholders. Subject to the approval of the shareholders at the forthcoming Annual General Meeting and subject to further announcement(s) in respect to the book closure date, record date and payment date, the proposed 2019 final dividend is expected to be distributed to shareholders on or around 30 June 2020. There will be no scrip dividend option for the 2019 final dividend.

## MATERIAL ACQUISITIONS OR DISPOSALS

We have not undertaken any material acquisition or disposal for the year ended 31 December 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 year ended 31 December 2019.

The purpose of the investment was to enable the Group to share in any profit earned in Greater China by TCL-IMAX Entertainment. 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, subscribed for 7,949,000 shares (representing approximately 0.706% equity at the time) in 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 for the year ended 31 December 2019.

The purpose of the investment was to develop strategic collaborations with Maoyan and enable the Group to leverage Maoyan's technical advantages to, among others, more effectively market future content to consumers. 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.

As at 31 December 2019, the fair value of TCL-IMAX Entertainment and Maoyan was nil and US$14.6 million, representing approximately 4% of the Company's total assets, respectively. In FY2019, a fair value loss of US$2.4 million and US$0.5 million was recognized for TCL-IMAX Entertainment and Maoyan, respectively.

There was no plan authorised by the Board for any material investments or divestments at the date of this report.

# Directors and Senior Management

## OUR DIRECTORS

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

### Members of our Board

| Name | Age[3] | Position | Date of Appointment |
|---|---|---|---|
| Richard Lewis Gelfond | 64 | Non-executive Director and Chairman | 27 May 2015 |
| Jiande Chen | 64 | Executive Director | 27 May 2015 |
| Jim Athanasopoulos | 49 | Executive Director | 27 May 2015 |
| Mei-Hui (Jessie) Chou | 50 | Executive Director | 27 May 2015 |
| Megan Colligan[1] | 47 | Non-executive Director | 26 February 2019 |
| Yue-Sai Kan | 72 | Independent Non-executive Director | 27 May 2015 |
| John Marshal Davison | 61 | Independent Non-executive Director | 21 September 2015 |
| Dawn Taubin | 61 | Independent Non-executive Director | 21 September 2015 |
| Peter Loehr[2] | 52 | Independent Non-executive Director | 9 October 2019 |

Note:

(1) Megan Colligan was appointed as a Non-executive Director with effect from 26 February 2019.

(2) Peter Loehr was appointed as an Independent Non-executive Director with effect from 9 October 2019.

(3) Ages are provided as of 31 December 2019.

The biography of each Director is set out below:

### Chairman and Non-executive Director

**Mr. Richard Gelfond**, aged 64, has been the Chairman and Non-executive Director of the Company since 27 May 2015. He has been a Director of the Company since 30 August 2010[1] and he was appointed as the Chairman of the Board on 4 August 2014. As Chief Executive Officer of IMAX Corporation, the Company's majority shareholder, Mr. Gelfond provides strategic advice and guidance on the business and operations of the Group. Mr. Gelfond has been the sole Chief Executive Officer and an Executive Director of IMAX Corporation since 2009 and 1994, respectively. He also served as Co-Chairman of IMAX Corporation from 1999 to 2009 and Co-Chief Executive Officer from 1996 to 2009. From 1994 to 1999, Mr. Gelfond also served as the Vice Chairman of IMAX Corporation. Between 1979 and 1994, Mr. Gelfond worked at a law firm and at an investment bank. Mr. Gelfond graduated from the State University of New York at Stony Brook, the United States, with a Bachelor of Arts in May 1976 and from the Northwestern University School of Law, the United States, with a juris doctor degree in June 1979. Mr. Gelfond serves as Chairman of the Board of Trustees of the Stony Brook Foundation, Inc., which is affiliated with the State University of New York at Stony Brook. He is also a member of the Academy of Motion Picture Arts and Science, and serves on the International Advisory Board of the Turkana Basin Institute, a non-profit initiative focusing on field research in the Lake Turkana Basin of Kenya.

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

## Executive Directors

**Mr. Jiande Chen**, aged 64, has been an Executive Director of the Company since 27 May 2015. He is responsible for the overall strategic direction and business operations of the Group. Mr. Chen was the Chief Executive Officer of the Group between 1 August 2011 and 9 December 2019 and has been the Vice Chairman of the Group since 9 December 2019. Mr. Chen is a member of the board of directors of TCL-IMAX Entertainment Co., Limited, a joint venture of TCL Corporation and IMAX Corporation. Mr. Chen has also been an independent director of Cultural Investment Holdings Co., Ltd. (Shanghai Stock Exchange: 600715) since June 2017. Mr. Chen was previously the Senior Vice President, Chief Representative and General Manager of Sony Pictures Entertainment, China from 2000 to 2011. Prior to that, Mr. Chen was a Vice President of Allied Signal (China) Holding Corp., an aerospace, automotive and engineering company from 1998 to 1999, a Vice President of Boeing China Inc. from 1995 to 1998 and a Vice President of DDB Advertising/PR Corp. in Seattle from 1990 to 1995. Mr. Chen received a doctorate in Communications from the University of Washington, the United States, in December 1991 and graduated from Fudan University, the PRC, majoring in English in 1982. Mr. Chen serves as the Vice Chairman of the Alumni Association of Fudan University.

**Mr. Jim Athanasopoulos**, aged 49, has been an Executive Director of the Company since 27 May 2015. He is responsible for the overall strategic direction and business operations of the Group. Mr. Athanasopoulos assumed the role of Chief Financial Officer and Chief Operating Officer of the Company effective May 2015, and served as the Chief Financial Officer and Senior Vice President, Corporate Operations of the Group since 1 August 2011. Mr. Athanasopoulos joined IMAX Corporation in 2000. Prior to his current role, Mr. Athanasopoulos served as the Senior Vice President of Joint Venture Theatre Development of IMAX Corporation from 2010 to 2011, where he helped oversee the execution of IMAX Corporation's joint venture theatre rollout worldwide. He was also the Vice President of Theatre Development of IMAX Corporation from 2008 to 2010. From 2004 to 2008, Mr. Athanasopoulos was an integral part of a worldwide theatre development team that expanded the IMAX Corporation commercial network, signing over 460 new theatres during a time when IMAX Corporation's business model transitioned from institutional clients to multiplexes and from film to digital. Prior to joining IMAX Corporation, Mr. Athanasopoulos worked at KPMG in Toronto for seven years in both their assurance and insolvency practices. Mr. Athanasopoulos graduated from the University of Toronto, Canada, with a bachelor's degree in Commerce in June 1993. He is also a Chartered Accountant, qualified in February 1997, and a member of the Institute of Chartered Accountants of Ontario.

# Directors and Senior Management (Continued)

**Ms. Mei-Hui (Jessie) Chou**, aged 50, has been an Executive Director of the Company since 27 May 2015. She is responsible for the overall marketing direction and business operations of the Group. Ms. Chou assumed the role of Chief Marketing Officer effective May 2015, and served as the Senior Vice President, Theatre Marketing & Operations of the Group since 2012. Ms. Chou served as Head of Human Resources from May 2015 to February 2019. Ms. Chou joined IMAX Corporation in 2006. Prior to her current role, Ms. Chou served as Vice President, Theatre Marketing & Operations. Over the past twelve years, Ms. Chou has planned and implemented more than 600 new IMAX theatres in Greater China, Japan, South Korea, Thailand, Malaysia, Singapore, India and the Philippines. Prior to joining the Company, Ms. Chou served as the General Manager of Cinema Operations for Warner Village Cinemas Co., Ltd (a joint-venture between Warner Bros. & Village Roadshow Cinemas, currently Vieshow Cinemas), Taiwan, from 1997 to 2005, where she oversaw the building and operations of the first international cineplexes in nine sites across the island. Prior to the cinema industry, Ms. Chou worked with various international branded hotels, including the InterContinental Hotels Group in 1997 and Shangri-La Hotels and Resorts from 1995 to 1997. Ms. Chou was awarded an EMBA with an Honors Thesis from the National Taiwan University in June 2006. Between 1991 and 1994, she studied hotel management and received a Diploma with Merit from Les Roches Hotel Management School, Switzerland in June 1994. She obtained a bachelor's degree in Foreign Language and Literature from the National Tsing Hua University, Taiwan in June 1991.

## Non-executive Directors

**Ms. Megan Colligan**, aged 47, was appointed as a Non-executive Director of the Company on 26 February 2019. She is responsible for giving strategic advice and guidance on the business and operations of the Group. Ms. Colligan joined IMAX Corporation in February 2019 as Executive Vice President, IMAX Corporation, and President, IMAX Entertainment, a business division of IMAX Corporation. Prior to that, Ms. Colligan served in executive roles at Paramount Pictures from 2006 to 2017, most recently as Worldwide President of Marketing and Distribution. Prior to that, Ms. Colligan served as Vice President at Fox Searchlight from 2002 to 2006, a media strategist at Fenton Communication, Publicity Director for Brill Media Holdings and Media Central, and also a publicist at Miramax Films. Before her career in the film industry, Ms. Colligan was an investment banking analyst at PaineWebber in municipal finance. Ms. Colligan graduated from Harvard University with a Bachelor of Arts in American history and African American studies. She is a member of the US Academy of Motion Picture Arts and Sciences and currently serves on the public relations executive committee and the "Future of Film" sub-committee. Ms. Colligan was the winner of the 2013 Sherry Lansing Award from Big Brothers and Big Sisters of Greater Los Angeles. She has served on this organization's Board since receiving the honor. She also chairs the marketing committee, co-chairs the sub-committee for Women in Entertainment and the scholarship committee, and serves on the executive committee and fund development committee, of Big Brothers and Big Sisters of Greater Los Angeles.

## Independent Non-executive Directors

**Ms. Yue-Sai Kan**, aged 72, has been an Independent Director of the Company since 25 August 2014 and was appointed as an Independent Non-executive Director on 27 May 2015. She is responsible for giving independent strategic advice and guidance on the business and operations of the Group. Ms. Kan is an Emmy-winning television host and producer with extensive experience in the entertainment industry. In 1972, she established Yue-Sai Kan Productions and created her first major U.S. television production, a weekly series called “Looking East.” In 1986, she produced and hosted the television series “One World” on China’s national television network, CCTV. Ms. Kan has produced a number of documentaries, including “China Walls and Bridges”, which earned her an Emmy, as well as “Journey through a Changing China” and the series “Mini Dragons” “Doing Business in Asia,” and “Seeking Miss China,” among others. Ms. Kan created the cosmetics company and brand “Yue-Sai” in 1992, which was acquired by L’Oréal in 2004. She is now the Honorary Vice Chairman of L’Oréal China. She launched the House of Yue-Sai lifestyle stores in 2007 to cater to China’s growing middle class. She is also an author of nine best-selling books. She is also the National Director of Miss Universe China and produces its annual pageant as a major charity event in China. Ms. Kan graduated from the Brigham Young University in Hawaii with a Bachelor of Arts in May 1969. Ms. Kan has served as the International Ambassador of the Shanghai International Film Festival since 2006.

**Mr. John Davison**, aged 61, has been an Independent Non-executive Director of the Company since 21 September 2015. He is responsible for giving independent strategic advice and guidance to the Group. Mr. Davison is the President and Chief Executive Officer of Four Seasons Holdings Inc., the luxury hotel and resort management company, where he has held that position since May 2019 and oversees all aspects of the company’s global portfolio of hotels, resorts and branded residences and is responsible for advancing Four Seasons position as the world’s leading luxury hospitality company. Prior to his current role, Mr. Davison served as the Chief Financial Officer, Executive Vice President and also Senior Vice President, Project Financing, of Four Seasons Holdings Inc. Prior to joining Four Seasons Holdings Inc., Mr. Davison spent four years as a member of the Audit and Business Investigations Practice at KPMG in Toronto from 1983 to 1987, followed by 14 years at IMAX Corporation from 1987 to 2001, ultimately holding the position of President, Chief Operating Officer and Chief Financial Officer. Mr. Davison has been a member of the board of directors of Canada Goose Holdings Inc. (NYSE and TSX: GOOS) since May 2017. Mr. Davison has been a Chartered Accountant since September 1986 and is a member of the Institute of Chartered Accountants of Ontario. Mr. Davison has also been a Chartered Business Valuator since August 1988 and is a member of the Canadian Institute of Chartered Business Valuators. He graduated from the University of Toronto, Canada, Victoria College, with a bachelor’s degree in Commerce in November 1983.

**Ms. Dawn Taubin**, aged 61, has been an Independent Non-executive Director of the Company since 21 September 2015. She is responsible for giving independent strategic advice and guidance to the Group. Ms. Taubin served as the Chief Marketing Officer of DreamWorks Animation, an animation studio engaging in the development, production and exploitation of animated films and their associated characters, from August 2013 to January 2015, where she managed the global marketing and distribution operations for the studio’s theatrical and television properties. Prior to joining DreamWorks Animation, Ms. Taubin spent 19 years at Warner Bros Pictures, a film production and distribution company, where she was President of Marketing for six years. Prior to joining Warner Bros Pictures, Ms. Taubin was Vice President of Publicity at MGM Studios, an entertainment company providing production and distribution of film and television content. Ms. Taubin graduated from the University of California, Santa Barbara, the United States, with a bachelor’s degree in Communications Studies in June 1980. Ms. Taubin was also a Professor of Public Relations and Advertising at the Dodge College of Film and Media Arts at Chapman University in Orange, California, the United States, from 2011 to 2013.

# Directors and Senior Management (Continued)

**Mr. Peter Loehr**, aged 52, was appointed an Independent Non-executive Director and a member of the Nomination Committee of the Company on 9 October 2019. He is responsible for giving strategic advice and guidance on the business and operations of the Group. Mr. Loehr is a producer with extensive experience in the entertainment industry and was selected as one of Variety's "10 Producers to Watch" in 1999. In 1995, after seven years of entertainment industry experience in Japan and Taiwan, Mr. Loehr established Imar Film Co., Ltd., China's first independent film company which produced, distributed and marketed all of its films entirely in-house. In early 2002, Mr. Loehr established Ming Productions which focused on larger scale Asian-themed pictures for audiences worldwide. In January 2005, Mr. Loehr became Managing Director of the Creative Artists Agency (CAA) in China, China's largest and most successful literary and talent agency. During Loehr's seven-year tenure leading CAA in Asia, the agency grew from the ground up to represent over seventy artists in Mainland China, Hong Kong, Japan and Korea. In April 2012, Mr. Loehr joined Legendary Pictures and became CEO of its China joint venture — Legendary East, a film company focusing on big budget Chinese-US co-productions with subjects based on Chinese history, mythology, or culture. Mr. Loehr has also served as an advisor at Genies, Inc. and a producer at Davis Films. Mr. Loehr has produced eleven feature films and many of them won multiple awards at various film festivals across the globe. Mr. Loehr was also involved in the production of various largest co-productions in Asian history and some of them won countless awards and/or among the top films at the Chinese box office. Mr. Loehr graduated from the Georgetown University School of Foreign Service with a Bachelor of Science in 1989. Mr. Loehr speaks fluent Mandarin and Japanese.

## OUR SENIOR MANAGEMENT

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

| Name | Age | Position |
|---|---|---|
| Edwin Tan[(1)] | 51 | Chief Executive Officer |
| Jiande Chen[(1)] | 64 | Vice Chairman |
| Jim Athanasopoulos | 49 | Chief Financial Officer and Chief Operating Officer |
| Mei-Hui (Jessie) Chou | 50 | Chief Marketing Officer |
| Zi Maggie Chen | 37 | General Counsel and Joint Company Secretary |
| Honggen Yuan (Karl) | 56 | Senior Vice President, Theatre Development |

Note:

(1) Edwin Tan was appointed and succeeded Jiande Chen as the Chief Executive Officer of the Company with effect from 9 December 2019.

# Directors and Senior Management (Continued)

## Senior Management

**Mr. Edwin Tan**, aged 51, has been the Chief Executive Officer of the Group since 9 December 2019 and is responsible for the day-to-day management of the business and operations of the Group and the development and execution of strategies that may enable the Company to extend its leadership position and involvement in the continuing development in Greater China. Mr. Tan was the Chief Executive Officer of Messe Muenchen China and South East Asia from March 2017 to July 2019 and President at Wanda Studios Qingdao from 2016 to 2017. Prior to that, he was in various roles with Reed Exhibitions for approximately seven years, Managing Director at Sirivatana International for approximately two years, and various roles in SNP Corporation for approximately nine years. Mr. Tan graduated from Murdoch University with a Bachelor of Economics in 1992 followed by an MBA in Business Administration and Management from The University of Hull in 1997.

**Mr. Jiande Chen**, aged 64, has been the Vice Chairman of the Group since 9 December 2019 and is responsible for providing key strategic guidance for the Company with a focus on government and industry relations. He was appointed as an Executive Director of the Company on 27 May 2015. Please refer to "Directors and Senior Management — Our Directors" for details of his biography.

**Mr. Jim Athanasopoulos**, aged 49, assumed the role of Chief Financial Officer and Chief Operating Officer of the Company effective May 2015, and served as the Chief Financial Officer and Senior Vice President, Corporate Operations of the Group since 1 August 2011. Mr. Athanasopoulos is responsible for the overall management of all aspects of the Group's finance and treasury matters. He was appointed as an Executive Director on 27 May 2015. Please refer to "Directors and Senior Management — Our Directors" for details of his biography.

**Ms. Mei-Hui (Jessie) Chou**, aged 50, assumed the role of Chief Marketing Officer effective May 2015, and served as the Senior Vice President, Theatre Marketing & Operations of the Group since 2012. Ms. Chou is responsible for interfacing with theatre operators to ensure successful theatre openings and film launches. She was appointed as an Executive Director on 27 May 2015. Please refer to "Directors and Senior Management — Our Directors" for details of her biography.

**Ms. Zi Maggie Chen**, aged 37, has been the General Counsel of the Company since 2 May 2018. She is responsible for overseeing the legal and administrative matters of the Group. Ms. Chen previously worked as an associate at Paul, Weiss, Rifkind, Wharton & Garrison in Hong Kong and Beijing in the areas of mergers and acquisitions and private equity investments. She had also worked as a legal counsel at The Peninsula Group. Ms. Chen obtained her Bachelor of Laws from China University of Political Science and Law and her Master of Laws from Columbia Law School. Ms. Chen has been a member of the New York Bar since November 2010.

# Directors and Senior Management (Continued)

**Mr. Honggen Yuan (Karl)**, aged 56, has been Senior Vice President, Theatre Development of the Group since September 2011. Mr. Yuan joined IMAX Corporation in August 2001, where he held the title of Sales Director. He was promoted to Vice President, Theatre Development in 2005. During his more than 17 years with IMAX Corporation, Mr. Yuan has been instrumental in helping to grow the IMAX theatre network from two theatres in 2001 to well over 600 theatres today. Mr. Yuan has played a vital role in building and expanding the Company's relationship with its key strategic partners, including Wanda Cinema Line Co., Ltd, CGI Holdings Limited and Shanghai Film Corporation. Prior to joining IMAX Corporation, Mr. Yuan served as the Chief Representative, Business Development of Bayshore Pacific Group Shanghai Representative Office from 1998 to 2001. Mr. Yuan graduated from the Shanghai University of Technology (currently known as Shanghai University), the PRC, with a bachelor's degree in Environmental Chemistry in July 1985 and received an MBA degree from the University of Sunshine Coast, Queensland, Australia in June 2002.

## OUR JOINT COMPANY SECRETARIES

**Ms. Zi Maggie Chen**, our General Counsel, was appointed as the joint company secretary on 6 June 2018. Please refer to "Directors and Senior Management — Our Senior Management" for details of her biography.

**Ms. Chan Wai Ling FCIS, FCS (PE)**, was appointed as the joint company secretary on 27 May 2015. She is a director of Corporate Services of Tricor Services Limited. Ms. Chan is a Chartered Secretary and Fellow of both The Hong Kong Institute of Chartered Secretaries ("**HKICS**") and The Institute of Chartered Secretaries and Administrators (ICSA) in the United Kingdom. Ms. Chan is a holder of the Practitioner's Endorsement from HKICS. She has more than 20 years of experience in the corporate secretarial field. Ms. Chan is currently the joint company secretary of Razer Inc. (Stock code: 1337), Budweiser Brewing Co. APAC Ltd.(Stock code: 1876) and China Feihe Limited (Stock code: 6186) as well as the company secretary of Greenway Mining Group Limited (Stock Code: 2133). Ms. Chan was also a former company secretary of TCC International Holdings Limited (Stock Code: 1136, delisted on 20 November 2017), China Maple Leaf Educational Systems Limited (Stock Code: 1317, resigned on 28 August 2018) SITC International Holdings Company Limited (Stock Code: 1308, resigned on 18 October 2019) and Sun Art Retail Group Limited (Stock Code: 6808, resigned on 1 November 2019).

# Report of the Directors

The Directors present this report together with the audited Financial Statements of the Company and the Group for the year ended 31 December 2019.

## PRINCIPAL ACTIVITIES AND SUBSIDIARIES

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

A list of the Company's subsidiaries, together with their places of incorporation, principal activities and particulars of their issued shares/paid up capital, is set out in note 34 to the Consolidated Financial Statements.

## APPLICATION OF GLOBAL OFFERING PROCEEDS

The Company was listed on the Stock Exchange on 8 October 2015. The net proceeds from the Company's Listing were approximately HK$443 million after deduction of related expenses. For the year ended 31 December 2019, the Company applied proceeds from the Listing as follows:

| | Net Proceeds from IPO | | |
|---|---|---|---|
| | **Available HK$'000** | **Used HK$'000** | **Unused HK$'000** |
| Procurement of IMAX theatre systems and the one time launch costs used for expanding revenue sharing arrangements in the Company's backlog | 177,200 | 177,200 | — |
| Building up inventory of IMAX theatre systems | 88,600 | — | 88,600 |
| Establishment of a film fund | 66,450 | — | 66,450 |
| Establishment of the Company's DMR capabilities | 66,450 | 4,758 | 61,692 |
| Working Capital | 44,300 | 44,300 | — |
| Total | 443,000 | 226,258 | 216,742 |

The Company intends to continue to deploy proceeds from the Listing in 2020 consistent with the manner described in the Prospectus.

## FINANCIAL RESULTS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of comprehensive income on page 141 of this Annual Report. The financial summary for the Group for the most recent five years, as set out on page 221 of this Annual Report, are extracted from this Annual Report and the Prospectus.

## RESERVES

Details of the movements in the reserves of the Company and reserves available for distribution to Shareholders as at 31 December 2019 are set out in note 33 to the Consolidated Financial Statements. Under the Companies Law of the Cayman Islands, subject to the provisions of memorandum of association of the Company or the articles of association (the "**Articles of Association**"), the Company's share premium account may be applied to pay distributions or dividends to shareholders provided that immediately following the date of distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business. Movements in the reserves of the Group are reflected on the consolidated statement of changes in equity of the Consolidated Financial Statements.

## DIVIDENDS

During the year ended 31 December 2019, the Company declared and paid a final dividend for financial year 2018 of US$0.02 per share (equivalent to approximately HK$0.157 per share) and an interim dividend for the first half of financial year 2019 of US$0.02 per share (equivalent to approximately HK$0.156 per share).

During the board meeting held on 19 February 2020, the Board recommended a final dividend of US$0.02 per share (equivalent to approximately HK$0.156 per share) to the shareholders. Subject to the approval of the shareholders at the forthcoming Annual General Meeting and subject to further announcement(s) in respect to the book closure date, record date and payment date, the proposed 2019 final dividend is expected to be distributed to shareholders on or around 30 June 2020. There will be no scrip dividend option for the 2019 final dividend.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in property and equipment during the year are set out in note 11 to the Consolidated Financial Statements.

## BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2019 is set out in the section headed "Management Discussion and Analysis" of this Annual Report which forms part of this Report of the Directors.

## ESG REPORT AND CORPORATE GOVERNANCE REPORT

The ESG Report and Corporate Governance Report for the year ended 31 December 2019 are set out in the sections headed "ESG Report" and "Corporate Governance Report" of this Annual Report, respectively, which form part of this Report of the Directors.

## SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 23 to the Consolidated Financial Statements.

## CHARITABLE CONTRIBUTIONS

During the year ended 31 December 2019, the Group made charitable contributions totaling HK$7,000.

## DIRECTORS

### Directors during the year ended 31 December 2019 and up to the date of this report

*Executive Directors:*
Jiande Chen
Jim Athanasopoulos
Mei-Hui (Jessie) Chou

*Non-executive Directors:*
Richard Gelfond (Chairman)
Megan Colligan *(appointed with effect from 26 February 2019)*
Ruigang Li *(resigned with effect from 9 October 2019)*

*Independent Non-executive Directors:*
Yue-Sai Kan
John Davison
Dawn Taubin
Peter Loehr *(appointed with effect from 9 October 2019)*

### Directors Retiring by Rotation

In accordance with Article 16.18 of the Company's Articles of Association, Ms. Yue-Sai Kan, Mr. Jiande Chen and Mr. Jim Athanasopoulos will retire from office as Directors by rotation at the forthcoming annual general meeting. All retiring Directors, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

In addition, in accordance with Article 16.2 of the Articles of Association, Mr. Peter Loehr, who was appointed by the Board as an addition to the Board on 9 October 2019, will hold office as a Director only until the forthcoming annual general meeting, and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

### Directors' Service Contracts

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

### Directors' Emoluments

Details of the remuneration of the Directors are set out in note 25 of the Consolidated Financial Statements. There has been no arrangement under which any Director has waived or agreed to waive any emoluments.

### Directors' Interests in Transactions, Arrangements or Contracts

Save as disclosed in the section headed "Connected Transactions" of this Annual Report and contracts amongst group companies, no other transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company and the Director's connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2019.

## Directors' Interests in Shares, Underlying Shares and Debentures

As at 31 December 2019, interests of the Directors in Shares, underlying Shares and debentures of the Company and its associated corporations which were recorded in the register to be kept by the Company under Section 352 of the SFO are set out on page 89.

## Directors' Rights to Acquire Shares or Debentures

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

## Permitted Indemnity Provision

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

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the year ended 31 December 2019. The Company has taken out and maintained directors' liability insurance which provides appropriate cover for the Directors and directors of the subsidiaries of the Company.

## Directors' Interests in Contracts and Competing Business

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

| Name | Company | IMAX Corporation |
|---|---|---|
| Richard Gelfond | Non-executive Director and Chairman | Chief Executive Officer and Executive Director |
| Megan Colligan | Non-executive Director | Executive Vice President,<br>and President, IMAX Entertainment,<br>a business division of IMAX Corporation |

There is no contract of significance in relation to the Group's business existing at the end of the year or during the year ended 31 December 2019 in which the Group was a party and in which a Director was materially interested.

## Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2019.

## WAIVERS

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

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

### Waiver from Requirement to Set a Monetary Cap

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

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

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

### Waiver conditions

These waivers have been granted subject to the following conditions:

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

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

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

## CONNECTED TRANSACTIONS

### Continuing Connected Transactions Subject to Reporting and Announcement Requirements

During the year ended 31 December 2019, the Group has continued to be engaged 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 year ended 31 December 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, during the year ended 31 December 2019, IMAX Corporation agreed to make Mr. Don Savant, the then President of Worldwide Sales and Exhibitor Relations and Executive Vice President of IMAX Corporation available to IMAX Shanghai Multimedia. Mr. Don Savant's secondment ended on 31 January 2019.

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

Please also refer to the Company's announcement dated 28 February 2018 for further details.

*(ii) Term and Termination*

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

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

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

*(iii) Fees*

IMAX Shanghai Multimedia shall reimburse IMAX Corporation for the cost of all wages and benefits with respect to the seconded employee in proportion to the time actually spent by such employee 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 employee.

*(b) Annual Caps and Transaction Amount*

In accordance with Rule 14A.53 of the Listing Rules, we have set an annual cap for the maximum aggregate fee payable under the Personnel Secondment Agreement of US$5,800,000 for each of FY2018, FY2019 and FY2020. This annual cap has been calculated on the basis of (i) the historical wages and share-based compensation paid to the seconded employees pursuant to the Personnel Secondment Agreement during the three years ended 31 December 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$715,000 was charged to the Group by IMAX Corporation under the Personnel Secondment Agreement during the year ended 31 December 2019. This charge consisted of the cost of certain compensations accrued and payable for the services provided by Mr. Don Savant who was seconded to the Group from 2015 to January 2019.

*(c) Listing Rules Requirements*

As the highest relevant percentage ratio in respect of the Personnel Secondment Agreement for FY2018, FY2019 and FY2020 is expected to be, on an annual basis, more than 0.1% but less than 5% and it is on normal commercial terms, the Personnel Secondment Agreement will be exempt pursuant to Rule 14A.76(2)(a) of the Listing Rules from the independent shareholders' approval requirement but will be subject to the reporting and, save for the waiver set out in "— Waivers — Waiver from Requirements to Obtain Approval of Independent Shareholders and Make Announcements" above, announcement requirements under Chapter 14A of the Listing Rules.

At the end of 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:

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

(2) 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;

(3) 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

(4) 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: (1) 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; (2) IMAX Shanghai Multimedia or IMAX Hong Kong (as applicable) is ordered or adjudged bankrupt; or (3) 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: (A) 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 (B) 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$2,672,000 was charged to the Group by IMAX Corporation under the Trademark License Agreements during the year ended 31 December 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" above, announcement requirements under Chapter 14A of the Listing Rules.

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

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

***3. Technology License Agreements***

*(a) Description of the Technology License Agreements*

*(i) Subject matter*

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

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

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

The Technology License Agreements were amended on 21 September 2015.

*(ii)* *Term*

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

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

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

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

*(iii)* *Termination*

Each of the Technology License Agreements is subject to limited termination provisions. Each Technology License Agreement will automatically and immediately terminate if: (1) 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; (2) IMAX Shanghai Multimedia and IMAX Hong Kong (as applicable) is ordered or adjudged bankrupt; or (3) 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 (A) 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 (B) 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$4,008,000 was charged to the Group by IMAX Corporation under the Technology License Agreements during the year ended 31 December 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" above, announcement requirements under Chapter 14A of the Listing Rules.

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

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

### *4. DMR Services Agreements*

*(a) Description of the DMR Services Agreements*

*(i) Subject matter*

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

(1) 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;

(2) 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

(3) 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:

(1) mutual agreement of the parties;

(2) 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;

(3) 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;

(4) 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;

(5) 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

(6) 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:

(1) 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;

(2) 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

(3) 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 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 year ended 31 December 2019, the DMR conversion fees charged to the Group by IMAX Corporation were approximately US$694,000. The number of Greater China DMR films converted was 14.

For the year ended 31 December 2019, three Greater China DMR Films were released in regions outside of Greater China and the distribution fees received/receivable by the Group from IMAX Corporation were US$174,000. No Greater China Original Films were released outside Greater China, and the distribution fees received/receivable by the Group from IMAX Corporation were US$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" above, announcement requirements under Chapter 14A of the Listing Rules.

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

***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 (1) finance and accounting services, (2) legal services, (3) human resources services, (4) IT services, (5) marketing services, (6) theatre design services, and (7) theatre project management services.

The Services Agreements were subsequently amended on 7 April 2014, 21 September 2015 and 23 February 2017, pursuant to which each of them shall have a term of three years expiring on 31 December 2019. On 19 December 2019, the Services Agreements were renewed for a further term of three years commencing from 1 January 2020 and ending on 31 December 2022.

Please also refer to the Company's announcement dated 19 December 2019 for further details.

*(ii)* *Term and Termination*

Each of the Services Agreements expired on 31 December 2019 was renewed and has a three year term commencing on 1 January 2020 unless terminated upon any of the following:

(1) mutual agreement of the parties;

(2) 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;

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

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

(5) 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:

(1) **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

(2) **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 the annual cap for the maximum aggregate fees payable under the Services Agreements at HK$8,000,000 for 2019. This annual cap has been calculated on the basis of: (i) the historic transaction amount 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$553,000 was charged to the Group by IMAX Corporation under the Services Agreements during the year ended 31 December 2019.

*(c)* *Listing Rules Requirements*

As the highest relevant percentage ratio in respect of the Services Agreements, as expected for FY2017, FY2018 and FY2019, was, on an annual basis, less than 25% and the total consideration was less than HK$10,000,000 and they are on normal commercial terms, the Services Agreements were exempt pursuant to Rule 14A.76(2)(b) of the Listing Rules from the independent shareholders' approval requirement. It however remains subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

In accordance with Rule 14A.53 of the Listing Rules, we have set the annual cap for the maximum aggregate fees payable under the Services Agreements at HK$6,000,000 for each of the years ending 31 December 2020, 2021 and 2022. This annual cap has been calculated on the basis of: (i) the historical 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; and (iv) the flexibility of having a buffer for the Company to cater for any unexpected increase in the variable service fees payable under the Services Agreements.

As the highest relevant percentage ratio in respect of the Services Agreements, as expected for FY2020, FY2021 and FY2022, 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.

At the end of FY2022, 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 Services Agreements for an additional three-year period.

### *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 (1) provision of regular scheduled preventative maintenance services to IMAX theatres, (2) provision of emergency technical services to IMAX theatres, (3) provision of a 24-hour telephone help-line and remote technical support to IMAX theatre exhibitors, (4) provision of quality audit and presentation quality services, and (5) 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.

*(b) Annual Caps and Transaction Amount*

In accordance with Rule 14A.53 of the Listing Rules, we have set the annual cap for the maximum aggregate fees payable under the IMAX Shanghai Services Agreement at HK$8,000,000 for 2019. This annual cap has 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$107,000 was charged to IMAX Corporation by the Group under the IMAX Shanghai Services Agreement during the year ended 31 December 2019.

*(c)* *Listing Rules Requirements*

As the highest relevant percentage ratio in respect of the IMAX Shanghai Services Agreement, as expected for FY2017, FY2018 and FY2019, was, on an annual basis, less than 25% and the total consideration was less than HK$10,000,000 and it is on normal commercial terms, the IMAX Shanghai Services Agreement was 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.

In accordance with Rule 14A.53 of the Listing Rules, we have set the annual cap for the maximum aggregate fees payable under the IMAX Shanghai Services Agreement at HK$4,000,000 for each of the years ending 31 December 2020, 2021 and 2022. This annual cap has been calculated on the basis of: (i) the historical 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 usage of the theatre services provided under the IMAX Shanghai Services Agreement.

As the highest relevant percentage ratio in respect of the IMAX Shanghai Services Agreement, as expected for FY2020, FY2021 and FY2022, 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.

At the end of FY2022, 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 IMAX Shanghai Services Agreement for an additional three-year period.

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

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

***1. Equipment Supply Agreements***

*(a) Description of the Equipment Supply Agreements*

*(i) Subject matter*

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

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

*(ii) Term*

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

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

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

*(iii)* *Termination*

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

*(iv)* *Fees*

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

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

IMAX Corporation and each of IMAX Shanghai Multimedia and IMAX Hong Kong have also agreed that the fees payable under the Equipment Supply Agreements will be adjusted, including retrospectively, to the extent an adjustment is necessary to ensure that the payments are on 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 year ended 31 December 2019 was 95, and the purchase price paid/payable to IMAX Corporation by the Group was approximately US$33,338,000.

(c) *Listing Rules Requirements*

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

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

***2. Master Distribution Agreements***

(a) *Description of the Master Distribution Agreements*

(i) *Subject matter*

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

(1) 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

(2) 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:

(1) mutual agreement of the parties;

(2) 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;

(3) 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;

(4) 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;

(5) 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

(6) 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:

(1) 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;

(2) 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;

(3) 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;

(4) 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

(5) notwithstanding (1), (2) and (3) above, if all or substantially all of the IMAX theatres to which the IMAX format Hollywood film is distributed are in the PRC, Hong Kong, Macau and/or Taiwan, then each of IMAX Shanghai Multimedia and IMAX Hong Kong, as applicable, shall pay IMAX Corporation the product of (A) 110% of the actual costs of the DMR conversion services in respect of such IMAX format film, and (B) the IMAX China Theatre Percentage or the IMAX Hong Kong Theatre Percentage (as the case may be).

In relation to the additional amount payable for 3D conversions pursuant to paragraph (d) above, the IMAX DMR process includes digital re-mastering of the image and audio of conventional films, but it does not include the conversion of a 2D film to a 3D film. All 2D and 3D IMAX 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 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 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 year ended 31 December 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 30. The conversion fees paid/payable by the Group to IMAX Corporation was approximately US$5,691,000 and the revenue received/receivable by the Group from IMAX Corporation pursuant to the Master Distribution Agreements amounted to US$22,430,000.

For the year ended 31 December 2019, the number of IMAX Original Films distributed by IMAX Corporation into Greater China for which the Company paid/payable distribution fees under the Master Distribution Agreements was 3 and the distribution fee paid/payable by the Group to IMAX Corporation was US$60,000.

(c) *Listing Rules Requirements*

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

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

## Exempt Connected Transactions

In addition to the above-mentioned continuing connected transactions, our continuing connected transactions for the year ended 31 December 2019 include the DMR Software License Agreement and the 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.

## Annual Caps Table paid/payable and Transaction Amounts

The aggregate amount paid by and to the Group during the year ended 31 December 2019, the annual caps for the financial year ended 31 December 2019, and the annual caps for the year ending 31 December 2020 in respect of the continuing connected transactions are set out in detail below.

| **Transactions** | Aggregate amount paid/payable by or to counter party for the year ended 31 December 2019 (USD) | Annual monetary cap for the year ended 31 December 2019 (USD unless otherwise specified) | Annual monetary cap for the year ending 31 December 2020 (USD unless otherwise specified) |
|---|---|---|---|
| Personnel Secondment Agreement | 715,000 | 5,800,000 | 5,800,000 |
| Trademark License Agreements[(1)] | 2,672,000 | N/A | N/A |
| Technology License Agreements[(1)] | 4,008,000 | N/A | N/A |
| DMR Services Agreements[(1)] | | | |
| — Fees payable to IMAX Corporation for conversion of the Greater China DMR Films | 694,000 | N/A | N/A |
| DMR Services Agreements[(1)] | | | |
| — Revenue receivable from IMAX Corporation for exploitation of the Greater China DMR Films | 174,000 | N/A | N/A |
| Services Agreements | 553,000 | HK$8 million | HK$6 million |
| IMAX Shanghai Services Agreement | 107,000 | HK$8 million | HK$4 million |
| Equipment Supply Agreements[(1)] | 33,338,000 | N/A | N/A |
| Master Distribution Agreements[(1)] | | | |
| — Revenue | 22,430,000 | N/A | N/A |
| Master Distribution Agreements[(1)] | | | |
| — Conversion and Distribution Fees | 5,751,000 | N/A | N/A |

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

## Review of Continuing Connected Transactions

The Company's auditor was engaged to report on the Group's non-exempt continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued a letter containing the findings and conclusions in respect of the continuing connected transactions disclosed by the Group in accordance with Rule 14A.56 of the Listing Rules:

a. nothing has come to our auditor's attention that causes our auditor to believe that the disclosed continuing connected transactions have not been approved by the Company's board of directors;

b. for transactions involving the provision of goods or services by the Group, nothing has come to our auditor's attention that causes our auditor to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;

c. nothing has come to our auditor's attention that causes our auditor to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

d. with respect to the aggregate amount of each of the non-exempt continuing connected transactions, nothing has come to our auditor's attention that causes our auditor to believe that the disclosed continuing connected transactions have exceeded the annual cap as set by the Company.

A copy of the auditor's letter has been provided by the Company to the Stock Exchange. In addition, all of the non-exempted continuing connected transactions of the Company disclosed herein constitute related party transactions set out in note 29 to the Consolidated Financial Statements. All other related party transactions as described in note 29 of the Consolidated Financial Statements do not fall under the definition of "continuing connected transaction" or "connected transaction" under the Listing Rules.

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

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

(b) on normal commercial terms or better; and

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

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

For the continuing connected transactions set out above for the year ended 31 December 2019, the Group has followed the pricing policies of the Group.

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

## MAJOR CUSTOMERS AND SUPPLIERS

The Group depends on its suppliers to provide it with products and services such as cinematic technology, screen frame, logistics and system installation services. For the year ended 31 December 2019, the Group's five largest suppliers combined and the largest supplier, IMAX Corporation (the Company's controlling Shareholder), accounted for, respectively, approximately 88.9% and approximately 64.1% of Group's total purchases. The five largest suppliers have been suppliers of the Group for an average of 7.11 years.

The Group's customers are primarily exhibitors. For the year ended 31 December 2019, the five largest customers combined and the largest customer accounted for, respectively, approximately 60.0% and approximately 23.3% of Group's total revenue. The five largest customers have been customers of the Group for an average of 6.4 years.

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

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

As at 31 December 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 were as follows:

### (a) Interests in the Shares

| Name of Director or Chief Executive | Number of Shares | Nature of Interest | Approximate Percentage |
|---|---|---|---|
| John Davison | 125,666(L) | Beneficial Owner | 0.04% |
| Yue-Sai Kan | 106,248(L) | Beneficial Owner | 0.03% |
| Dawn Taubin | 125,666 (L) | Beneficial Owner | 0.04% |
| Edwin Tan | 71,186(L)[(1)] | Beneficial Owner | 0.02% |
| Jiande Chen | 1,953,580(L)[(2)] | Beneficial Owner | 0.56% |
| Jim Athanasopoulos | 3,694,952(L)[(3)] | Beneficial Owner | 1.06% |
| Mei-Hui (Jessie) Chou | 1,507,685(L)[(4)] | Beneficial Owner | 0.43% |

(L) Long position

Notes:

(1) All of which are restricted stock units.
(2) Of which 1,912,610 are options and/or restricted stock units.
(3) Of which 3,605,076 are options and/or restricted stock units.
(4) Of which 1,474,788 are options and/or restricted stock units.

### (b) Long Position in Shares of Associated Corporations

| Name of Director or Chief Executive | Name of associated corporation | Common Shares | Nature of Interest | Approximate Percentage |
|---|---|---|---|---|
| Richard Gelfond | IMAX Corporation | 3,683,435(L)[1] | Beneficial Owner | 6.02% |
| Megan Colligan | IMAX Corporation | 194,136(L) | Beneficial Owner | 0.32% |
| Jim Athanasopoulos | IMAX Corporation | 4,068(L) | Beneficial Owner | 0.01% |

(L) Long position

Notes:
(1) Of which 3,396,343 are options, restricted stock units and/or performance share units.
(2) All of which are options and/or restricted stock units.

Save as disclosed above, as at 31 December 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 31 December 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 31 December 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

| 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) | 69.74 |
| IMAX Barbados | Beneficial interest | 243,262,600(L) | 69.74 |

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 31 December 2019.

## REMUNERATION POLICY

As at 31 December 2019, the Group had approximately 108 employees and all of them were based in Greater China.

The Company generally formulates the 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 LTIP, further details of which are set out below. The Company expects to continue to make grants of stock options and/or restricted stock units under its Long Term Incentive Plan in the future to Directors, senior management and other employees.

## LONG TERM INCENTIVE PLAN

The Company adopted 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 year ended 31 December 2019, the Company did not grant any options pursuant to the LTIP to certain directors, senior management and employees of the Group. Details regarding the exercise of previously granted options during the year ended 31 December 2019 are set out below:

| | | | | Number of share options | | | | |
|---|---|---|---|---|---|---|---|---|
| Name of Grantee | Date of Grant | Exercise Price | Option Period | Outstanding at January 1, 2019 | Granted during the year | Exercised during the year | Expired/ lapsed/ cancelled during the year | Outstanding at December 31, 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[3] | 29 October 2012 | US$1.3583 | Five years from date of grant[1] | – | – | – | – | – |
| Michelle Rosen[4] | 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) Don Savant's secondment to the Company ended and he left IMAX Corporation on 31 January 2019.

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

During the year ended 31 December 2019 (the "**Reporting Period**"), 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 under LTIP were cancelled or lapsed during FY2019.

## 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.

# Report of the Directors (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 year ended 31 December 2019, the Company granted options pursuant to the Share Option Scheme to three directors, one member of the senior management and certain employees of the Group for an aggregate of 660,348 shares representing approximately 0.189% of the issued share capital of the Company as of 31 December 2019. As of 31 December 2019, there were outstanding 1,602,128 Shares (representing approximately 0.459% of the then issued share capital of the Company) underlying options granted pursuant to the Share Option Scheme. Details of the options granted pursuant to the Share Option Scheme to the grantees are set at below:

| | | | | Number of Shares under the options | | | | |
|---|---|---|---|---|---|---|---|---|
| Name of Grantee | Date of Grant | Exercise Price | Vesting Period | Outstanding at 1 January 2019 | Granted during the year | Exercised during the year | Expired/ lapsed/ cancelled during the year | Outstanding at 31 December 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 |
| | 1 August 2019 | HK$18.24 | Three years from date of grant[10] | – | 210,883 | – | – | 210,883 |
| 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 |
| **Employee** | 1 August 2019 | HK$18.24 | Four years from date of grant[11] | – | 31,701 | – | – | 31,701 |
| **Total** | | | | **941,780** | **660,348** | **–** | **–** | **1,602,128** |

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.
(10) The vesting schedule is as follows: 25%, 35% and 40% on each of 1 August 2020, 1 August 2021 and 1 August 2022, respectively.
(11) The vesting schedule is as follows: 20%, 25%, 25% and 30% on each of 1 August 2020, 1 August 2021, 1 August 2022 and 1 August 2023, respectively.

The closing price of the shares on 22 April 2016, 6 March 2017, 31 July 2017, 6 March 2018, 2 May 2018, 31 July 2018, 6 March 2019 and 31 July 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, HK$22.90, HK$20.80 and HK$18.02, respectively.

As of 31 December 2019, the total number of Shares available for grant under the Share Option Scheme was 22,678,228, representing approximately 6.502% of the issued share capital of the Company as of 31 December 2019 and approximately 6.499% as of the date of this Annual Report.

During the Reporting Period, 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**") pursuant to which it may grant restricted share units ("**RSUs**"). The terms of the RSU Scheme are not subject to the provisions of Chapter 17 of the Listing Rules as the RSU Scheme does not involve the grant of options by the Company to subscribe for new Shares.

As of 1 January 2019, there were outstanding 849,293 Shares (representing approximately 0.237% of the then issued share capital of the Company) underlying options granted pursuant to the RSU Scheme. During the year ended 31 December 2019, the Company had granted RSUs pursuant to the RSU Scheme to directors, senior management and employees of the Group for an aggregate of 882,845 RSUs representing 0.253% of the issued share capital of the Company as of 31 December 2019. As of 31 December 2019, there were outstanding 1,350,954 Shares (representing approximately 0.387% of the then issued share capital of the Company) underlying options granted pursuant to the RSU Scheme. Details of the RSUs outstanding are set out below:

| | | | Number of Shares under RSUs | | | | |
|---|---|---|---|---|---|---|---|
| Name of Grantee | Date of Grant | Vesting Period | Outstanding at 1 January 2019 | Granted during the year | Exercised during the year | Expired/ lapsed/ cancelled during the year | Outstanding at 31 December 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 | – | 42,827 | – | 48,945 |
| | 1 August 2018 | Three years from date of grant(5) | 108,305 | – | 27,076 | – | 81,229 |
| | 1 August 2019 | Three years from date of grant(14) | – | 160,937 | – | – | 160,937 |
| 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** | | | | | | | |
| Edwin Tan | 9 December 2019 | Three years from date of grant(12) | – | 71,186 | – | – | 71,186 |
| 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 | – | 6,307 | – | 25,229 |
| | 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 | – | – | 1,924 | 28,528 |
| **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 | – | 4,326 | 49,552 |
| **Employee** | 1 August 2019 | Four years from date of grant(13) | – | 24,141 | – | – | 24,141 |
| **Total** | | | **849,293** | **759,944** | **252,033** | **6,250** | **1,350,954** |

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.
(12) The vesting schedule is as follows: 33%, 33% and 34% on each of 9 December 2020, 9 December 2021 and 9 December 2022, respectively.
(13) The vesting schedule is as follows: 20%, 25%, 25% and 30% on each of 1 August 2020, 1 August 2021, 1 August 2022 and 1 August 2023, respectively.
(14) The vesting schedule is as follows: 25%, 35% and 40% on each of 1 August 2020, 1 August 2021 and 1 August 2022, respectively.

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 a 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.

## SUB-PLAN: THE PERFORMANCE-BASED RESTRICTED SHARE UNIT SCHEME

Pursuant to the LTIP, on 12 March 2020, the Company adopted the performance-based restricted share unit scheme (the "**PSU Scheme**") pursuant to which it may grant performance-based restricted share units. The terms of the PSU Scheme are not subject to the provisions of Chapter 17 of the Listing Rules as the PSU Scheme does not involve the grant of options by the Company to subscribe for new Shares.

Please refer to the Company's announcement dated 12 March 2020 in relation to the adoption of the PSU Scheme for further details.

## SHARES ISSUED

Save for Shares issued upon the exercise of options granted pursuant to the LTIP, the Share Option Scheme and the RSU Scheme, no Shares were issued during the year ended 31 December 2019.

## EQUITY-LINKED AGREEMENTS

Save for the LTIP, Share Option Scheme and the RSU Scheme of the Group as set out in this section, no equity-linked agreements were entered into by the Group, or existed during the year ended 31 December 2019.

## PURCHASE, SALE OR REDEMPTION OF COMPANY'S LISTED SECURITIES

During the year ended 31 December 2019, the Company conducted share repurchases of 8,051,500 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 |
| August 2019 | 749,500 | 18.70 | 16.02 | 18.12 | 13,582,723.64 |
| September 2019 | 276,300 | 18.32 | 16.60 | 17.31 | 4,782,367.62 |
| | 8,051,500 | | | | 149,997,658.01 |

The Board believed that the Shares had been trading at a level which did not reflect the underlying value of the Company prior to the share repurchases and that the share repurchases would enhance the earnings per Share and overall shareholder return.

In addition, 122,901 listed Shares, 69,903 listed Shares and 131,726 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 1 August 2019 at an average price per share of HK$18.2607, and on 16 December 2019 at an average price per share of HK$17.3436, respectively, for satisfying, or being prepared for the satisfaction of, 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 year ended 31 December 2019.

## DEBENTURE ISSUED

The Group has not issued any debenture during the year ended 31 December 2019.

## SUFFICIENCY OF PUBLIC FLOAT

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

## PRE-EMPTIVE RIGHTS

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

## TAX RELIEF

The Company is not aware of any relief from taxation available to Shareholders by reason of their holdings in the Shares.

## AUDITOR

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

## LITIGATION

The Group did not have any material litigation outstanding as at 31 December 2019.

On behalf of the Board

**Richard Gelfond**
*Chairman*

# Corporate Governance Report

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

Mr. Richard Gelfond, the Chairman of the Company, was unable to attend the annual general meeting of the Company convened on 6 June 2019 due to other important business commitments. Mr. Gelford appointed Mr. Jim Athanasopoulos, an Executive Director and the Chief Financial Officer and Chief Operating Officer of the Company, to be his delegate as the Chair of the Board and as the Chair of the Nomination Committee to attend, chair and answer questions at the annual general meeting. Saved as disclosed above, during the Reporting Period, the Company has complied with all the code provisions of the CG Code.

## MODEL CODE FOR SECURITIES TRANSACTIONS

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

## QUARTERLY REPORTING BY IMAX CORPORATION

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

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

## BOARD OF DIRECTORS

### Role of the Board

The Board governs the Company and is responsible for overall leadership and control of the Group. The Board works to promote the success of the Group through oversight and direction of the Group's business dealings. The Board implements overall strategic priorities for the Company, exercising a number of reserved powers to, among other things, approve and adopt the annual budget, approve significant capital investments and the incurrence of significant debt, and oversees and monitors the overall performance of management. The Board is provided with all necessary resources including the advice of external auditor, external attorneys and other independent professional advisors as needed. Other than those matters reserved for approval by the Board, the Board has delegated day-to-day management of the Company to senior management.

### Board Composition

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

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

- Executive Directors: Mr. Jiande Chen, Mr. Jim Athanasopoulos, and Ms. Mei-Hui (Jessie) Chou;
- Non-executive Directors: Mr. Richard Gelfond (Chairman) and Ms. Megan Colligan; and
- Independent Non-executive Directors: Mr. John Davison, Ms. Yue-Sai Kan, Ms. Dawn Taubin and Mr. Peter Loehr.

The biographical information of the Directors is set out in the section headed "Directors and Senior Management" on pages 48 to 54 of this Annual Report.

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

### Chairman and Chief Executive Officer

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

## Independent Non-executive Directors

During the year ended 31 December 2019, the Board had at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-Executive Directors with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received from each of the Independent Non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers each of them to be independent. Each of the Independent Non-executive Directors has been appointed for a term of three years in accordance with the Company's Articles of Association.

## Appointment and Re-election of Directors

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

Each of the Non-executive Directors has been appointed for a term of three years in accordance with the Company's Articles of Association.

## Attendance Records of Directors

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

| Name of Director | Number of board meeting attended in person/held during the Reporting Period | Number of board meeting attended by proxy/held during the Reporting Period |
|---|---|---|
| **EXECUTIVE DIRECTORS** | | |
| Mr. Jiande Chen | 4/6 | 2/6[4] |
| Mr. Jim Athanasopoulos | 4/6 | 2/6[4] |
| Ms. Mei-Hui (Jessie) Chou | 4/6 | 2/6[4] |
| **NON-EXECUTIVE DIRECTORS** | | |
| Mr. Richard Gelfond | 4/6 | 2/6[4] |
| Mr. Ruigang Li[1] | 0/3 | 0/3 |
| Ms. Megan Colligan[2] | 2/6 | 1/6[4] |
| **INDEPENDENT NON-EXECUTIVE DIRECTORS** | | |
| Ms. Yue-Sai Kan | 4/6 | 2/6[4] |
| Mr. John Davison | 3/6 | 2/6[4] |
| Ms. Dawn Taubin | 4/6 | 2/6[4] |
| Mr. Peter Loehr[3] | 1/3 | 2/3[4] |

# Corporate Governance Report (Continued)

Notes:

(1) Mr. Ruigang Li resigned from his role as a Non-executive Director with effect from 9 October 2019.

(2) Ms. Megan Colligan was appointed as a Non-executive Director with effect from 26 February 2019.

(3) Mr. Peter Loehr was appointed as an Independent Non-executive Director with effect from 9 October 2019.

(4) The directors attended these board meetings by proxy because the purpose of such meetings was to approve the extension of the excise period of the share options granted to the Executive Directors prior to the Company's listing under the LTIP. Given the brief agenda of such meetings, the directors received and reviewed the meeting agenda and papers in advance of the meeting and instructed the proxy to vote (or abstain from voting) and report back to the directors on the proceedings of the meeting. The directors had also reviewed and approved the meeting minutes.

All directors except for Mr. Richard Gelfond and Ms. Megan Colligan attended the annual general meeting held on 6 June 2019. Mr. Richard Gelfond, the Chairman of the Company, was unable to attend the annual general meeting of the Company convened on 6 June 2019 due to other important business commitments. Mr. Gelford appointed Mr. Jim Athanasopoulos, an Executive Director and the Chief Financial Officer and Chief Operating Officer of the Company, to be his delegate as the Chair of the Board and as the Chair of the Nomination Committee to attend, chair and answer questions at the annual general meeting.

The Company has convened at least four regular board meetings in each financial year at approximately quarterly intervals in accordance with code provision A.1.1. of the CG Code and expects to continue to do so in the future.

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

## Continuous Professional Development of Directors

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

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

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

During the Reporting Period, the Directors attended a training provided by a Hong Kong law firm on the updates on annual report requirements and developments of the Listing Rules on 26 February 2019. The Directors have provided records of their training during the Reporting Period as follows:

| Name of Director | Attending training |
|---|---|
| **Executive Directors:** | |
| Jiande Chen | 1/1 |
| Jim Athanasopoulos | 1/1 |
| Mei-Hui Chou (Jessie) | 1/1 |
| | |
| **Non-executive Directors:** | |
| Richard Gelfond | 1/1 |
| Ruigang Li[(1)] | 0/1 |
| Megan Colligan | 1/1 |
| | |
| **Independent Non-executive Directors:** | |
| John Davison | 1/1 |
| Yue-Sai Kan | 1/1 |
| Dawn Taubin | 1/1 |
| Peter Loehr | 1/1 |

Notes:
(1) Ruigang Li resigned from his role as a Non-executive Director with effect from 9 October 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 auditor, external legal advisers and other independent professional advisors as needed.

In relation to the Board's corporate governance functions, the Board has determined the policy of the corporate governance of the Company and has fulfilled its duties by firstly, developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board; secondly, reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements; thirdly, developing and monitoring the codes of conduct applicable to employees and the Directors of the Company; fourthly, reviewing the Company's compliance with the CG Code and disclosure in the Corporate Governance Report, and lastly, receiving and monitoring the training and continuous professional development of Directors and senior management of the Company.

## Audit Committee

The Company has set up an audit committee on 27 May 2015 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and of the CG Code. The terms of reference was updated on 30 November 2018 to reflect changes to the Listing Rules. 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 auditor and provide advice and comments to the Board.

***Summary of Work***

- Reviewed the Group's half-yearly and annual financial results
- Reviewed the annual internal audit plan
- Reviewed the external auditor's statutory audit scope for 2019
- Reviewed significant findings of the Internal Audit Department, external auditor and regulators, and management's response to their recommendations
- Reviewed the adequacy and effectiveness of the Group's risk management and internal control systems and its accounting, financial reporting and internal audit functions
- Reviewed and monitored the external auditor's independence and engagement to perform non-audit services
- Approved the 2019 external audit engagement and fees

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.

The audit committee held two meetings during the Reporting Period. The attendance record of these meetings is set out below:

| Name of committee member | Number of meetings held/attended during the Reporting Period | Attendance rate |
|---|---|---|
| John Davison | 2/2 | 100% |
| Dawn Taubin | 2/2 | 100% |
| Richard Gelfond | 1/2 | 50% |

## Remuneration Committee

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

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

The remuneration committee held one meeting during the Reporting Period. The attendance record of this meeting is set out below:

| Name of committee member | Number of meetings held/attended during the Reporting Period | Attendance rate |
|---|---|---|
| Yue-Sai Kan | 1/1 | 100% |
| John Davison | 1/1 | 100% |
| Megan Colligan[(1)] | 1/1 | 100% |

Notes:

(1) Megan Colligan was appointed as a Non-executive Director and a member of the Remuneration Committee with effect from 26 February 2019.

During the Reporting Period, the remuneration committee reviewed and recommended grants of options and RSUs to employees and Directors.

Details of the remuneration of each Director of the Company for the year ended 31 December 2019 are set out in note 25 to the Consolidated Financial Statements contained in this Annual Report.

Details of remuneration of the members of the senior management by band for the year ended 31 December 2019 are set out in note 25 to the Consolidated Financial Statements contained in this Annual Report.

# Corporate Governance Report (Continued)

## Nomination Committee

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

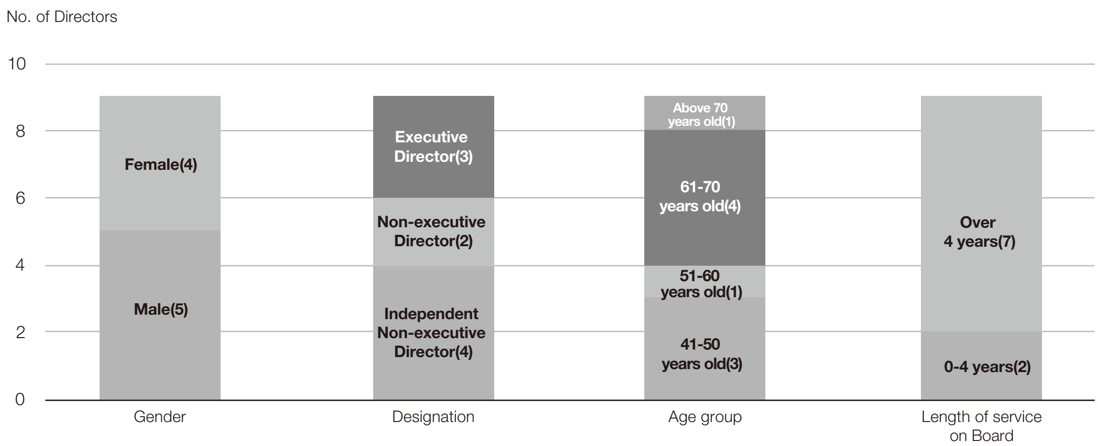
The nomination committee consists of three members: Mr. Richard Gelfond, a Non-executive Director; Ms. Yue-Sai Kan, an Independent Non-executive Director; and Mr. Peter Loehr, an Independent Non-executive Director. Mr. Richard Gelfond is the chair of the nomination committee.

In November 2018, the Company adopted a Director Nomination Policy and a Board Diversity Policy. The Director Nomination Policy ensures that the Board has a balance of skills, experience and diversity of perspectives and ensures Board continuity and appropriate leadership at the Board Level. The Board Diversity Policy sets out factors that will be taken into account in order to achieve a diversity of perspectives among members of the Board.

Pursuant to these policies, 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.

Upon receipt of a proposal on appointment of new directors, the Board and the nomination committee should evaluate such candidates based on the criteria as set out above to determine whether such candidates are qualified for directorship. The nomination committee and/or the Board should rank them by order of preference and the nomination committee should then make recommendation to the Board. Where appropriate, the nomination committee and/or the Board should make recommendation to shareholders in respect of the proposed election of director at a general meeting. For re-election of directors, the nomination committee and/or the Board should review the overall contribution and service to the Company of retiring director and the level of participation and performance by such director on the Board. The nomination committee and/or the Board should also review and determine whether retiring director continues to meet the criteria as set out above. The nomination committee and/or the Board should then make recommendation to shareholders in respect of the proposed re-election of director at a general meeting.

The nomination committee held one meeting during the Reporting Period and recommended to the Board the appointment of Mr. Peter Loehr as an independent non-executive director after assessment of the independence of Mr Peter Loehr by reference to the Listing Rules and reviewed the implementation of the Board Diversity Policy. It was satisfied that the composition of the Board remains sufficiently diverse considering factors including (but not limited to) gender, age, cultural and educational background and industry experience. An analysis of the Board's current composition is set out in the following chart:




The attendance record of this meeting is set out below:

| Name of committee member | Number of meetings held/attended during the Reporting Period | Attendance rate |
|---|---|---|
| Richard Gelfond | 1/1 | 100% |
| Yue-Sai Kan | 1/1 | 100% |
| Dawn Taubin[(1)] | 1/1 | 100% |
| Peter Loehr[(2)] | 0/0 | N/A |

Notes:
(1) Dawn Taubin ceased to be a member of the Nomination Committee with effect from 9 October 2019.
(2) Peter Loehr was appointed to be a member of the Nomination Committee with effect from 9 October 2019.

In accordance with Article 16.18 of the Company's Articles of Association, Mr. Jim Athanasopoulos, Ms. Yue-Sai Kan and Mr. Jiande Chen will retire from office by rotation at the forthcoming annual general meeting. All retiring Directors, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

# Corporate Governance Report (Continued)

In addition, in accordance with Article 16.2 of the Articles of Association, Mr. Peter Loehr, who was appointed by the Board as an addition to the Board on 9 October 2019, will hold office as a Director only until the forthcoming annual general meeting, and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

## FINANCIAL REPORTING

### Directors' Responsibility

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

This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern as at 31 December 2019. Accordingly, the Directors have prepared the Financial Statements for the year ended 31 December 2019 on a going concern basis. During the Reporting Period, the Directors assessed the Company's processes for financial reporting and determined them to be effective and adequate.

### Auditor's Responsibility

A statement by the external auditor of the Company, PricewaterhouseCoopers, is included in the Independent Auditor's Report on pages 135 to 140 of this Annual Report.

### Auditor's Remuneration

Fees for auditing and non-auditing services provided by our external auditor, PricewaterhouseCoopers, for the year ended 31 December 2019 are included in note 7 to the Consolidated Financial Statements. The major non-audit services provided by our external auditor for the year ended 31 December 2019 mainly include services in connection with tax advisory and the preparation of our ESG report.

## INTERNAL CONTROLS

The Company and the Group have set up an internal audit function since the Company's formation. The internal audit function was performed fully during 2019 following an annual audit plan and routine testing. The Company's audit committee reviewed the Company's internal audit function and the risk management and internal control systems in respect of the year ended 31 December 2019 and considered that they are effective and adequate. The Board conducted a review of the internal control system of the Company and its subsidiaries for the year ended 31 December 2019, including financial, operational and compliance control, and risk management functions. The Board assessed the effectiveness of internal control by considering the reviews performed by the audit committee. The Company complies with the code provisions relating to internal control contained in the CG Code.

## JOINT COMPANY SECRETARIES

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

During the Reporting Period, Tricor's primary contact person at the Company was Ms. Zi Maggie Chen. During the Reporting Period, both Ms. Chen and Ms. Chan Wai Ling took no less than 15 hours of relevant professional training to update their respective skills and knowledge.

## SHAREHOLDERS' RIGHTS

### Convening of Extraordinary General Meeting by Shareholders

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

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

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

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

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

## INVESTOR RELATIONS

### Shareholders' Enquiries and Proposals

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

# Corporate Governance Report (Continued)

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

### Shareholders' Communication Policy

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

### Changes in Articles of Association

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

### Shareholders' Meetings

An annual general meeting of the shareholders of the Company was held on 6 June 2019. Save as disclosed above, there was no other shareholders' meeting held during the Reporting Period.

## RISK MANAGEMENT

In January 2016, the Company established a risk management program to ensure that all material risks to which the Company is exposed are properly identified, assessed, managed, monitored and reported on a common set of guidelines and, where necessary, are escalated to senior management, the Audit Committee and the Board. The fundamental objective of this program is to support shareholder value growth while ensuring commitments to stakeholders are met, and the Company's reputation and capital are protected.

In connection with its Company's risk management program, in 2016, the Company adopted a risk management policy which sets out group-wide risk management policies and processes through a common risk management methodology.

### Risk Management Philosophy

Risk taking is a necessary and accepted part of the Company's business. Effectively managing risk is a competitive necessity and an integral part of creating shareholder value through good business practices designed to ensure that the Company achieves its strategic, business and governance objectives, and protects its corporate reputation, values and integrity.

Risk management applies to all aspects of the Company's business and forms a critical part of developing strategic plans, preparing operational plans and budgets, completing detailed project approval requests and designing and managing project plans.

The Company does not engage in speculative activity which is defined as a profit-seeking activity unrelated to the Company's primary business.

## Risk Management Responsibility

The Board acknowledges that it is responsible for the oversight of the Company's risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board, through the Audit Committee, is responsible for reviewing and assessing the major risks facing the Company and reviewing, approving and monitoring the Company's approach to addressing such risks annually.

Under its Terms of Reference, the Audit Committee is responsible for the oversight of the Company's risk management systems. The Audit Committee oversees the risk management process and reviews the effectiveness of the risk management and internal control systems by conducting the following procedures:

- Reviewing the Company's risk management program and policy.

- Reviewing with senior management at least annually reports demonstrating compliance with the risk management policy.

- Discussing with senior management at least annually the Company's major risk exposures and the steps senior management has taken or should take to assess and treat such exposures.

- Reviewing the ongoing effectiveness of the Company's risk management practices.

Senior management is responsible for administering the Company's risk management program and is accountable for ensuring that the Company's business operations are conducted in compliance with our risk management policy, taking into consideration changes in the environment and the Company's risk tolerance.

Responsibilities of the Company's senior management include:

- Designing and implementing a Company-wide risk management policy.

- Reviewing and updating the risk management policy on a timely basis, ensuring it remains relevant and adequate, taking into account changes in the environment, industry and the Company's operations and risk profile and, where necessary, recommending changes to the risk management policy for the Audit Committee to review.

- Ensuring that the Company's risk management program is aligned and integrated with the annual strategic and business planning process and vice versa.

- Designing and establishing a risk management methodology which provides the appropriate tools to identify, evaluate, and manage business exposures.

- Establishing a Company-wide risk reporting process to ensure that the Company's senior management, the Audit Committee and the Board of Directors are apprised of all material risk issues and business exposures.

- Ensuring necessary management controls and oversight processes are in place to monitor compliance with the risk management policy and the risk management methodology.

- Approving and monitoring key risk positions and exposure trends, risk management strategies and risk management priorities.

- Reviewing and discussing the Company's overall risk profile, key and emerging risks and risk management activities through periodic risk discussions among senior management.

- Reviewing the key business strategies and initiatives to assess their impact on the Company's overall risk position.

Senior management is accountable for the risks assumed within the Company's operations, including by bearing responsibility for ensuring business strategies align with corporate risk philosophy and culture, and for adhering to the requirements of the policies and processes established under the risk management policy and the risk management methodology.

### Risk Management Process

In addition to the Board's oversight responsibilities, the Company has developed a risk management process to identify, evaluate and manage significant risks and to resolve material internal control defects (if any). Senior management, through the Company's Internal Audit function, is responsible for the annual risk reporting process. Members of the Internal Audit function meet with various members of the senior management to review and assess risks and discuss solutions to address material internal control defects (if any), including any changes relevant to a given year. Risks are compiled, ratings are assigned and mitigation plans are documented. The risk assessment is reviewed by certain members of senior management and presented to the Audit Committee and the Board for their review.

Risks are evaluated by the Board and senior management based on (i) the severity of the impact of the risk on the Company's financial results; (ii) the probability that the risk will occur; and (iii) the velocity or speed at which a risk could occur.

Based on the risk evaluation, the Company will manage the risks as follows:

- ***Risk elimination*** — senior management may identify and implement certain changes or controls that in effect eliminate the risk entirely.

- ***Risk mitigation*** — senior management may implement a risk mitigation plan designed to reduce the likelihood, velocity or the severity of the risk to an acceptable level.

- ***Risk retention*** — senior management may decide that the risk rating is low enough that the risk is acceptable for the Company and that no action is required. The risk would continue to be monitored as part of the risk management program to ensure the level of risk does not increase to an unacceptable level.

Reporting, monitoring and evaluating are essential and integral parts of managing risk. Senior management has established an annual risk reporting process to gather risk issues affecting the Company. A risk template has been developed to assist in the identification, documentation, assessment and management of risk exposures.

At least annually, senior management submits a comprehensive risk management status report to the Audit Committee outlining the following items:

- Updates to the risk management policy (if any)
- Confirmation of compliance with the risk management policy
- Summary of risk assessments performed by the Company
- Emerging risk issues

The results of the annual Risk Assessment are considered in various areas of the business, including, but not limited to:

- The Company's reporting related to risk disclosures;
- Assessing adequacy of the Company's insurance coverage; and
- Assessing areas of higher risk as they relate to the Company's internal controls.

## Inside Information

During the Reporting Period, the Company's Chief Financial Officer and General Counsel assessed the likely impact of any unexpected and significant event that may impact the price of the Shares or their trading volume and decided whether the relevant information should be considered inside information and need to be disclosed as soon as reasonably practicable pursuant to Rules 13.09 and 13.10 of the Listing Rules and the Inside Information Provisions under Part XIVA of the SFO. Executive Directors and General Counsel also may have responsibility for approving certain announcements and/or circulars to be issued by the Company under powers delegated by the Board from time to time.

## 2019 Risk Management and Internal Control Process

During 2019, the Company has ensured that the risk management and internal control provisions under the Corporate Governance Code have been complied with. The Board, during its annual review on the risk management and internal control systems, has confirmed the adequacy of the resources and staff qualifications and experiences of the Company's accounting, internal audit and financial reporting functions.

# Corporate Governance Report (Continued)

During 2019, members of the Internal Audit function, on behalf of the Audit Committee and the Company, conducted one-on-one interviews with key executives to understand the Company's risks and mitigation strategies. The Internal Audit department documented the risks, together with their respective ratings, scoping considerations and mitigating factors in a risk assessment presentation. The risk assessment presentation was reviewed and commented on by the Company's Chief Financial Officer as well as by the Chair of the Audit Committee. After being revised to reflect those comments, the risk assessment presentation was distributed to the Audit Committee. The risk assessment presentation, together with the Company's risk management policy, were reviewed the Audit Committee at its year-end meeting, including a discussion of the risks facing the Company as well as the appropriate risk mitigation strategies. After completion of its review, the Audit Committee concluded that the Company had in place effective and adequate risk management and internal control systems.

## Significant Risks Facing the Company

The Company's 2019 risk management process identified the following as the most significant risks facing the Company:

***Poor Box Office Performance*** — As previously noted, many of the Company's revenue streams, specifically revenue sharing arrangements and DMR conversion services, are tied to box office results. Such results can be impacted by a number of factors, including the ability of our film slate to meet expectations. To mitigate this risk, the Company proactively manages its film slate, builds flexibility into its programming schedule, and keeps exploring the feasibility and practicality of programming targeted films to address specific consumer tastes in specific markets. In addition, in 2019, the Company collaborated with Maoyan Entertainment with an aim to be more direct to consumers, launched IMAX Plus to deliver tickets directly to IMAX fans, made more investments in various facets of marketing, launched commercial laser and rolled out IMAX cameras for shooting of local films. Box office results can also be impacted by macro events including the outbreak of a contagion which could cause closure of theatres and in turn cause negative impacts on our financial results. The Company is wary that box office will continue to be volatile and it will continue to make efforts to maintain or improve its box office performance.

***Currency Risk*** — The Company's revenues are mainly generated in Renminbi, with a small portion also generated in Hong Kong dollars. However, some significant expenses including the Company's most significant expenses — purchases of theatre system equipment from IMAX Corporation — are tied to the US dollar. Accordingly, unfavourable movement in the exchange rate of the Renminbi against other foreign currencies, particularly the US dollar, may lead to an increase in costs, which could adversely affect the Company's business, financial condition and results of operations. To mitigate this risk, the Company actively monitors its exposure to exchange rates and continues to review its options to further limit exposures to currency movements.

***Political and Regulatory Risk in the PRC*** — The vast majority of the Company's business is conducted in the PRC, which may be exposed to regional and international tensions and conflicts from time to time. In addition, laws, regulations and policies of the PRC are continuously evolving in response to changing economic and other conditions. The cinema and the film industries, in particular, are heavily regulated, with the Chinese government regulating who may operate cinemas in the PRC, the number of Hollywood films permitted to be released in the PRC and the percentage earned by Hollywood studios (and therefore the Company) from the release of their films in the PRC, and also which local films may be released. Adverse political events and also changing laws and policies can have significant impact on the Company's competitive position, resources, future cash flows and even its ability to engage in normal course of business. To mitigate the risks associated with highly regulated industries, Senior Management, particularly the Company's Chief Executive Officer, Vice Chairman, Chief Operating Officer and General Counsel, closely monitor, among others, changes in the industries and changing laws and regulations, including through regular discussion with business partners in the cinema and filmmaking industries and outside counsel, and researches into applicable law.

***Market Competition*** — Over the past few years, there has been a significant increase in the number of screens (including premium large screens) and cinemas with special presentations and this increase is expected to continue. Actions of competitors or new entrants to the market could impair the Company's competitive advantage, impair its ability to attract customers and reduce its market share and/or revenue. To mitigate impacts so caused, the Company reviews its business models and competitive edge regularly and keeps itself abreast of market and industry developments. The Company launched the IMAX with laser, the new generation of projector, in 2018 and continues to focus its programming, marketing and differentiation efforts on driving the performance of local language films. The Company also maintains close relationships with key customers through a number of channels so as to keep itself abreast of exhibitors' needs and demands.

***Downturn in the Chinese Economy*** — China's economic growth has been strong for decades. In 2019, although it had an approximately 6% increase, it was the slowest growth since 2009. The slowdown could be further accelerated as a result of the impact of the coronavirus outbreak in China in early 2020. A significant and extended downturn in the Chinese economy could impact ticket sales and also backlog theatres installations which historically have been dependent on new builds. These could in turn impact the Company's financial results. To mitigate this risk, the Company has been, and will continue, making efforts to ensure it is financially secure, evaluating the impacts the Chinese economy could have on its operations, and investigating alternatives as the need arises. The Company has been trying to work with financially stable customers, minimize capital outlay, and roll out new commercial laser systems at higher performing locations and utilize used Xenon systems in lower tiered locations.

## ESG Policies and Performance

Throughout 2019, IMAX China has complied with the “comply or explain” provisions set out in the ESG Reporting Guide. Information about the Company’s ESG policies and performance in 2019 is set out in the Environmental, Social and Governance Report on Page 117.

# 2019 Environmental, Social and Governance Report

## ABOUT THE REPORT

We are pleased to present the Group's 2019 Environmental, Social and Governance Report (hereinafter referred to as "ESG report") for the purposes of assisting all its stakeholders in understanding its concept and practices of sustainable development. This ESG report describes the Group's policies and activities in 2019 that were designed to fulfil the Group's obligations with respect to sustainable development and social responsibilities areas, as required by the "Environmental, Social and Governance Reporting Guide" ("ESG Guide") in Appendix 27 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

This ESG report includes IMAX China and all of its subsidiaries covering the period from January 1 to December 31, 2019. There are no significant changes in the scope of this ESG report from that of the 2018 ESG report published in March 2019. This ESG report is prepared in accordance with the reporting principles of ESG Guide that include:

- Materiality: The Group identifies key ESG issues through stakeholder engagement and materiality assessment;
- Quantitative: The ESG report discloses the key environmental and social performance indicators in quantitative terms;
- Balance: The ESG report provides an unbiased picture of the Group's performance on ESG management following the principle of balance;
- Consistency: Methodologies used in the ESG report are consistent with those used in the prior years in terms of data statistics and calculation to ensure the comparability of information.

This ESG report has complied with all the "comply or explain" provisions set out in the ESG Guide and has included explanations for provisions which are not applicable to the Group.

The Group has also prepared a full ESG report which can be viewed at http://www.imax.cn/responsibility.

## ESG POLICIES

As a leading entertainment technology group across the world, IMAX China is engaged in creating an immersive theatre viewing experience, so as to drive the breakthrough and development of film technologies. As we are well aware of the importance of improving our environmental and social benefits for the sustainable operation of the Group, the ESG related risks and opportunities have been incorporated in the business strategy of the Group to direct the Group's daily operation.

We have established an ESG management system. The Board of IMAX China supports the Group's commitment to fulfilling corporate social responsibility by annually reviewing the Group's ESG performance, identifying, evaluating and handling important ESG-related issues (if any), as well as supervising and approving the annual ESG Report. The Board takes full responsibility for the Group's ESG strategies and reporting.

The senior management is responsible for the evaluation and identification of ESG risks of the Group, ensuring that the Group sets up an appropriate and effective ESG risk management and internal control system, reporting ESG related risks and opportunities to the Board, as well as providing the confirmation on the effectiveness of the ESG system.

To fully implement ESG management, we have set up an ESG working group composed of major departments of the Group, with the responsibilities of implementing the ESG Management Policy approved by the senior management, conducting ESG management and reporting as well as briefing the work progress to the senior management.

## COMMUNICATION WITH STAKEHOLDERS

Adhering to the concept of sustainable development, IMAX China values communication with stakeholders, including governments and regulators, shareholders and investors, employees, partners, fans and consumers, suppliers, society and communities, and industry associations. The Group has established multiple effective communication channels to understand stakeholders' expectations and concerns in relation to the Group's ESG issues. These channels provide important references for formulating and implementing ESG strategies, and for determining the materiality of ESG issues.

| Stakeholders | Expectations and concerns | Communication channels | Communication frequency |
|---|---|---|---|
| **Governments and regulators** | Compliance with laws and regulations<br>Paying taxes | Compliance management<br>Voluntary taxation<br>Complying with national policies | Multiple times per year |
| **Shareholders and investors** | Return on investment<br>Corporate governance<br>Information disclosure | Announcements and circulars<br>Annual and interim financial reports<br>Shareholders' meetings<br>Roadshow<br>Investor meetings | Multiple times per year |
| **Employees** | Protection of employees' rights<br>Career development channel<br>Healthy and safe working environment | Employee satisfaction survey<br>Regular meetings and trainings<br>Employee care<br>Intranet website<br>Enterprise WeChat | Multiple times per month |
| **Partners** | High-quality products and services<br>Product innovation, research and development<br>Protection of customers' rights and interests | Face-to-face meetings<br>Site visit<br>Technical training<br>Marketing communications<br>Service hotline<br>Complaint mailbox | Multiple times per week |

| Stakeholders | Expectations and concerns | Communication channels | Communication frequency |
|---|---|---|---|
| **Fans and consumers** | High-quality content<br>Immersive movie-watching experience<br>Responsible content<br>Satisfaction of customers' diversified needs | Face to face interviews<br>Media activities<br>Customer satisfaction surveys<br>Consumer complaint mailbox<br>Interactive platforms such as WeChat and Weibo | Multiple times per week |
| **Suppliers** | Fair and impartial procurement<br>Win-win cooperation | Business visits<br>Regular meetings<br>Supplier questionnaire survey | Multiple times per month |
| **Society and communities** | Community engagement<br>Business compliance<br>Environmental awareness | Company's official website<br>Activities for public good<br>Social science and education publicity<br>Employees' participation in volunteer activities | Multiple times per year |
| **Industrial association** | Responsible content<br>Positive social influence | Face-to-face communication<br>Industry forum | Multiple times per year |

## MATERIALITY ASSESSMENT

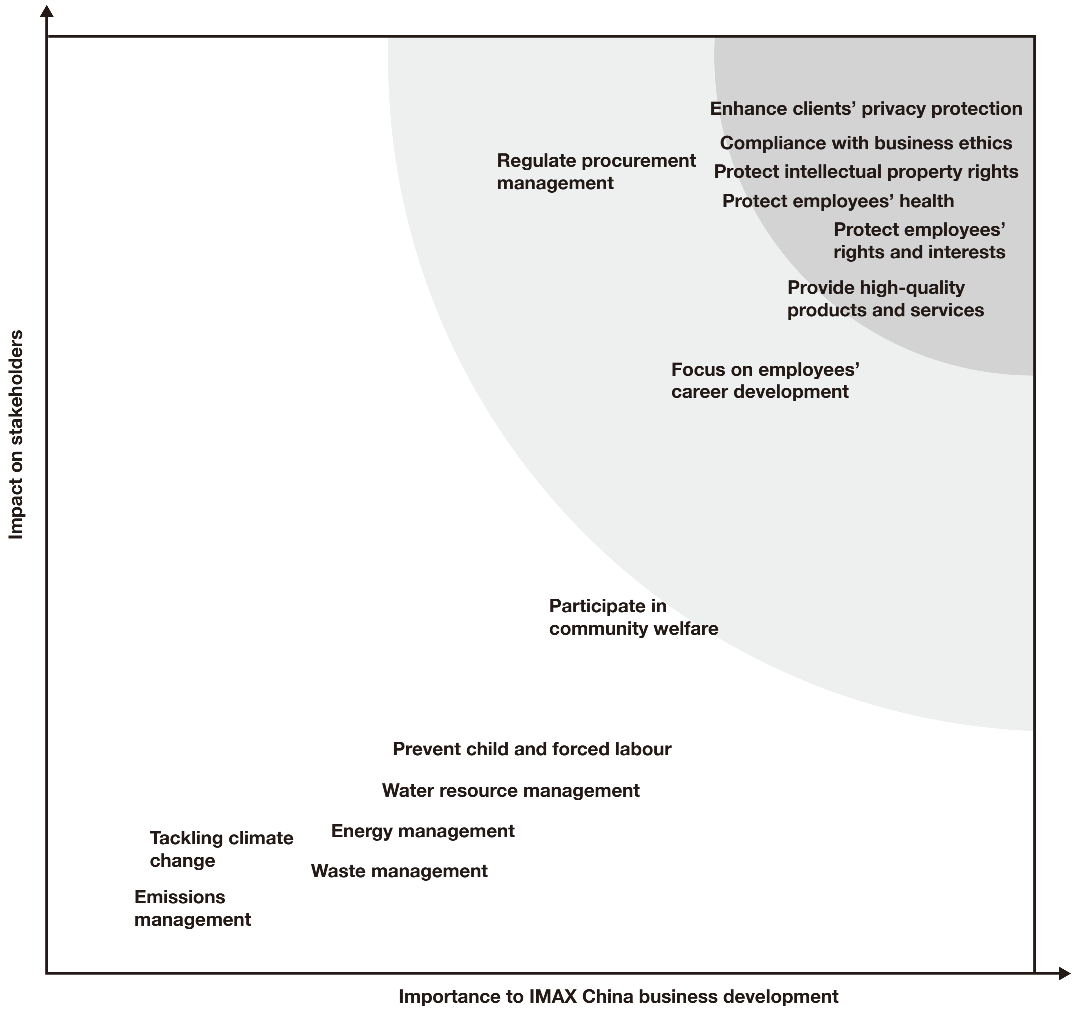
To further clarify the Group's ESG priorities and to enhance the relevance and responsiveness of this ESG report, in 2019, we cooperated with third-party consulting companies to conduct an assessment on the materiality through the following steps:

**Step 1:** Identifying ESG issues: According to the requirements of the ESG Guide and the actual business and industrial characteristics of the Group, we identified 15 ESG issues relevant to the Group and classified them as social, economic and environmental issues.

| Social issues | Economic issues | Environmental issues |
|---|---|---|
| • Protect employees' rights and interests<br>• Protect employees' health<br>• Focus on employees' career development<br>• Prevent child and forced labour<br>• Participate in community welfare | • Provide high-quality products and services<br>• Enhance clients' privacy protection<br>• Protect intellectual property rights<br>• Regulate procurement management<br>• Compliance with business ethics | • Energy management<br>• Water resource management<br>• Waste management<br>• Emissions management<br>• Tackling climate change |

**Step 2:** Assessing the materiality: We invited internal stakeholders to assess the "importance to IMAX China business development" and "impact on stakeholders" of each issue through questionnaires. Based on the results of the survey, we carried out a materiality assessment and generated a materiality assessment matrix;

**Step 3:** Verifying the assessment results: The senior management of the Group and the ESG working group are responsible for reviewing and confirming the materiality assessment matrix. Based on the materiality assessment matrix, we identified 6 issues that are extremely critical to the Group, including enhancing clients' privacy protection, abiding by business ethics, protecting intellectual property rights, protecting employee's health, protecting employees' rights and interests as well as providing high-quality products and services.




**Materiality Assessment Matrix**

## 1 PRODUCT RESPONSIBILITY

We strictly comply with the laws and regulations concerning health and safety, product quality, intellectual property, labelling, advertising, protection of consumers' rights and interests and privacy protection, including *Law of the People's Republic of China on the Protection of Consumer Rights and Interests*, *Advertising Law of the People's Republic of China and Trademark Law of the People's Republic of China*, etc. In addition, we strictly ensure the compliance of business operation and effectively fulfil relevant product responsibilities and legal obligations of the Group. In 2019, there were no confirmed non-compliance incidents in relation to product responsibility that would have a significant impact on the Group's operations.

### Responsible Content

In film selection, we attach great importance to how films impact society and the public in a positive way. *The Bravest*, as one of the Summer Movies in 2019, was released to pay tribute to fire-fighters, educating the public on fire protection and raising their fire safety awareness. We also released three patriotic movies namely *My People, My Country, The Captain* and *The Climbers* during the 2019 National Day of the People's Republic of China to salute PRC national heroes. In addition, we are committed to identifying and supporting young Chinese film-makers with high potential. By participating in the production of *Nezha: Birth of the Demon* and *The Wandering Earth*, we helped film talents specialising in photography and post-production to enter the international platform and acquire more opportunities, and also helped push Chinese films to a new era of international first-line industrial film creation and market.

### Immersive Viewing Experience

Positioning in providing the best viewing experience for audience, IMAX China brings the audience breathtaking audio-visual effects and immersive experiences. Our remastering process fully transforms every frame of a film to produce the best possible version of a filmmaker's vision. With perfectly tuned integrated sound system and precise speaker orientation, the audio overseen of each IMAX movie is carefully reviewed for the presentation of perfect soundtrack.

IMAX China puts a premium on communication with consumers and customers. Apart from interactive platforms such as WeChat and Weibo, we have created an email address cqo@IMAX.com, which would appear on the screen when a movie ends. Audiences can email IMAX China their feedback or opinions about viewing experience. Our business affairs and operations department records and assesses the received emails in accordance with the *IMAX Customer Complaint Tracking Workflow Policy* immediately to ensure that all complaints are answered and processed in a timely manner by the corresponding department.

We work with major platforms to provide a range of generous benefits to IMAX China's fans. For examples, IMAX China and Maoyan APP jointly established the IMAX PLUS WeChat platform in 2019, enabling the members to buy tickets more conveniently online, enjoy benefits and stay up to date on the latest movies and various movie-watching activities. IMAX China also joined hands with Zhihu and KFC to promote movie-watching activities. Fans from different cities also enjoy movie-watching benefits and acquire spin-off products through our monthly movie-watching activities.

## Excellent Theatre Services

We provide services including system installation, equipment maintenance and operation training to IMAX theatres. Our excellent services speak for our brand value and create win-win cooperation with clients.

- **System Installing:** IMAX China maintains various internal policies including the *IMAX Pre-installation Checking List* and *Client & Contractor Guide to Installing an IMAX Digital System* to ensure the efficient installation of the IMAX projection systems as well as to improve customer service. To maximize the efficiency of the installation process, we follow strict supplier selection procedures and technical specifications when purchasing equipment such as screens, screen frames, audio equipment and projection equipment.

- **Equipment Maintenance:** Regular maintenance is conducted at least once a year to ensure the best viewing experience. In addition, IMAX China offers its clients maintenance services via a 7 days × 24 hour phone service center as well as remote network guided by the *IMAX Technical Service Phone Support Manual*. IMAX China maintenance technicians are located in eight cities in the PRC so that for the equipment requiring on-site repair, IMAX China is able to send a technician located in more convenient proximity to the relevant theatre. Customers' calls for emergency services are answered within 3 hours by phone. If required, emergency personnel will arrive at the theatre within 24 or 48 hours as stipulated in the term of sale agreements. According to the *IMAX China's Customer Satisfaction Survey Workflow Policy*, customer feedback is collected via e-mail after every routine maintenance service is provided to continuously track customer satisfaction.

- **Operation Training:** IMAX China provides customers with training for theatre operation, including operation training and technical training. We communicate with theatre circuits on subjects such as box office performance and marketing plan, and carry out thematic training projects, including IMAX brand publicity and movie marketing. For our operators, we conduct training to senior technicians of theatres on projection system maintenance and emergency repair on a regular basis according to the *IMAX Operator Training Checklist* and various training courses, so as to promote equipment maintenance efficiency; for laser theatre systems, theatre operators need to take relevant safety knowledge and awareness trainings to deal with the unique safety issues around laser. We also established an online video training platform, which will be integrated with physical training to provide better services for all theatre customers.

  On 6 September 2019, IMAX China conducted training on marketing operation of theatre, elaborating on the key to our success in marketing for the partner studios, and also systematically reviewing our practise on equipment maintenance, daily operations and box office issuance profile, so as to help the studios to go into operation smoothly.

### Operation Compliance

IMAX China has been in compliance with the relevant laws and regulations concerning advertising, intellectual property right, and privacy protection.

- **Advertising:** IMAX China complies with the *Advertising Law of the People's Republic of China* and requires suppliers to do likewise.

- **Intellectual Property Right:** IMAX China encourages all employees and clients to engage in the protection of the IMAX brand. Employee and clients are encouraged to report any suspected infringement to the Group's legal department, which in turn reports any suspected infringement to IMAX Corporation. After confirmation of any infringement, a formal cease and desist letter is sent to the infringing party requesting that the infringement be discontinued.

  In addition, specified trademark provisions are included in cooperation agreements, requiring theatres to protect the IMAX trademark, specifying appropriate trademark usage and including obligations to report any suspected trademark infringement to IMAX China.

- **Privacy protection:** The appropriate handling of confidential information of the Group as well as its customers and suppliers is critical to the Group's business. IMAX China employees are obligated to retain in confidence any and all information obtained in connection with their employment, including but not limited to, trade secrets, know-how, client information, supplier information and other proprietary information. In 2019, we formulated the *Basic Guidelines for the Application of Social Media*, to regulate employees' behaviour on various social media. It prohibits employees from disclosing confidential information about the company, customers and others through social media without authorization. We will terminate labour contracts of employees who seriously violate the guidelines.

## 2 WORKPLACE

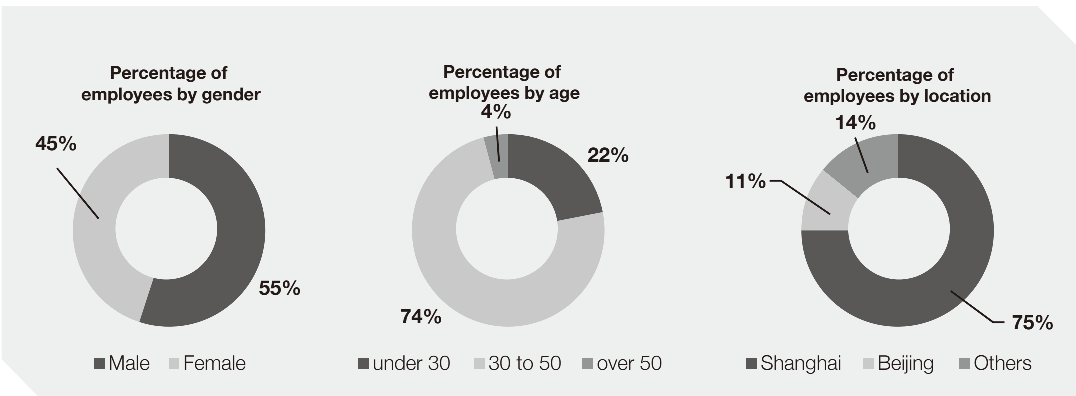
IMAX China strives to create a fair, comfortable and diverse workplace for its employees. We provide employees with competitive employee benefits and inclusive working environment to encourage employees to achieve their full potentials; we provide systematic programs for learning and training to build professional career development paths for our employees; we also enhance employees' sense of belonging and create friendly and harmonious working environment through employee activities and welfare care. In 2019, there were no confirmed non-compliance incidents in relation to employment, labour standards, working environment, workplace safety and human rights that would have a significant impact on the Group's operations.

## Employment and Labour Standards

In accordance with the *Labour Law of the People's Republic of China, Labour Contract Law of the People's Republic of China* and other relevant laws and regulations, the Group has adopted the *IMAX China Employee Handbook*, which contains information regarding compensation, resignation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other policies for the benefit of its employees. In accordance with the applicable labour laws and regulations and *IMAX China Employee Handbook*, IMAX China tolerates neither recruitment of minors nor forced labour. IMAX China's HR department affirms candidates' age by checking valid identification during interviews and hires a third party to conduct reference checks on all applicants. Individuals under 16 years of age are disqualified from employment at the Group.

IMAX China recruits and promotes personnel without regard to age, national origin, race, religion, sexual orientation, marital status, pregnancy, disability and political beliefs, thus putting the principle of fairness into practice. All employees of the Group in the PRC are entitled to an employment contract at the start of their employment. We advocate an equal and fair working environment and provide assistance and support for employees with special needs, including providing nursing rooms and corresponding care for employees with young children. IMAX China does not tolerate sexual harassment, attack or abuse in the workplace in any form, which is a violation of PRC law.

As of 31 December 2019, the Group has 108 employees, all full-time employees.




IMAX China has introduced the Employee Referral Program, where an employee can earn bonuses if an individual referred for employment is hired for select positions. We conduct satisfaction survey with employees from time to time and implement improvement plans for information communication, learning & development and management responsibilities based on the opinions of employees for the purpose of creating high quality working atmosphere for employees.

Wage and salary distribution conforms to the principle of equal pay for equal work. Wages and salaries are paid in a full and timely manner. The Group 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 Group aims to attract and retain talent, motivate performance and achievement and to reward superior performance. To achieve these goals, the Group has established an incentive system that links remuneration with the annual performance of the Group, taking into account the Group's performance, as well as the objectives of individual departments.

IMAX China also strictly follows relevant PRC labour regulations relating to working hours, rest and holidays to ensure the physical and mental health of all employees. The Group's employees work under a standard 40 hours per week. Employees are not forced to work overtime. Employees are entitled to overtime pay if they obtain prior approval from their manager.

IMAX China also maintains a *Holiday Policy* and *Travel Policy*, under which employees are entitled to paid days off from work for national public holidays and company holidays, as well as annual vacation leave, compassionate leave, marriage leave, maternity leave, personal leave, sick leave, etc.

### Health and Safety

IMAX China works hard to provide a safe, healthy and comfortable working environment in accordance with the *Labour Law of the People's Republic of China* and other applicable regulations.

- **Installation Safety:** Employees are asked to stringently abide by all safety rules and regulations, and utilize available and applicable protection measures at all times to avoid accidents and protect themselves and co-workers from safety risks. IMAX China has formulated *Client & Contractor Guide to Installing an IMAX Digital System* to ensure safe installation of its projection systems. IMAX China also provides protective equipment including helmets, safety belts, masks and protective clothing to all employees or consultants working on the installation of projection systems.

  In addition, we periodically provide safety training to the technicians covering potential safety hazards, prevention methods and safety specifications in laser related jobs, operation at height, and electrical operation.

- **Safety at workplace:** With the aim of protecting the health and safety of the employees, IMAX China provides first aid kits and over-the-counter medicine in the offices. IMAX China performs annual fire drills and has in-house fire wardens who maintain, inspect firefighting equipment and coordinate quarterly safety meetings. Fire safety packs have been prepared for each office which consist of helmets, flashlights, a loudspeaker, emergency escape masks, a whistle, a roster of employee names, etc. In 2019, we developed gas fire-extinguishing procedures and trainings specifically for the fire safety of IT computer rooms.

- **Health supporting:** IMAX China offers its employees health care coverage which includes inpatient treatment, outpatient treatment, and maternity care; the Group also provides insurance coverage including accident insurance, critical illness insurance, and group health insurance for children. In 2019, we have increased our insurance coverage and provided female employees with health insurance that covers childbirth and infant care. Moreover, we have expanded and upgraded health insurance to include more forms of medical care and types of medicines.

  We provide employees with annual fitness reimbursement to encourage the employees' involvement in workout programs to improve physical fitness. From July to August 2019, we held the first IMAX China table tennis competition with 8 teams consisting of 27 players from management and employees. This competition not only gives a chance to employees to relax physically and mentally after work, but also creates a more interesting and positive working atmosphere.

## Development and Training

To help employees advance their careers and to encourage their development, IMAX China provides human resource trainings, including customized training courses. Efforts have also been made to establish an appraisal system where the effectiveness of training programs is subject to monitoring and assessments, as set out in the *IMAX China Training Management Policy*. The Group has established both online as well as offline learning platforms and established a "Brainstorming Corner" in its headquarters in Shanghai, which is a comfortable and dedicated space for employees to avail themselves of training programs offered.

We established the IMAX training center and installed an IMAX digital projection system to facilitate technical trainings. Moreover, an experienced internal trainer was nominated to be responsible for orientations for new technicians, technician on-job trainings, trainings on evolving IMAX projection systems and service process optimization, as well as senior theatre exhibitor trainings.

- **On-Board Training for New Employees:** We arrange on-board training for all new employees to help them get an understanding of IMAX China's culture, business and operation. These trainings include an IMAX introduction, a review of relevant policies, guidelines, a review of HR-specific policies and procedures.

- **Pre-job Trainings:** For technical posts such as technical support and projection system installation, every newly-hired employee would accept pre-job training to enhance the professional skills necessary for the job. Training sessions are also accessible on both online and offline platforms to ensure technicians are able to stay up-to-date with the latest evolution of IMAX technology.

- **E-learning Platform:** To provide trainings which are more flexible and broader in scope, IMAX China launched a new program called *IMAX Learning Series*. The purpose of the program is to make available to employees training materials covering topics focused on developing key competencies and skills that can contribute to employee' performance and ongoing success. As a part of the program, IMAX China has made available online libraries including training content consisting of topics such as strategic thinking, career planning and employee management.

- **Lunch and Learn:** Lunch and Learn, as an interesting medium for knowledge management and internal communication, allows employees to learn and share knowledge over lunch break in an informal way. In 2019, we invited the Group's management and external lecturers to share various topics that attract employees to attend Lunch and Learn sessions, including career sharing, advanced PPT preparation, career shaping in VUCA times, perceiving happiness at Thanksgiving Day and modern technology development trends. In this way, we upskilled employees with advanced skills for career success in a free and relaxing atmosphere.

## Anti-corruption

IMAX China maintains a high standard of business integrity throughout its operations and tolerates no form of corruption or bribery in compliance with *the Anti-Unfair Competition Law of the People's Republic of China, the Company Law of the Peoples Republic of China* and other relevant laws and regulations relating to anti-corruption, bribery, extortion, fraudulent behavior and money laundering. As a majority-owned subsidiary of IMAX Corporation, all directors, officers and employees of IMAX China are required to abide by IMAX Corporation's *Code of Business Conduct and Ethics (the "**Code**")* and eliminate any form of corruption and bribery. In 2019, there were no confirmed non-compliance incidents in relation to anti-corruption and bribery, extortion, fraud or money laundering.

The Group adheres to a high standard of integrity management in operation. All employees are required to sign a statement acknowledging receipt of the Code and agreeing to abide by its terms. IMAX China has also adopted a formal policy for reporting violations of *the Code* in its *Protocol for Reporting Suspected Violations of the IMAX Code of Business Conduct and Ethics* and *Anti-Bribery and Anti-Corruption Policy China Addendum*. We set up multiple effective communication channels, and the employee may report a suspected violation of *the Code*.

All new employees are required to sign the employee commitment undertaking to comply with the *Employee Handbook* and its appendixes and with all other rules and regulations applicable to IMAX China employee, including business ethics & code of conduct and duty of confidentiality. Anti-corruption trainings materials are uploaded to the Group's online learning platform. Employees are required to sign a compliance statement after finishing the relevant courses.

For suppliers and customers, we incorporate compliance obligations pertaining to anti-corruption and anti-bribery contractually to request that all parties comply with relevant laws and regulations while performing contracts entered into with us.

## 3 SUPPLY CHAIN MANAGEMENT

As stipulated in the *IMAX China Supply Chain Management Policy*, IMAX China has set up a strict supply chain management system to ensure high quality service to the Group's clients.

IMAX Corporation, the Group's controlling shareholder, has implemented a strict selection process on its suppliers and sub-contractors taking into considerations such elements as supplier qualification, past performance, financial strength and price. IMAX China only works with qualified suppliers approved by IMAX Corporation and, for the duration of any arrangement with a supplier, IMAX China closely supervises supplier performance and provides feedback where necessary.

Committed to social responsibility in its supply chain, IMAX China conducts factory inspections and trainings and offers guidance on IMAX product quality standards.

For the local suppliers selected by IMAX China, the Group formulates strict requirements: For screen frame suppliers, they must be accredited by ISO9001 Quality Management System. Apart from that, IMAX China establishes stringent technical and service criteria to ensure product and service quality. We carry out load-bearing test on screen frame every year to ensure safety; for logistics providers, IMAX China requires appropriate vehicle and qualified drivers. IMAX China also requires the suppliers to adopt GPS system to monitor and manage all the logistics vehicles.

In order to lead suppliers to take the road of sustainable development, IMAX China pays active attention to the sustainability in supply chain management and urges suppliers to take measures to reduce their environmental and social risks. The Group performs an annual assessment on environmental and social risks of the supply chain. We prepared the *Supplier Environmental and Social Risk Assessment Form* with the supplier's self-review and IMAX China's evaluation adopted to assess the supplier on its management of environmental and social risks and provide a quantitative rating for its environmental and social risks, which would be referred to when selecting and evaluating supplier. The assessment scopes include environmental risks such as the establishment of environmental risk system, process management of procurement, raw materials and production, publicity and training on environmental risk awareness, as well as the social risks such as supplier's maintenance for labour rights and interests, its maintenance for labour health and safety.

As of 31 December 2019, all four local suppliers of IMAX China have completed the 2019 annual environmental and social risks assessments, and no material environmental and social risks were found for each of the suppliers.

## 4 COMMUNITY INVESTMENT

With social responsibility in mind, IMAX China is expanding its efforts in the area of charity work. We have formulated the *IMAX China Community Investment Management Policy*. An annual assessment is conducted to assess the relationship between our business and the interests of the surrounding communities, and we actively give back to society by launching and participating in various public welfare activities.

### Engaged in Public Welfare Activities

We devote ourselves to public welfare activities and fulfil our commitment to corporate social responsibility. With corporate social responsibility in mind, we improve the public welfare of our community and contribute to the society.

Together with Meituan, Maoyan and New Sunshine Charity Foundation, IMAX China held a public movie-watching event named "Heroes Assemble, Power Gathers" in May 2019, inviting hundreds of children with leukemia and their parents to watch the IMAX version of Avengers: Endgame and providing each child with relevant spin-off gifts. This interactive movie-watching event conveys our hope to bring happiness to children diagnosed with leukemia who have been hospitalised for a long time.

### Tribute to Social Workers

When IMAX versions of three patriotic movies namely *My People, My Country, The Captain* and *The Climbers* were released during the 2019 National Day of the People's Republic of China, 7 extraordinary people including Chinese mountain climber Qing Cai, Chinese kick boxer Kehan Wang and Beijing Olympic volunteer Rui Shang were filmed by IMAX China to tell stories of ordinary social workers who have made unconditional contributions to making great history. We collated their stories into a special collection of "Interviews with Extraordinary People" and published it on IMAX China's official Weibo and WeChat public account. At the same time, different media such as Douban Film and China Daily joined to promote this campaign and finally it was viewed by 1.5 million users. This event themed by "Honouring Extraordinary with Reality" allows more of us to become familiar with those "ordinary" but "extraordinary" people and pay tribute to them, thus remembering the extraordinary moments during the thousands of years of history, and finally promoting the positive energy of society.

### Focus on the Power of Women

During the Shanghai International Film Festival in 2019, IMAX China and the Shanghai International Film Festival organiser jointly held a "Women Dialogue: Persistent Dreams" event to commemorate film-maker Toni Meyers, while inspiring women in all fields to persist in their dreams and be brave in pursuit of their dreams. We invited more than 200 movie fans and media to watch one of Tony Meyers's classics *Hubble 3D (IMAX 3D version)*. Moreover, we also invited five outstanding women from different fields to discuss their persistent dreams, who shared their insights on women's pursuit of dreams and realisation of the value of life, as well as their valuable experience in discovering, persisting and ultimately achieving their dreams in their careers.

## 5 ENVIRONMENTAL PROTECTION

We strictly follow the *Environmental Protection Law of the People's Republic of China* and other applicable laws and regulations, as we understand the importance of environmental protection and resource conservation for the sustainable development of IMAX China. Considering the very limited energy consumption and emission caused from operation at workplace and travels of employees, the Group's business operation has little impact on the environment and natural resources. Nevertheless, we take multiple energy saving measures and promote green working style to maximize resource utilization and fulfil our responsibilities for environmental protection.

In 2019, there were no confirmed non-compliance incidents in relation to environmental protection that would have a significant impact on the Group's operations.

### Emission Reduction

We formulated *IMAX China Environmental Protection Management Policy* according to relevant laws and regulations to standardize the management of emissions generated during the Group's operation, so as to meet relevant emission standards. IMAX China conducts data collection and analysis on greenhouse gases that have substantial impact generated at workplace, and takes effective measures to reduce or avoid emissions. Based on the Group's evaluation, IMAX China does not generate significant air emissions or hazardous waste. Limited workplace effluents and wastes are attributed to the operation of IMAX China offices. All workplace effluents are managed by the property management companies and discharged into the municipal sewer systems for collective treatment in accordance with the *Integrated Wastewater Discharge Standard (GB 8978-1996)*. Workplace wastes of IMAX China offices are treated by the property management companies. There is no material impact on the environment and natural resources.

Due to the Group's business nature, the Group's main greenhouse gas emissions are the indirect emissions resulting from electricity consumed at the Group's workplace as well as from business travel by employees. The Group has adopted green office measures to reduce the impact on the environment, e.g., teleconference and internet-meeting practices are encouraged to avoid unnecessary travel. The Group's technical service center gives customers instant technical support via phone or remote access which increases efficiency and reduces the impact on the environment since less travel is required to service systems.

Theatre operators in cooperation with the Group are responsible for the operation and management of IMAX theatres, as well as for the management of environmental influences caused by such theatres. As part of our cooperation with theatre operators, we also actively encourage the theatre operators to take actions for energy saving and environmental protection.

## Use of Resources

In order to better manage the use of resources and improve resource utilization, we collect and analyse annual energy consumption data every year in accordance with *IMAX China Environmental Protection Management Policy* and solve the identified problems in time.

The Group has adopted green office measures to reduce resource consumption:

- For workplace with fewer employees and higher personnel mobility, we adopt the emerging shared office model to maximize resource utilization;

- Employees are encouraged to adopt water and electricity-saving habits; A table card is placed on each employee's desk to remind them to turn off the lights and power when not in use; and the lights shall be kept off for one hour during the lunch break;

- By default, all office printers are set to print double-sided to reduce paper use, and to print in black-and-white to conserve printing inks. Recycled papers are placed beside the printers to encourage employee to use.

- We organise public education activities about waste classification, encouraging employees to use their own tableware and cups, thus reducing the use of disposable utensils;

In the process of goods transportation, we use electronic customs declaration documents, and make full use of appropriate transportation space. Marine instead of air transportation is preferred when time permits in order to reduce carbon emissions and waste of resources during transportation; we also actively encourage logistics companies to reuse shipping packing materials including pallets, paper packing boxes and special aluminium parts packing cases.

With the goal of ensuring service quality in mind, we adopt multiple ways to improve energy efficiency while providing customer services. Services requiring no on-site overhaul are provided by the technology service center via telephone or remote control. Besides, IMAX China establishes after-sales service sites in Shanghai, Hangzhou, Beijing, Chengdu, Chongqing, Guangzhou, Shenyang and Wuhan. Where on-site services are required, on-site service engineers nearby would be appointed, so that unnecessary travels of employee could be avoided.

Overall, the total emission of greenhouse gases has increased by 17.43% from 444.49 $tCO_2e$ in 2018 to 521.96 $tCO_2e$ in 2019. The energy indirect greenhouse gas emission (Scope 2) increased by 6.26% and the indirect greenhouse gas emission (Scope 3) from air travels of employees increased by 21.59% from 2018 to 2019. The Group's total emission of greenhouse gases per capita has slightly increased by 2.11% from 4.73 $tCO_2e$/employee in 2018 to 4.83 $tCO_2e$/employee in 2019. The total energy consumption has increased slightly from 2018 to 2019 with the total energy consumption per capita has reduced by 7.14% from 1.82 MWh/employee to 1.69 MWh/employee.

**Environmental key performance indicators:**

| | 2019 | 2018 | % |
|---|---|---|---|
| Total emission of greenhouse gases (Scope 2 and Scope 3) (in $tCO_2e$) | **521.96** | 444.49 | 17.43 |
| Energy indirect greenhouse gas emission (Scope 2) (in $tCO_2e$) | **128.15** | 120.60 | 6.26 |
| Including: purchased electricity in $tCO_2e$) | **128.15** | 120.60 | 6.26 |
| Other indirect greenhouse gas emissions (Scope 3) (int$CO_2e$) | **393.81** | 323.89 | 21.59 |
| Including: air travels of employee (in $tCO_2e$) | **393.81** | 323.89 | 21.59 |
| Total emission of greenhouse gases per capita ($tCO_2e$/employee) | **4.83** | 4.73 | 2.11 |
| Total energy consumption (MWh) | **182.16** | 171.43 | 6.26 |
| Total indirect energy consumption (MWh) | **182.16** | 171.43 | 6.26 |
| Including: purchased electric power (MWh) | **182.16** | 171.43 | 6.26 |
| Total energy consumption per capita (MWh/employee) | **1.69** | 1.82 | -7.14 |

Notes:

1. Based on the operating characteristics, our greenhouse gas emissions mainly comprise the energy indirect greenhouse gas emission caused by purchased electricity (Scope 2) and other indirect greenhouse gas emissions caused by air travels of employee (Scope 3). We do not produce any material amount of direct greenhouse gas emission (Scope 1).

2. The accounting of greenhouse gas is presented in terms of carbon dioxide equivalent, and energy indirect greenhouse gas emission is accounted in accordance with the *Guidelines on Accounting Methods and Reporting of Greenhouse Gas Emissions of Public Building Operators* issued by the National Development and Reform Commission. Air travel greenhouse gas emission data are provided by the ticket agency.

3. The reported scope of environmental data is adjusted as follows compared with 2018: two offices in Shanghai are merged into one and a new training center is added.

4. As minimum environmental impact results from the Group's operation, KPIs A1.1 (types of direct emissions and emissions data), A1.4 (total non-hazardous waste produced) and A1.6 (description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved) are immaterial to the Group's operation and have not been disclosed in this ESG report. The Group will continue to monitor the environmental impact of its operations and will include the relevant environmental data in future reports when appropriate.

5. As there is no hazardous waste produced from the Group's operation, KPI A1.3 (total hazardous waste produced) is not applicable to the Group and has not been disclosed in this ESG report.

6. As only a minimum amount of water was used in the office, KPIs A2.2 (water consumption in total and intensity) and A2.4 (description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved) are immaterial to the Group's operation and have not been disclosed in this ESG report.

7. As no packaging material was used in the Group's operation, KPI A2.5 (total packaging material used for finished products) is not applicable to the Group and has not been disclosed in this ESG report.

8. As the Group's operation is immaterial to the environment and natural resources, Aspect A3 (The Environment and Natural Resources) and KPI A3.1 (Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them) are not applicable to the Group and have not been disclosed in this ESG report.

# Independent Auditor's Report

**To the Shareholders of IMAX China Holding, Inc.**
*(incorporated in the Cayman Islands with limited liability)*

## OPINION

### What we have audited

The consolidated financial statements of IMAX China Holding, Inc. (the "Company") and its subsidiaries (the "Group") set out on pages 141 to 220, which comprise:

- the consolidated statement of comprehensive income for the year ended 31 December 2019;
- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of changes in equity for the year ended 31 December 2019;
- the consolidated statement of cash flows for the year ended 31 December 2019; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

### Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

### Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

# Independent Auditor's Report (Continued)

Key audit matter identified in our audit is related to revenue recognition of theatre systems and associated services.

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| **Revenue recognition of theatre systems and associated services**<br>*Refer to note 2(o) and 5(c) of the consolidated financial statements for the Directors' disclosures of the related accounting policies, estimates and judgements and note 6 of the consolidated financial statements for further information.*<br><br>For the year ended 31 December 2019, the Group recognised revenue of US$124,294 thousand, the majority of which, amounting to US$94,883 thousand, is related to the Group's revenue arrangements with customers of theatre systems and services associated with theatre systems.<br><br>The accounting of such arrangements is complex and involves management's judgements and estimates in consideration of the following:<br><br>• consideration of whether theatre system arrangement involves either a lease (finance lease or operating lease) or a sale of theatre systems;<br><br>• determination of performance obligations which comprise of separate promises consisting of delivering theatre system (projector, sound system, screen system and glasses cleaning machine); providing services associated with the theatre system (including theatre design support, supervision of installation, and projectionist training); licensing trademark of IMAX; delivering 3D glasses; providing equipment maintenance and licensing of films;<br><br>• determination of transaction prices in the theatre system arrangement, which consists of initial payment and ongoing fixed payments throughout a period of time as specified in the arrangement (recognised at present value discounting based on a market rate of interest) as well as variable consideration including future CPI and contingent payments in excess of fixed minimum ongoing payments or based on joint revenue sharing arrangements; | We tested the design and operating effectiveness of key controls (including IT controls) in connection with the recognition of theatre systems related revenue. We determined that we could rely on these controls for the purposes of our audit.<br><br>We evaluated the Group's revenue recognition policies against with the requirements of the International Financial Reporting Standards for the different arrangements entered into with the customers consisting of theatre systems and services associated with the theatre systems.<br><br>For theatre systems arrangements entered into with customers during the year, we reviewed the revenue accounting assessment performed by management to evaluate whether the application of the Group's revenue recognition policies were appropriately applied with respect to:<br><br>— consideration of theatre system arrangement as sale, finance lease or operating lease;<br><br>— determination of performance obligations, which generally include the systems deliverable and maintenance service;<br><br>— determination of transaction price in the theatre system arrangement, including initial payment, ongoing fixed payments and variable consideration;<br><br>— allocation of transaction price among separate performance obligations;<br><br>— determination of the timing of revenue recognition based on when performance obligations are met. |

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| • allocation of transaction prices among separate performance obligations based on the relative standalone selling prices;<br><br>• determination of the timing of the revenue recognition of each performance obligation. | For selected theatre systems newly installed and related revenue being recognised during the year, we checked the key arrangement terms, such as types of theatre system and services obligations, amounts of initial and ongoing payments as well as variable consideration, and other relevant terms in connection with the arrangements, to the signed arrangements.<br><br>For delivery of theatre systems accepted by customers and accounted for as sales or finance leases during the year, we examined the certificates of acceptance by the customers. We evaluated the reasonableness of management's estimates of variable consideration for sales of theatre systems, including future CPI and contingent payments in excess of fixed minimum ongoing payments. We checked the accuracy of calculation for the total amount of revenue with respect to the arrangements based on the initial payment received and the present value of fixed minimum ongoing payments over the specified arrangement period as well as variable consideration. We also involved our valuation specialists to assess the reasonableness of the market rate of interest applied by management for discounting the ongoing payments or minimum lease payments. We evaluated the reasonableness of management's determination of the standalone selling prices of system deliverable and maintenance services by referencing the average prices of contracts signed in the prior year. We checked the accuracy of calculation for the allocation of total transaction price among separate obligations (systems deliverable and maintenance services) and checked the proper recognition or deferral of revenue in connection with the respective obligation accordingly.<br><br>For theatre systems delivered and accepted by the customers but where the respective theatre was not open to the public by the year end, we visited all these theatres to confirm that the Group's responsibilities for each system obligation have been fulfilled and revenue was recognised in the proper period. |

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| | For joint revenue sharing arrangements with rental payments contingent on box-office record reported by the theatre operators, we examined selected box-office revenues reported by the theatre operators and checked the accuracy of calculation for the revenue recognised based on the box-office revenues and the sharing percentage as set out in the respective revenue arrangements.<br><br>In addition, we tested the posting of revenue recognition journal entries related to system obligation on a sample basis for consistency with the results of our above work performed.<br><br>We found no material exceptions in the procedures performed above. |

## OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

# Independent Auditor's Report (Continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Jack Li.

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 19 February 2020

# Consolidated Financial Statements

## Consolidated Statement of Comprehensive Income

(In thousands of U.S. dollars)

| | Notes | Years Ended 31 December 2019 | 2018 |
|---|---|---|---|
| Revenues | 6 | 124,294 | 117,520 |
| Cost of sales | 7 | (47,647) | (42,269) |
| **Gross profit** | 6 | 76,647 | 75,251 |
| Selling, general and administrative expenses | 7 | (16,465) | (16,105) |
| Restructuring expenses and associated impairments | 7, 8 | — | (112) |
| Other operating expenses | 7 | (7,017) | (6,702) |
| **Operating profit** | | 53,165 | 52,332 |
| Interest income | | 1,771 | 1,622 |
| Interest expense | | (93) | — |
| **Profit before income tax** | | 54,843 | 53,954 |
| Income tax expense | 9 | (11,950) | (11,189) |
| **Profit for the year, attributable to owners of the Company** | | 42,893 | 42,765 |
| Other comprehensive loss: | | | |
| **Items that may be subsequently reclassified to profit or loss:** | | | |
| Change in foreign currency translation adjustments | | (2,898) | (8,273) |
| **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") | 24 | (3,400) | (2,018) |
| Other comprehensive loss: | | (6,298) | (10,291) |
| **Total comprehensive income for the year, attributable to owners of the Company** | | 36,595 | 32,474 |
| **Profit per share attributable to owners of the Company — basic and diluted (expressed in U.S. dollars per share):** | | | |
| From profit for the year — basic | 10 | 0.12 | 0.12 |
| From profit for the year — diluted | 10 | 0.12 | 0.12 |

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

## Consolidated Statement of Financial Position

(In thousands of U.S. dollars)

| | Notes | As at 31 December 2019 | 2018 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 11 | 105,348 | 98,471 |
| Other assets | 12 | 14,934 | 3,271 |
| Deferred income tax asset | 13 | 3,143 | 2,928 |
| Variable consideration receivable from contracts | | 3,299 | 3,488 |
| Financing receivables | 14 | 48,056 | 42,000 |
| Interests in a joint venture | 15 | — | — |
| | | 174,780 | 150,158 |
| **Current assets** | | | |
| Other assets | 12 | 2,472 | 2,405 |
| Film assets | 16 | 116 | 221 |
| Inventories | 17 | 5,237 | 3,434 |
| Prepayments | | 1,815 | 3,399 |
| Variable consideration receivable from contracts | | 374 | — |
| Financing receivables | 14 | 10,938 | 8,785 |
| Trade and other receivables | 18 | 43,227 | 40,717 |
| Cash and cash equivalents | 19 | 89,308 | 120,224 |
| | | 153,487 | 179,185 |
| **Total assets** | | 328,267 | 329,343 |

| | Notes | As at 31 December 2019 | 2018 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Accruals and other liabilities | 22 | 829 | — |
| Deferred revenue | 20 | 24,920 | 23,646 |
| | | 25,749 | 23,646 |
| **Current liabilities** | | | |
| Trade and other payables | 21 | 15,170 | 18,395 |
| Accruals and other liabilities | 22 | 11,394 | 8,838 |
| Income tax liabilities | | 4,045 | 6,334 |
| Deferred revenue | 20 | 12,878 | 18,453 |
| | | 43,487 | 52,020 |
| **Total liabilities** | | 69,236 | 75,666 |
| **EQUITY** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | 23 | 35 | 36 |
| Share premium and reserves | 23 | 270,327 | 307,865 |
| Accumulated deficit | | (11,331) | (54,224) |
| **Total equity** | | 259,031 | 253,677 |
| **Total equity and liabilities** | | 328,267 | 329,343 |

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

The financial statements on pages 141 to 220 were approved by the board of directors on 19 February 2020 and were signed on its behalf.

**Jiande Chen**
Director

**Jim Athanasopoulos**
Director

# Consolidated Financial Statements (Continued)

## Consolidated 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 31 December 2017 as originally presented** | 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 year | – | – | – | – | – | 42,765 | – | 42,765 |
| Change in fair value of financial assets at FVOCI (note 24(c)) | – | – | – | – | (2,018) | – | – | (2,018) |
| Foreign currency translation | – | – | – | – | – | – | (8,273) | (8,273) |
| **Total comprehensive loss** | – | – | – | – | (2,018) | 42,765 | (8,273) | 32,474 |
| Dividends recognised as distribution (note 31) | – | (21,530) | – | – | – | – | – | (21,530) |
| Exercise of stock options during the year | – | 1,064 | – | (264) | – | – | – | 800 |
| Restricted share units vested and settled | – | 371 | 520 | (891) | – | – | – | – |
| Acquisition of shares for settlement of restricted share units | – | – | (617) | – | – | – | – | (617) |
| China long-term incentive plan | – | – | – | 1,799 | – | – | – | 1,799 |
| Shares buy-back | – | – | (6,055) | – | – | – | – | (6,055) |
| Shares buy-back transaction costs | – | – | (29) | – | – | – | – | (29) |
| Shares cancelled | – | (1,956) | 1,956 | – | – | – | – | – |
| **Total transactions with owners, recognised directly in equity** | – | (22,051) | (4,225) | 644 | – | – | – | (25,632) |
| **Balance as at 31 December 2018** | 36 | 353,245 | (4,358) | (29,177) | (2,018) | (54,224) | (9,827) | 253,677 |

# Consolidated Financial Statements (Continued)

| | 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 year | – | – | – | – | – | 42,893 | – | 42,893 |
| Change in fair value of financial assets at FVOCI (note 24(c)) | – | – | – | – | (3,400) | – | – | (3,400) |
| Foreign currency translation | – | – | – | – | – | – | (2,898) | (2,898) |
| **Total comprehensive income** | – | – | – | – | (3,400) | 42,893 | (2,898) | 36,595 |
| Dividends recognised as distribution (note 31) | – | (14,115) | – | – | – | – | – | (14,115) |
| Exercise of stock options during the year | – | 867 | – | (216) | – | – | – | 651 |
| Restricted share units vested and settled | – | 571 | 696 | (1,267) | – | – | – | – |
| Acquisition of shares for settlement of restricted share units | – | – | (760) | – | – | – | – | (760) |
| China long-term incentive plan | – | – | – | 2,145 | – | – | – | 2,145 |
| Shares buy-back | – | – | (19,067) | – | – | – | – | (19,067) |
| Shares buy-back transaction costs | – | – | (95) | – | – | – | – | (95) |
| Shares cancelled | (1) | (23,289) | 23,290 | – | – | – | – | – |
| **Total transactions with owners, recognised directly in equity** | (1) | (35,966) | 4,064 | 662 | – | – | – | (31,241) |
| **Balance as at 31 December 2019** | 35 | 317,279 | (294) | (28,515) | (5,418) | (11,331) | (12,725) | 259,031 |

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

## Consolidated Statement of Cash Flows

(In thousands of U.S. dollars)

| | Notes | Years Ended 31 December 2019 | 2018 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash provided by operations | 26 | 55,595 | 68,219 |
| Income taxes paid | | (16,200) | (11,863) |
| Interest paid | | (93) | — |
| **Net cash provided by operating activities** | | 39,302 | 56,356 |
| **Cash flows from investing activities** | | | |
| Investment in equipment under joint revenue sharing arrangements | | (19,148) | (24,078) |
| Investment in an equity security | | (15,153) | — |
| Purchase of property, plant and equipment | | (183) | (174) |
| Investment in a virtual reality fund | | — | (873) |
| Loan to a joint venture | | — | (293) |
| Proceeds from dissolvement of a virtual reality fund | | 78 | — |
| Repayment of loan by a joint venture | | — | 2,645 |
| **Net cash used in investing activities** | | (34,406) | (22,773) |
| **Cash flows from financing activities** | | | |
| Dividends paid to owners of the Company | | (14,115) | (21,527) |
| Payment for shares buy-back | | (19,162) | (6,084) |
| Principal elements of lease payments | | (1,167) | — |
| Settlement of share-based payments | | (760) | (617) |
| Proceeds from issuance of common shares upon exercise of stock options | | 651 | 800 |
| **Net cash used in financing activities** | | (34,553) | (27,428) |
| Effects of exchange rate changes on cash | | (1,259) | (2,609) |
| **(Decrease) Increase in cash and cash equivalents during year** | | (30,916) | 3,546 |
| **Cash and cash equivalents, beginning of year** | | 120,224 | 116,678 |
| **Cash and cash equivalents, end of year** | | 89,308 | 120,224 |

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

### 1. General information

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

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

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

### 2. Summary of significant accounting policies

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

***(a) Basis of preparation***

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

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

2. Summary of significant accounting policies (Continued)

**(b) Subsidiaries**

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

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

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

***(c) Use of estimates***

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

***(d) Foreign currency***

*(i) Functional and presentation currency*

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

*(ii) Transactions and balances*

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

2. Summary of significant accounting policies (Continued)

***(d) Foreign currency (Continued)***

*(iii) Group companies*

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

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

***(e) Financial assets***

*(i) Classification*

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

*(ii) Recognition and derecognition*

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

*(iii) Measurement*

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the consolidated statement of comprehensive income.

2. Summary of significant accounting policies (Continued)

***(e) Financial assets (Continued)***

*(iii) Measurement (Continued)*

Equity investments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to the consolidated statement of comprehensive income. Dividends from such investments continue to be recognised in the consolidated statement of comprehensive income as other income when the Group's right to receive payments is established. Changes in the fair value of financial assets at fair value through profit or loss are recognised in 'other income and gains – net' in the consolidated statement of comprehensive income as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at financial assets at fair value through other comprehensive income are not reported separately from other changes in fair value.

*(iv) Impairment of financial assets*

The Group assesses on a forward looking basis the expected credit losses ("ECL") associated with its assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 4(a) details how the Group determines whether there has been a significant increase in credit risk.

For trade receivables, financing receivables and variable consideration receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

## 2. Summary of significant accounting policies (Continued)

### *(f) Cash and cash equivalents*

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

### *(g) Trade and other receivables*

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting year. See note 4(a) for a description of the Group's impairment policies.

### *(h) Inventories*

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

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

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

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

### *(i) Film assets*

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

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

2. Summary of significant accounting policies (Continued)

***(j) Other assets***

Other assets include commissions and other deferred selling costs that are direct and incremental to the acquisition of sales contracts, variable consideration receivable and equity investments.

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

The Group has several equity investments, which are classified as financial assets at FVOCI. Refer to note 12 for details.

***(k) Property, plant and equipment***

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

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

(1) Includes equipment under joint revenue sharing arrangements.

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

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

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

For right-of-use assets, refer to 2(s) for details.

2. Summary of significant accounting policies (Continued)

***(l) Trade and other payables***

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

***(m) Deferred revenue***

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

***(n) Provisions, contingent liabilities and contingent assets***

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

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

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

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

2. Summary of significant accounting policies (Continued)

***(o) Revenue recognition***

*(i) Theatre system arrangements*

Contracts with Multiple Performance Obligations

The Group's revenue arrangements with certain customers may involve performance obligations consisting of the delivery of a theatre system (projector, sound system, screen system and glasses cleaning machine); services associated with the theatre system (including theatre design support, supervision of installation, and projectionist training); trademark licensing of IMAX; 3D glasses; equipment maintenance and licensing of films. The Group evaluates all of the performance obligations in an arrangement to determine which are considered distinct, either individually or in a group, for accounting purposes and which of the deliverables represent separate units of accounting based on the applicable accounting guidance in IFRS 15 "Revenue from Contracts with Customers" ("IFRS 15") and IFRS 16 "Lease" ("IFRS 16"). If separate units of accounting are either required under the relevant accounting standards or determined to be applicable under the IFRS 15, the total consideration received or receivable in the arrangement is allocated based on the applicable guidance in the above noted standards.

Theatre system

The Group has identified the projection system, sound system, screen system and 3D glasses cleaning machine, theatre design support, supervision of installation, projectionist training and the use of the IMAX brand to be, as a group, a distinct performance obligation, and a single unit of accounting (the "System Obligation"). When an arrangement does not include all the performance obligations of a System Obligation, the performance obligations of the System Obligation included in the arrangement are considered by the Group to be a grouped distinct performance obligation and a single unit of accounting. The Group is not responsible for the physical installation of the equipment in the customer's facility; however, the Group supervises the installation by the customer. The customer has the right to use the IMAX brand from the date the Group and the customer enter into an arrangement.

The Group's System Obligation arrangements involve either a lease or a sale of the theatre system. Consideration for the System Obligation, other than for those delivered pursuant to operating lease under joint revenue sharing arrangements, consist of upfront or initial payments made before and after the final installation of the theatre system equipment and ongoing payments throughout the term of the lease or over a period of time, as specified in the arrangement. The ongoing payments under certain arrangements are the greater of an annual fixed minimum amount or a certain percentage of the theatre box office. Amounts received in excess of the annual fixed minimum amounts are considered contingent payments. Under certain arrangements, the ongoing payments are fully contingent with no annual fixed minimum amount. The Group's arrangements are non-cancellable, unless the Group fails to perform its obligations. In the absence of a material default by the Group, there is no right to any remedy for the customer under the Group's arrangements. If a material default by the Group exists, the customer has the right to terminate the arrangement and seek a refund only if the customer provides notice to the Group of a material default and only if the Group does not cure the default within a specified period.

2. Summary of significant accounting policies (Continued)

***(o) Revenue recognition (Continued)***

*(i) Theatre system arrangements (Continued)*

Theatre system (Continued)

The transaction price of theatre system is allocated among separate performance obligations including the System Obligation and maintenance service based on the relative standalone selling prices, which is determined by the price when the Group sells the deliverable separately and is the price actually charged by the Company for that deliverable.

Sales arrangements

For arrangements qualifying as sales, the revenue allocated to the System Obligation is recognised in accordance with IFRS 15, when all of the following conditions signifying transfer of control have been met: (i) the projector, sound system and screen system have been installed and are in full working condition, (ii) the 3D glasses cleaning machine, if applicable, has been delivered, (iii) projectionist training has been completed and (iv) the earlier of (a) receipt of written customer acceptance certifying the completion of installation and run-in testing of the equipment and the completion of projectionist training or (b) public opening of the theatre, provided there is persuasive evidence of an arrangement, the price is fixed or determinable and collectability is reasonably assured.

The initial revenue recognised consists of the initial payments received and the present value of fixed minimum ongoing payments and an estimate of future variable consideration that have been attributed to this unit of accounting. Future variable consideration includes indexed minimum payment adjustments (future CPI) over the term of the arrangement as well as provision for additional payments in excess of the minimum agreed payments in situations where the theatre exceeds certain box office thresholds. The estimate of future variable consideration is recorded correspondingly in variable consideration receivable from contracts in the statement of financial position.

The difference between the gross receivable and totals of their present value is recorded as unrealised finance incomes at the beginning of contract term. Minimum payments receipts and unrealised finance income are presented on net basis in financing receivables.

Lease arrangements

Effective from 1 January 2019, the Group uses IFRS 16 to evaluate whether an arrangement is a lease within the scope of the accounting standard. Transactions accounted for under IFRS 16 are not within the scope of IFRS 15. The accounting treatment of its lease arrangements for IMAX theatre systems has not changed compared with IAS 17.

For lease arrangements, the Group determines the classification of the lease in accordance with IFRS 16. A lease arrangement that transfers substantially all of the risks and rewards incidental to ownership of the equipment is classified as a finance leases based on the criteria established by the accounting standard; otherwise the lease is classified as an operating lease.

2. Summary of significant accounting policies (Continued)

***(o) Revenue recognition (Continued)***

*(i) Theatre system arrangements (Continued)*

Lease arrangements (Continued)

For operating leases, the lease term is considered to commence when all of the following conditions have been met: (i) the projector, sound system and screen system have been installed and in full working condition; (ii) the 3D glasses cleaning machine, if applicable, has been delivered; (iii) projectionist training has been completed; and (iv) the earlier of (a) receipt of written customer acceptance certifying the completion of installation and run-in testing of the equipment and the completion of projectionist training or (b) public opening of the theatre.

Operating leases include joint revenue sharing arrangements with rental payments that are fully contingent on the box office results reported by the theatre operators. Revenue is calculated as a percentage of box office reported by the theatre operator and is recognised when the amounts are deemed probable and the amounts can be measured reliably.

As lessor, the Group classifies a lease as a finance leases based on the criteria set out in paragraph 63 of IFRS 16.

For finance leases, the revenue allocated to the System Obligation is recognised when the lease term commences, which the Group deems to be when all of the following conditions have been met: (i) the projector, sound system and screen system have been installed and are in full working condition; (ii) the 3D glasses cleaning machine, if applicable, has been delivered; (iii) projectionist training has been completed; and (iv) the earlier of (a) receipt of the written customer acceptance certifying the completion of installation and run-in testing of the equipment and the completion of projectionist training or (b) public opening of the theatre, provided collectability is reasonably assured.

Finance leases include certain sales-type lease arrangements, for which the initial revenue is recognised consists of the initial payments received and the present value of fixed minimum ongoing payments computed at the interest rate implicit in the lease. Contingent payments in excess of the fixed minimum payments are recognised when reported by theatre operators, provided the amount can be measured reliably and deemed probable of collection. The difference between the gross receivable and totals of their present value is recorded as unrealised finance incomes at the beginning of lease term. Minimum lease receipts and unrealised finance income are presented on net basis in financing receivables.

Finance leases include joint revenue sharing arrangements which have upfront payments and contingent payments. The contingent revenues from these arrangements is recognised as box office results are reported by the theatre operator, when the amounts are deemed probable and the amounts can be measured reliably.

## 2. Summary of significant accounting policies (Continued)

### *(o) Revenue recognition (Continued)*

*(i) Theatre system arrangements (Continued)*

Finance income

Finance income is recognised over the term of the finance leases or financed sales receivable, provided collectability is reasonably assured. Finance income recognition ceases when the Group determines that the associated receivable is not collectible.

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

Improvements and modifications

Improvements and modifications to the theatre system after installation are treated as separate revenue transactions, if and when the Group is requested to perform these services. Revenue is recognised for these services when the performance of the services has been completed, provided there is persuasive evidence of an arrangement, the fee is fixed or determinable and collectability is reasonably assured.

Cost of sales arrangements and finance leases

Theatre systems and other equipment subject to sales arrangements and finance leases (under sales-type lease arrangements and joint revenue sharing arrangements) includes the cost of the equipment and costs related to project management, design, delivery and installation supervision services as applicable. The costs related to theatre systems under sales and finance leases arrangements are relieved from inventory to costs and expenses applicable to revenues-equipment and product sales when revenue recognition criteria are met. In addition, the Group defers direct selling costs such as sales commissions and other amounts related to these contracts until the related revenue is recognised. The Group may have warranty obligations at or after the time revenue is recognised which require replacement of certain parts that do not affect the functionality of the theatre system or services. The costs for warranty obligations for known issues are accrued as charges to costs and expenses applicable to revenues-equipment and product sales at the time revenue is recognised based on the Group's past historical experience and cost estimates.

Cost of operating leases

For theatre systems and other equipment subject to an operating lease under joint revenue sharing arrangements, the cost of equipment and those costs that result directly from and are essential to the arrangement, is included within property, plant and equipment. Depreciation and impairment losses, if any, are included in cost of rentals based on the accounting policy set out in note 2(k). Under the new standard, commissions continue to be deferred and recognised as costs and expenses applicable to revenues-rentals in the month they are earned, which is typically the month of installation. Direct advertising and marketing costs for each theatre are charged to cost of sales as incurred.

## 2. Summary of significant accounting policies (Continued)

### *(o) Revenue recognition (Continued)*

*(i) Theatre system arrangements (Continued)*

Maintenance and extended warranty services

Maintenance and extended warranty services may be provided under a multiple element arrangement or as a separately priced contract. Revenues related to these services are deferred and recognised on a straight-line basis over the contract period and are recognised in services revenues. Maintenance and extended warranty services includes maintenance of the customer's equipment and replacement parts. Under certain maintenance arrangements, maintenance services may include additional training services to the customer's technicians. All costs associated with this maintenance and extended warranty program are expensed as incurred. A loss on maintenance and extended warranty services is recognised if the expected cost of providing the services under the contracts exceeds the related deferred revenue. As the maintenance services are a stand ready obligation with the cost of providing the service expected to increase throughout the term, revenue is recognised over the term of the arrangement such that increased amounts are recognised in later periods.

IMAX Digital Re-Mastering (IMAX DMR)

Revenues from IMAX DMR films are recognised when box office receipts are reported by the third party that owns or holds the related film rights, provided collectability is reasonably assured. The Group is entitled to receive a certain percentage of box office for IMAX format films from IMAX Corporation or local studios.

DMR services are performed by IMAX Corporation and are based on master distribution and DMR services agreements. Depending on each type of films such as 2D, 3D or others, DMR cost are charged to the Group based on an agreed upon flat-fee for Hollywood films. For films produced by local studios, DMR services are purchased on a cost-plus basis.

For films produced by local studios, DMR revenue applies the variable consideration exemption for sales or usage-based royalties. While the Group does not hold rights to the intellectual property in the form of the film content, the Group is receiving revenue for the application of IMAX intellectual property used in the DMR process of creating IMAX DMR version of film.

For films with DMR revenue received from IMAX Corporation, the payment of DMR costs to IMAX Corporation is not in exchange for a distinct good or service that IMAX Corporation transfers to the Group. Therefore, the payment of DMR conversion cost for these films is considered as a payment to customer and is net against DMR revenue earned from IMAX Corporation.

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

2. Summary of significant accounting policies (Continued)

***(o) Revenue recognition (Continued)***

*(i) Theatre system arrangements (Continued)*

Other revenues

Revenue from the sale of 3D glasses is recognised in Equipment and product sales revenue when the 3D glasses have been delivered to the customer.

Other service revenues are recognised in Service revenues when the performance of contracted services is complete.

***(p) Segment reporting***

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

***(q) Government grants***

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

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

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

***(r) Current and deferred income tax***

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

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

## 2. Summary of significant accounting policies (Continued)

### *(r) Current and deferred income tax (Continued)*

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

Deferred tax liabilities are recognised for all taxable temporary differences.

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

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

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

### *(s) Leases*

As explained in note 3 below, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change in note 3.

As a lessee, 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 arrangements 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 in which a significant portion of the risks and rewards of ownership were not transferred to the Group were classified as operating leases. 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 in property, plant and equipment and a corresponding liability in accruals and other liabilities at the date at which the leased asset is available for use by the Group.

2. Summary of significant accounting policies (Continued)

***(s) Leases (Continued)***

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.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

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.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received, and

- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing.

Lease payments are allocated between principal 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.

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.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

2. Summary of significant accounting policies (Continued)

***(s) Leases (Continued)***

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.

For lease income from operating leases where the Group is a lessor, refer to note 2(o) for details.

***(t) Employee benefits***

*Pension obligations*

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

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

*Other employee social security and benefits*

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

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

*Termination benefits*

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

2. Summary of significant accounting policies (Continued)

***(u) Share-based payments***

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

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

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

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

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

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

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

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

2. Summary of significant accounting policies (Continued)

***(u) Share-based payments (Continued)***

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

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

*Stock Options*

The Group utilises a lattice-binomial option-pricing model ("Binomial Model") to determine the fair value of stock option awards. See note 23(c) for the details of the assumptions used to determine the fair value of share-based payment awards.

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

*Restricted Share Units*

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

***(v) Dividend distribution***

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

2. Summary of significant accounting policies (Continued)

***(w) Joint arrangements***

Under IFRS11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

***(x) Government grants***

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are recognised in the profit or loss in the period necessary to match them with the costs that they are intended to compensate.

***(y) Variable consideration receivable from contracts***

Variable consideration receivables are variable consideration estimated by the Group for its sale of theatre systems arrangements, including indexed minimum payment adjustments and additional payments in excess of fixed minimum ongoing payments. See note 2(o) for details.

## 3. New accounting standards and accounting changes

***New standards, amendments and interpretations that are effective for the current year***

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. The new accounting policies are disclosed in note 2(s).

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*.

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.

## 3. New accounting standards and accounting changes (Continued)

***New standards, amendments and interpretations that are effective for the current year (Continued)***

| Consolidated 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.

***New standards, amendments and interpretations issued but not yet effective***

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

## 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.

There have been no changes in the risk management policies since year end except for the policy to monitor credit risk under expected credit losses model.

4. Financial risk (Continued)

**(a) Market risk**

*Foreign exchange risk*

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

The Group's transactions are mainly denominated in US$, RMB and Hong Kong dollars ("HK$"). 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 2019 would have been approximately $0.3 million worse/better (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 and variable consideration receivable from contracts. The Group's maximum exposure to credit risk is the carrying amounts of these financial assets.

For the year ended 31 December 2019, 41.8% (2018: 40.7%) of the Group's revenue was derived from its customers each of which individually comprising 10% or more of total revenue of the Group. See note 6(a) for each significant customer's revenue by segment. As at 31 December 2019, the Group had concentration of credit risk as 31.9% (2018: 42.1%) of the total trade and other receivables due from the Group's largest two (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;

4. Financial risk (Continued)

***(a) Market risk (Continued)***

*Credit risk (Continued)*

- 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.

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, 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 nonaccrual status and all revenue recognitions related to the theatre are stopped.

4. Financial risk (Continued)

**(a) Market risk (Continued)**

*Credit risk (Continued)*

Management believes that the credit risk inherent in the Group's outstanding financing receivables 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.

*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 21. Accrued and other liabilities are expected to be settled within one year from the date accrued. There are no other borrowings to disclose.

**(b) Capital management**

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

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

## 4. Financial risk (Continued)

### *(b) Capital management (Continued)*

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

### *(c) Fair value estimation*

See note 24 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. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### *(a) Deferred income tax*

In normal operating activities, the final tax treatments of transactions and events are uncertain. The Group assesses the tax implications of transactions, and records income tax. The Group regularly re-assesses the tax implications of transactions according to updates in tax regulations. Deferred income tax assets are recognised based on deductible tax losses and deductible temporary differences. Deferred income tax assets are recognised if such amounts can be offset by future taxable income, and as a result, management judges the possibility of future taxable income. The Group continues to review the judgment of deferred income tax, and recognise deferred income tax assets if it is possible to realise taxable income in the future (note 13).

### *(b) Share-based compensation*

Accounting estimates and assumptions made to determine share-based compensation is included in note 23(c).

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

5. Critical accounting estimates and judgements (Continued)

***(c) Revenue recognition***

Revenue recognition is critical for the Group's consolidated financial statements as net profit/loss is directly affected by the timing of revenue recognition. Significant estimates include the estimated transaction price related to distinct performance obligations and details of the Group's accounting policy for revenue recognition is included in note 2(o).

***(d) Fixed assets depreciation***

Management estimates include future profit period, useful lives, residual rates and depreciation of fixed assets. If the estimates change, management will modify depreciation prospectively (note 11).

***(e) Impairment of financial assets***

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. See each financial asset of the Group subject to impairment assessment and detailed assumptions used by the Group in credit risk under note 4(a).

***(f) Provision for inventory***

The Group regularly estimates the net realisable value of inventory to determine whether the difference between the cost of inventory and the net realisable value results in an impairment (note 17). When assessing the net realisable value, the Group considers the purpose of holding inventory. The assessment is based on the available information which includes the market price of the inventory and the former operative cost of the Group. The actual selling price, selling expense and tax may vary with changes in market conditions or actual use which results in the changes in the price of inventory. The adjustment of the impairment losses of inventory will affect current profit or loss.

***(g) Estimation of the fair value of financial assets at FVOCI***

The fair value of financial assets at FVOCI that are not traded in an active market is determined using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

## 6. 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, restructuring expenses and associated impairments, other operating expenses, interest income and income tax expense are not allocated to the segments.

The Group 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 the 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.

# Consolidated Financial Statements (Continued)

6. Segment information (Continued)

***(a) Operating segments***

| | Years Ended 31 December | |
|---|---|---|
| | 2019 | 2018 |
| **Revenue** | | |
| Network business | | |
| Film | 28,128 | 26,059 |
| Revenue sharing arrangements — contingent rent | 24,791 | 21,619 |
| | 52,919 | 47,678 |
| Theatre business | | |
| Sales and sales-type lease arrangements | 41,543 | 42,455 |
| Revenue sharing arrangements — upfront fees | 7,162 | 6,604 |
| Theatre system maintenance | 21,387 | 19,224 |
| Other theatre | 941 | 1,316 |
| | 71,033 | 69,599 |
| New business and other | 342 | 243 |
| Total | 124,294 | 117,520 |
| **Gross profit** | | |
| Network business | | |
| Film | 23,170 | 21,169 |
| Revenue sharing arrangements — contingent rent | 11,570 | 9,806 |
| | 34,740 | 30,975 |
| Theatre Business | | |
| Sales and sales-type lease arrangements | 27,308 | 28,962 |
| Revenue sharing arrangements — upfront fees | 1,198 | 1,845 |
| Theatre system maintenance | 12,869 | 12,822 |
| Other theatre | 366 | 585 |
| | 41,741 | 44,214 |
| New business and other | 166 | 62 |
| Total gross profit | 76,647 | 75,251 |
| Selling, general and administrative expenses | (16,465) | (16,105) |
| Restructuring expenses and associated impairments | — | (112) |
| Other operating expenses | (7,017) | (6,702) |
| Interest income | 1,771 | 1,622 |
| Interest expense | (93) | — |
| Profit before income tax | 54,843 | 53,954 |

## 6. 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 activities of IMAX theatres operating in Greater China.

*Significant Customers*

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

*Customer A*

Revenues of approximately $28.9 million in 2019 (2018: $26.9 million) are derived from a single external customer. These revenues are attributable to revenue sharing arrangements, theatre system maintenance, sales arrangements, film and other segments.

*Customer B*

Revenues of approximately $23.0 million in 2019 (2018: $21.0 million) are derived from a related party. These revenues are attributable to the film, theatre system maintenance and other segments.

No other single customers comprises of more than 10% of total revenues in 2019 or 2018.

*Supplemental Information*

### *(b) Depreciation and amortisation*

| | Years Ended 31 December | |
|---|---|---|
| | 2019 | 2018 |
| Theatre system maintenance | 370 | 173 |
| Revenue sharing arrangements | 11,920 | 9,955 |
| Film business | 989 | 1,320 |
| New business and other | — | 72 |
| Corporate and other non-segment specific assets | 1,229 | 562 |
| Total | 14,508 | 12,082 |

## 6. Segment information (Continued)

*Supplemental Information (Continued)*

***(c) Loss on disposal of property, plant and equipment***

| | Years Ended 31 December | |
|---|---|---|
| | 2019 | 2018 |
| Revenue sharing arrangements | 475 | 302 |
| Corporate and other non-segment specific assets | — | 15 |
| Total | 475 | 317 |

## 7. Expenses by nature

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

| | Years Ended 31 December | |
|---|---|---|
| | 2019 | 2018 |
| Cost of theatre system sales and finance leases | 19,886 | 18,191 |
| Depreciation, including joint revenue sharing arrangements and film cost | 14,508 | 12,082 |
| Employee salaries and benefits | 9,311 | 8,055 |
| Advertising and marketing expenses | 7,209 | 6,917 |
| Technology and trademark fees | 6,680 | 6,268 |
| Theatre maintenance fees | 5,298 | 3,744 |
| Other employee expenses | 1,670 | 2,036 |
| Share-based compensation expenses | 2,145 | 1,810 |
| Professional fees | 1,294 | 1,778 |
| Lease expenses | 72 | 1,099 |
| Travel and transportation expenses | 1,054 | 962 |
| Provision for receivables impairment | 483 | 328 |
| Utilities and maintenance expenses | 282 | 268 |
| Provision for impairment for property, plant and equipment | — | 112 |
| Cost of new business | 20 | 7 |
| Foreign exchange losses | 39 | 104 |
| Other business expenses | 489 | 916 |
| Other film costs (recoveries) | 223 | (18) |
| Auditor's remuneration | | |
| — Non-audit services | 118 | 186 |
| — Audit services | 348 | 343 |
| Total costs of sales, selling, general and administrative expenses, restructuring expenses and associated impairments and other operating expenses | 71,129 | 65,188 |

## 8. Restructuring expenses and associated impairments

In June 2017, the Company announced the implementation of a cost-reduction plan to create cost savings aimed at increasing profitability, operating leverage and free cash flow. Restructuring expenses and associated impairments are mainly comprised of employee severance costs, expenses of facilities contract termination costs and associated impairments for property, plant and equipment. Restructuring expenses and associated impairments are based upon plans that have been committed to by the Company's management, but may be refined in subsequent periods. A liability for expenses associated with an exit is recognized and measured at its fair value in the consolidated statement of financial position in the period in which the liability is incurred.

In connection with the Company's restructuring initiatives, the Company incurred $0.1 million in restructuring expenses and associated impairments for the year ended 31 December 2018, to better align its organizational structure and costs with its strategy. A summary of the restructuring expenses and associated impairments recognised during the year ended 31 December 2019 and 2018 is as follows:

| | Years Ended 31 December | |
|---|---|---|
| | 2019 | 2018 |
| Impairment for property, plant and equipment | — | 112 |
| Total restructuring expenses and associated impairments | — | 112 |

## 9. Income tax expense

| | Years Ended 31 December | |
|---|---|---|
| | 2019 | 2018 |
| Current income tax: | | |
| Current tax on profits for the year | (12,244) | (11,993) |
| Adjustments in respect of prior years | 35 | 280 |
| Total current income tax | (12,209) | (11,713) |
| Deferred income tax (note 13): | | |
| Origination and reversal of temporary differences | 259 | 524 |
| Total deferred income tax | 259 | 524 |
| Income tax expense | (11,950) | (11,189) |

## 9. Income tax expense (Continued)

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

| | Years Ended 31 December | |
|---|---|---|
| | 2019 | 2018 |
| Profit before tax | 54,843 | 53,954 |
| Tax calculated at domestic tax rates applicable to profits in all respective countries | (12,088) | (11,820) |
| Tax effects of: | | |
| Income not subject to tax | 838 | 915 |
| Expenses not deductible for tax purposes | (382) | (85) |
| Withholding taxes | (237) | (282) |
| Other | (116) | (197) |
| Adjustment in respect of prior years | 35 | 280 |
| Tax charge | (11,950) | (11,189) |

The applicable tax rate reflects the impact of the income tax refund of $1.3 million for the year ended 31 December 2019 (2018: $1.4 million). For the year ended 31 December 2019, the weighted average applicable tax rate was 21.8% (2018: 20.7%). The change is caused by a change in the profitability of the Group's subsidiaries in the respective countries.

## 10. Profit per share

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

| | Years Ended 31 December | |
|---|---|---|
| | 2019 | 2018 |
| Profit for the year | 42,893 | 42,765 |
| Weighted average number of common shares (in '000s): | | |
| Issued and outstanding, beginning of year | 356,255 | 358,125 |
| Weighted average number of shares (decrease) increased during the year | (4,312) | 173 |
| Weighted average number of shares used in computing basic earnings per share | 351,943 | 358,298 |
| Adjustments for: | | |
| Stock options | 2,118 | 2,927 |
| Restricted share units | 551 | 322 |
| Weighted average number of shares used in computing diluted earnings per share | 354,612 | 361,547 |

## 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 2018** | | | | | | |
| 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 |
| **Year ended 31 December 2018** | | | | | | |
| Opening net book amount | 85,710 | 777 | — | 429 | 1,704 | 88,620 |
| Exchange differences | (3,933) | (27) | — | — | (36) | (3,996) |
| Additions | 12 | 174 | — | 32 | 24,820 | 25,038 |
| Transfers | 21,918 | 611 | — | — | (22,529) | — |
| Disposals | (302) | (15) | — | — | — | (317) |
| Depreciation charge | (10,034) | (355) | — | (373) | — | (10,762) |
| Impairment loss | (112) | — | — | — | — | (112) |
| **Closing net book amount** | 93,259 | 1,165 | — | 88 | 3,959 | 98,471 |
| **As at 1 January 2019** | | | | | | |
| 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 |
| **Year ended 31 December 2019** | | | | | | |
| Opening net book amount | 93,259 | 1,164 | 3,056 | 89 | 3,959 | 101,527 |
| Exchange differences | (892) | (3) | (65) | 2 | (30) | (988) |
| Additions | — | 168 | 376 | 15 | 18,281 | 18,840 |
| Transfers | 19,765 | 22 | — | — | (19,787) | — |
| Disposals | (475) | — | (37) | — | — | (512) |
| Depreciation charge | (11,920) | (444) | (1,079) | (76) | — | (13,519) |
| Impairment loss | — | — | — | — | — | — |
| **Closing net book amount** | 99,737 | 907 | 2,251 | 30 | 2,423 | 105,348 |
| **As at 31 December 2019** | | | | | | |
| Cost | 142,028 | 2,545 | 3,136 | 1,735 | 2,423 | 151,867 |
| Accumulated depreciation and impairment | (42,291) | (1,638) | (885) | (1,705) | — | (46,519) |
| **Net book amount** | 99,737 | 907 | 2,251 | 30 | 2,423 | 105,348 |

## 11. Property, plant and equipment (Continued)

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

| | Years Ended 31 December | |
|---|---|---|
| | 2019 | 2018 |
| Cost of sales | 11,959 | 10,071 |
| Selling, general and administrative expenses | 1,560 | 691 |
| | 13,519 | 10,762 |

During the year ended 31 December 2019, the Group recorded disposal charges of $0.5 million (2018: $0.3 million) related to theatre system components, office and production equipment and leasehold improvements.

## 12. Other assets

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

| | As at 31 December | |
|---|---|---|
| | 2019 | 2018 |
| Commissions and other deferred selling expenses | 1,421 | 1,359 |
| Deposits | 45 | 72 |
| Others | 1,006 | 974 |
| Other assets, current | 2,472 | 2,405 |
| Investment in an equity security (note i) | 14,637 | — |
| Investment in preferred share (note ii) | — | 2,374 |
| Deposits over one year | 297 | 310 |
| Investment in a virtual reality fund (note iii) | — | 587 |
| Other assets, non-current | 14,934 | 3,271 |
| Other assets | 17,406 | 5,676 |

## 12. Other assets (Continued)

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 $15.1 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 31 December 2019, the fair value of this investment was $14.6 million, which is $0.5 million lower than the carrying value of $15.1 million, and the difference of $0.5 million was recorded in other comprehensive loss for the year ended 31 December 2019 (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, and 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 31 December 2019, the fair value of this investment was $nil and the shortfall as compared to the carrying value of this investment of $2.4 million was recorded in other comprehensive loss for the year ended 31 December 2019 (2018: $1.6 million).

(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 year ended 31 December 2019, IMAX Corporation, the Group's controlling shareholder, decided to dissolve the VR Fund and shut down the operation of the 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 year ended 31 December 2019 (2018: $0.4 million). The recoverable amount of $0.1 million was received by the Group and the remaining commitment of investment in the VR Fund was exempted accordingly.

## 13. Deferred income tax

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

| | Fixed assets, inventory and other property | Share-based compensation | Accrued reserves | Others | Total |
|---|---|---|---|---|---|
| As at 31 December 2017 | 104 | 1,560 | 1,627 | — | 3,291 |
| Adjustment on adoption of IFRS 15 | — | — | — | (763) | (763) |
| As at 1 January 2018 | 104 | 1,560 | 1,627 | (763) | 2,528 |
| Credited (charged) to profit or loss | 5 | (205) | 625 | 99 | 524 |
| Exchange difference | (5) | (65) | (42) | (12) | (124) |
| As at 31 December 2018 | 104 | 1,290 | 2,210 | (676) | 2,928 |
| (Charged) credited to profit or loss | (5) | (181) | 629 | (184) | 259 |
| Exchange difference | (1) | (14) | (30) | 1 | (44) |
| As at 31 December 2019 | 98 | 1,095 | 2,809 | (859) | 3,143 |

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

No deferred income tax liability has been provided for the People's Republic of China ("PRC") withholding tax that would be payable on the unremitted earnings totalling $203.1 million at 31 December 2019 (2018: $165.4) million. Such earnings are expected to be retained by the PRC subsidiaries and not be remitted to a foreign investor in the foreseeable future based on management's estimation of overseas funding requirements.

## 14. Financing receivables

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

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

| | As at 31 December | |
|---|---|---|
| | 2019 | 2018 |
| Gross minimum finance lease payments receivable | 11,440 | 3,703 |
| Unearned finance income | (337) | (15) |
| Minimum finance lease payments receivable | 11,103 | 3,688 |
| Accumulated allowance for uncollectible amounts | — | — |
| Net investment in finance leases | 11,103 | 3,688 |
| Gross financed sales receivables | 61,593 | 61,536 |
| Unearned finance income | (13,702) | (14,439) |
| Financed sales receivables | 47,891 | 47,097 |
| Accumulated allowance for uncollectible amounts | — | — |
| Net financed sales receivables | 47,891 | 47,097 |
| Total financing receivables | 58,994 | 50,785 |

14. Financing receivables (Continued)

| | As at 31 December | |
|---|---|---|
| | 2019 | 2018 |
| **Gross investment in finance leases may be analysed as follows:** | | |
| No later than one year | 1,267 | 461 |
| Later than one year and no later than five years | 4,621 | 1,579 |
| Later than five years | 5,552 | 1,663 |
| **Total gross investment in finance leases** | 11,440 | 3,703 |
| **Gross financed sales receivables may be analysed as follows:** | | |
| No later than one year | 13,167 | 11,708 |
| Later than one year and no later than five years | 31,616 | 31,017 |
| Later than five years | 16,810 | 18,811 |
| **Total financed sales receivables** | 61,593 | 61,536 |
| **Net investment in finance leases may be analysed as follows:** | | |
| No later than one year | 1,213 | 453 |
| Later than one year and no later than five years | 4,458 | 1,572 |
| Later than five years | 5,432 | 1,663 |
| **Total net investment in finance leases** | 11,103 | 3,688 |
| **Net financed sales receivables may be analysed as follows:** | | |
| No later than one year | 9,725 | 8,332 |
| Later than one year and no later than five years | 23,486 | 22,293 |
| Later than five years | 14,680 | 16,472 |
| **Total net financed sales receivables** | 47,891 | 47,097 |

As at 31 December 2019, the financed sales receivables had a weighted average effective interest rate of 8.3% (2018: 8.4%).

As at 31 December 2019, 98% (2018: 99%) of the Group's financing receivables were in good standing.

## 15. Interests in a joint venture

A joint venture was established in 2017. As at 31 December 2019, no capital has been injected to the joint venture yet.

Details of the Group's joint venture at 31 December 2019 are as follows:

| 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 PRC Limited Liability Company (a joint venture invested by foreign invested enterprise and domestic enterprise) 25 January 2017 | Investment management, investment consulting | Registered capital of RMB7,000,000 | Paid up capital of $nil | – | 50% |

## 16. Film assets

| | Completed and released films |
|---|---|
| As at 1 January 2018 | |
| Cost | 33,792 |
| Accumulated depreciation | (33,792) |
| Net book amount | — |
| Year ended 31 December 2018 | |
| Opening net book amount | — |
| Exchange differences | (26) |
| Additions | 6,117 |
| Depreciation charge | (5,870) |
| Closing net book amount | 221 |
| Year ended 31 December 2019 | |
| Opening net book amount | 221 |
| Exchange differences | 1 |
| Additions | 6,571 |
| Depreciation charge (note below) | (6,677) |
| Closing net book amount | 116 |
| As at 31 December 2019 | |
| Cost | 46,543 |
| Exchange differences | (25) |
| Accumulated depreciation | (46,402) |
| Net book amount | 116 |

The Company does not expect to pay any participation payments to third parties related to these films.

Note: For the year ended 31 December 2019, the depreciation charge of $5.7 million (2018: $4.6 million) in relation to Hollywood films is considered as a payment to customer and is net against DMR revenue earned from IMAX Corporation, with the adoption of IFRS 15.

## 17. Inventories

| | As at 31 December 2019 | 2018 |
|---|---|---|
| Finished goods | 5,237 | 3,434 |
| | 5,237 | 3,434 |

There were no provisions for excess and obsolete inventory based upon current estimates of net realisable value considering future events and conditions for the year ended 31 December 2019 (2018: $nil).

The costs of inventories recognised as an expense and included in "cost of sales" amounted to $19.6 million for the year ended 31 December 2019 (2018: $18.8 million).

## 18. Trade and other receivables

| | As at 31 December 2019 | 2018 |
|---|---|---|
| Trade receivables | 27,796 | 21,903 |
| Less: provision for impairment of trade receivables | (691) | (404) |
| Trade receivables — net | 27,105 | 21,499 |
| Receivables from IMAX Corporation (note 29(b)) | 11,588 | 13,427 |
| Loan and interest receivables from a joint venture (note 29(b)) | 513 | 509 |
| Less: provision for impairment of loan and interest receivable | (391) | (207) |
| Loan and interest receivable from a joint venture — net | 122 | 302 |
| Other accrued receivables | 4,412 | 5,489 |
| | 43,227 | 40,717 |

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

## 18. Trade and other receivables (Continued)

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

| | As at 31 December | |
|---|---|---|
| | 2019 | 2018 |
| 0–30 days | 7,973 | 8,494 |
| 31–60 days | 2,618 | 2,788 |
| 61–90 days | 3,419 | 1,950 |
| Over 90 days | 25,374 | 22,098 |
| | 39,384 | 35,330 |

As at 31 December 2019, trade receivables of $39.4 million (2018: $35.3 million) were fully performing.

As at 31 December 2019, trade receivables of $24.7 million (2018: $21.7 million) were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and from whom the Company, based on past experience, believes the overdue amounts can be recovered, as well as related party receivables. The aging analysis of these trade receivables, including receivables from IMAX Corporation, is as follows:

| | As at 31 December | |
|---|---|---|
| | 2019 | 2018 |
| Over 90 days | 24,683 | 21,694 |

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

| | As at 31 December | |
|---|---|---|
| | 2019 | 2018 |
| Over 90 days | 1,082 | 611 |

At 31 December 2019, 42% (2018: 31%) of the Group's over 90 days trade and other receivables balance relates to receivables aged over one year, 44% (2018: 34%) of which do not bear interest, have no fixed repayment terms and are due on demand from IMAX Corporation.

## 18. Trade and other receivables (Continued)

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

| | As at 31 December | |
|---|---|---|
| | 2019 | 2018 |
| US$ | 10,799 | 8,556 |
| RMB | 32,345 | 32,089 |
| Other currencies | 83 | 72 |
| | 43,227 | 40,717 |

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

| | As at 31 December | |
|---|---|---|
| | 2019 | 2018 |
| As at 1 January | 611 | 321 |
| Provision for receivables impairment | 483 | 328 |
| Write-off | — | (23) |
| Exchange differences | (12) | (15) |
| As at 31 December | 1,082 | 611 |

During the year ended 31 December 2019, the Group recorded a net provision of $0.5 million (2018: $0.3 million) related to trade receivables.

## 19. Cash and cash equivalents

| | As at 31 December | |
|---|---|---|
| | 2019 | 2018 |
| Cash at bank and on hand | 39,024 | 32,237 |
| Short-term bank deposits | 50,284 | 87,987 |
| Cash and cash equivalents | 89,308 | 120,224 |

## 19. Cash and cash equivalents (Continued)

The Group has cash and cash equivalents balances denominated in various currencies. The carrying amount of the Group's cash and cash equivalents are denominated in the following currencies:

| | As at 31 December | |
|---|---|---|
| | 2019 | 2018 |
| US$ | 20,842 | 64,645 |
| RMB | 68,003 | 55,048 |
| Hong Kong dollars | 463 | 531 |

## 20. Deferred revenue

| | As at 31 December | |
|---|---|---|
| | 2019 | 2018 |
| Theatre system deposits | 29,883 | 35,725 |
| Maintenance prepayments | 7,915 | 6,374 |
| | 37,798 | 42,099 |
| Deferred revenue, current | 12,878 | 18,453 |
| Deferred revenue, non-current | 24,920 | 23,646 |
| | 37,798 | 42,099 |

## 21. Trade and other payables

| | As at 31 December | |
|---|---|---|
| | 2019 | 2018 |
| Trade payables | 1,433 | 2,094 |
| Other payables | 810 | 1,321 |
| Amounts due to IMAX Corporation (note 29(b)) | 12,927 | 14,980 |
| | 15,170 | 18,395 |

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

| | As at 31 December | |
|---|---|---|
| | 2019 | 2018 |
| 0–30 days | 6,333 | 8,824 |
| 31–60 days | 1,158 | 1,609 |
| 61–90 days | 94 | 761 |
| Over 90 days | 7,585 | 7,201 |
| | 15,170 | 18,395 |

As at 31 December 2019 and 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.

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

| | As at 31 December | |
|---|---|---|
| | 2019 | 2018 |
| RMB | 6,361 | 10,245 |
| US$ | 8,576 | 7,969 |
| Other | 233 | 181 |
| | 15,170 | 18,395 |

## 22. Accruals and other liabilities

| | As at 31 December 2019 | 2018 |
|---|---|---|
| Value added tax payable | 2,883 | 1,830 |
| Accrued marketing and advertising expenses | 2,234 | 1,685 |
| Lease liabilities | 1,950 | — |
| Accrued salaries and benefits | 871 | 766 |
| Withholding individual income tax | 383 | 929 |
| Other tax payable | 666 | 545 |
| Accrued audit fees | 606 | 631 |
| Accrued legal fees | 77 | 120 |
| Accrued selling expenses | 39 | 238 |
| Provision for a pending litigation (note) | — | 317 |
| Other accrued expenses | 2,514 | 1,777 |
| Accruals and other liabilities, total | 12,223 | 8,838 |
| Accruals and other liabilities, current | 11,394 | 8,838 |
| Accruals and other liabilities, non-current | 829 | — |
| | 12,223 | 8,838 |

Maturity analysis of lease liabilities

| | As at 31 December 2019 | As at 1 January 2019 (Restated) |
|---|---|---|
| Not later than one year | 1,121 | 913 |
| Later than one year and not later than five years | 829 | 1,823 |
| Lease liabilities, total | 1,950 | 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. During 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 fine 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 31 December 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.

## 23. 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 year | 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 | 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 23(b)) | (9,741,500) | (836,300) | (974.15) | (83.63) |
| Number of shares as at 31 December | 348,788,902 | 357,944,820 | 34,878.89 | 35,794.48 |

The holders of common shares are entitled to receive dividends if, 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.

## 23. Share capital and reserves (Continued)

### *(b) Treasury shares*

| | Notes | Number of shares 2019 | Number of shares 2018 | US$'000 2019 | US$'000 2018 |
|---|---|---|---|---|---|
| **Treasury shares** | | | | | |
| At beginning of year | | 1,775,148 | 43,900 | 4,358 | 133 |
| Acquisition of shares by the Trust | (i) | 254,627 | 200,294 | 760 | 617 |
| Issued to employees for vested restricted share units | | (208,049) | (159,046) | (696) | (520) |
| Shares bought back on-market | (ii) | 8,051,500 | 2,526,300 | 19,067 | 6,055 |
| Buy-back transaction costs | (ii) | — | — | 95 | 29 |
| Shares cancelled | (ii) | (9,741,500) | (836,300) | (23,290) | (1,956) |
| At end of year | | 131,726 | 1,775,148 | 294 | 4,358 |

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 year ended 31 December 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 year ended 31 December 2019, the Company purchased 8,051,500 (2018: 2,526,300) shares on-market and 9,741,500 (2018: 836,300) shares were cancelled. The shares were acquired at an average price of $2.37 (2018: $2.40), with prices ranging from $2.06 to $2.60 (2018: $2.18 to $2.56).

### *(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.

## 23. Share capital and reserves (Continued)

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

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 consolidated statement of comprehensive income for these plans were $2.1 million in the year ended 31 December 2019 (2018: $1.8 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.

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.

23. Share capital and reserves (Continued)

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

*(i) SOP and IMAX LTIP (Continued)*

The Group recorded an expense of $nil in the year ended 31 December 2019 (2018: $nil) related to stock option grants issued to Group employees in the IMAX LTIP and SOP plans.

No stock options were granted to Group employees in the year ended 31 December 2019 or 2018.

SOP and IMAX LTIP Summary

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

For the years ended 31 December:

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

No stock options were surrendered or cancelled by Group employees in the year ended 31 December 2019 (2018: none).

*(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.

23. Share capital and reserves (Continued)

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

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

China IPO Options Summary (Continued)

During the year ended 31 December 2019, the Group recorded an expense of $nil (2018: $nil) related to equity-settled China IPO Options issued under the China LTIP.

The Group did not record any expense related to Tandem Options issued under the China LTIP, since it was likely that a qualified initial public offering would occur. The Tandem Options were forfeited on 8 October 2015, as an initial public offering occurred. An expense has been recorded for China IPO Options as discussed in the section below.

China IPO Options were priced using Binomial Model. 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.

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

Equity-settled China IPO Options
For the years ended 31 December:

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

During the year ended 31 December 2019, the expiry date of 3,375,000 shares were extended from 29 October 2019 to 29 October 2020. There were no incremental expenses related according to the revised fair value.

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

23. Share capital and reserves (Continued)

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

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

China Options Summary

During the year ended 31 December 2019, 660,348 (2018: 387,107) 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.

During the year ended 31 December 2019, the Group recorded an expense of $0.3 million (2018: $0.3 million) related to China Options issued under the China LTIP.

The weighted average fair value of China Options granted in the year ended 31 December 2019 at the measurement date was $0.59 per share (2018: $0.90 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:

| | 2019 | 2018 |
|---|---|---|
| Grant date share price | HK$18.24 to 19.96 | HK$23.10 to HK$28.00 |
| Exercise price | HK$18.24 to 20.71 | HK$23.10 to HK$28.00 |
| Average risk-free interest rate | 2.08% | 1.85% to 2.08% |
| Expected option life (in years) | 3.70 to 6.62 | 4.77 to 6.45 |
| Expected volatility | 29% | 30% |
| Dividend yield | 0% | 0% |
| Early exercise multiple | 2.34 | 2.23 |

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

| | Number of Shares | | Weighted Average Exercise Price Per Share | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Options outstanding, beginning of year | 941,780 | 554,673 | 3.95 | 4.53 |
| Granted | 660,348 | 387,107 | 2.43 | 3.11 |
| Options outstanding, end of year | 1,602,128 | 941,780 | 3.36 | 3.95 |
| Options exercisable, end of year | 423,695 | 198,116 | 4.35 | 4.98 |

As at 31 December 2019, the weighted average remaining contractual life of options outstanding is 5.3 years (2018: 5.6 years).

23. Share capital and reserves (Continued)

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

*(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 year ended 31 December 2019 (2018: less than $0.1 million) related to RSU grants issued to employees in the plan. The annual termination probability assumed for the year ended 31 December 2019 was zero (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.

RSUs under IMAX LTIP Summary

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

For the years ended 31 December:

| | Number of Awards | | Weighted Average Grant Date Fair Value Per Share | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| RSUs outstanding, beginning of year | — | 1,296 | — | 36.09 |
| Vested and settled | — | (1,296) | — | 36.09 |
| RSUs outstanding, end of year | — | — | — | — |

*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 $1.8 million for the year ended 31 December 2019 (2018: $1.5 million) related to China RSU grants issued to employees in the plan. The annual termination probability assumed for the year ended 31 December 2019 was nil (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.

## 23. Share capital and reserves (Continued)

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

*(iii) Restricted Share Units (Continued)*

*China RSUs under China LTIP Summary*

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

For the years ended 31 December:

| | Number of Awards | | Weighted Average Grant Date Fair Value Per Share | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| RSUs outstanding, beginning of year | 849,293 | 523,829 | 3.64 | 4.39 |
| Granted | 882,845 | 584,116 | 2.45 | 3.17 |
| Vested and settled | (374,934) | (215,082) | 3.38 | 4.14 |
| Forfeited | (6,250) | (43,570) | 2.72 | 3.90 |
| RSUs outstanding, end of year | 1,350,954 | 849,293 | 2.94 | 3.64 |

### *(d) Reserves*

The Group's reserves and movement therein for the current and prior years are presented in the consolidated statement of changes in equity of the consolidated financial statements.

*Share premium*

The application of the share premium account is governed by Section 34(2) of the Companies Law (2013 Revision) of the Cayman Islands. Under the Companies Law of the Cayman Islands, the funds in the share premium account of the Company are distributable to shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of the business. The Company distributed a dividend of $14.1 million out of share premium for the year ended 31 December 2019 (31 December 2018: $21.5 million).

*Capital reserve*

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

## 23. Share capital and reserves (Continued)

***(d) Reserves (Continued)***

*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 31 December 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.

## 24. Financial instruments

***(a) Financial instruments***

The Group maintains cash with various major financial institutions.

The Group's accounts receivables and financing receivables are subject to credit risk. The Group's accounts receivable and financing receivables are concentrated with the theatre exhibition industry and film entertainment industry. To minimise the Group's credit risk, the Group retains title to underlying theatre systems leased, performs initial and ongoing credit evaluations of its customers and makes ongoing provisions for its estimate of potentially uncollectible amounts. The Group believes it has adequately provided for related exposures surrounding receivables and contractual commitments.

***(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.

24. Financial instruments (Continued)

***(b) Fair value measurements (Continued)***

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 Group's financial instruments at the following year ends are comprised of the following:

| | Financial assets at amortised costs | Financial assets at FVOCI | Total |
|---|---|---|---|
| **31 December 2019** | | | |
| **Assets as per statement of financial position** | | | |
| Investment in preferred share | — | — | — |
| Investment in an equity security | — | 14,637 | 14,637 |
| Net financed sales receivable | 47,891 | — | 47,891 |
| Net investment in finance leases | 11,103 | — | 11,103 |
| Trade and other receivables | 43,227 | — | 43,227 |
| Cash and cash equivalents | 89,308 | — | 89,308 |
| Variable consideration receivables | 3,673 | — | 3,673 |
| | 195,202 | 14,637 | 209,839 |

| | Liabilities at amortised cost | Total |
|---|---|---|
| **Liabilities as per statement of financial position** | | |
| Trade and other payables | 15,170 | 15,170 |
| Lease liabilities (note) | 1,950 | 1,950 |
| | 17,120 | 17,120 |

Note:

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

24. Financial instruments (Continued)

***(b) Fair value measurements (Continued)***

| | Loans and receivables | Available-for-sale | Total |
|---|---|---|---|
| **31 December 2018** | | | |
| **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 receivables | 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 |

The investments in an equity security, preferred share and a virtual reality fund are classified as financial asset with fair value change through other comprehensive income under IFRS 9. As at 31 December 2019, the fair value of investments in an equity security and preferred share was $14.6 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.

24. Financial instruments (Continued)

***(b) Fair value measurements (Continued)***

The investments in preferred share and 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 31 December 2019 and 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 31 December 2019 and 2018, respectively.

| | As at 31 December 2019 | | As at 31 December 2018 | |
|---|---|---|---|---|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| Net financed sales receivable | 47,891 | 47,991 | 47,097 | 47,626 |
| Net investment in finance leases | 11,103 | 11,103 | 3,688 | 3,688 |
| Variable consideration receivable from contracts | 3,673 | 3,673 | 3,488 | 3,488 |
| Lease liabilities | 1,950 | 1,950 | N/A | N/A |

There were no significant transfers between Level 1 and Level 2 during the year ended 31 December 2019 (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.

## 25. Employee benefit expense

### *(a) Employee benefit expense*

Staff costs during the year were as follows:

| | Years Ended 31 December | |
|---|---|---|
| | 2019 | 2018 |
| Wages and salaries | 8,479 | 7,293 |
| Social security costs | 313 | 262 |
| Share-based compensation expenses | 2,145 | 1,810 |
| Pension and other costs | 519 | 500 |
| | 11,456 | 9,865 |

### *(b) Directors' emoluments*

The remuneration of the directors for the year ended 31 December 2019 are set out below:

| | Year Ended 31 December 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Fee | Salaries | Bonus | Share-based compensation | Pension | Other[1] | Total |
| **Executive Directors** | | | | | | | |
| Jiande Chen | – | 450 | 174 | 340 | 6 | 233 | 1,203 |
| Jim Athanasopoulos | – | 329 | 99 | 475 | 16 | 427 | 1,346 |
| Mei-Hui Chou (Jessie) | – | 356 | 107 | 235 | – | 191 | 889 |
| **Non-executive Directors** | | | | | | | |
| Richard Gelfond | – | – | – | – | – | – | – |
| Megan Colligan[2] | – | – | – | – | – | – | – |
| Ruigang Li[3] | – | – | – | – | – | – | – |
| **Independent Non-executive Directors** | | | | | | | |
| Yue-Sai Kan | 75 | – | – | 100 | – | – | 175 |
| John Davison | 75 | – | – | 100 | – | – | 175 |
| Dawn Taubin | 68 | – | – | 100 | – | – | 168 |
| Peter Loehr[4] | 15 | – | – | – | – | – | 15 |

## 25. Employee benefit expense (Continued)

### *(b) Directors' emoluments (Continued)*

The remuneration of the directors for the year ended 31 December 2018 are set out below:

| | Year Ended 31 December 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Fee | Salaries | Bonus | Share-based compensation | Pension | Other[1] | Total |
| **Executive Directors** | | | | | | | |
| Jiande Chen | — | 450 | 170 | 298 | 6 | 237 | 1,161 |
| Jim Athanasopoulos | — | 327 | 97 | 420 | 15 | 418 | 1,277 |
| Mei-Hui Chou (Jessie) | — | 354 | 106 | 201 | — | 186 | 847 |
| **Non-executive Directors** | | | | | | | |
| Richard Gelfond | — | — | — | — | — | — | — |
| Greg Foster[5] | — | — | — | — | — | — | — |
| Ruigang Li | — | — | — | — | — | — | — |
| **Independent Non-executive Directors** | | | | | | | |
| Yue-Sai Kan | 109 | — | — | 100 | — | — | 209 |
| John Davison | 98 | — | — | 100 | — | — | 198 |
| Dawn Taubin | 93 | — | — | 100 | — | — | 193 |

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

2 Megan Colligan was appointed as a Non-executive Director with effect from 26 February 2019.

3 Ruigang Li resigned from his role as a Non-executive Director with effect from 9 October 2019.

4 Peter Loehr was appointed as a Independent Non-executive Director with effect from 9 October 2019.

5 Greg Foster resigned from his role as a Non-executive Director with effect from 31 December 2018.

The remuneration of certain non-executive directors of the Company was borne by IMAX Corporation and other related parties. No allocation of the remuneration between these related parties and the Group have been made during the years presented.

Directors' remuneration includes any emoluments paid to or receivable in respect of services as a director of the Company or in connection with the management of the affairs of the Group.

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## 25. Employee benefit expense (Continued)

### *(c) Five highest paid individuals*

For the year ended 31 December 2019, the five individuals whose emoluments were the highest in the Group which includes 3 directors (2018: 3) whose emoluments are reflected in the analysis above, are as follows:

| | Years Ended 31 December | |
|---|---|---|
| | 2019 | 2018 |
| Basic salary and allowance | 1,366 | 1,271 |
| Bonus | 1,743 | 1,623 |
| Share-based compensation | 1,161 | 1,010 |
| Other[1] | 914 | 852 |
| Pension | 29 | 29 |
| | 5,213 | 4,785 |

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

The emoluments of the five individuals fell within the following bands:

| | Number of individuals Years Ended 31 December | |
|---|---|---|
| | 2019 | 2018 |
| **In HK$** | | |
| 4,500,001–5,000,000 | — | 1 |
| 5,500,001–6,000,000 | 1 | — |
| 6,500,001–7,000,000 | 1 | 1 |
| 7,000,001–7,500,000 | 1 | 1 |
| 9,000,001–9,500,000 | 1 | 1 |
| 10,000,001–10,500,000 | — | 1 |
| 10,500,001–11,000,000 | 1 | — |
| | 5 | 5 |

During the years presented, no emolument was paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for the loss of office.

## 25. Employee benefit expense (Continued)

### *(d) Senior management remuneration by band*

The emoluments of the senior management fell within the following band:

| | Number of individuals Years Ended 31 December 2019 | 2018 |
|---|---|---|
| **In HK$** | | |
| 500,001–1,000,000 | 1 | — |
| 2,000,001–2,500,000 | — | 1 |
| 2,500,001–3,000,000 | — | 1 |
| 4,000,001–4,500,000 | 1 | — |
| 4,500,001–5,000,000 | — | 1 |
| 5,500,001–6,000,000 | 1 | — |
| 6,500,001–7,000,000 | 1 | 1 |
| 7,000,001–7,500,000 | 1 | 1 |
| 9,000,001–9,500,000 | 1 | 1 |
| 10,000,001–10,500,000 | — | 1 |
| 10,500,001–11,000,000 | 1 | — |
| | 7 | 7 |

## 26. Statement of cash flow supplemental information

### *Cash provided by operations*

| | Notes | Years ended 31 December 2019 | 2018 |
|---|---|---|---|
| Profit before income tax for the year | | 54,843 | 53,954 |
| Adjustment for: | | | |
| Amortisation of film assets | 16 | 6,677 | 5,870 |
| Depreciation of property, plant and equipment | 11 | 13,519 | 10,762 |
| Equity settled and other non-cash compensation | | 2,145 | 1,799 |
| Loss on disposal of property, plant and equipment | | 475 | 317 |
| Write-downs | | 483 | 440 |
| Foreign exchange losses | | 5 | (5) |
| Investment in film assets | | (6,571) | (6,117) |
| Changes in working capital | | | |
| Trade and other receivables | | (2,083) | 9,879 |
| Financing receivables | | (8,741) | (4,719) |
| Variable consideration receivable from contracts | | (180) | — |
| Inventories | | (2,022) | 1,720 |
| Trade and other payables | | (2,409) | (884) |
| Accruals and other liabilities | | 1,450 | (450) |
| Deferred revenue | | (3,526) | (2,621) |
| Prepayments | | 1,559 | (1,564) |
| Other assets | | (29) | (162) |
| **Cash provided by operations** | | 55,595 | 68,219 |

## 27. Commitments

### *(a)* ***Capital commitments***

As at the end of the year, the Group's capital expenditure commitment is shown below:

| | As at 31 December | |
|---|---|---|
| | 2019 | 2018 |
| Capital expenditure contracted for but not provided in the consolidated financial statements in respect of: | | |
| Acquisition of property, plant and equipment | 65 | 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, apartments, and warehouses under non-cancellable operating lease agreements. The operating lease commitment as at 31 December 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 31 December 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 non-cancellable operating leases.

| | As at 31 December | |
|---|---|---|
| | 2019 | 2018 |
| Within one year | 341 | 1,238 |
| Between 1 and 2 years | — | 946 |
| Between 2 and 3 years | — | 817 |
| Thereafter | — | 125 |
| | 341 | 3,126 |

## 28. Contingencies and guarantees

The Group is involved in lawsuits, claims, and proceedings, including those identified below, which arise in the ordinary course of business. In accordance with the Group's policies, the Group will make a provision for a liability when it is both probable that a loss has been incurred and the amount of the loss can be reasonably estimated. The Group believes it has adequate provisions for any such matters. The Group reviews these provisions in conjunction with any related provisions on assets related to the claims at least quarterly and adjusts these provisions to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel and other pertinent information related to the case. Should developments in any of these matters outlined below cause a change in the Group's determination as to an unfavourable outcome and result in the need to recognise a material provision, or, should any of these matters result in a final adverse judgment or be settled for significant amounts, they could have a material adverse effect on the Group's results of operations, cash flows, and financial position in the year or years in which such a change in determination, settlement or judgment occurs.

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.

## 29. 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 69.74% of the Company's shares as at 31 December 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.

## 29. 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*

| | Years ended 31 December | |
|---|---|---|
| | 2019 | 2018 |
| Purchase of goods: | | |
| IMAX Corporation (theatres systems) | 33,338 | 34,735 |
| Purchase of services: | | |
| IMAX Corporation (film related transactions) (Note) | 6,445 | 6,158 |
| IMAX Corporation (management fees — legal and administration services) | 553 | 499 |
| Other transactions: | | |
| IMAX (Barbados) Holding, Inc. (dividends paid to) | 9,731 | 14,601 |
| IMAX Corporation (reimbursement of compensation of Company employees paid by IMAX Corporation) | 715 | 1,450 |
| IMAX Corporation (trademark and technology fees) | 6,680 | 6,268 |
| IMAX Virtual Reality Content Fund, LLC (invest in) | — | 873 |
| IMAX Virtual Reality Content Fund, LLC (proceeds from dissolvement) | 78 | — |
| Suzhou IMAX Fei Er Mu Project Investment Partnership Enterprise (Limited Partnership) (loan to) | — | 293 |
| IMAX Fei Er Mu (Shanghai) Investment Management Co., Ltd. (loan repayment from) | — | 2,645 |
| 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 | 10 |
| Gross revenue earned from film services through IMAX Corporation (Note) | 22,604 | 20,741 |
| Revenue earned from maintenance services provided to IMAX Corporation | 107 | 148 |

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 year ended 31 December 2019, conversion cost of $5.7 million (2018: $4.6 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 consolidated statement of comprehensive income, with the adoption of IFRS 15.

29. Related party transactions (Continued)

**(b) *Year-end balances***

| | As at 31 December | |
|---|---|---|
| | 2019 | 2018 |
| Receivables from related parties (note 18): | | |
| IMAX Corporation | 11,588 | 13,427 |
| Loan and interest receivables from a joint venture (note 18): | | |
| IMAX Fei Er Mu (Shanghai) Investment Management Co., Ltd. | 207 | 206 |
| Suzhou IMAX Fei Er Mu Project Investment Partnership Enterprise (Limited Partnership) | 306 | 303 |
| Payables to related parties (note 21): | | |
| IMAX Corporation | 12,927 | 14,980 |

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 receivables 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.

**(c) *Other related party transactions***

| | As at 31 December | |
|---|---|---|
| | 2019 | 2018 |
| Investment in IMAX (Hong Kong) Holding, Limited (note 12) | — | 2,374 |
| Investment in IMAX Virtual Reality Content Fund, LLC (note 12) | — | 587 |

## 29. Related party transactions (Continued)

### *(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:

| | Years Ended 31 December | |
|---|---|---|
| | 2019 | 2018 |
| Salaries and other short-term employee benefits | 3,503 | 3,142 |
| Post-employment benefits | 35 | 33 |
| Other benefits[1] | 928 | 1,149 |
| Share-based compensation | 1,273 | 1,058 |
| | 5,739 | 5,382 |

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

## 30. Government grants

The following government grants have been recognised in comprehensive income:

| | Years Ended 31 December | |
|---|---|---|
| | 2019 | 2018 |
| Cost of sales | 692 | 1,327 |
| Selling, general and administrative expenses | 309 | 356 |
| | 1,001 | 1,683 |

## 31. Dividends

| | Years Ended 31 December | |
|---|---|---|
| | 2019 | 2018 |
| Dividends recognised as distribution during the year: | | |
| 2018 Final — HK$0.157 (2017: HK$0.314) per share | 7,131 | 14,355 |
| 2019 Interim — HK$0.156 (2018: HK$0.157) per share | 6,984 | 7,175 |
| | 14,115 | 21,530 |

## 31. Dividends (Continued)

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 recommended by the Board, an interim dividend for the six months ended 30 June 2019, of $0.02 per share (equivalent to HK$0.157 per share), was distributed to shareholders on 30 August 2019.

During the board meeting held on 19 February 2020, the Board recommended a final dividend of $0.02 per share (equivalent to approximately HK$0.156 per share) for the year ended 31 December 2019 to the shareholders. Subject to the approval of the shareholders at the forthcoming Annual General Meeting and subject to further announcement(s) in respect of the book closure date, record date and payment date, the proposed 2019 final dividend is expected to be distributed to shareholders on or around 30 June 2020. There will be no scrip dividend option for the 2019 final dividend. The proposed dividend has not been provided for in the consolidated financial statement for the year ended 31 December 2019.

## 32. Credit facility

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

## 33. Balance sheet and reserve movement of the Company

### *(a) Balance sheet*

| | As at 31 December | |
|---|---|---|
| | 2019 | 2018 |
| **ASSETS** | | |
| **Non-current assets** | | |
| Investment in subsidiaries | 32,570 | 32,538 |
| Other assets | 923 | 947 |
| | 33,493 | 33,485 |
| **Current assets** | | |
| Prepayments | 170 | 1,108 |
| Trade and other receivables | 20,186 | 19,766 |
| Cash and cash equivalents | 698 | 33,083 |
| | 21,054 | 53,957 |
| **Total Assets** | 54,547 | 87,442 |
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Trade and other payables | 8,299 | 8,648 |
| Accrued and other liabilities | 325 | 858 |
| | 8,624 | 9,506 |
| **Total Liabilities** | 8,624 | 9,506 |
| **EQUITY** | | |
| Share capital | 35 | 36 |
| Share premium and reserves | 45,888 | 77,900 |
| **Total Equity** | 45,923 | 77,936 |
| **Total Equity and Liabilities** | 54,547 | 87,442 |

Balance sheet of the Company was approved by the board of directors on 19 February 2020 and was signed on its behalf

**Jiande Chen**
Director

**Jim Athanasopoulos**
Director

33. Balance sheet and reserve movement of the Company (Continued)

***(b) Reserve movement***

| | Share Capital | Share Premium | Treasury Shares | Capital Reserves | Accumulated Deficit | Total Equity |
|---|---|---|---|---|---|---|
| **Balance as at 1 January 2018** | 36 | 375,296 | (133) | 2,998 | (274,082) | 104,115 |
| **Comprehensive loss** | | | | | | |
| Loss for the year | — | — | — | — | (547) | (547) |
| **Total comprehensive loss** | — | — | — | — | (547) | (547) |
| Dividends recognised as distribution | — | (21,530) | — | | — | (21,530) |
| Exercise of stock options during the year | — | 1,064 | — | (264) | — | 800 |
| Restricted share units vested and settled | — | 371 | 520 | (891) | — | — |
| Acquisition of shares for settlement of restricted share units | — | — | (617) | — | — | (617) |
| China long-term incentive plan | — | — | — | 1,799 | — | 1,799 |
| Shares buy-back | — | — | (6,055) | — | — | (6,055) |
| Shares buy-back transaction costs | — | — | (29) | — | — | (29) |
| Shares cancelled | — | (1,956) | 1,956 | — | — | — |
| **Total transactions with owners, recognised directly in equity** | — | (22,051) | (4,225) | 644 | — | (25,632) |
| **Balance as at 31 December 2018** | 36 | 353,245 | (4,358) | 3,642 | (274,629) | 77,936 |
| **Comprehensive loss** | | | | | | |
| Loss for the year | — | — | — | — | (772) | (772) |
| **Total comprehensive loss** | — | — | — | — | (772) | (772) |
| Dividends recognised as distribution | — | (14,115) | — | — | — | (14,115) |
| Exercise of stock options during the year | — | 867 | — | (216) | — | 651 |
| Restricted share units vested and settled | — | 571 | 696 | (1,267) | — | — |
| Acquisition of shares for settlement of restricted share units | — | — | (760) | — | — | (760) |
| China long-term incentive plan | — | — | — | 2,145 | — | 2,145 |
| Shares buy-back | — | — | (19,067) | — | — | (19,067) |
| Shares buy-back transaction costs | — | — | (95) | — | — | (95) |
| Shares cancelled | (1) | (23,289) | 23,290 | — | — | — |
| **Total transactions with owners, recognised directly in equity** | (1) | (35,966) | 4,064 | 662 | — | (31,241) |
| **Balance as at 31 December 2019** | 35 | 317,279 | (294) | 4,304 | (275,401) | 45,923 |

34. Subsidiaries

| 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% |

34. 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) 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% |

34. 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 | 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% |

## 35. Prior year's presentation

As of 31 December 2019, variable consideration receivable from contracts, recognised for revenue from contracts from customers, is a separate line on the consolidated statement of financial position from other assets. Prior year comparatives have been reclassified to reflect the above change.

## 36. Events occurring after the reporting period

Subsequent to 31 December 2019, in response to the public health risks associated with an outbreak of coronavirus in Wuhan, China, Chinese exhibitors temporarily closed more than 70,000 movie theatres, including all of the approximately 700 IMAX theatres in mainland China. The theatres have been closed since late January 2020, including over the Lunar New Year holiday, and have not yet reopened as of the date of this report. Chinese movie studios also postponed the release of multiple films, including those originally scheduled to be released over this holiday, five of which were scheduled to be shown in IMAX theatres. The repercussions of this health crisis in China will have a material adverse impact on the revenues generated by IMAX theatre systems in the first quarter of 2020.

# Financial Summary

| | FY2019 US$'000 | FY2019 % | FY2018 US$'000 | FY2018 % | FY2017 US$'000 | FY2017 % | FY2016 US$'000 | FY2016 % | FY2015 US$'000 | FY2015 % |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenues | **124,294** | **100.0%** | 117,520 | 100.0% | 126,474 | 100.0% | 118,532 | 100.0% | 110,591 | 100.0% |
| Cost of sales | **(47,647)** | **(38.3%)** | (42,269) | (36.00%) | (49,116) | (38.8%) | (49,235) | (41.5%) | (38,311) | (34.6%) |
| **Gross profit** | **76,647** | **61.7%** | 75,251 | 64.0% | 77,358 | 61.2% | 69,297 | 58.5% | 72,280 | 65.4% |
| Selling, general and administrative expenses | **(16,465)** | **(13.2%)** | (16,105) | (13.7%) | (14,530) | (11.5%) | (17,083) | (14.4%) | (23,859) | (21.6%) |
| Restructuring expenses and associated impairments | **–** | **–** | (112) | (0.1%) | (636) | (0.5%) | – | – | – | – |
| Other operating expenses | **(7,017)** | **(5.6%)** | (6,702) | (5.7%) | (7,087) | (5.6%) | (6,363) | (5.4%) | (6,050) | (5.5%) |
| **Operating profit** | **53,165** | **42.8%** | 52,332 | 44.5% | 55,105 | 43.6% | 45,851 | 38.7% | 42,371 | 38.3% |
| Accretion of amortised cost of financial instrument | **–** | **–** | – | – | – | – | – | – | (3,790) | (3.4%) |
| Fair value adjustment of conversion option | **–** | **–** | – | – | – | – | – | – | (209,884) | (189.8%) |
| Interest income | **1,771** | **1.4%** | 1,622 | 1.4% | 725 | 0.6% | 573 | 0.5% | 436 | 0.4% |
| Interest expense | **(93)** | **(0.1%)** | – | – | – | – | – | – | – | – |
| **Profit (loss) before income tax** | **54,843** | **44.1%** | 53,954 | 45.9% | 55,830 | 44.2% | 46,424 | 39.2% | (170,867) | (154.5%) |
| Income tax expense | **(11,950)** | **(9.6%)** | (11,189) | (9.5%) | (12,117) | (9.6%) | (10,336) | (8.8%) | (10,998) | (9.9%) |
| **Profit (loss) for the year, attributable to owners of the Company** | **42,893** | **34.5%** | 42,765 | 36.4% | 43,713 | 34.6% | 36,088 | 30.4% | (181,865) | (164.4%) |
| Other comprehensive (loss) income: | | | | | | | | | | |
| **Items that may be subsequently reclassified to profit or loss:** | | | | | | | | | | |
| Change in foreign currency translation adjustments | **(2,898)** | **(2.3%)** | (8,273) | (7.0%) | 8,333 | 6.6% | (7,392) | (6.2%) | (2,207) | (2.0%) |
| **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 | **(3,400)** | **(2.7%)** | (2,018) | (1.7%) | – | – | – | – | – | – |
| Other comprehensive (loss) income, net of tax | **(6,298)** | **(5.1%)** | (10,291) | (8.8%) | 8,333 | 6.6% | (7,392) | (6.2%) | (2,207) | (2.0%) |
| **Total comprehensive income (loss) for the year, attributable to owners of the Company** | **36,595** | **29.4%** | 32,474 | 27.6% | 52,046 | 41.2% | 28,696 | 24.2% | (184,072) | (166.4%) |

| | 2019 US$'000 | 2018 US$'000 | 2017 US$'000 | 2016 US$'000 | 2015 US$'000 |
|---|---|---|---|---|---|
| **Total assets** | **328,267** | 329,343 | 325,299 | 264,970 | 222,162 |
| **Total liabilities** | **69,236** | 75,666 | 80,562 | 75,817 | 64,440 |
| **Total equity** | **259,031** | 253,677 | 244,737 | 189,153 | 157,722 |

# Definitions

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

| | |
|---|---|
| "Articles of Association" | the articles of association of the Company adopted on 21 September 2015 and effective from the Listing Date, as amended from time to time |
| "Board" or "Board of Directors" | the board of directors of the Company |
| "business day" | any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for normal banking business |
| "CG Code" | the Corporate Governance Code set out in Appendix 14 of the Listing Rules |
| "Companies Ordinance" | the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented from time to time |
| "Company" or "IMAX China" | IMAX China Holding, Inc., a company incorporated under the laws of the Cayman Islands with limited liability on 30 August 2010 |
| "connected person", "connected transaction", "controlling shareholder", "subsidiary" and "substantial shareholder" | shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires |
| "Contingency Agreements" | contingency agreements in place to guard against any failure of supply by IMAX Corporation. See "Relationship with our Controlling Shareholders" in the Prospectus for further details |
| "Directors" | the directors of the Company and "Director" shall be construed accordingly as a director of the Company |
| "EBITDA" | profit for the year with adjustments for depreciation and amortization, interest income and income tax expense |
| "Escrow Documents" | the design plans, specifications and know-how necessary to enable the Group to manufacture and assemble IMAX digital xenon projection systems, IMAX laser-based digital projection systems and nXos2 audio systems itself, or subcontract the manufacturing and assembly works to third party manufacturers and to convert conventional films into IMAX films |
| "FY" or "financial year" | financial year ended or ending 31 December |

# Definitions (Continued)

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| "Global Offering" | the offering of the Shares on the Main Board of the Stock Exchange |
| "Greater China" | for the purposes of this document only, the PRC, Hong Kong, Macau and Taiwan |
| "Group", "we", "our" or "us" | the Company and its subsidiaries |
| "HK$" | Hong Kong dollars, the lawful currency of Hong Kong |
| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC |
| "IFRS" | International Financial Reporting Standards issued by the International Accounting Standards Board |
| "IMAX Barbados" | IMAX (Barbados) Holding, Inc., a company incorporated in Barbados with limited liability on 18 August 2010 and a controlling shareholder of the Company |
| "IMAX Corporation" or the "Controlling Shareholder" | IMAX Corporation, a company incorporated in Canada with limited liability in 1967 and listed on the New York Stock Exchange (NYSE: IMAX) and our ultimate controlling shareholder, or where the context requires, any of its wholly-owned subsidiaries |
| "IMAX Hong Kong" | IMAX China (Hong Kong), Limited, a company incorporated in Hong Kong with limited liability on 12 November 2010, which changed its name to its present name on 16 March 2011 and a direct wholly-owned subsidiary of the Company |
| "IMAX Hong Kong Holding" | IMAX (Hong Kong) Holding, Limited, a company incorporated in Hong Kong and a direct wholly-owned subsidiary of IMAX Barbados |
| "IMAX Hong Kong Theatre Percentage" | the percentage that all IMAX theatres using IMAX theatre systems in Hong Kong, Macau and Taiwan represents of all IMAX theatres in the PRC, Hong Kong, Macau and Taiwan |
| "IMAX Shanghai Multimedia" | IMAX (Shanghai) Multimedia Technology Co., Ltd., a wholly foreign-owned enterprise established under the laws of the PRC on 31 May 2011 and a direct wholly-owned subsidiary of IMAX Hong Kong |
| "Listing" | the listing of the Shares on the Main Board of the Stock Exchange |
| "Listing Date" | 8 October 2015 |
| "Listing Rules" | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time |

# Definitions (Continued)

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| "Long Term Incentive Plan" or "LTIP" | the long term incentive plan adopted by the Company in October 2012 |
| "Macau" | Macau Special Administrative Region of the PRC |
| "Model Code" | the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules |
| "PRC" or "China" | the People's Republic of China, but for the purposes of this document only, except where the context requires, references in this Annual Report to PRC or China exclude Hong Kong, Macau and Taiwan |
| "Prospectus" | the prospectus of the Company dated 24 September 2015 |
| "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 "Report of the Directors — Sub-plan: The Restricted Share Unit Scheme" in this Annual Report |
| "SEC" | the United States Securities and Exchange Committee |
| "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 "Report of the Directors — Sub-plan: Share Option Scheme" in this Annual Report |
| "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 |
| "Shareholder(s)" | holder(s) of Shares |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "TCL-IMAX Entertainment" | TCL-IMAX Entertainment Co., Limited, a company incorporated in Hong Kong with limited liability on 3 January 2014, being the joint venture company jointly owned by IMAX Hong Kong Holding and Sino Leader (Hong Kong) Limited, which is wholly owned by TCL Multimedia Technology Holdings Limited |

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| "Tier 1 Cities" | Beijing, Shanghai, Guangzhou and Shenzhen |
| "Tier 2 Cities" | Tianjin, Hangzhou, Suzhou, Chengdu, Ningbo, Qingdao, Nanjing, Wuhan, Wuxi, Changsha, Chongqing, Zhengzhou, Shenyang, Xi'an, Jinan |
| "Tier 3 Cities" | Shijiazhuang, Kunming, Dalian, Changchun, Hohhot, Taiyuan, Hefei, Fuzhou, Xiamen, Ha'erbin, Nanchang, Shantou, Zhuhai, Haikou, Sanya, Nanning, Guiyang, Lasa, Lanzhou, Xining, Yinchuan, Urumchi, Baoding, Jinhua, Yantai, Taizhou, Changzhou, Nantong, Shaoxing, Jiaxing, Quanzhou, Cangzhou, Zibo, Handan, Jining, Xuzhou, Langfang, Ordos, Zhongshan, Dongying, Yulin, Dezhou, Binzhou, Huzhou, Luoyang, Weihai, Xingtai, Dongguan, Foshan, Wenzhou, Weifang, Linyi, Tangshan and Baotou |
| "Tier 4 Cities" | all cities in the PRC at or above the prefecture-level other than Tier 1, Tier 2 and Tier 3 Cities |
| "U.S." or "United States" | the United States of America, its territories and possessions, any state of the United States and the District of Columbia |
| "USD" or "US$" or "$" 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 Annual Report in connection with the Group and its business. The terminologies and their meanings may not correspond to standard industry meanings or usage of those terms.

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| "2D" | two-dimensional |
| "3D" | three-dimensional |
| "backlog" | our backlog comprises the aggregate number of commitments for IMAX theatre installations pursuant to contracts we have entered into with exhibitors |
| "box office" | the gross aggregate proceeds from ticket sales received by the relevant exhibitor(s) in the relevant market(s) for the relevant type(s) of film. For example, the Greater China box office is the aggregate proceeds from ticket sales received by all exhibitors in Greater China, and the Greater China IMAX box office is the aggregate proceeds from ticket sales received by all the exhibitors in Greater China in respect of IMAX 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 film" | a motion picture approved for theatrical release in the PRC which was 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 meets the requirements of the relevant laws and regulations of the PRC |
| "commercial theatre" | a theatre owned or operated by an exhibitor, excluding theatres associated with museums, zoos, aquaria and other destination entertainment sites which do not play commercial films |
| "distributor" | an organisation that distributes films to exhibitors or, in the PRC, theatre circuits for exhibition at theatres |
| "exhibitor" | exhibitors are theatre investment management companies which own and operate theatres; exhibitors receive copies of films from the theatre circuits but retain control over the screening schedules |

# Glossary (Continued)

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| "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 |
| "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 co-produced 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 |
| "Hollywood studio" | a studio producing Hollywood films |
| "hybrid revenue sharing arrangement" | an arrangement with an exhibitor pursuant to which we contribute an IMAX theatre system to that exhibitor in return for an upfront fee that is typically half of the payment under a sales arrangement and a portion of that exhibitor's box office generated from IMAX films over the term of the arrangement, that is typically half of that under a full revenue sharing arrangement |
| "IMAX digital xenon projection system" | the xenon-based digital projection system, developed, and rolled out in 2008 by IMAX Corporation |
| "IMAX DMR" | the proprietary digital re-mastering process or any other post-production process and/or technology used by IMAX Corporation in connection with the conversion of a conventional film into an IMAX format film |
| "IMAX film" | a film converted from a conventional film using IMAX DMR technology |
| "IMAX laser-based digital projection system" | the dual 4K laser-based digital projection system, developed, and rolled out at the end of 2014 by IMAX Corporation |

# Glossary (Continued)

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| "IMAX Original Film" | any IMAX format film invested in, produced or co-produced by IMAX Corporation and released to IMAX theatres, and/or for which IMAX Corporation owns and/or controls its theatrical distribution rights |
| "IMAX theatre" | any movie theatre in which an IMAX screen is installed |
| "multiplex" | a movie theatre with more than one screen for the exhibition of films |
| "revenue sharing arrangement" | an arrangement with an exhibitor pursuant to which we contribute an IMAX theatre system to that exhibitor in return for, among other things, a portion of that exhibitor's box office generated from IMAX films over the term of the arrangement; our revenue sharing arrangements are either full revenue sharing arrangements or hybrid revenue sharing arrangements (See the separate glossary explanations for these terms) |
| "sales arrangement" | an arrangement with an exhibitor pursuant to which we sell that exhibitor an IMAX theatre system for a fee and the exhibitor agrees to pay us on-going royalty fees for use of the IMAX brand and technology over the term of the arrangement |
| "studio" | an organisation that produces films (which may include all or some of script writing, financing, production team and equipment sourcing, casting, shooting and post production), owns the copyright to the films it produces and works with distributors to release those films at theatres |
| "take rate" | a film studio's share of box office generated from a particular film, after making certain tax and other deductions |
| "theatre circuit" | an organisation that distributes newly released films to theatres within that circuit; every theatre in the PRC must be affiliated with a theatre circuit |

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